Retail Council of Canada

Retail Council of Canada Submission
Standing Committee on Finance Pre-Budget Consultation

Thank you for the opportunity to participate in the Pre-Budget Consultation process in preparation for the 2015/2016 Federal Budget.

In response to your pre-identified priorities "supporting families and helping vulnerable Canadians" and "improving Canada's taxation polices," the focus of our submission will be on eliminating importation tariffs that no longer serve a useful purpose and which make essential items more expensive for Canadian families. This is a continuation of the priority the government initiated in the 2013 Economic Action Plan to address the Canada-U.S. price gap.

Retail Council of Canada also calls on the government to finalize its commitment to lower credit card acceptance costs for Canadian merchants.

Who We Are

The Retail Council of Canada (RCC) has been the Voice of Retail in Canada since 1963. We speak for an industry that touches the daily lives of Canadians in every corner of the country by providing jobs, career opportunities, and by investing in their communities.

RCC is a not-for-profit, industry-funded association representing more than 9,000 members with over 45,000 store fronts of all retail formats across Canada, including department, general merchandise, grocery, specialty, discount, independent stores and online merchants of all sizes.

Collectively, the retail sector is the largest employer in Canada, providing jobs for more than 2 million Canadians, generating sales in excess of 485 billion dollars a year. The retail sector is a critical component of Canada's economic well-being.

Canada-US Price Gap

The 2013/2014 and 2014/2015 Federal Budgets both referenced the government's desire to make life more affordable for Canadians by addressing the price gap that exists between Canada and the United States. This priority resulted from a study undertaken by the Standing Senate Committee on National Finance which concluded that the Minister of Finance should "*conduct a comprehensive review of Canadian tariffs, keeping in mind domestic manufacturing, with the objective of reducing the price discrepancies for certain products between Canada and the United States*."[1] RCC participated in this study and is in complete agreement with the Committee's assessment that tariffs are a seminal component of the price gap and should be eliminated where feasible.

This conclusion is also supported by the C.D. Howe Institute and the Canadian Council of Chief Executives in their recent studies on the subject, as evidenced by the following references:

[1] The Canada–USA Price Gap, *Report of the Standing Committee on National Finance*, Feb 2013, 41st Parliament–1st Session

The easiest thing Canadian governments can do if they want to reduce the Canada-US wholesale price gap is eliminate existing tariffs and supply-management policies that are responsible for the largest price gaps.[2] – C.D. Howe Institute

Removing all remaining tariffs on goods coming into Canada would generate $20-billion a year in economic gains, making the country wealthier, more productive and a magnet for foreign investment.[3] – Canadian Council of Chief Executives

Tariff Elimination Equals Savings to Consumers

In response to the Senate Committee's recommendation, the government eliminated tariffs on baby clothes and some sporting goods in the 2013/2014 Economic Action Plan (effective April 1, 2013) on a trial basis to assess whether it would result in lower prices for Canadian consumers.

With this decision, Canada became a leader among developed nations as it is one of few countries that have adjusted its tariff application with the goal of making life more affordable for Canadian families. This is in direct contrast with our largest trading partner whose policy applies high tariffs to basic, everyday goods and minimal tariffs to expensive high-end goods. In essence the American approach makes life more affordable for the wealthy rather than the other way around.

In February 2014, RCC conducted a survey of its largest sport and baby clothing retailers and confirmed that the average Canadian family had saved approximately $50 per child on hockey equipment, compared to prices the previous year, and approximately $12 on an average baby outfit.[4] These examples illustrate that savings from tariff elimination are being passed on to consumers.

The Canadian Council of Chief Executives' study **"Should Canada Unilaterally Adopt Free Trade"** also concludes that a *"cut in protection [aka tariffs] results in a decline in Canadian consumer prices."*[5]

It is important to note that while tariffs do affect consumer prices, there are also many other factors that influence the final price of a good including currency fluctuations, labour rates, and wholesalers and manufacturers passing on savings realized from tariff reductions to their retail customers. Retail is one of the most competitive sectors in our global economy. Despite the complexity involved in determining the final price of goods sold to Canadian consumers, market pressures are a powerful competitive catalyst for retailers to pass along savings to consumers. This is evidenced in the above-referenced survey.

2015/2016 Tariff Elimination

Tariffs should be eliminated on all products where domestic production is limited so that Canadian businesses can compete with lower prices in the U.S. Recognizing the reality of fiscal constraint and the

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[2] C.D. Howe Institute "Sticker Shock: The Causes of the Canada-US Price Differential" Nicholas Li

[3] Canadian Council of Chief Executives "Should Canada Unilaterally Adopt Free Trade" Dan Ciuriak and Jingliang Xiao, May 2014

[4] Retail Council Tariff Elimination Data – Survey of Member Companies

[5] Canadian Council of Chief Executives "Should Canada Unilaterally Adopt Free Trade" Dan Ciuriak and Jingliang Xiao, May 2014

impracticality of eliminating all tariffs at once, RCC has undertaken an analysis of tariffs applied to Canadian imports in order to determine which will have the most immediate benefit for consumers and move us towards price parity with the U.S. Products were identified based on the following criteria:

1. limited domestic manufacturing;
2. high Canadian tariff rates; and
3. essential products for Canadian families.

