

**Written Submission for the Pre-Budget
Consultations in Advance of the 2021 Budget**

By: Frontier Duty Free Association



Recommendation 1: Reinstate the Canada's visitor rebate program (VRP)

Recommendation 2: Federal Designation of Duty Free as an Export Market

Recommendation 3: Creation of a Canadian Duty Free Zone



Frontier Duty Free Association

2021 Pre-Budget Submission

About the FDFA

The Frontier Duty Free Association (FDFA) is the industry association for Canada's land border duty free shops. There are 33 stores across Canada, operating in seven provinces.

The FDFA promotes the development of Canada's land border duty free industry by acting as a business resource for member stores. As a matter of policy, all duty free shop owners deliberately foster a distinctly Canadian flavour or ambiance in their stores. CBSA considers FDFA members to be highly compliant with government policy and regulations.

Duty Free stores generate significant economic benefits in the regions where they operate:

- Land border duty free stores have repatriated over \$1.5 billion in sales in the past 10 years, which would have otherwise been lost to the US duty free stores and US retailers.
- Total direct and indirect employment accounts for approximately 2,500 FTE Canadian jobs.
- Represent approximately \$35 million per year in federal, provincial and local taxes.
- Operators have invested a total of more than \$60 million in border communities.

The implementation of FDFA's key recommendations in this document will contribute significantly to the duty free industry recovery from the COVID-19 crisis. It will ensure the survival of duty free stores who are still reeling from this unprecedented crisis and closure of the Canada-U.S. border.

These recommendations would seamlessly complement the Government's commitments as outlined in previous budgets and in Canada's new tourism strategy.

2021 Budget Recommendations

1. Reinstate the Canada's visitor rebate program (VRP)

The Visitor Rebate program (VRP) was cancelled in 2007. The decision by the then Harper government to cancel the program was widely rejected by the tourism industry, experts and economists. As predicted, the elimination of the visitor rebate program (VRP) resulted in a massive loss for the tourism sector and the Canadian economy overall.

Today, Canada is the only OECD country with a sales tax on goods purchased by foreign visitors and lags behind by being one of the slowest growing economies in terms of tourism growth among OECD countries.

As countries around the globe recover from this deep recession, many governments would likely enhance their visitor rebate programs to attract foreign visitors and stimulate their economies. Canada should not sit on the sideline. The government should reinstate the visitor rebate program to boost tourism growth, encourage greater spending by foreign visitors and generate more revenue in Canada. It will reposition our visitor economy post-crisis and allow our tourism industry to re-emerge as a stronger, more cost-competitive global tourism competitor.

The FDFA proposes administering the program at duty free stores to maximize benefit and eliminate administration costs. Evidence suggests that these rebates will then be spent in Canada. Duty free stores at land border crossings and airports will provide foreign visitors with instant cash-rebate on accommodation and eligible retail goods before they leave Canada. Such a system will facilitate the administration of the program, increase accessibility and uptake while putting more money back into the Canadian economy and eliminating the cost of administering the program by the government.

Additionally, duty free stores are located at all major point of exits in the country, thereby facilitating the verification of the goods exported and incentivizing visitors to spend part of the cash rebate before leaving the country. Under the previous VRP, one-third of the refunds were processed at land border duty free stores and over half of those rebates were spent in the stores. It was this part of the program that generated greater economic benefits and made the largest contribution to GDP and employment. Under this proposal, the FDFA would administer the program for a suggested fee of up to a maximum of 15% of the rebate amount charged directly to the international travellers by the duty free operators. This system will effectively transfer the administration cost of the program from Canadian taxpayers to foreign visitors.

2. Federal Designation of Duty Free as an Export Market

Duty Free is an export market. ALL products sold at the stores are immediately exported to the U.S. The duty free shop regulations under the Customs Act clearly state that ***“the goods sold in the duty free shop are for immediate exportation only and must be reported under the Act if they are returned to Canada.”*** The CBSA issues duty free licence to acquire goods free of certain duties and taxes for sale to travellers who leave the country. Duty Free shops under the Customs Act are subject to strict site, inventory, reporting and storage requirements to ensure that all products sold at the stores are exported and must be consumed outside Canada.

