



**Canadian Restaurant
and Foodservices
Association**

**Association canadienne
des restaurateurs et
des services alimentaires**

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PRE-BUDGET SUBMISSION TO THE STANDING COMMITTEE ON FINANCE

Executive Summary

The Canadian Restaurant and Foodservices Association (CRFA) represents the nation's \$61 billion restaurant industry, one of the largest private sector employers in the country.

CRFA is pleased to have the opportunity to put forth specific recommendations, which will advance the committee's goals to attain high levels of job growth and business investment in order to ensure shared prosperity and a high standard of living for all.

Respecting the instructions from the committee, CRFA has limited its recommendations to three and avoided multi-part recommendations. However, given the myriad challenges facing the industry and the tremendous opportunities to broaden the economic and social contributions of the industry, this was a challenging task.

CRFA's overarching recommendation is to establish a Private/Public Task Force to study the central role of restaurants in Canada and make recommendations to promote and grow this industry. This recommendation would have limited cost implications but would create an opportunity to break down the agriculture and tourism silos in Canada and unleash the potential of one of Canada's most important industries.

Under the broad category of healthy living, CRFA's recommendation is for government to provide adequate funding support for the Sodium Working Group's full slate of recommendations, and in particular a comprehensive, multi-year consumer education campaign to increase awareness about the importance of sodium reduction in the diets of Canadians. It is estimated that \$50 million is required for a sustained, national, consumer campaign.

Reducing the burden of profit-insensitive, job-killing payroll taxes has always been a priority for labour-intensive restaurant businesses. CRFA is proposing the introduction of a \$2,000 Year's Basic Exemption (YBE), modeled after the YBE in the Canada Pension Plan, as the most efficient and cost-effective way to deliver payroll tax relief to the groups most affected – entry level workers and labour-intensive businesses. It is estimated that a \$2,000 YBE would reduce EI revenue by approximately \$1.4 billion per year.

Restaurant Industry Task Force

Background

During the recent federal election, food and agriculture policy received a great deal of attention from politicians of all stripes. Although the economic and employment contributions of restaurants exceed those of agriculture and all supplier groups, the restaurant industry is treated as secondary in food policy discussions. Similarly, over 50% of the jobs in the tourism industry – by far the largest component of tourism jobs – are restaurant jobs, and yet, the restaurant industry is an afterthought in Canada’s tourism strategy.

Canada’s restaurant and foodservice industry is one of the largest industries in the Canadian economy with annual sales of over \$60 billion. More than 1 million Canadians are proudly employed by the restaurant industry, making it 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, mining, oil and gas extraction combined. An additional 250,000 Canadians are indirectly employed by the industry as suppliers, distributors and consultants.

A recent poll commissioned by Kraft Foodservice Canada and CRFA showed that the industry is the number one source of first jobs for Canadians and that 80% of Canadians recognize restaurants as a vital source of employment.

Every one million dollars in restaurant sales creates nearly 27 jobs, making our industry one of the top five job creators in Canada. The diverse nature of our industry means the benefits are felt in every community, not just major centres.

However, the industry is much more than a huge contributor to the Canadian economy and, a major job creator. It is at the heart of what Canada is about – food, youth, multiculturalism, agriculture, health and community.

It is comprised of passionate, entrepreneurial, creative and resilient Canadians who continue to innovate to grow their businesses without government subsidies or handouts. This is reflected in CRFA's recently-released Restaurant Outlook Survey based on results from the second quarter in 2011. Although the restaurant industry has faced challenge after challenge, a guarded but positive attitude prevails. Eight-two per cent of restaurant respondents expect their sales will continue to grow at the same or greater pace over the next six months. Eighty-three per cent of respondents said they will keep their employment levels the same or increase employees over the next six months. As a major employer of youth, this is good news for Canada and communities across the country.

However, the industry is faced with some daunting challenges. The high Canadian dollar relative to the U.S. and weak economic conditions internationally have discouraged visitors to come to Canada and devastated tourism. Food and labour represent the largest components of a foodservice operator's costs and there has been a sharp climb in both. Eight in 10 respondents to CRFA's Restaurant Outlook Survey indicated rising food costs are having a negative impact on their business. Two-thirds indicated that rising labour costs are having a negative impact, and one in four operators is struggling to find qualified labour. Given the competitive nature of the business and the price-sensitivity of restaurant consumers, particularly in a weak economy, it is difficult for operators to pass on higher costs. Nearly 60% of respondents said they would likely have to raise menu prices over the next six months due to higher operating costs and another 40% plan to hold menu prices at their current level.

In recent years the federal government has focused resources on capital and resource-based sectors that are a fraction the size of the foodservice industry in addition to the agriculture and tourism sectors. It is time for government to recognize the significant social and economic contributions of the foodservice industry and its growth potential. Since foodservice is a touchstone for so many government priorities – youth, immigration, health, employment, economic development, agriculture, multi-culturism, etc., it is important that government take a more holistic approach to this industry beginning with the establishment of a Task Force to study it. The cost of establishing a Task Force and the development of a strategy for the foodservice industry is expected to be minimal (less than \$50,000). (It is noted that costs for the National Tourism Strategy are provisioned in the fiscal framework without a cost allegation.)

