RCC RETAIL COUNCIL OF CANADA CCCD CONSEIL CANADIEN DU COMMERCE DE DÉTAIL

October 30, 2018

Retail Council of Canada Submission to The House of Commons Standing Committee on International Trade

Re: Study on the Impacts of Tariffs on Canadian Businesses, Companies and Workers

As the voice of retail in Canada, RCC welcomes the opportunity to provide our views to the International Trade Committee's study on the impacts of tariffs on Canadian businesses, companies and workers. In this submission, we speak to the tariffs imposed on goods shipped *to* Canada, rather than those imposed by other countries on Canada's exported goods. We will touch briefly on three areas: the $5.5 billion of tariffs that are a regular feature of our existence*;* the presumably time-limited tariffs applied in retaliation for U.S. tariffs on steel and aluminum; and the issues arising from the USMCA's pending changes to *de minimis rules* for duties.

RCC notes that many of the witnesses in these hearings have been drawn from the domestic steel and aluminum industries and from among those who use imported steel and aluminum as inputs into their manufacturing processes. Canadian industry is largely unaccustomed to facing duties on imported metals, as the tariffs on industrial inputs had been removed in all but a few cases by successive Canadian governments. While we would in no circumstance have wished to see the unfair U.S. action on steel and aluminum and hope that the issue is resolved quickly, we suppose that RCC could say "welcome to our world", one in which tariffs are broadly applied to consumer goods, year-in and year-out.

Tariffs Generally on Consumer Goods

Even before the 2018 retaliatory exchange between the US and Canada, retailers paid the overwhelming share of an annual $5.5 billion in Canadian customs duties. In the context of the current steel and aluminum spat with the US, retailers now also face around $600 million in additional duties on US-sourced food and consumer goods. In turn, these duties lead to higher prices for consumers, so we would respectfully suggest that the Committee expand the scope of this study beyond businesses and workers to consider the consumer impact on all Canadians.

On average and leaving aside the retaliatory tariffs for a moment, Canadian customs duties add 2% to retail prices. That is on a base of approximately $280 billion in annual retail sales (excluding vehicles, gas station sales and groceries). Much was made of the GST reduction a few years ago from 7% to 5%. While a welcome move, that 2% reduction was, for consumer goods, roughly equivalent to the continuing, embedded 2% tax in the form of customs duties.

Many goods are of course free of duties, whether because they originate from a growing list of countries with which Canada has a free-trade agreement. or those that have “Least Developed Country” status, or because they are of a type which have been exempted from duty (e.g., baby clothing and most sporting goods). But the flip-side to that is that many goods face much higher duties, ranging as high as 20% on their landed cost. To better understand the breadth of application of customs duties and especially of those well into double-digit percentages, RCC would draw the Committee’s attention to the Customs Tariff (https://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2018/html/tblmod-2-eng.html), a 99-chapter schedule of customs duties, organized into more than 7,000 headings.

As we understand the original purpose of tariffs, they're tools of industrial policy, designed to support domestic manufacturers (and on occasion, to retaliate against unfair trade actions of other nations) but of course, they also serve as revenue mechanisms for government. While tariffs may once have helped nascent Canadian manufacturers compete with imported product, they are now seriously out of alignment with any existing manufacturing base. There are multiple examples of tariffs of 17% and 18%, and more, in areas where there is not even a single Canadian manufacturer and no reasonable likelihood of there being one. Once the industrial policy angle is lost, a tariff simply becomes another tax, targeted at a specialized list of goods.

In numerous cases, and we will use the example of footwear, these hidden taxes are often double or triple the 5% GST rate on the same items. Given the cascading effect of GST on top of those duties, and absent any markups by wholesalers or retailers, a woman’s shoe can carry a combined federal tax rate on landing of 23.9%, while a pair of rubber boots can carry a tax burden of 26%. This isn't an unusual example. Indeed, most items of adults and children’s clothing and footwear at a wholesale level labours under an effective tax burden of between 16% and 26%. Most are not luxury items; in many cases, they're necessities.

