2018-2019 Federal Pre-Budget Submission

Presented to:

The Honourable Wayne Easter, P.C., M.P.
Chair of the House of Commons Standing Committee on Finance

Restaurants Canada
The voice of foodservice | La voix des services alimentaires

Restaurants Canada is pleased to present its submission to the House of Commons Standing Committee on Finance as part of its 2018 pre-budget consultations.

We are a national industry association representing 30,000 businesses in every segment of foodservice, including full- and quick-service restaurants, bars, caterers, and institutional foodservice providers.

The restaurant industry is one of the largest sectors of the Canadian economy with $80 billion in annual sales, 95,000 locations, and 1.2 million employees who serve 18 million customers every day. An additional 286,000 people are indirectly employed as suppliers to our industry. With restaurants in every community across the country, we are huge contributors to the economy, culture and fabric of our nation.

Question One:

"What federal measures would help Canadians to be more productive?"

The Canadian restaurant and foodservice industry provides more first-time jobs than any other industry. Twenty-two percent of Canadians started their career in a foodservice business. These jobs allow young Canadians to develop valuable jobs skills so they can progress within the industry, and serve as stepping stones to the broader labour force.

These important first job experiences are in jeopardy because of double-digit increases to mandated wage costs in the provinces of Alberta and Ontario, which could quickly spread to other Canadian jurisdictions. Employers cannot afford to pay first-time job-seekers the same wages as more experienced workers. When forced to increase wages at a pace that doesn't give them time to adjust, employers can no longer invest in these workers. The least experienced and least skilled, many of them youth, are the casualties of aggressive minimum wage policies.

Restaurants Canada is seeking mitigation from provincial governments to stem job losses from $15/hour minimum wage policies, but Restaurants Canada also recommends that the federal government:

- provide support in the form of fiscal incentives and tax credits to encourage the hiring and retention of young people and other marginalized Canadians;
- make job training grants more widely available to the restaurant industry. Asa not-for-profit association, we would welcome accompanying grants to help administer the additional coordination which would be required;
- fulfil the promise made during the electoral campaign to promote hiring of youth employees by granting a 12-month holiday on EI contributions. Unfortunately, this measure was not included in this administration's first two budgets. With youth unemployment 2.2 times higher than for workers over 25, it would encourage the hiring of young people;
- make EI beneficiaries eligible for labour mobility or transportation allowances to go to work where they are needed.

Question Two:

"What federal measures would help Canadian businesses to be more productive and competitive?"

We are pleased that the committee is focusing on policy measures to make Canadian businesses more productive and competitive.

After 26 years of continuous growth, the restaurant industry is faced with some daunting challenges that will limit its contribution to employment and economic development. Restaurants Canada is seeking support from the federal government to address some of the cost drivers negatively impacting the productivity and competitiveness of foodservice operators.

Labour and food represent the largest component of an operator's costs and there has been a sharp climb in labour costs in particular. Eighty-two per cent of respondents to Restaurants Canada's Q2 Restaurant Outlook Survey indicated that labour costs are the biggest challenge for foodservice operators, up dramatically from 69% in Q1. Respondents also indicated that food costs, labour shortages, utility costs, credit card merchant fees and liquor costs were hurting their businesses.

Despite the strong economy, the share of operators that are pessimistic about the next 12 months compared to the previous 12 months jumped to 28% in Q2 from 11% in Q1. Reducing operating costs over the next 12 months is a top priority, with seven in 10 indicating they will do so by reducing shifts and hours of work. Given the competitive nature of the business and the price-sensitivity of restaurant consumers, it is difficult for operators to pass on higher costs. However, 45% will be forced to raise their menu prices by more than 3% in the next 12 months.

With average before tax margins of only 4.3% across Canada, restaurant operators cannot continue to absorb costs. We have identified several issues that need federal government support. Support on these issues would reduce operator costs and taxes, which would positively impact their productivity and competitiveness:

1. **Credit card fees:** Credit card interchange fees are a major source of frustration for restaurant operators. The fees charged to merchants in Canada are amongst the highest in the world, and are still five times higher than in the European Union, Great Britain and Australia, despite modest fee reductions. The dollars merchants pay to credit card issuers is continuing to spike up because of the tremendous year-over-year increases in credit card usage. Canadians are incented to use their cards for all types of purchases to take advantage of generous reward points, but the rewards are financed by merchants through higher fees.

RESTAURANTS CANADA RECOMMENDS:

- A cap on interchange fees with rules preventing the introduction of other merchant fees to recoup lost interchange revenue.
- A level playing field for merchants.
- A stop to credit card companies profiting from taxes collected on behalf of governments.

2. **Escalator tax on alcohol:** This infamous tax was put in place in the 2017 budget. In our response to the budget, and in many public declarations, we accepted the one-year 2% increase to the alcohol excise tax. However, the annual increase based on CPI not only creates a dangerous precedent, but adds significant costs to operators and their customers that will accelerate quickly because of the cascading nature of alcohol taxes. Provincial mark-ups, fees and levies are all layered on to the excise tax increase along with provincial and federal sales taxes. Restaurants Canada was frustrated by the characterization of the tax as so insignificant, it didn't warrant any economic analysis. A similar alcohol excise tax escalator was banished in the 1980s because it was a job-killer.

