



The Foodservice Industry Presentation on the 2012 Budget

Presented to:

Minister Higgs

By:

Canadian Restaurant and Foodservices Association
Atlantic Canada Office



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Executive Summary

Foodservice operators and their employees are an integral part of the New Brunswick economic and social fabric. The nearly 1,600 small businesses generate over \$1 billion in sales throughout the province. The industry is also the fourth-largest employer in the province, employing more people (21,500) than the farming, fishing, forestry and mining industries combined.

Like all New Brunswickers, CRFA and the foodservice industry are very concerned by the current fiscal state of the province. The current provincial deficit and massive provincial debt cannot be ignored. CRFA strongly supports the reduction in spending and for government to create an environment for positive economic growth. Government must first and foremost be good fiscal stewards.

Like many industries in New Brunswick, the foodservice industry has been negatively impacted by the economic recession, downturn in tourism, and escalating prices for food and labour. CRFA appreciates and supports government's decision to delay the current minimum wage increase until April. This delay has helped stem the tide of declining employment levels in the industry and the industry has led the province in job growth since the delay. Still the increases over the past two years have been particularly challenging for an industry that has seen its profit margins shrink in recent years. To dampen the impact of these huge increases, government must look at introducing tip and inexperienced wage differentials. Despite these setbacks, given the proper conditions the industry is uniquely positioned to contribute to economic recovery and growth throughout the entire province.

CRFA and the foodservice industry believes the province could take a significant and responsible step towards the goal of putting its financial house in order by privatizing the NB Liquor Corporation. CRFA believes rather than increasing the minimum wage the best way to put more money into the hands of the working poor is by increasing the Basic Personal Income Tax Exemption.

CRFA suggests that government follow the lead of Alberta and sell off New Brunswick Liquor. Experience has shown that selling NB Liquor retail assets would safeguard provincial revenues,

stimulate economic development, and reduce government costs while maintaining firm regulatory control over alcohol products.

CRFA believes government should establish a Restaurant Industry Taskforce. This taskforce, co-chaired by CRFA, would make recommendations to Executive Council on measures to maximize the potential of the foodservice industry.

CRFA and the foodservice industry are strongly opposed to any increase in the HST. To the foodservice industry an HST increase exacerbates an already discriminating flaw put in place when the GST was first introduced – the unequal tax treatment of food. Food sold in restaurants is taxed while similar products sold in grocery stores remains tax free.

When the GST was introduced, the industry suffered through a major downturn and significant job losses. Recent experience in BC where the HST was introduced and Nova Scotia where it was increased have show the HST is a food industry sales killer.

An increase to the HST is more significant to the foodservice industry than other industries because of the unequal tax treatment of the industry's main competitor.

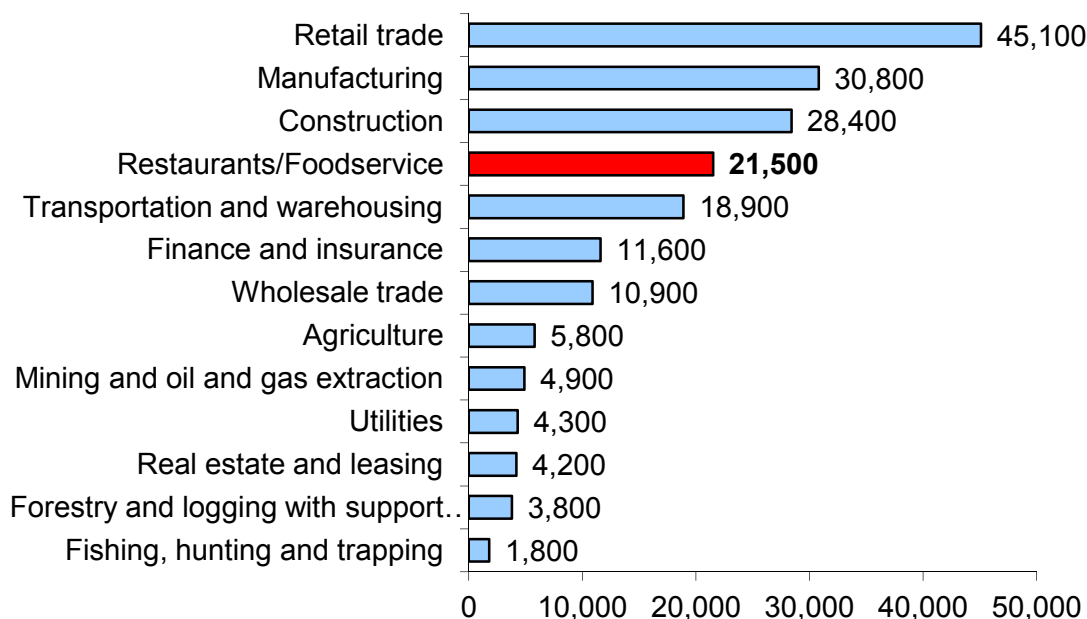
A HST increase would be another major challenge for the tourism industry. An increase would make our tourism product uncompetitive and would act as a disincentive for tourists to travel here and be an incentive for New Brunswickers to leave the province.