Five years ago, in Budget 2013, the Government of Canada signalled its interest in tariff reductions by removing duties on baby clothes and most sporting goods. RCC worked closely with the government on those deliberations, strongly supports what was done but has noted that this bold first step has not been followed by any further across-the-board reductions. The government has preferred instead to pursue bilateral and multilateral trade agreements, which bring with them tariff reductions on goods from member countries. RCC supports the goal of expanded trade agreements and applauds the results in the form of CETA and CTPP in particular. But the fact remains that the bulk of consumer goods do not originate from countries with which we have free trade agreement and that leaves Canadian consumers paying an amount now approaching $6 billion annually.

RCC understands that the government lacks the fiscal capacity to provide immediate tariff relief across the board. But neither can we ignore an issue that has such an obvious impact on consumers. The government did the right thing in 2013 in starting the process of tariff reductions by category, and retailers are calling for a reboot this year with further action, especially in high tariff areas like clothing and footwear.

USMCA Implications

Notwithstanding considerable pressure by the US Trade Representative, the Canadian NAFTA negotiating team did a commendable job of fighting to maintain tax fairness as between merchants operating in Canada and US online vendors shipping parcels across the border. The rise to a $40 de minimis level under the USMCA is manageable, as for many goods, is the rise to a $150 level for customs duties.

Unfortunately, the latter change does not land evenly and will have negative consequences in some areas of retail. The greatest risk is where goods are easily shippable (i.e., fairly light and packable), are facing high duty levels under Canada's *Customs Tariff,* and for which consumers show a willingness to shop online from vendors outside Canada. In these cases, merchants operating in Canada (and investing and hiring here) can be at a marked disadvantage when compared to US online vendors.

By way of example, a girl's $150 wool winter coat will typically have a "landed" (i.e., wholesale) cost to a Canadian retailer of around $80, with the mark-up paying for the retailer's other input costs, including shipping, labour, occupancy, utilities, advertising and marketing, etc., plus a profit margin. A US online vendor would therefore have a duty advantage of $14.40 (i.e., 18% duty x $80) plus a further advantage of $1.80 savings in GST/PST (which is calculated on top of any duties charged). That gives the US online vendor the ability to sell the item for a flat $150 CAD, whereas the cumulative duties and additional sales taxes for the Canadian retailer raises the price to $166.40 CAD, all other things being equal. That sort of price differential will have a material effect on consumers' purchase decisions, shifting purchases away from Canadian operations, whether they be bricks-and-mortar stores in your communities or ".ca" Canadian online sites in which the government wants to encourage further investment.

We have focused throughout this submission on clothing and footwear, but the example given could just as readily have been based on items like bedding (14% duty), coffee makers (8% duty), hair dryers (8% duty), watches (8% duty), kitchenware (6.5% duty) and so on across hundreds of product categories. Our "ask" is that the Government of Canada begin a process to eliminate the duty advantage conferred on US online vendors by the USMCA. The way to do that is to start to eliminate product categories from the *Customs Tariff* and to lower the duty rates on especially highly-taxed items.

The complexities of these many product categories and the duty calculations that accompany them are better represented visually and/or in-person. Retail Council of Canada would be pleased to meet with the International Trade Committee if the impact of tariffs on retailers and consumers is a matter of interest to Committee members.

About Retail Council of Canada
Retail is Canada's largest employer with over 2.1 million Canadians working in our industry. The sector annually generates over $76 billion in wages and employee benefits. Core retail sales (excluding vehicles and gasoline) were $369 billion in 2017. Retail Council of Canada (RCC) members represent more than two-thirds of core retail sales in the country. RCC is a not-for-profit industry-funded association that represents small, medium and large retail businesses in every community across the country. As the Voice of Retail™ in Canada, we proudly represent more than 45,000 storefronts in all retail formats, including department, grocery, specialty, discount, independent retailers and online merchants.

RCC grocery members represent over 95% of the market in Canada. They provide essential services and are an important source of employment in large and small communities across the country. They have strong private label programs and sell products in every food category.

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