

## **Canadian Convenience Stores Association**

### **Responses**

#### **1. Economic Recovery and Growth**

*Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?*

Small business owners are the backbone of Canada's economy. A key group within this broad network of entrepreneurs are Canada's 185,000 convenience store retailers, who provide more than \$33 billion to the Canadian economy every year, buying more than \$26 billion in goods and services annually. The Federal Government can seek enhanced economic growth in this vital small business sector by acknowledging two major issues impacting our industry: addressing the credit card fees that negatively impact convenience store income, and by following through on the "one-for-one" rule announced by the Red Tape Reduction Commission, ensuring that an equally onerous law be removed for every new law introduced. With respect to recovery and the ability to increase revenue for the Federal Government, tackling the issue of contraband tobacco would also result in long-term financial gain to the federal purse. Contraband products are not subject to all levels of taxation and can be purchased at a much lower cost to consumers than legal products, resulting in a tax revenue loss of up to \$2.1 billion per year, \$1.1 billion of which is lost by the Government of Canada. To this effect, we recommend more enforcement and tougher penalties for contraband offenders (detailed in Question 5). Canada's 25,000+ convenience stores are actively working with their communities and with all levels of government to make Canada a safer, more prosperous nation. We provide a wide range of products and services to people of all ages, and from every segment of our society – 10 million of them each and every day. We are responsible retailers, committed to upholding the highest standards of professionalism and ethical conduct and to supporting public health and safety. These are the critical issues impacting our industry, preventing our small businesses from reaching their full potential. It is our hope that, by working with the Government of Canada to address these concerns, Canada's convenience stores can truly thrive.

#### **2. Job Creation**

*As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?*

#### **3. Demographic Change**

*What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?*

#### **4. Productivity**

*With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?*

CREDIT CARD FEES: Canada's retailers currently pay some of the highest credit card merchant fees in the world. This is a direct impact of the anti-competitive practices of the credit card companies. According to a 2010 CCSA online survey, approximately 20% of purchases in a convenience store are paid for by credit card. The fees per purchase can range from 1.5% to 3%. Because convenience stores and convenience stores with gas stations net over \$33 billion in national sales, this can lead to approximately \$660 million in credit card merchant fees. In comparison, the average pre-tax net margin experienced by these small businesses amounts to less than 1.6%, netting industry profits of only \$528 million. This means that Canadian convenience store owners spend 8% more in credit card fees than they make in pre-tax net profits. The CCSA estimates that the average annual cost in credit card charges and commissions is in excess of \$37,000 for each site. This not only results in low profitability and higher operating costs, but contributes to slow economic growth and lower employment rates within the industry. Recommendation: The Canadian Convenience Stores Association recommends that the Government of Canada re-evaluate present regulations on credit card fees, which cost our retailers hundreds of thousands of dollars in potential income and aggressively pursue a solution to the cause of such high fees compared to other countries. OVER-REGULATION: Regulation within Canada continues to expand annually which leads to declining growth and prosperity for small business owners. Convenience stores must comply with various regulations at the national level that are not only costly, but time consuming to maintain which leads to lower rates of productivity and economic growth. Despite the Government's strong dedication to reducing regulation through the Federal Red Tape Reduction Commission, there are still discussions amongst federal departments about stricter controls on recyclable packaging, water sales, foods that may affect rates of obesity, food labelling and tobacco displays. Our industry net margins in 2010 were listed between 0.9% and 1.6% and with that extremely limited margin rate, economic recovery becomes more difficult. It would not take much to tip the scale and force many small business owners to close their doors. At the World Economic Forum in Davos, Prime Minister Stephen Harper noted that the Government is committed to regulatory reform that will continue to cut the burden of red tape on entrepreneurs. The announcement of the implementation of the "one-for-one" rule that will require regulators to offset an administrative burden of equal value each time they impose a new regulation is absolutely critical and must be followed through to ensure a free and open economy. Recommendations: The Canadian Convenience Stores Association recommends that the Government follow through on the "one-for-one" initiative announced by the Red Tape Reduction Commission and ensure that for every new law introduced, an equally onerous law be removed. They also recommend that the Federal Government take the lead on these initiatives with their provincial counterparts in order to ensure more small business-friendly environment exists in Canada. The Canadian Convenience Stores Association also recommends that more consultation with the industry be taken to ensure that when new, required, regulation is contemplated, operational effectiveness and efficiencies are ensured.

