



## Federal Pre-Budget Submission: The Standing Committee on Finance

August 5<sup>th</sup>, 2016

[www.nacda.ca](http://www.nacda.ca)

### EXECUTIVE SUMMARY

On behalf of our membership, the National Convenience Stores Distributors Association (NACDA) appreciates the opportunity to submit this budget briefing document to highlight issues facing our members along with our recommendations.

As this committee is very much aware, small businesses are the backbone of Canada's economy. What you may not know is that the convenience store industry is at the forefront of that, employing over 230,000 hardworking people across the country.

The convenience store industry includes distributors at the top of the supply chain all the way down to retailers in thousands of stores from coast to coast to coast. It contributes more than \$51 billion annually to the Canadian economy. Our industry also collects over \$18 billion in taxes on behalf of provincial and federal government with over \$7 billion remaining within federal coffers to fund national investments and programs.

NACDA represents the interests of independent and corporate distributor-wholesalers in Canada who serve the convenience store market. Our distributors and the stores we support provide essential products in urban, rural and remote areas with over 27,000 retail locations across Canada that serve 10 million people a day.

Our pre-budget submission for 2017 provides an overview of some of the challenges facing our distributors, including:

- Excessively high credit card fees;
- Tobacco regulations;
- Grey market counterfeit products;
- Restrictive interprovincial trade barriers.



We would also like to make recommendations to this committee that will encourage small business growth, increase employment opportunities and provide lower-priced, high quality products to Canadian consumers.

### **Business Operation Recommendations**

- Review and replace the current voluntary code on credit card payments and introduce a rate reduction along with robust compliance measures.

### **Tobacco Related Recommendations**

- Reconsider the implementation of plain-packaging for tobacco products in Canada, and work with the convenience industry (including distributors) to determine a more effective solution to deterring tobacco consumption;
- Identify and implement means to expedite and enforce the criminal fine recovery process, which will deter illegal tobacco activity;
- Contribute to public awareness on the dangers of illegal tobacco through provision of existing translated material and other measures of public engagement; and
- Maintain the existing tobacco tax rate so as not to create demand in the contraband tobacco market.
- Introduce and enforce regulation on the sale of electronic cigarettes including authorizing the sale of liquid nicotine in Canada for use in electronic cigarettes.

### **Consumer Health and Safety Recommendations**

- Work with convenience retail associations like the Canadian Convenience Stores Association (CCSA) to educate retailers and consumers on the dangers of purchasing and consuming grey-market confectionary and beverage products;
- Provide educational opportunities and training for Canada Border Services Agency on how to spot grey market products so that they may be prevented from entering the market.

### **Interprovincial Trade Barrier Recommendations**

- Implement the basic tenets of the new CFTA as quickly as possible;



- Continue to seek lower vehicle and shipping regulations between provinces, particularly items such as vehicle licensing and trucking regulations;
- Continue to work with the provinces and municipalities to ensure that regulatory burdens around internal trade do not create a confusing and cumbersome process that will hinder economic growth in Canada.

### **CHALLENGE: CREDIT CARD FEES**

Credit card swipe fees in Canada remain amongst the highest in the world, creating challenges for small business retailers. Credit card 'swipe fees' in Canada range from 1.5% to 4%. These costs pose greater challenges to retailers (our customers) to compete effectively in an overly competitive marketplace while continuing to provide low prices and payment options to Canadian consumers.

This effects their purchasing power when placing orders amongst our distributors. As they battle monthly and annually excessive credit card fees, it restricts their ability to purchase more products which negatively impacts NACDA members.

It also constrains the ability of retailers across the board to invest in their business or hire new staff. These fees can also lead to higher consumer prices, even for those who chose to pay by debit or cash.

Providing clarity around credit card payments that includes a robust reduction in fees will not only help our retail customers but all Canadian consumers.

### **Recommendation:**

- Review and replace the current voluntary code on payments and introduce a rate reduction along with robust compliance measures. This will bring fairness and transparency to the payments industry in Canada and will encourage growth within the retail sector.

### **CHALLENGE: TOBACCO REGULATIONS**

One of the primary issues impacting Canada's convenience store distributors and retailers is the continued trafficking and sale of illegal tobacco. These tobacco products do not comply with Canada's regulations, specifically regarding taxation, importation, stamping, manufacturing, sale to youth and distribution.



Continued regulation on legal tobacco products drive the illicit market in Canada. These include flavoured tobacco bans, tobacco tax increase and the recent introduction of plain packaging of tobacco products.

We are concerned that plain packaging will have a number of unintended consequences for our distributors and the communities we serve. Our counterparts in Australia found that once plain packaging was introduced, smokers purchased less expensive legal cigarettes and illegal tobacco. This undermines public health objectives and does not decrease tobacco consumption—a shared goal with the federal government that we support.