CRFA and the foodservice industry do not support any increase in personal tax rates. The industry believes this would be counterproductive to the goal of creating economic growth. Taxes take a disproportionate amount of disposable income from the economy that otherwise would be spent on products and services like restaurant meals.

New Brunswick's Foodservice Industry

Foodservice operators and their employees are an integral part of the New Brunswick economic and social fabric. In financial terms, the industry is made up of nearly 1,600 small businesses generating 4.2% of the province's GDP or \$1.2 billion in annual sales. On top of this, for every dollar spent in a restaurant, an additional \$1.85 is spent in the rest of the economy. With 21,500 employees or 6% of the workforce, foodservice employs as many New Brunswickers as the farming, fishing, forestry and mining industries combined. This makes our industry the fourth largest employer in New Brunswick.

**2010 Private Sector Employment by Industry
New Brunswick**

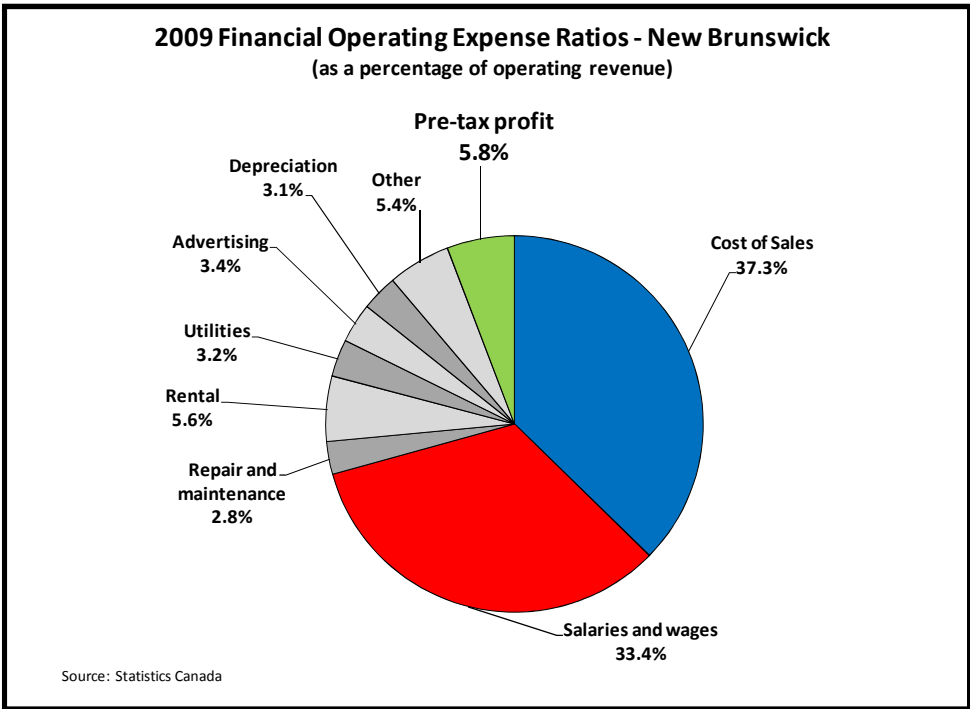


Source: Labour Force Survey, Statistics Canada

The foodservice industry contributes to communities of all sizes across the province. Two-thirds of New Brunswick's restaurants are locally owned and operated by independent entrepreneurs. In addition to good food and good times, operators serve up jobs, investment and community involvement. The industry's restaurants, cafeterias, coffee shops and bars are gathering spots for people from all walks of life. The industry is proud to serve as a social club for seniors, the sponsor of the local hockey team, the boardroom of small business, and a meeting place for community groups. You'll find foodservice wherever New Brunswickers gather to celebrate, do business, talk politics, and spend time with family and friends.

