



Canadian Restaurant and Foodservices Association

**Pre Budget Submission
to the**

STANDING COMMITTEE ON FINANCE

by

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TABLE OF CONTENTS

Introduction 3

About Canada’s Foodservice Industry 3

State of the Foodservice Industry 3

HST..... 4

Employment Insurance 5

Credit Card and Debit Card Rates 7

Summary of Recommendations..... 8

Introduction

The Canadian Restaurant and Foodservices Association (CRFA) appreciates the opportunity to present the views of the \$60-billion foodservice industry to the House of Commons Standing Committee on Finance.

CRFA is one of Canada's largest business associations. Since its founding in 1944, CRFA has grown to more than 33,000 members including quick- and full-service restaurants, bars, and pubs, cafeterias and caterers, as well as accommodation, entertainment and institutional foodservice providers.

About Canada's Foodservice Industry

Canada's restaurant and foodservice industry represents one of the largest industries in the Canadian economy with annual sales of \$60 billion, representing nearly 4% of Canada's GDP.

With over 1 million Canadians on its payroll, foodservice is also one of the country's largest private sector employers. The industry's workforce represents 6.4% of the country's employment, more people than agriculture, forestry, automotive manufacturing and mining, oil and gas extraction combined, and they do so without government hand-outs, bailouts or subsidies. An additional 250,000 Canadians are indirectly employed by the foodservice industry as suppliers, distributors and consultants.

More than two-thirds of Canada's restaurants are locally owned and operated by independent entrepreneurs. Franchisees, who represent a large portion of chain operations, are also small business people who invest heavily in their neighbourhoods and communities.

State of the Foodservice Industry

Like many other industries, foodservice has been hit hard by the economic downturn – but at the same time we are uniquely positioned to contribute to economic recovery and growth. Every one million dollars in restaurant sales creates nearly 27 jobs, making our industry one of the top five job creators in Canada. Every dollar spent at a restaurant generates an additional \$1.85 in spending in the rest of the economy – well above the average for all industries in Canada. And the diverse nature of our industry means the benefits are felt in every community, not just in major centers.

However, foodservice operators are struggling. Foodservice is a very competitive business that operates on razor-thin margins. According to the most recent data from Statistics Canada, the pre-tax profit margin for the average foodservice operator was 4.0% in 2007. The average business in Canada, in contrast, enjoyed a pre-tax profit of 7.7%.

Restaurant operators have diversified their menu mix to ensure Canadians have healthy choices in menu offerings and to respond to a growing number of dietary concerns and eating preferences. Many foodservice companies, along with their supplier partners,

have committed a tremendous amount of resources to reduce and eliminate trans fat in their menu offerings and to undertake nutritional analysis and disclosure. They are now beginning the costly process of examining opportunities for sodium reductions which will result in further product reformulation.

Food and labour represent the largest components of a foodservice operator's costs. Food costs continue to rise for key commodities used in restaurants due to Canada's supply management system. Foodservice operators are frustrated that they cannot access poultry products to spec and must pay wildly inflated prices for dairy under an antiquated system which operates without transparency or government oversight.

Restaurant operators are also trying to cope with significant increases in labour costs that cannot be passed on to price-sensitive consumers. Minimum wage has increased an average of 36% in jurisdictions across Canada in the last 5 years, which has resulted in a ratcheting up of all labour costs. In contrast, Canada's inflation rate is just 10% over the same period. The combination of mandated labour cost increases and tight labour markets due to labour shortages is severely squeezing restaurant operator margins.

Foodservice operators are faced with myriad tax, labour, environment, health, and regulatory policies at the municipal, provincial and federal levels. The Committee asked for feedback about stimulus spending. The foodservice industry is not looking to the federal government for direct financial aid but the industry is looking to government for fairness in how taxes and policies are applied and how operators' hard-earned tax contributions are spent.

RECOMMENDATION #1

Make the foodservice industry a public policy priority through which various taxes, regulations and policies are filtered.

HST

Foodservice operators in British Columbia were shocked when it was announced in July that a new 7% tax would be added to restaurant meals as a result of GST/PST harmonization, with complete disregard to the impact on their businesses, their customers and their employees.

