



## National Convenience Stores Distributors Association Federal Pre-Budget Submission (Budget 2018)

### EXECUTIVE SUMMARY

Small and mid-sized retailers, and the distributors that serve them, are faced with a unique set of pressures amidst Canada's evolving retail landscape. It is critical for the Government of Canada to adopt policies that not only improve the competitiveness of small businesses, but provide a regulatory environment which allows an entrepreneurial spirit to thrive.

No sector has learned to adapt to rapidly changing business realities better than Canada's convenience store sector. It is true that small businesses are vital to Canada's business landscape, and we believe that convenience stores and their distributors, represent the heart of our economy, right in your neighbourhood.

The convenience store industry in Canada employs over 227,000 hardworking Canadians, and 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 \$56 billion annually to the Canadian economy, collecting over \$21 billion in taxes on behalf of provincial and federal governments.

While our sector continues to adapt, we remain one of the most heavily regulated industries in the country, stifling our growth. We are pleased that Budget 2018's focus is on improving productivity and competitiveness for Canadians and businesses, as this is critical for small business retailers and their corresponding supply chains.

Convenience store distributors feel that one of the biggest barriers to productivity in our industry is over-regulation; not just on our operations, but on the products sold in our stores. Eliminating cumbersome regulation is vital to improving the competitiveness of small businesses including convenience stores in Canada, particularly at a time when many retail operations are struggling.

Our pre-budget submission for 2018 provides an overview of some of the challenges facing our distributors, including:

- Excessive Credit Card Fees
  - **Recommendation:** Help improve the competitiveness of small businesses by capping credit card fees to reasonable rates in order to bring fairness and transparency to the payments industry in Canada.
- Over-Regulation of Products Sold in C-Stores
  - **Recommendation:** Reconsider the implementation of Bill S-5's components on plain packaging of tobacco products, which will result in an increase of illegal tobacco in Canada.
  - **Recommendation:** Allocate greater resources to combat Canada's illegal tobacco industry, which is poised to grow if plain-packaging is introduced.



- **Recommendation:** Provide a year-long implementation period for S-5 for retailers and distributors in order to provide an appropriate amount of time to address contraband tobacco.
- **Recommendation:** Maintain the existing taxation rate on tobacco products to prevent driving sales to the black market (a consideration that was also made by elected officials surrounding marijuana legalization).
- **Recommendation:** Consult with distributors and retailers on the impact Bill S-228 will have on convenience stores (specifically, how it may interrupt the supply chain and interaction between manufacturers and distributors of products).
- Access to off-brand (grey-market) counterfeit products;
  - **Recommendation:** Work with retailers and distributors to educate on the dangers of purchasing grey-market confectionary, beverage and ice-cream products, and enable border enforcement officials to prevent the flow of these goods into Canada.

### **ABOUT THE NATIONAL CONVENIENCE STORES DISTRIBUTOR ASSOCIATION (NACDA)**

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 26,000 retail locations across Canada that serve 10 million people a day.

### **EXCESSIVE 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**

- Help improve the competitiveness of small businesses by capping credit card fees to reasonable rates in order to bring fairness and transparency to the payments industry in Canada.



## **OVER REGULATION ON PRODUCTS SOLD IN C-STORES**

Canada's convenience store retailers and distributors are used to operating in heavily regulated environments, given the nature of the products sold in our stores (including age restricted products such as tobacco, lottery and in some provinces, alcohol). We serve an important function in keeping these products out of the hands of young people both by ensuring a reliable supply chain and by conducting age-verification practices at point-of-sale.

Any further regulations placed on our retail customers, or on the products sold in their stores should be grounded in evidence-based decision making and only come after robust consultation with our sector. To date, this has not been the case – specifically with respect to regulations placed on tobacco products. We fear that this same resistance to consultation with our sector may continue with new proposals suggested which alter the marketing of food and beverage products. We are asking members of the Finance Committee and all decision makers to ensure the views of Canada's small businesses are represented in these discussions.

### *Regulation of Tobacco Products*

While convenience stores and our distributors are (rightly) subject to extensive regulations governing the distribution and sale of tobacco products in Canada, these same regulations are not present within Canada's illegal tobacco industry.

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.

We believe that the plain packaging restrictions present in Bill S-5 (now before the House of Commons) will only make the continued problem of illegal tobacco even worse. As there is no differentiation between packages, it is hard to see why customers would choose to buy a legal product, when they can get contraband for a fraction of the price, given both packages will look identical. It will also be difficult for our distributors and retailers to distinguish legal tobacco products from those that have been manufactured illegally, threatening the integrity of our supply chain. While elected officials seem to understand the importance of branded packaging for marijuana products to curb a black market, these same considerations seem to be absent for tobacco products, despite the already robust illegal tobacco industry present in Canada.

Our distributors understand, and support public health objectives aimed at reducing youth tobacco consumption. However, there is limited evidence connecting plain packaging with a reduction in youth access or use of tobacco anywhere in the world where the policy has been introduced. This presents more questions than answers for our retailers and distributors, who will be significantly impacted by this proposal.



Before enacting plain packaging legislation, it is critical to address Canada's contraband tobacco industry. This problem is particularly pronounced in Ontario, where it is estimated contraband use rates are close to 30%. Ensuring a reasonable transition period for distributors and retailers before introducing these regulations would allow law enforcement to genuinely address the illegal tobacco problem, while giving our businesses the time they need to adjust to this new framework.

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 are necessary measures to address this thriving illegal industry.

**Recommendations:**

- Reconsider the implementation of Bill S-5's components on plain packaging of tobacco products, which will result in an increase of illegal tobacco in Canada.
- Allocate greater resources to combat Canada's illegal tobacco industry, which is poised to grow if plain-packaging is introduced.
- Provide a year-long implementation period for S-5 for retailers and distributors in order to provide an appropriate amount of time to address contraband tobacco.
- In line with government statements on marijuana, do not over-tax tobacco products so that sales continue to flow to the black market. The existing tax rate should be maintained on these products.

*Regulation on Marketing of Food and Beverage Products to Children*

Our distributors and retailers are also concerned about proposed changes to marketing of food and beverage products, put forward in Bill S-228. Parents and their children are a significant part of our customer base, and despite regularly serving many young Canadians and families, we remain unclear on how changes to marketing or packaging will be implemented at the distributor and retail level. These changes will directly impact in-store communications, marketing, and merchandising, presenting an undue burden to small business owners, who already work hard to design stores that are safe, friendly environments for parents and kids.

S-228 could also impact the ability for young adults to work within our distribution channel or in convenience stores. Young people are a significant part of our workforce (particularly in family-run convenience stores), and greater clarity must be provided on whether or not marketing restrictions may impact the ability for those under the age of 17 to work in our sector.

Industry and prominent members of the retail community must be actively and meaningfully engaged in the development of these regulations with Health Canada officials before they are enacted. Furthermore, government representatives should weigh the impact of these



regulations on small business operations in particular, given the limited resources available to our stores.

**Recommendations:**

- Consult with distributors and retailers on the impact Bill S-228 will have on the c-store industry (specifically how it may interrupt the supply chain and interaction between manufacturers and distributors of products).

**ACCESS TO OFF-BRAND (GREY MARKET) CONFECTIONARY 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. Additionally, border enforcement officials should be given the tools and resources required to prevent the flow of grey market goods into Canada.

**Recommendations:**

- Work with retailers and distributors to educate on the dangers of purchasing grey-market confectionary, beverage and ice-cream products, and enable border enforcement officials to prevent the flow of these goods into 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. 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.