That said, the current federal framework is unclear and leaves room for misinterpretation by many federal departments and agencies. As a result of those misconceptions regarding the unique nature of the duty free industry, many products sold at duty free stores are regularly subject to domestic policy, which put the stores at a massive competitive disadvantage with U.S. duty free and retailers and ultimately result in significant revenue losses.

One of the most glaring examples of the misalignment by federal agencies on the nature of duty free stores is the alcohol labelling issue in Ontario. In December 2006, without any prior consultation, the Canadian Food Inspection Agency (CFIA) ruled that they will no longer consider the exemption for products labelled “Export” or “For Exportation” as applying to duty-free stores. Therefore, the domestic alcohol product labelling requirements under the Food and Drug Regulations (FDR) are now applicable to alcoholic beverages sold at duty free stores. This issue is still unresolved and has affected millions of dollars of products sold at the stores in Ontario.

Duty free purchases are limited to customers crossing into the USA and 100 percent of duty free sales are exported to the USA. Due to the unique export nature of duty free sales, duty free products must be compliant with the export country (USA). Conferring domestic policy over an export industry results in bureaucratic red tape, increased costs and ultimately lost sales as products are removed from duty free stores.

With the border closure agreement likely to be extended and in addition to the disastrous impact of the COVID-19 pandemic, duty free stores in Canada continue to be entangled in this bureaucratic nightmare. The lack of clear designation of duty free as an export market has impeded growth in the industry for many years, and will greatly affect the ability of the industry to recover from this unprecedented crisis.

We are at a critical juncture and actions taken today will shape the future of the industry. It is essential that the federal government clearly designated the duty free industry as ‘Export Sector’ with all rights and privileges.

The ‘Export’ designation will significantly reduce red tape and provide a clear indication to all federal and provincial agencies on the nature of the duty free industry.

3. Creation of a Canadian Duty Free Zone

The federal government created Canada's land border duty free program to achieve several specific objectives. Chief among these were:

- a. To improve the balance of payments between the U.S. and Canada by increasing export sales to Americans returning home from Canada;**
- b. To repatriate sales to Canada;**
- c. To promote small to medium-sized businesses and related economic benefits to Canada; and**
- d. As a showcase to promote the sale of Canadian-made products to visitors to Canada.**

Canadian duty Free stores have helped achieve these objectives and created a unique shopping experience for international and local travellers whether they are travelling by road or by air. As originally intended, the uniqueness of duty free gives the travellers an opportunity to make purchases without any duty or taxes levied, except in Canada, where the federal and provincial governments have for example, imposed excise duty on tobacco sold at duty free stores and hefty markups on alcohol products, making these two products highly uncompetitive.

Canadian land border duty free shops operate in an extremely competitive environment. They are in direct competition with the U.S. duty free and retailers, that in most instances are located just a few kilometres across the border. The U.S. duty free stores pay little to no tax on products they sell. This has created a huge price differential between Canada's land border duty free and their U.S. counterparts.

Higher prices and stringent regulations in Canada drive more consumers to the U.S. to buy the same products sold on this side of the border. That translates into more lost revenue for government and duty free stores, and creates a massive competitive advantage for U.S. retailers over Canadians duty free stores.