Product	Customs Tariff Document	Average MFN Rate Applied by Canada
Footwear	Footwear – Chapter 64	18%
Children's Clothing (up to size 16)	Textiles – Chapter 61, 62	18%
Gloves/Mitts	Textiles – Chapter 61	18%
Linens (towels, sheets)	Textiles – Chapter 63	17-18%

For the purposes of this analysis, the products that were reviewed are imported to both the United States and Canada from outside of North America where the Country of Origin is subject to the highest tariff rates (aka Most Favourable Nation (MFN) status). Naturally if a product is being imported under a Free Trade Agreement, it would not be subject to tariffs.

Footwear (Chapter 64)

RCC's recommendation on footwear is based on the near absence of domestic manufacturing and the fact that all Canadians require multiple pairs of shoes/boots/sandals in order to function in our four season climate. The average tariff rate on an imported shoe is 18% from a country that is subject to MFN tariff treatment, meaning that the country is not covered by a Free Trade Agreement, or any other special consideration.

The government could significantly reduce the price of essential footwear for Canadian families by eliminating this 18% tariff rate. In the case of basic footwear, Canadians could realize a 30% savings in tariffs compared to the American tariff treatment on the same shoe category. All other factors being equal, this would bring Canadian prices much closer to parity with the U.S.

Children's Clothing up to size 16 (Chapter 61, 62)

Children's clothing has been singled out by several major retailers as being one of the most competitive areas of business, with strong price sensitivity and resistance shown by consumers. This is exacerbated by exceedingly lower prices being offered on the same goods across the border.

The average tariff rate on apparel for girls and boys in the full range of clothing articles is 18% in Canada. Similar to the footwear category, the United States applies tariffs on a sliding scale based on the quality of materials. Silk or cashmere is subject to very low rates (0%) while polyester/synthetic fiber which is used to make basic apparel is subject to higher rates (usually around 30%). There is an opportunity for the government to drop the 18% tariff on children's clothing which would result in a significant differential between the Canadian and American tariff rates and potential savings for Canadian families.

This would also be a logical extension of the relief provided to families on baby clothes in the last budget.

Gloves/Mittens (Chapter 61)

RCC's recommendation on gloves/mittens is based on the fact that all Canadians, regardless of age or social status, need to own at least one pair of gloves or mitts. There is little domestic manufacturing of gloves and mitts so most items found in Canadian stores have been imported and subject to a tariff rate of 18%. Canadian consumers would see direct benefits if tariffs were eliminated.

Linens (Chapter 63)

Towels and bed sheets are subject to 17-18% tariff rates. Most Canadian families require a minimum of two sheets and two towels annually for each family member. There is limited domestic manufacturing of linens in Canada (fabrics are most often imported and sewn in Canada), but the output is insufficient to meet consumer demand. The price of sheets in the U.S. can be up to 40% less than in Canada. Tariff elimination would help to close this gap.

Impact of Countries Moving From General Preferential Tariff (GPT) to Most Favoured Nation (MFN) Status

On January 1, 2015, several of Canada's largest importing countries (e.g. China) will be transitioning from General Preferential Tariff (GPT) status to Most Favoured Nation (MFN) status. This decision was made by the government in the Economic Action Plan 2013. The MFN category is subject to greater tariff rates across thousands of product lines and will almost certainly result in higher prices for Canadian consumers where products are sourced from these countries. Consequently, the timing is ideal for the government to eliminate the targeted, high-impact tariffs suggested in this submission which will help balance the increased costs that Canadian consumers will experience with the transition of some of our major trading partners from GPT to MFN status.

Fulfilling the Commitment to Lower Credit Card Fees

In addition to addressing the Canada-U.S. price gap, RCC calls on the government to finalize its commitment to lower credit card acceptance costs for merchants.

Following extensive work to highlight the growing problem with credit card acceptance fees, retailers were encouraged with the government's 2014 Economic Action Plan commitment to help lower these costs for Canadian merchants and consumers. As noted in the government's 2014 Federal Budget, Canadians face some of the highest credit card acceptance costs in the world. This is increasingly true as most of Canada's economic peers introduce policies to lower these costs.

RCC is optimistic that this commitment will be fulfilled in the coming months and we would like to offer whatever assistance we can to help finalize, implement and promote the government's policy response to this key issue.

Conclusion

In conclusion, the Federal Government has a significant opportunity to shift Canada towards a level playing field with the United States by lowering the cost of goods through tariff elimination. These savings, combined with the capping of high merchant costs associated with credit cards, would provide a powerful combination of savings for Canadian merchants and provide the platform for more competitive pricing for Canadian consumers.

RCC would be pleased to work with Finance officials to fine-tune the range of products suggested in this report, or to answer any questions related to our analysis. Once again, thank you for this opportunity to present our views.