



Association canadienne
des restaurateurs et
des services alimentaires

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Canadian Restaurant
and Foodservices
Association

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VIA FACSIMILE

Mayor David Miller
Toronto City Hall
2nd Floor, 100 Queen St. West
Toronto, Ontario
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Dear Mayor:

I am writing on behalf of the Canadian Restaurant and Foodservices Association (CRFA) regarding the new powers afforded to the City of Toronto in the *City of Toronto Act*, particularly the recent discussion regarding a proposal to tax alcohol purchased by consumers in licensed establishments, and to request a meeting with you to discuss the state of the restaurant and foodservice industry in Toronto and the impact of any new tax measures, at your earliest convenience.

CRFA is Canada's largest hospitality association, representing over 34,000 members across the country, including 10,000 members in Ontario. Ontario's \$20.6 billion restaurant and foodservice industry represents one of the largest sectors of the provincial economy with sales of \$20.6 billion representing 3.7% of GDP. With 384,400 people in Ontario on its payroll, the industry's workforce represents 5.9% of the province's total employment.

Foodservice is an important contributor to Toronto's economy. The city's 8,100 restaurants, caterers and bars generate \$5.8 billion in revenues. Every dollar spent at a bar or restaurant generates an additional \$1.78 in economic spin offs. And it's an industry that creates jobs: foodservice directly employs nearly 85,000 people in Toronto, 39,000 of whom work at licensed establishments.

In recent years, Ontario's foodservice industry has under performed the rest of Canada. Between 2000 and 2005, real foodservice sales in Ontario fell by 4.3% compared to a 5.5% increase in the rest of Canada. The poor performance is due to a decline in international visitors following the Sept. 11, 2001 terrorist attacks, the SARS outbreak, the soaring Canadian dollar and skyrocketing gas prices Toronto was one of the cities hardest hit by this calamitous series of events. Then came the loss of an entire NHL season and the thousands of hockey fans that frequent bars and restaurants on game nights. The number of international visitors coming to Ontario has dropped 50% since 2001, and is only just beginning to recover. Ontario's bar segment has yet to turn the corner on slumping sales, registering a cumulative decline of 25.6% since 2000.

Rising costs, low profit margins and weak foodservice sales have eroded the number of foodservice establishments in Ontario in recent years. In 2000, there were 22,511 restaurants, caterers and bars in Ontario. By 2006, the number of foodservice establishments fell by nearly

400 establishments, despite an 8.6% increase in Ontario's population during that same period. Due to the high business costs and the weakness in foodservice demand, Ontario has one of the fewest foodservice establishments per 10,000 people in the country. If Ontario had the same number of units per 10,000 people as the national average, Ontario's foodservice industry would employ an additional 32,000 people.

New taxes have a direct and dramatic negative impact on business. Currently, consumers in Ontario pay three different sales taxes when they order a meal that includes a licensed beverage: the 6% federal goods and services tax, the 8% provincial sales tax, and the 10% provincial liquor tax. We have heard clearly that restaurant patrons have had enough. The City cannot expect Toronto's struggling bars and licensed restaurants – the majority of which are small, independent businesses – to solve the city's fiscal imbalance. The industry is in no position to do this. The economic reality is that any new tax will undermine the recovery that has slowly taken hold in Toronto's beleaguered hospitality industry.

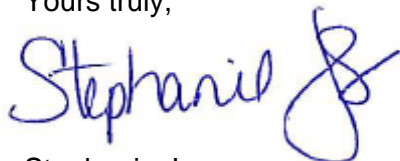
The addition of a new tax on licensee, sales will do irreparable harm to the struggling restaurant and foodservice industry. Average profit margins in Ontario's foodservice industry are the lowest in the country at just 2.8% of operating revenues. For bars, taverns and nightclubs, pre-tax profit margins hit an all time low in 2006, now measuring -.5%, making it impossible for operators to adjust to higher costs in any form. Even a small municipal tax will be costly to the restaurant industry. Economic analysis by the restaurant industry indicates that every one-percentage point in added sales tax would reduce spending at Toronto's licensed restaurants and bars by \$2.95 million annually. Bars would bear the brunt of a new tax on drinks as alcohol sales generate 73% of their revenue. Since the average profit margin for a bar owner in Ontario is already -.5% of operating revenue, it will be just a matter of time until businesses fail and employees lose their jobs.

The powers of taxation have implications beyond the foodservice industry. Dining out at restaurants is one of the top three activities that attract tourists to Canada. It is counterproductive for government to invest millions of dollars promoting Ontario and Toronto as tourist and convention destinations on one hand, while on the other hand erecting roadblocks that stifle innovation and investment by restaurant and bar operators.

Finally, the recent Ontario budget raised minimum wage by \$2.25 by 2010 – this will cost the industry \$765 million over the next three years, and reduce pre-tax profit margins to 1.7%. By taking this action, the Ontario government will be taking \$7,228/year out of every Ontario restaurant's bottom line. Operators simply cannot handle yet another pressure on their razor-thin margins.

CRFA is committed to working with the City of Toronto to create a positive business environment for Toronto's restaurant and foodservices industry. I look forward to meeting with you to discuss the industry's concerns at your earliest convenience.

Yours truly,



Stephanie Jones
Vice President, Ontario