RECOMMENDATION #1:

Establish a Private Sector/Public Sector Task Force to study the central role of foodservice in Canada's economy and make recommendations to promote and grow Canada's restaurant and foodservices industry.

Healthy Living

Background

Healthy living is a major imperative for CRFA and the restaurant industry. Last year CRFA's Board of Directors developed a healthy living vision and 10 principles which highlight the industry's commitment to contribute to healthy living solutions. Restaurants and foodservice providers have introduced a wide array of lighter menu items and continue to expand their selection of higher nutrition options. CRFA was an active stakeholder on the Trans Fat Task Force and the Sodium Working Group and the restaurant industry has made significant contributions to reducing trans fat in the Canadian food supply. Currently the industry is reformulating and working with suppliers to reduce sodium in menu items. CRFA works closely with the federal government, and specifically Health Canada, on these issues, in addition to a new nutrition information disclosure initiative.

The industry also spends millions of dollars each year on activity-based sponsorships and promotions, both nationally and in virtually every community across Canada. Foodservice operators are involved in fundraising for children's programs from summer camps to school playgrounds and support a variety of organizations and programs promoting healthy living.

As an active participant on the Sodium Working Group, CRFA continues to support the recommendations in the Sodium Working Group report, which include six over-arching recommendations and twenty-seven specific recommendations under three prongs of a population health strategy to reduce the dietary sodium intake levels of Canadians. The three prongs are:

- a voluntary reduction of sodium levels in processed food products and foods sold in foodservice establishments;
- education and awareness of consumers, industry, health professionals and other key stakeholders; and
- research.

These three prongs must be implemented concurrently in a comprehensive and integrated way for the sodium reduction strategy to succeed. The hundreds of millions of dollars being spent on product reformulation will be wasted if Canadians are not informed and engaged in the lifestyle changes necessary to support the efforts of the manufacturing and foodservice industries. The recommendations on awareness, education, and research cannot be separated from the food supply recommendations. They are needed to change the demand for and purchasing of foods lower in sodium content.

It is estimated that the cost of a 3 to 5 year, large-scale, national campaign that would be in multi-languages and include mass media advertising in addition to social media would be in the \$50 million range. This is a reasonable investment considering that the food and foodservice industries are expected to spend hundreds of millions of dollars to fundamentally change our food supply.

RECOMMENDATION #2:

Provide adequate funding support for the Sodium Working Group’s full slate of recommendations, and in particular a comprehensive, multi-year consumer education campaign to increase awareness about the importance of sodium reduction in the diets of Canadians.

Payroll Taxes

Background

EI premiums place a disproportionate tax burden on lower-income earners and have a particularly negative impact on the labour-intensive foodservice industry. They provide a disincentive to hire young, inexperienced workers, whose tax rate compared to their wages is disproportionately high.

Reducing payroll taxes would be the most effective way to stimulate job creation in the foodservice industry and would allow government to recover tax revenue quicker than any other form of tax cut. These should be priority considerations during times of economic uncertainty.

A Year’s Basic Exemption (YBE) would be the most efficient and cost-effective way to deliver payroll tax relief to the groups most affected by these regressive taxes – entry level workers and labour-intensive businesses. At the same time, universal application makes it easy and fair to administer. It is modeled after the YBE in the Canada Pension Plan and Quebec Pension Plan.

CRFA is proposing a YBE of \$2,000 to start. The YBE refers to the annual earnings level in which premiums are not applied and not to the first \$2,000 of earnings. In terms of benefits, the implementation of a YBE would not necessitate a change in the calculation of benefits. In fact, CRFA would recommend including the \$2,000 exemption in the contribution base.

Currently, employees earning less than \$2,000 per year can apply for a full EI premium refund. Those employees earning slightly more than \$2,000, however, cannot, despite having 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 will:

- reduce the heavy payroll tax burden on labour-intensive businesses;
- make a regressive, job-killing tax more progressive;
- be fairer to those at the lower end of the income scale who are currently taxed at a rate disproportionately high, in comparison to their wages;
- increase the take-home pay and expand job opportunities for Canada’s youth;
- target tax relief to job creators – employers investing in Canadians.

At current premium rates of \$1.78/\$100 of earnings, using an estimate of employer/employee stakeholders of 16.8 million, the reduction in EI revenue of a \$2,000 YBE could roughly estimated to be \$1.4 billion per year.

While this is of significant dollar value it is less than the yearly interest owed to employer/employee stakeholders from the accumulated EI surplus.

RECOMMENDATION #3:

Introduce a \$2,000 Year's Basic Exemption (YBE) to the Employment Insurance system (similar to the CPP/QPP YBE) as a way to alleviate the tax burden on low income Canadians, and directly target tax relief, to labour-intensive employers.