In terms of employment, 42% or 9,000 of the industry’s employees are under 25. Foodservice gives young people the opportunity to learn their first job skills and pay for their education. There is no shortage of stories in the industry of motivated individuals who started off in entry level jobs and built successful careers in foodservice. Others build on the valuable job skills gained in foodservice as a stepping stone to another career.

Like many other industries, foodservice has been hit hard by the recent recession. While CRFA appreciates government’s decision to delay the most recent minimum wage increase, the large increases over the past 2 years have been a major obstacle to industry growth. Weak sales and major cost increases in labour, energy, food and beverage alcohol have eroded profitability, particularly at full-service restaurants where pre-tax profits are just 4.2%.



This decline in profitability has meant a large number of establishment closures with the number of commercial units in the province declining from 2,102 in 2001 to 1,588 by 2011.

Despite these setbacks, given the proper conditions the industry is uniquely positioned to contribute to economic recovery and growth throughout the entire province. Every one million dollars in restaurant sales creates nearly 27 jobs, making the industry one of the top five job

creators in Canada. Despite challenges like a high dollar, poor tourism, and rising food and labour costs, restaurants continue to serve customers and create jobs in communities all across the province. Operators have a stake in their communities and have a strong bond with their employees and want to ensure the success of their business translates to thriving communities and job opportunities.

New Brunswick Fiscal Challenges

Like all New Brunswickers, CRFA and the foodservice industry are very concerned by the current fiscal state of the province. The current provincial deficit and massive provincial debt cannot be ignored. CRFA believes government must take action to get its financial house in order and be good fiscal stewards to ensure the long term sustainability of the province.

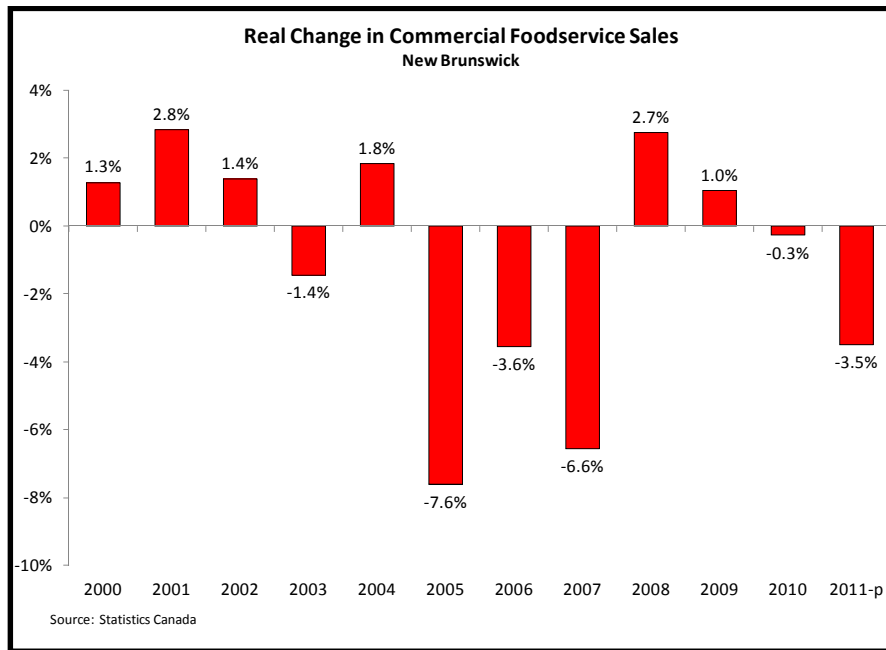
CRFA strongly supports action to reduce spending and for government to create an environment for positive economic growth. Tough decisions to cut spending must be made. Additional revenue could be realized through the privatization and sales of AlcoholNB.

