

Canadian Restaurant and Foodservices 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?

The Canadian Restaurant and Foodservices Association, representing the \$63 billion, one million employee restaurant industry believes that economic recovery and growth require: a fair taxation system; a sound fiscal system and an openness to freer trade. This box focuses on a Fair Taxation System. Businesses seeking economic opportunity are drawn to a low-tax environment that treats them fairly. Government must take steps to eliminate inequities in the tax system that give some businesses a leg up over their competitors. Government should also take advantage of opportunities to lower tax rates by simplifying and broadening the tax base. The GST/HST is a case in point. The food exemption is patently unfair to restaurant operators who must charge GST/HST on food that is similar or identical to food sold tax free in grocery stores, putting them at a competitive disadvantage. Economists Michael Smart and Jack Mintz say the GST/HST is riddled with exemptions, rebates and reduced ratings that seriously damage its effectiveness and make it the most inefficient sales tax in the advanced world. (*1) The food exemption costs the economy \$1 billion, while Ottawa and HST provinces lose out on \$8 billion which could be used to reduce the GST/HST rate by almost half or pay down debt, fund social services, or reduce other taxes. By excluding food from the GST more affluent Canadians actually derive a greater benefit than the poor. A more efficient way of sheltering lower-income Canadians from being taxed on food would be to increase the GST tax credit and call it the "food tax credit". (*2) At minimum, changing the definition of "basic groceries" to exclude frozen prepared dinners and other meal replacements available at grocery stores that compete directly with restaurants, would bring greater and much needed fairness to the GST/HST tax system. Government must also treat all tax dollars fairly by getting out of the business of picking winners and losers by subsidizing individual sectors or businesses. A case in point was the \$12 million subsidy to a foreign-based frozen pizza manufacturer in London Ontario, whose products compete directly with fresh pizzas from restaurants throughout the country. Pizzerias that are already disadvantaged because of HST must also pay about 30% more than frozen manufacturers for cheese because of Canada's supply management system. *1 Smart, Michael, University of Toronto, "Departures From Neutrality in Canada's Goods and Services Tax", February 2012. *2 Ibid

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?

Question 2 recognizes the powerful influences of global markets and the need for enhanced internal and international trade. CRFA believes that An Openness to Freer Trade and a strategy to boost our country's investment and trade ties to more countries will stimulate higher and sustained growth and in turn job creation. However, CRFA is concerned that by maintaining its protectionist position on supply management, Canada is jeopardizing the 90% of Canadian farmers that are not supply-managed as well

as other Canadian value-added providers of goods and services that rely on trade. For the 10 percent of farms that are access barrier protected by supply management, we believe they can compete internationally and become stronger domestically if the transition to open markets is carefully managed. However, if Canada plays a waiting game, we may be forced to negotiate with our backs to the wall, which could expose Canada's dairy and poultry producers to unfavourable last-minute compromises and adversely affect our industry's domestic supply source. Canada's restaurant industry relies on Canada's dairy and poultry sectors and has a vested interest in ensuring a reliable and competitive source now and in the future. The Trans-Pacific Partnership Free Trade Agreement presents tremendous opportunities for Canada that we can't afford to miss. Canada must develop and manage the transition to open markets in the country's national interest by acting now and not waiting to have them dictated to us by external forces.

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?

Shortage of labour is an issue all businesses in Canada will be faced with due to demographic change. A shortfall of labour in Canada of almost one million workers is projected by 2020*1) – 200,000 in the restaurant industry alone(*2). Statistics Canada projections indicate that by 2020, the population of 15-24 year old in Canada will decline by 300,000. This is particularly concerning to restaurants, which are the number one provider of first-time jobs in the country, providing one in five jobs to youth. Canada must compete for workers – skilled, semi-skilled and unskilled - with every other developed country in the world, which are experiencing the same demographic trends and labour shortage challenges. We can expect the international competition for workers to intensify. As a result, CRFA supports the modernizing of our immigration system to make it more labour market focused and with a bias toward youth. Canada must also prepare for the aging of the population and the significant costs that will result by ensuring our fiscal house is in order. A Sound Fiscal System is needed to keep government spending, inflation, and interest rates in check. Large deficits and debt reduce the government's financial flexibility and siphon money away from national priorities. CRFA also supports government measures that ensure low and predictable rates of inflation and interest rates. Low, stable inflation allows consumers and businesses to plan for the future with confidence that the purchasing power of their money won't disappear. Low, stable interest rates allow restaurants to invest in their businesses and finance their day-to-day operations. *1 Conference Board of Canada *2 Canadian Tourism Human Resource Council

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?

One of the most effective ways to increase productivity is to reduce the regulatory burden on businesses. Cutting paperwork and red tape could save the Canadian economy billions of dollars per year of labour and administrative costs. Other productivity enhancements for business would be to further remove work disincentives from our income-support systems such as the employment insurance system and reduce job killing payroll taxes. Embracing and supporting a culture of innovation, particularly workplace innovation, will also result in productivity gains. A case in point is advancements in how Canadians access information and order items in restaurants. Customers can now access nutrition information, wine pairings and other facts they are seeking about menu items through smart phones and ipads. Technology is replacing paper menus and the way restaurant staff interact with

guests.

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?

There is no shortage of challenges facing restaurant operators in Canada but the restaurant industry is a resilient, celebratory industry delivering a message of optimism and hope. We are an industry that brings people together. We create communities. We build neighbourhoods. We work with farmers. We hire youth, immigrants and aboriginals. We touch the lives of Canadians in every part of the country by providing jobs, gathering places for people to socialize and celebrate, as well as involvement in and contributions to community events and charities. As a result Canadians have a very positive view of restaurants: Eight in ten recognize our industry as an important source of employment; 34% of Canadians have dreamed of opening their own restaurant or bar; and, dining out is the preferred way to spend time outside the home with family and friends, ahead of shopping, movies, sporting events and other outdoor or cultural activities. (*1) We are an exciting, vibrant industry that government should hitch its wagon to. Currently, there is no government department responsible for the restaurant industry and no Minister to champion the industry. Although larger in terms of jobs and economic contribution, restaurants are treated as secondary in agriculture and tourism policy discussions. CRFA recommends that government work with CRFA on a restaurant strategy to help the industry meet its potential as a culinary capital and to ensure that there is a restaurant lens through which policies decisions are viewed. *1 Ipsos/Kraft Canada Inc. Survey, Fall 2010