



Association canadienne
des restaurateurs
et des services
alimentaires

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Canadian Restaurant
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Association

November 30, 2007

The Honourable Rod Gantfoer
Minister of Finance
Room 312, Legislative Building
Regina, SK S4S 0B3 **(Sent via Fax: (306) 787-6055)**

Dear Minister:

Recent media speculation has highlighted Finance Minister Jim Flaherty's desire to see provincial retail sales taxes harmonized with the Goods and Services Tax (GST). I understand that Minister Flaherty has called a meeting to discuss this issue with provincial Ministers of Finance on December 12.

The Canadian Restaurant and Foodservices Association (CRFA) is strongly opposed to any move towards sales tax harmonization in Saskatchewan. The year the GST was introduced, the Canadian foodservice industry suffered the single greatest decline it has ever experienced. Any move towards harmonization will expand the provincial tax base to include restaurant meals which are currently exempt from the PST. CRFA's research shows that any move to harmonize Saskatchewan's sales taxes would devastate Saskatchewan's fragile foodservice industry.

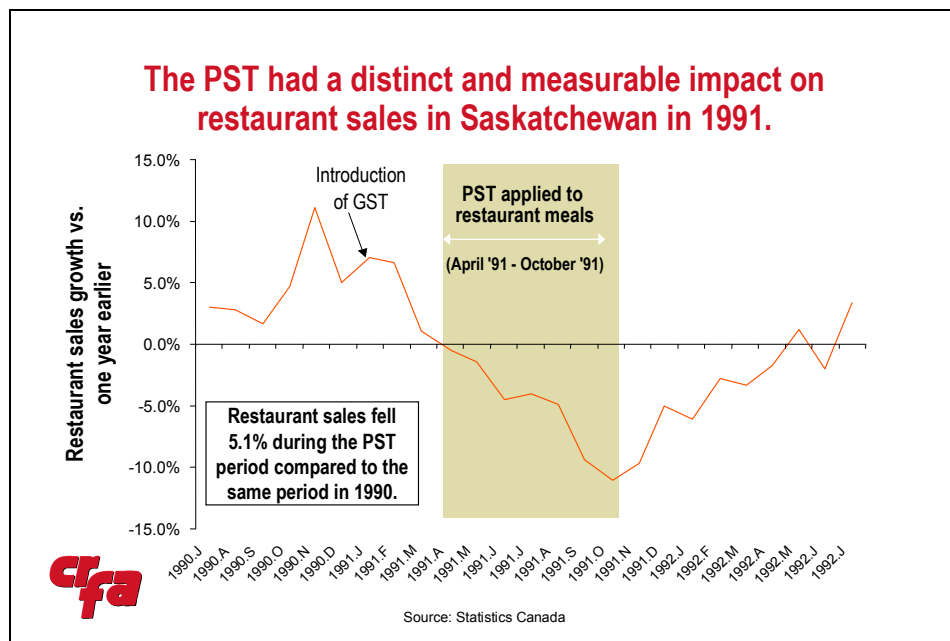
In 1991 the foodservice industry recorded a 10.6% drop in real foodservice sales. Over 36,000 restaurant and foodservice workers were laid off in 12 months as a direct result of the new tax. The effect of the GST, however, was not simply a one-time event. Because the industry's closest competitors, prepared meals available in grocery stores, remain tax exempt, the foodservice industry's share of the food dollar declined as well.

The perverse effect of this flawed tax continues to be felt in the industry as price sensitive consumers are confronted with what appears to be a deliberate government policy aimed at favouring one part of the food industry over another. The restaurant and foodservice business is one of the most labour intensive industries, yet job creation in our sector is being stifled by the unlevel playing field created by the GST.

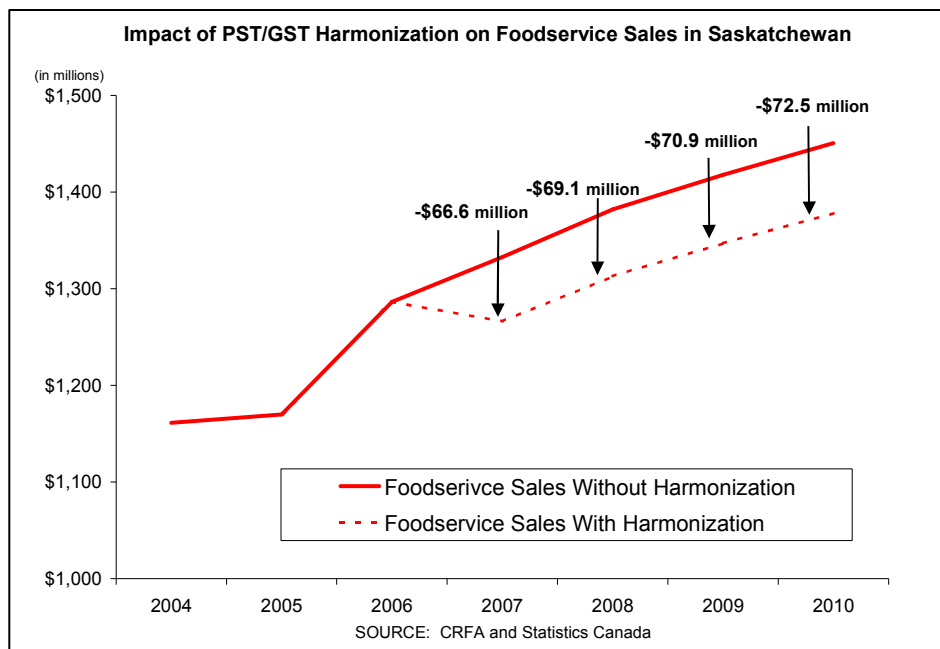
Accordingly, the foodservice industry is opposed to any further harmonization of the GST with provincial sales taxes. The clear discrimination against the foodservice industry that is hardwired into the GST would only be compounded by further harmonization.