State of the Foodservice Industry

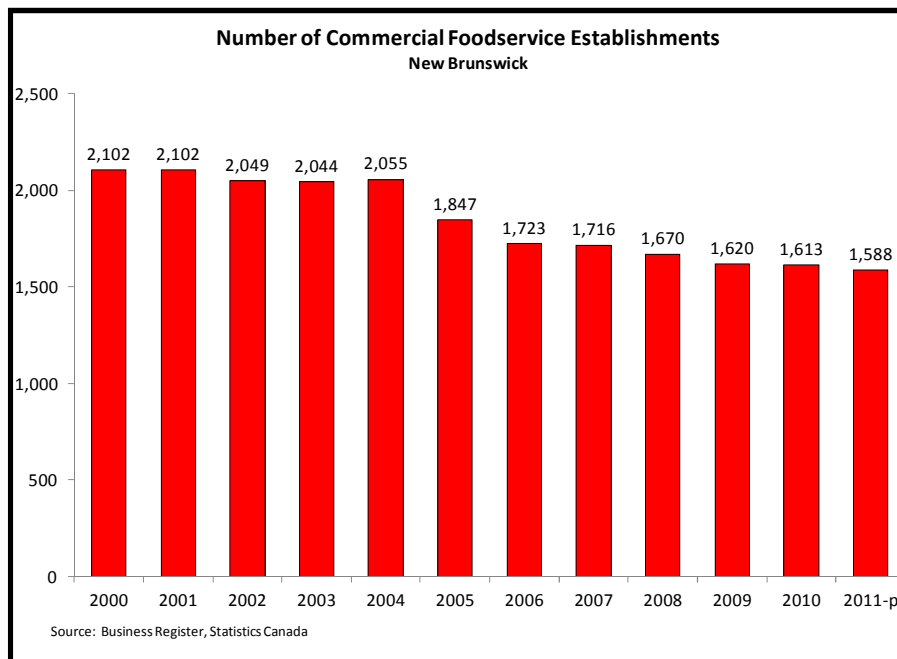
The foodservice industry, with 21,500 employees, is one of the largest private-sector employers in the province. It is one of the few industries to employ people in nearly every single community of New Brunswick, both urban and rural. Industry growth, particularly in rural New Brunswick, lags most other jurisdictions in Canada. Continuing to add significant cost increases to employers through wage increases that are substantially higher than other economic indicators is having a dramatic impact on the viability of many operations. Recent economic instability is eroding sales and increasing costs for most foodservice operators. Economic conditions in New Brunswick have changed dramatically and government must act cautiously to ensure businesses are not pushed over the edge.

- Foodservice is one of the most labour intensive industries with 35.5 cents of every dollar in sales going towards labour costs.

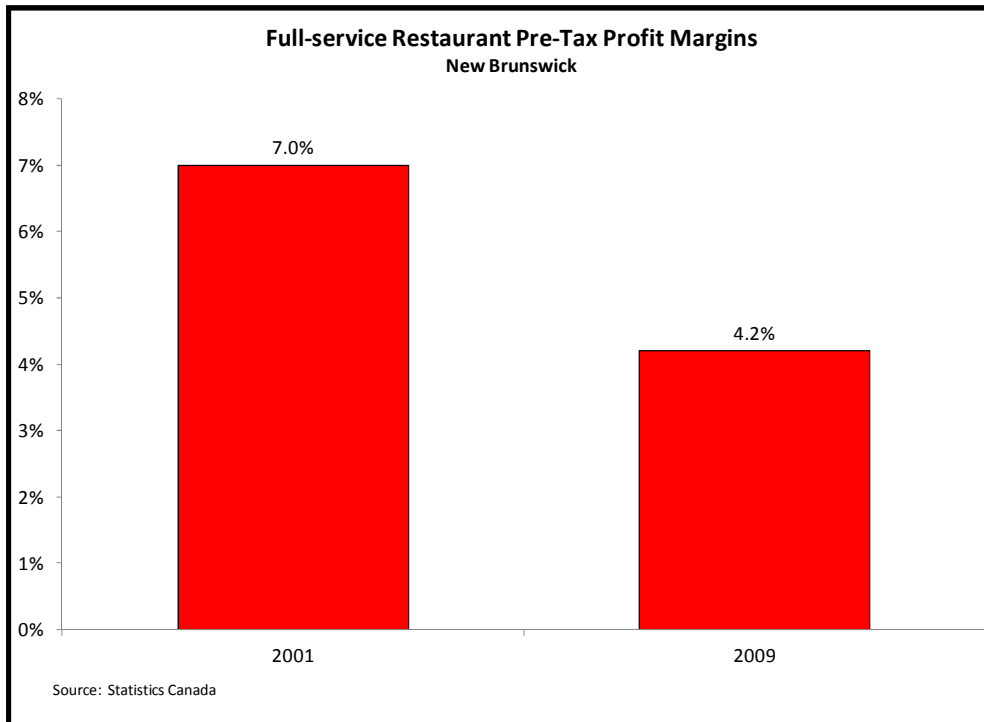
- Sales have been weak in recent years. The economic downturn, decreasing consumer confidence, higher borrowing costs and tight market for credit led to a 3.5% decline in sales in 2011.