Foodservice was placed in a uniquely unfavourable position when the GST was first introduced because, in contrast to every other sector of the economy, the industry was made subject to the GST, while its closest competitor - grocery store meals were zero-rated.

GST is the federal policy that has had the single greatest impact on the foodservice industry in the last 20 years. In the year that the tax was imposed, real foodservice sales dropped by 10.6% and the average unit volume declined by 22.7%. An Ernst and Young report attributed $\frac{3}{4}$ of the sales decline to the impact of the GST. By way of contrast, GDP the same year fell by 2%.

Now history is about to repeat itself in B.C. CRFA's econometric model (built by the Conference Board of Canada) indicates that harmonizing the 7% provincial sales tax (PST) in B.C. with the 5% GST will lead to a 7.5% drop in restaurant sales, resulting in an annual loss in industry sales of \$747 million. This represents a loss of nearly \$50,000 in sales for the average restaurant in the province – more than the average profit of \$29,000. This drop in sales will have an immediate impact on the jobs of 173,000 people employed by the industry in the province.

The federal government is jointly, with the B.C. government, responsible for GST/PST harmonization by:

- providing the province of B.C. with \$1.6 billion in federal tax dollars;
- dictating the timeframe for HST implementation;
- restricting provincial value added tax exemptions to 5% of the GST base (foodservice meals represents 13%);
- allowing provinces to delay access to input tax credits for meals and beverages.

In addition the federal government has failed to address food tax inequities in the GST.

As a result, CRFA is asking the federal government to work with CRFA and the province of BC to limit the harm of GST and PST harmonization to restaurant operators. Some ideas to limit the harm and to help the foodservice industry include:

- implement a Three Year Phase in Period of HST on Restaurant Meals in B.C.;
- consider making the first \$5.00 of every meal HST exempt;
- implement an HST rebate for all foodservice operators;
- Expand the GST/HST base to include ready-to-heat and ready-to-eat foods that compete directly with restaurants.

RECOMMENDATION #2

Work with CRFA and the provinces to limit the harm of GST and PST harmonization to restaurant operators

Employment Insurance

Because restaurants are labour-intensive, increases in payroll costs such as EI premiums disproportionately burden the foodservice industry. As noted above, the industry is already buckling under the weight of significant payroll cost increases. Adding new payroll taxes to current payroll costs would impede the industry's ability to create and even maintain jobs.

CRFA appreciates that the government has frozen EI premium rates through 2010 but is very concerned about potential premium increases in 2011 and beyond. While government has promised to not increase taxes to eliminate the country's deficit, the government appears to be relying on revenue from increased EI premiums for deficit reduction. EI premiums are a payroll tax and the worst form of tax because they are profit-insensitive, regressive, and job-killing.

Government's September "Update of Economic and Fiscal Projections" indicates that the government is budgeting for the maximum EI premium increase of \$.15/per year for employees and \$.21/per year for employers from 2011 to 2015, bringing the premium rate up to \$2.33/employee and \$3.26 for employers by the year 2015. Increases of this magnitude would stall economic recovery and job creation.

CRFA appreciated the establishment of a separate EI fund and the EI Financing Board last year to ensure against over-charging of employers and employees in the future. However, a more workable financing scheme needs to be developed for the Board. This plan must consider the \$57 billion "rainy day" national surplus that was generated as a result of over a decade of over contributions by employers and working Canadians. As further changes are considered to EI, a full review is required to establish how any new benefits will be paid for and how the surplus that has been diverted from the EI account in the past, or at least a portion sufficient to ensure against premium increases during the economic recovery, will be returned to the EI Financing Board.

RECOMMENDATION #3

Absorb the cost of the two-year EI freeze out of consolidated revenue and keep increases beyond the freeze at manageable levels by developing a new financing scheme that draws down the \$57 billion of over contributions by employers and working Canadians.

The federal government in recent years has focused on tax relief and subsidies to capital-intensive companies in an effort to assist the manufacturing and resource-based sectors of the economy, most notably through GST/PST harmonization.