#### **5. Other Challenges**

*With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?*

One of the primary issues impacting Canada's convenience store retailers is the continued trafficking and sale of contraband tobacco. Illegal cigarettes, often referred to as contraband tobacco, are products

that do not comply with Canada's tobacco regulations – specifically those regarding importation, stamping, manufacturing, distribution and taxation. Contraband cigarettes are typically manufactured in illegal facilities on First Nations territories in both Canada and the US. These products are sold and distributed via smoke shacks, which sell baggies of 200 contraband cigarettes for as little as \$10 - \$15 per baggie. The negative impacts resulting from the sale of contraband tobacco include:

- **Lost Revenue for Government:** Contraband products are not subject to all levels of taxation and can be purchased at a much lower cost to consumers than legal products, resulting in a tax revenue loss of up to \$2.1 billion per year, \$1.1 billion of which is lost by the Government of Canada.
- **More Accessible to Young People:** Contraband products are sold without age verification checks and at a significantly reduced price, making them far more accessible to young people to whom they are sold without mandated health warnings. Canadians cannot afford to have a steady supply of contraband filtering into their communities.
- **Supports organized crime, putting communities at risk:** The spread of contraband results in the growth of an underground, illegal economy. The RCMP has identified over 175 organized crime groups involved in the contraband trade. Revenue from contraband tobacco sales also supports other illegal industries such as drugs and illegal weapon smuggling. Most recently, profits from contraband tobacco sales have been re-directed to promote the sale of contraband fuel on reserves (contraband fuel is fuel sold without all levels of taxation) which further hurts our small businesses who abide by the law. The Canadian Convenience Stores Association acknowledges the important first steps taken in the release of the 2008 Contraband Tobacco Enforcement Strategy, and its retailers are pleased to see the Government of Canada take the contraband problem seriously. That said, there is far more work required to eradicate this problem. One particular area of concern remains the Cornwall border crossing. The Beyond the Border Initiative seeks to move the Cornwall border crossing (which was temporarily moved in 2009) to Massena, NY. Since the border was relocated in 2009, the ability to restrict the movement of contraband tobacco, illegal arms, drugs and other illegal products into Canada has significantly improved. Retailers in the area are concerned that, given the planned movement of the border crossing to Massena, security at the present point of entry will weaken, resulting in increased criminal activity (not only contraband traffic) through this area. We know the Government has placed great emphasis on making sure Canadians are safe and secure. We support that ideal and want to make certain that security is not jeopardized wherever the border crossing is located. In 2010, The Government of Canada committed to establishing a new RCMP Anti-Contraband Force of 50 officers to help reduce the problem of trafficking in contraband tobacco. The CCSA sees the establishment of this Force as a significant step in the fight against contraband tobacco, as it will allow for further enforcement of the laws governing contraband trafficking.

**Recommendation:** The Canadian Convenience Stores Association recommends that the Government of Canada follows through on commitments made in 2010 to establish a new RCMP Anti-Contraband Force of 50 officers by the end of 2013. We hope that the establishment of this force will address some of the enforcement gaps where contraband rates are high, particularly in the Cornwall area given the planned movement of the border crossing to New York. In addition, the penalties levied against those caught trafficking contraband must be significant enough to deter individuals from continuing with this illegal activity. This serious criminal offence, with many ties to organized crime as well as drugs and human smuggling, cannot be treated lightly.

**Recommendation:** The Canadian Convenience Stores Association recommends that the Government of Canada follows through on commitments made in 2010 to implement mandatory jail time for repeat illegal tobacco traffickers by the end of 2013.