

FEDERAL PRE-BUDGET SUBMISSION (2015)

PREPARED FOR:

THE HOUSE OF COMMONS STANDING COMMITTEE ON
FINANCE

PREPARED BY:

THE CANADIAN INDEPENDENT PETROLEUM MARKETERS
ASSOCIATION

Executive Summary

The 2015 Federal Budget will be a key document in creating a foundation for future economic growth and prosperity for Canadians, particularly as it relates to the vitality of small and medium-sized businesses.

Of particular interest to CIPMA and its Members are the increasingly highly credit card fees paid by Canadian Independent Petroleum Marketers, and all businesses operating within Canada.

Currently, these fees are among the highest in the world. Canadian retailers pay approximately \$5 billion per year in hidden credit card fees to banks to cover the costs of accepting credit cards as a form of payment. Unfortunately, increasing merchant service fees are eroding retail margins for Canadian business owners and pose a threat to the sustainability of independent businesses in Canada.

The Government is already committed to taking some proactive measures in relation to credit card fees, as per this year's Federal Budget (2014):

The Government will improve fairness and transparency in the credit card market. Merchants pay fees each time they accept credit card payments from consumers. As with any other input cost, merchants pass some or all of these costs to consumers in the form of higher retail prices. Canada has among the highest credit card acceptance costs in the world. In 2013, the Competition Tribunal found that certain of Visa's and MasterCard's network rules have an adverse affect on competition, which results in higher costs to merchants. In light of this finding, the Government will work with stakeholders to promote fair and transparent practices and to help lower credit card acceptance costs for merchants, while encouraging merchants to lower prices to consumers.

The Code of Conduct for the Credit and Debit Card Industry in Canada was created in 2010 to promote merchant choice, transparency and disclosure, and fairness in the credit card market. To further improve business practices, the Government intends to strengthen the Code of Conduct, in consultation with stakeholders.

Merchants pay fees ranging from approximately 1.5 per cent to 4 per cent of the value of credit card payment transactions. The fees that merchants pay to accept credit card payments are distinct from the annual fees and any interest charges paid by consumers who use credit cards, and merchants pass some or all of these costs to consumers in the form of higher retail prices.

CIPMA, and other industry associations, were encouraged by this statement, and look forward to working with government to further support small and medium-sized businesses.

Recommendations

1) CIPMA recommends that the Government of Canada review credit card fees and their impact on small and medium-sized businesses, in an effort to alleviate financial pressure and support local economies.

Credit card ‘swipe fees’ charged to Canadian retailers are amongst the highest in the world—ranging from 1.5% to 4% of a purchase. Particularly for smaller businesses, these costs pose the greatest challenge to their ability to compete effectively and continue serving communities across Canada.

While there are several factors that impact retail prices and employment such as costs of manufacturing and raw materials, transportation, minimum wage rates and regulatory burden, credit card fees impact both retailers and consumers.

The impact of these high fees constrains the ability of all retailers to invest in their businesses and communities and their ability to hire new employees in the communities they serve.

Also, these fees result in increased consumer prices, even for those consumers paying by cash or debit. We have been encouraged to hear that there is acknowledgement by the Federal Government of the impact of high credit card fees on merchants and that it will work with stakeholders to promote fair and transparent practices and to help lower credit card acceptance costs for merchants, while encouraging merchants to lower prices to consumers.

We believe that the independent petroleum marketer is particularly penalized by the current credit card regime. **Approximately 45% of fuel customers pay by credit card. Based on today’s prices, our members are paying over 1/3 of their operating margin on these purchases, merely to cover the cost of credit card fees.** This is already a very acute situation.

2) CIPMA recommends that the Government review the application of credit card fees on the taxation portion of purchases.

Even more punitive is the fact that approximately 30% of these fees goes to cover the tax portion of the purchase.

According to a survey conducted of our membership, CIPMA estimates that independent petroleum marketers pay approximately \$90 million on credit card fees, with \$30 million of this going to cover credit card fees on the tax portion of the sale.

While the petroleum marketing sector has willingly provided a tax collection service for the last several decades, we believe that it is extremely punitive to require independent petroleum marketers to pay the credit card costs on the tax portion of the transaction.

We would respectfully request that the issue of high credit card fees paid on the tax portion of fuel purchases be factored into any review of the extremely high and unfair credit card fee situation in Canada.

3) CIPMA recommends that the Government review over-regulation within the Petroleum / Refining Industry and recognize the effect of compounding regulation on small business and work with and oversee red tape reduction efforts with provincial and Federal governments. Harmonized legislation should also be sought, where possible.

Petroleum marketers must comply with various regulations at both national and provincial levels that are not only costly, but also time consuming to maintain which leads to lower rates of productivity and economic growth.

Within the Canadian market, petroleum products are “fungible”. That means that gasoline from one refinery or region is very similar to gasoline from somewhere else. Ideally, gasoline and diesel could be moved easily across borders. Certainly, there are regional and seasonal differences. **Nevertheless, the gasoline in one jurisdiction will generally perform well in neighbouring markets.** This is important in day-to-day business because it provides alternate sources of supply and price discipline to the market.

It is vital during local supply interruptions because the economy needs continuous supply and local shortages can often be mitigated by imports from neighbouring provinces or, if regulations allow, from other countries.

In Canada, both the federal and provincial governments regulate various properties of petroleum products. These regulations were all applied for a reason but the approach varies from province to province. The result is a patchwork of regulations across the country. **Differences in regulatory details are often trivial in terms of their effect on product quality but they can inhibit the free flow of products across provincial and international boundaries with potentially serious consequences and higher costs to consumers.**

About CIPMA

CIPMA is a national not-for-profit trade association representing the unique interests of independent (i.e. non-refiner) marketers of petroleum products. CIPMA members are key distributors and marketers of petroleum and renewable fuels to the commercial, agricultural, industrial, wholesale and retail markets in every part of Canada.

Approximately 80% of CIPMA members have retail operations. They are small and medium-sized fuel companies who are the backbone of Canada's fuel distribution and marketing industry. Having an independent petroleum marketing sector benefits Canadians – they bring competitiveness to the retail fuel sector, which would otherwise be dominated by a handful of large refiner marketers.

Collectively, our members directly employ close to 5,000 Canadians, and indirectly employ another 15,000 through dealers and agents. CIPMA members account for 17.5 billion litres of sales annually: 27% of all gasoline and 23% of all fuel sold in Canada.



Canadian Independent
Petroleum Marketers Association

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