Harmonization will also expand the provincial sales tax base for many products that are currently PST-exempt, including restaurant meals. When Saskatchewan briefly imposed PST on restaurant meals from April to October in 1991 on top of the introduction of GST, restaurant sales plummeted. The government of the day understood that the provincial meal tax was devastating for the foodservice industry and wisely agreed to eliminate PST from restaurant meals after six months and industry sales immediately started to recover.

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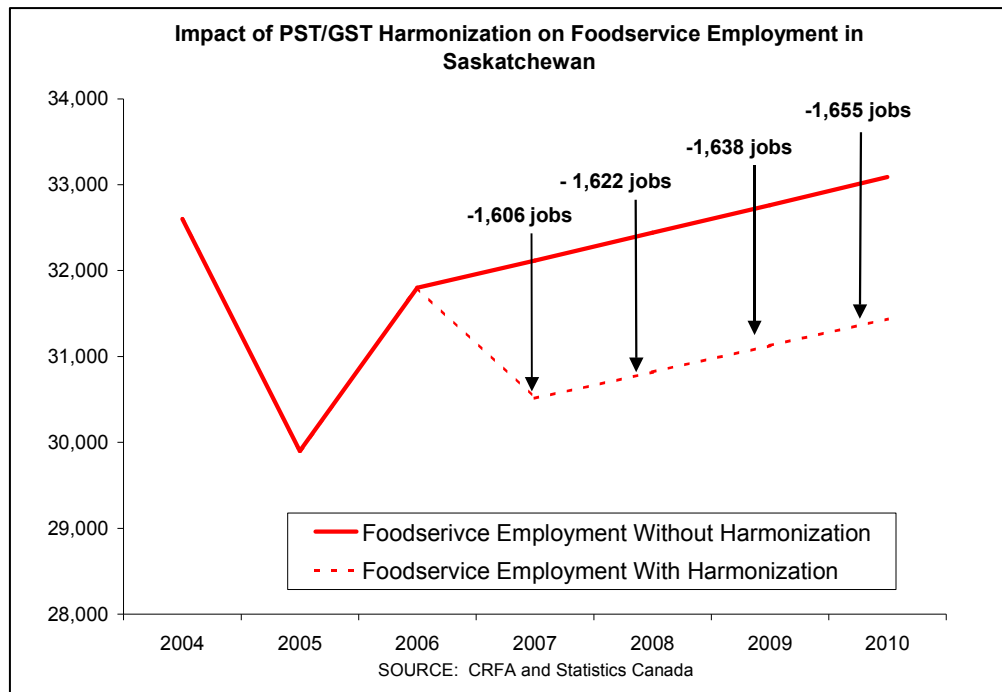


CRFA research indicates that a move to impose the PST on restaurant meals today will have a similar impact. A 5% increase in the cost of restaurant meals will result in an immediate 5% decrease in sales. With average profit margins sitting at just 6.0% before taxes, a drop in sales of this magnitude will devastate Saskatchewan's foodservice industry.



NOTE: The impact of harmonization was quantified using an econometric model of the foodservice industry developed by the Conference Board of Canada and CRFA. The model, which includes factors such as real GDP, employment and disposable income, shows that 1% increase in the price of a restaurant meal reduces foodservice sales by 1%. Therefore, a 5% tax on meals would reduce foodservice sales by 5%. This model was tested for significance and accuracy using a variety of statistical analyses.

It is expected that harmonization will also have a significant impact on jobs across the province. The chart below illustrates the estimated loss of jobs in the foodservice industry alone:



As someone with experience working as a foodservice operator, you will know first hand that a tax on restaurant meals is regressive. It hits youth, seniors, and those in lower income groups much harder than those in higher income groups.

The 2004 Vicq report proposal to include PST on restaurant meals in Saskatchewan as part of an income tax reform package was fought very aggressively by CRFA and Saskatchewan's foodservice industry. With your help the Government of Saskatchewan did expand PST on other items to finance income tax changes but listened to our industry's concerns and exempted restaurant meals as part of their PST expansion. As then-Finance Minister Eric line said, "There is no appetite for a meal tax in Saskatchewan."

CRFA urgently requests a meeting with you in advance of your December 12th meeting with Minister Flaherty. I will be in contact with your office in the near future to discuss a meeting time. Meanwhile, if you have any questions, I can be reached at (877) 926-8557 or cdonovan@crfa.ca

Sincerely,

Courtney Donovan
Vice President, Manitoba-Saskatchewan