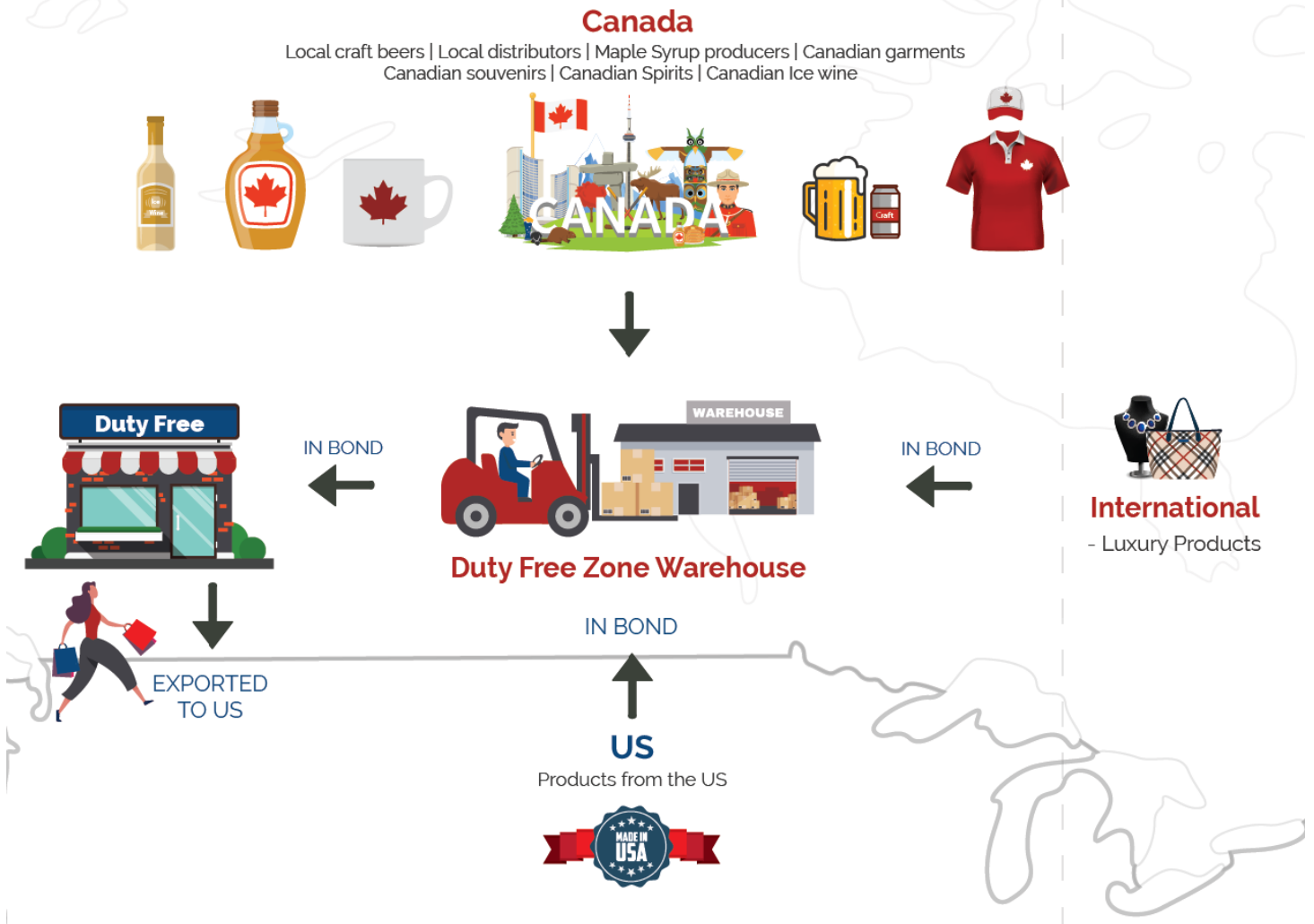
Every sale not made at a Canadian Duty Free store is lost to a US store metres down the road.



Moreover, the overall framework around the duty free program has not been updated for close to 40 years. It is time to modernize the duty free program and streamline the process of acquisition and sale of products at duty free stores in Canada.

In light of the current unprecedented crisis and given the disastrous impact of COVID-19 on the Canadian duty free sector, it is time for the federal government to level the playing field with the U.S. duty free retailers and restore the industry 'duty free' status. **FDFA proposes that the federal government creates a Canadian Duty Free Zone.** This measure will streamline the flow of products to duty free stores, increase the industry competitiveness with United States and facilitate recovery.

DUTY FREE PRODUCT FLOW MODEL



Recommendations

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