Plain packaging also poses a threat to the communities we serve by aiding the illegal tobacco industry. When introduced in Australia, law enforcement officials believe that nearly \$45 million in federal taxes were lost due to the illegal trade. Canada has a thriving illicit tobacco problem and we feel this will be worse if plain packaging is implemented.

It is critical to understand just how easy the government will be making it for counterfeiters to produce illegal packages. Just as the Bank of Canada ensures that bank notes, such as a \$20 bill have distinguishing characteristics, colours and graphics that make it virtually impossible to replicate, the same objectives should apply to legal tobacco.

Maintaining a consistent tax rate on tobacco products is also critical for our retail customers. In previous budgets when tobacco taxes sharply increased, our customers noticed an immediate loss in their business, which we understand to have shifted to the contraband market. Reliable and predictable taxation levels, coupled with measures to address contraband tobacco trafficking (including effective criminal fine recovery and public education) are necessary measures to address this thriving illegal industry.

#### **Recommendations:**

- Reconsider the implementation of plain-packaging for tobacco products in Canada, and work with the convenience industry to determine a more effective solution to deterring tobacco consumption;
- Identify and implement means to expedite and enforce the criminal fine recovery process, which will deter illegal tobacco activity;
- Contribute to public awareness on the dangers of illegal tobacco through provision of existing translated material and other measures of public engagement; and



- Maintain the existing tobacco tax rate so as not to create demand in the contraband tobacco market.

### **OPPORTUNITY: ELECTRONIC CIGARETTES**

In accordance with current Health Canada regulations, our distributors do not supply e-cigarettes that contain nicotine. Our retail customers however are growing frustrated as unlicensed competitors are openly selling these restricted products, without penalty.

As acceptance grows amongst public health professionals that these products can aid in smoking cessation, there is an opportunity to transition off of combustible tobacco and allow a new product category into our retail supply chain.

#### **Recommendation:**

- Introduce and enforce regulation on the sale of electronic cigarettes including authorizing the sale of liquid nicotine in Canada for use in electronic cigarettes.

### **CHALLENGE: GREY MARKET CONFECTIONARY AND BEVERAGE PRODUCTS**

There is an increased quantity of confectionery and beverage products manufactured in other countries that are openly imported and then sold in Canada. These products do not comply with Canada's labeling requirements; are not traceable to a country of origin; and do not comply with federal safety requirements.

Our distributors do not supply non-Health Canada or CFIA approved products to retail stores as they put Canadian consumers and businesses at risk. Working with the Government of Canada to educate both our retail customers and consumers on these risks would reduce health and safety hazards to consumers and mitigate potential financial losses to businesses through reputational damage.

#### **Recommendations:**

- Work with convenience retail associations like the Canadian Convenience Stores Association (CCSA) to educate retailers and consumers on the dangers of purchasing and consuming grey-market confectionary and beverage products;
- Provide educational opportunities and training for Canada Border Services Agency on how to spot grey market products so that they may be prevented from entering the market.



## **CHALLENGE: INTERPROVINCIAL TRADE BARRIERS**

Small businesses working in multiple provincial jurisdictions across Canada have long advocated for internal free trade. Conflicting provincial rules and regulations when moving goods or employees between regions pose a major problem for our distributors. Something as simple as a vehicle registration is acceptable in one province and not the next. Moving product between provinces where one has a restrictive tobacco ban vs the next can also pose issues for our distributors as they supply to the various chain and independent convenience stores.

We were extremely pleased to see an agreement in principle updating the Canadian free-trade agreement (CFTA) in June, 2016. At a time when certain regions are suffering economically in Canada, small businesses must continue to thrive without burdensome and often confusing regulations between the provinces.

### **Recommendations:**

- Implement the basic tenets of the new CFTA as quickly as possible;
- Continue to seek reduce vehicle and shipping rules between provinces, particularly items such as vehicle licensing and trucking regulations;
- Continue to work with the provinces and municipalities to ensure that regulatory burdens around internal trade do not create a confusing and cumbersome process that will hinder economic growth in Canada.

## **SUMMARY**

Convenience store distributors are significant drivers of economic growth across Canada. Our contributions are often overlooked however we remain a lifeline to remote communities. During the wildfires, our local distributors transported and donated food and water to Fort McMurray - one example of our commitment to the communities that we serve. Our distributors always go above and beyond to deliver goods and services to their local stores, and we take pride in doing so.

We are asking the Government of Canada to recognize these contributions by engaging with our industry in regulatory discussions on the matters outlined in this submission. By bringing in onerous regulations, they run the risk of negatively impacting our businesses with unintended consequences for the customers we proudly serve. We look forward to working with you.