HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

◉ **an organization** **Organization name:** Retail Council of Canada

or

○ **an individual** **Name:** _____

Topic: Business taxation and regulatory issues

*Recommendation 1: Please provide a short summary of your recommendation.

The Canadian Border Services Agency's (CBSA) post-release regime of verification of tariff classifications could be made more efficient for both the government and industry if the number of tariffs within a product category were harmonized to a single tariff for the entire category. As an example, for footwear alone, there are 145 different tariff lines with 10 different MFN tariff rates.

Consistent with recommendations from the Senate Committee on National Finance, RCC recommends that tariffs be reduced or eliminated on all products where there is no domestic manufacturing in order to

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$10 million-$99.9 million

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The CBSA spends about $75 million annually on its Revenue and Trade Management Program. Increased efficiencies related to compliance verification activities of CBSA gained through these proposed changes will help to offset costs of implementing the proposed tariff changes.

Cross border shopping by Canadians has been estimated at a cost of twenty billion dollars to the Canadian economy (BMO Report Canada-US Price Gap 2012). Tariff reductions and/or eliminations that result in lower prices for products sold in Canada will contribute to reducing the incidence of cross-border shopping there

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Implementation of this recommendation would benefit:

• Canadian consumers and families– by reducing the price of imported products
• Importers and retailers – by reducing import costs related to high tariffs as well as reducing red tape administrative burden in determining tariff classifications
• Government – by reducing compliance costs in verifying tariff classifications

There would be no negative impact on Canadian businesses if these tariff reductions/eliminations were focused on categories of products where there is no domestic production in Canada.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Reducing complexity within the tariff system in Canada will result in less administrative burden for Canadian importers and would allow for savings by industry to be reinvested.

Reduction of product tariffs directly impacts the costs of importing goods to Canada and leads to lower prices for consumers. This would be a direct and measurable benefit to Canadians; especially among lower income families. Tariff reductions would also foster a more competitive market for Canadian retailers vis-à-vis their US counterparts.

Topic: Please select from the pull-down menu

Recommendation 2: Please provide a short summary of your recommendation.

Regulation of interchange (fees paid by merchants for acceptance of credit cards) in keeping with evidence from, among others, the Commissioner of Competition, that these fees are unacceptably high. In regulating interchange, Canada can look to the current proposal from the EU to cap fees on cross-border transactions and, two years hence, on domestic transactions within the EU. Canada can draw from experience in Australia and New Zealand, where interchange is already capped and from the US, where the Federal Reserve has capped the level of acceptance fees on debit.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$5 million -$9.9 million

1 year

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

There is limited or no direct cost to the federal government in adopting this recommendation. Federal public servants in the Department of Finance would be engaged in establishing a regulatory regime and in ongoing policy development, analysis and oversight of the regulations.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Merchants who accept credit cards would benefit, as would their entire customer base, including consumers who do not use credit cards. Regulation of interchange to acceptable levels would reduce fees from the current $5.6 billion annually, a large portion of which would likely get passed along to consumers as lower retail prices.

Beneficiaries would include purchasers of basic necessities, including food, who are paying higher prices as a consequence of increased market penetration of credit cards into the grocery sector. Savings to consumers could be as high as $3 billion annually.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Th impact of $3billion more a year in consumer's pockets would both improve living standards and provide economic stimulus.

Reduction in merchant's cost structures wold allow for lower prices, and make merchants more competitive, including recovering business now lost to cross-border shopping and to internet sales from overseas suppliers

Topic: Please select from the pull-down menu

Recommendation 3: Please provide a short summary of your recommendation.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

Please select from the drop down menu

Please select from the drop down menu

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Please use this page if you wish to provide more explanation about your recommendation(s).

The pricing of interchange is significantly higher than in required to fund the processing of card transactions and to provide a reasonable ROI to card companies and issuers (e.g. banks).

Instead of pricing the fees in relation to the service provided, the two card networks (Visa and Mastercard) have added large financial incentives to card-issuing banks and to rewards card customers, all of which are paid for by the fees charged to merchants. Because these fees are far too large to simply be absorbed by merchants, they get passed on to all consumers in the form of higher retail prices. In this way, all Canadian consumers provide an unwilling subsidy of several billion dollars annually that then gets split between the banks and rewards card users.

Worldwide, policy makers have recognized that interchange is at unacceptably high levels and have moved to cap these fees. When RCC first proposed regulation in 2009, Australia was the only country that capped interchange fees. The situation has changed markedly over the past four years. The US Federal Reserve moved in 2011 to cap debit acceptance fees at levels that may be lowered still further by recent court decisions in the US. More recently, in July 2013, the EU has proposed caps on both credit and debit card acceptance fees, initially for cross-border transactions, and in two years time, for domestic transactions within the 28 member nations of the EU. Estimated savings to European consumers amount to 6 billion EUR ($8.2 billion) a year.

RCC is not suggesting that we should follow our economic peers in all respects, but that Canada is falling behind other countries in moving to address a serious issue for merchants and consumers alike.

The seriousness of the problem was highlighted in the Commissioner of Competition's price maintenance case against Visa and Mastercard which noted that the cost of hidden credit card fees from the two networks exceeded $5 billion annually (now $5.7 billion) with a direct price impact on all consumers. The Commissioner's case was dismissed on technical legal grounds but in dismissing the Commissioner's application, the Competition Tribunal of Canada lauded the Commissioner for bringing the case, recognizing the problem that exists in the marketplace and suggesting that the most appropriate solution would be a regulatory framework.

We agree and see this pre-budget consultation process as the right place in which to involve legislators focused on finance and financial services in search for the solution to excessive interchange fees.

*Please note that at least one recommendation must be provided