RESTAURANTS CANADA RECOMMENDS:

- Repeal of the escalator excise tax on alcohol, and at a minimum, an economic impact analysis be undertaken.

3. **Interprovincial non-tariff barriers on alcohol**: Restaurants Canada welcomed the signing of the Canada Free Trade Agreement (CFTA) last spring. As Canada enters a general trade deal with Europe (CETA) and participates in talks to renegotiate NAFTA, it is more important than ever to limit trade barriers inside our own borders. We encourage all provinces to reduce trade barriers, but leadership must come from Ottawa.

The CFTA framework announcement was accompanied by the establishment of a federal/provincial working group to study interprovincial trade of alcohol. Currently, the provinces are challenging a New Brunswick court decision that is going to the Supreme Court on interprovincial trade barriers perpetuated by provincial liquor boards. We again appeal to the federal government for leadership to ensure the constitutional right of consumers and commercial enterprises to the free flow of goods and services, including alcohol, between provinces, is respected.

Reducing current infringements would increase access to unique products and more varieties from across the country, and lead to more competitively priced products for consumers.

RESTAURANTS CANADA RECOMMENDS:

- Leadership by the federal government to ensure the constitution is respected with regard to the free flow of alcohol between provinces.

4. **International trade:** Restaurants Canada also recognizes the powerful influences of global markets and the need for enhanced international trade.

Restaurants Canada 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.

Restaurants Canada recommends that government guard against 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, by maintaining its protectionist position on supply management during NAFTA renegotiations.

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. At the same time, recent tightness in the chicken market and the challenge of getting products to specifications (right-sized birds) indicates the need for more efficient and open international markets.

RESTAURANTS CANADA RECOMMENDS:

- Freer international trade of agricultural products including supply-managed products.

5. **Small business tax reduction:** More than two-thirds of Canada's restaurants are locally owned and operated by independent entrepreneurs. These small- and medium-sized businesses operate at a very low pre-tax profit margin of 4.3%.

   We were disappointed when the March 2016 budget cancelled a proposed reduction of the small business tax rate to 9%, particularly because it contradicted an electoral promise. A small business tax reduction would allow small restaurant enterprises to invest in their businesses and hire more Canadians.

   RESTAURANTS CANADA RECOMMENDS:

   - Reducing the small business tax from 11.5% to 9% in alignment with election platform.

6. **Culinary tourism promotion initiatives:** Restaurants Canada appreciated the announcement last spring that government is embarking on a strategy to make Canada a top destination for culinary tourism. We know that tourists are drawn to Canada's culinary landscape. In fact, restaurants are one of the top three reasons tourists choose Canada as their destination.

RESTAURANTS CANADA RECOMMENDS:

- Including funding to implement a culinary tourism strategy in the 2018 budget. We wish to collaborate on the strategy as private-sector partners.

7. **Marketing to kids:** Restaurants Canada understands the government's election commitment to introduce legislation to restrict marketing to kids. However, we are concerned that Health Canada's approach to this mandate is so sweeping, it will have negative consequences for the economy and Canadian treasury. The approach outlined to date includes a very narrow definition of what foods can be marketed, and a very broad range of activities that would be prohibited such as advertising, promotions, sponsorships, packaging, merchandizing, and labeling. In addition, the definition of child includes teenagers up to the age of 17, who will be able to work in restaurants but not be exposed to any communications from restaurants. Since teenagers typically watch the same programming as adults, restaurants will be prevented from marketing their businesses to any audience in Canada.

RESTAURANTS CANADA RECOMMENDS:

- Undertaking an economic analysis to measure the impact of any proposed marketing restrictions on the economy and Canadians. The analysis should consider the food, retail, and restaurant sectors, as well as Canada's advertising, broadcasting, and media industries. In addition, the impact on sporting, artistic and cultural events, charities, and community activities needs to be considered.

8. **NFACC financing:** The National Farm Animal Care Council (NFACC) has the mission to develop codes of practice for farm animal welfare. In the coming years, many of the 10-year old codes will need to be adjusted and rethought. As Canadian consumers are more conscious of what they buy and eat, and are seeking transparency from suppliers, we would like to ensure that NFACC has sufficient funding to operate and adjust the codes. Usually, financing of the organization has been for new codes (on different species), but we need to ensure they have the funds to continue their work to also revise current codes.

RESTAURANTS CANADA RECOMMENDS:

- Funding for NFACC for the development and renewal of codes of practice.

Conclusion:

In 2017, Restaurants Canada members still regularly identify high labour costs and food costs as two of the major challenges impacting their businesses. In a 4.3% pre-tax profit margin environment, every penny counts.

At Restaurants Canada, we are always open to discussing ways to improve the business environment for our industry. We need to work together to streamline processes, find efficiencies, and ensure we have the people and tools in place to build customer-focused and community-building businesses. Addressing the issues outlined above is where we'd like to start.