The foodservice industry proposal is to provide targeted tax relief to labour-intensive sectors through a yearly basic exemption (YBE) in the employment insurance program. This proposal would also provide targeted tax relief to lower income workers and redress the regressive nature of payroll taxes.

The YBE refers to the annual earnings level in which premiums are not applied. Currently employees earning less than \$2,000 per year can apply for a full premium refund. Those employees earning slightly more than \$2,000, however, cannot, despite having virtually no chance of qualifying for EI benefits. Only two-thirds of the individuals eligible for a rebate actually receive it. In addition, the existing rebate applies only to employees and not to employers.

A YBE would proactively support Canadians at the low end of the income scale through reduced payroll taxes but would have the dual advantage of increasing job opportunities.

RECOMMENDATION #4

Add a \$2000 Yearly Basic Exemption to the Employment Insurance system as a way to alleviate the tax burden on low income Canadians, and directly target payroll tax relief, (or minimize payroll tax increases), to labour-intensive employers.

Credit Card and Debit Card Rates

In May of this year CRFA appeared before a joint meeting of the Standing Committee on Finance and the Standing Committee on Industry, Science and Technology to express concerns about the practices of credit card companies, issuing banks, and acquirers that have led to significant increases in the cost of accepting payment by credit cards. CRFA provided a detailed brief in which we recommended that:

- The fees charged to merchants for accepting credit cards should be transparent and predictable and should be linked to the cost of the system - not to the rewards offered by banks for using credit cards.
- The agreements between merchants and processors should be binding and additional fees or increases in fees should not be imposed on merchants without renegotiating the agreement.
- Interac re-structuring should ensure that fees are kept as a flat fee and continue to be linked to costs.
- New entrants into the Canadian debit card system should be subject to the same oversight as Interac.

Since then, the Senate Banking, Trade and Commerce Committee released its unanimous recommendations with respect to the credit and debit card payment system in Canada.

CRFA supports these recommendations and urges the Finance Committee to call for their implementation and the immediate establishment of an oversight board to:

- Make recommendations by December 31, 2009 on any regulatory or legislative measures that it considers to be required to ensure fairness for participants in the credit card and debit card payment systems;
- Monitor and publish annually information on trends in interchange, switch, merchant and other associated payment systems; and
- Establish a code of conduct for payment systems participants and practices for setting fees and rates, in respect of which it should ensure compliance.

CRFA supports the idea of a new credit card code of conduct provided it is developed with full stakeholder input and a neutral body is responsible for its oversight and enforcement. CRFA views a voluntary Code of Conduct as one step in the implementation of the Senate Committee's recommendations.

In addition, CRFA is concerned about the imminent launching of new debit products in Canada by both Visa and MasterCard, which will operate outside of the existing Canadian Payment Association rules in Canada. Both companies have used unfair business practices in the credit card payment system and we are concerned that they will also do so with their debit products if they are not subject to some form of oversight. CRFA urges the government to establish the rules of play for these new products by designating Visa and MasterCard as payment systems under the *Canadian Payments Act*.

RECOMMENDATION #5

Implement the unanimous recommendations of the Senate Banking, Trade and Commerce Committee with respect to the credit card and debit card payment system in Canada, and designate Visa and MasterCard as payment systems under the *Canadian Payments Act*.

Summary of Recommendations

- Make the foodservice industry a public policy priority through which various taxes, regulations and policies are filtered.
- Work with CRFA and the provinces to limit the harm of GST and PST harmonization to restaurant operators.
- Absorb the cost of the two-year EI freeze out of consolidated revenue and keep increases beyond the freeze at manageable levels by developing a new financing scheme that draws down the \$57 billion of over contributions by employers and working Canadians.
- Add a \$2000 Yearly Basic Exemption to the Employment Insurance system as a way to alleviate the tax burden on low income Canadians, and directly target payroll tax relief, (or minimize payroll tax increases), to labour-intensive employers.
- Implement the unanimous recommendations of the Senate Banking, Trade and Commerce Committee with respect to the credit card and debit card payment system in Canada, and designate Visa and MasterCard as payment systems under the *Canadian Payments Act*.