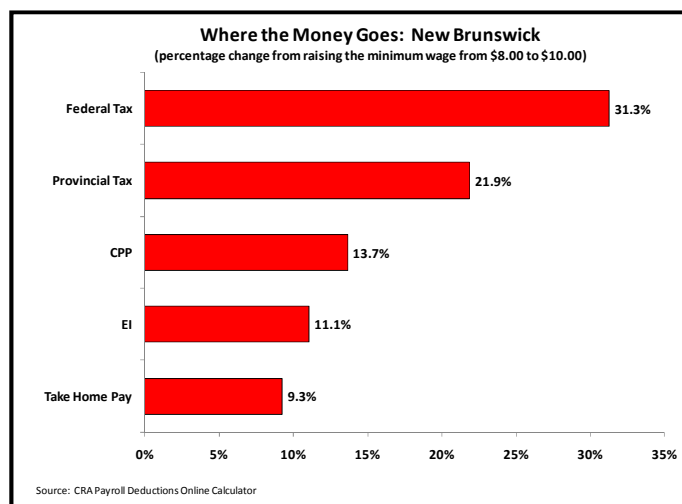
- Low profitability has led to the closure of many establishments. In general, independent (non-branded) and licensed establishments have borne the brunt of the downturn.



- Continuing significant cost increases in labour, energy, food and liquor combined with a downturn in tourism has had a major impact on foodservice profitability.



- Profit margins at full-service restaurants have decreased from 7.0% in 2001 to just 4.2% in 2009 – the latest year data are available. This means that the average full-service restaurant makes a pre-tax profit of just \$23,000.
- Despite a 6-month delay in a scheduled minimum wage increase to April 2012, minimum wage increases are completely out of sync with the economic realities. Wage increases have been significantly higher than other economic indicators.
- Government's benefit most from a minimum wage increase.



Minimum Wage

Action taken in 2011 has helped and commitments made in 2011 Budget must be fulfilled

In 2010, the previous government introduced a minimum wage increase schedule that played havoc with small businesses. It was nearly impossible for small businesses, in the middle of an economic downturn, to deal with these large increases. Many businesses tried to manage with fewer employees while others had no choice but to close. The Alward government must be congratulated for recognizing the plight of small businesses and highlighting the need for action during the 2011-2012 Budget Address:

“Minimum wage policy should be reviewed particularly as it relates the foodservice industry and new hires.”

CRFA and our members recognize that government’s decision to delay the minimum wage increase in September 2011 was a difficult political decision and applaud government for making the right public policy choice. This decision to give small business owners, who are under intense pressure, an opportunity to catch their breath was desperately needed. This delay has enabled many small businesses to protect jobs and actually grow employment. In fact, recent labour force statistics show that the foodservice and accommodation sector has led New Brunswick job growth and experienced year over year job growth since the minimum wage delay in September 2011 – over 5,300 jobs were created in this sector since September 2011.

The introduction of a tip differential will go a long way to fulfilling the 2011 Budget statement because the impact will target the hard hit foodservice industry which is the 4th largest private sector employer in the province. A tip differential is not a new or radical proposal. It has been in Ontario and Quebec for years and was introduced in both Alberta and British Columbia in 2011.

Under CRFA’s proposal, the tip differential would be a lower minimum wage for servers of alcohol in licensed establishments. This would include servers and bartenders only. This differential would recognize the significant income earned by serving staff in gratuities. With CRFA’s proposal, nobody’s wage would be rolled back, the differential

would be established on a go forward basis during the next increase to the general rate. Not only would a differential protect the hours of work and jobs for servers, a differential would also allow operators to increase wages for non-tipped positions which are often the most difficult to attract and retain.

In November, CRFA presented to Government Caucus. As a result of this discussion, CRFA has fine-tuned its proposal to incorporate suggestions brought forward by Caucus.

Worker Income Could Be Protected

Provisions could be added to ensure a server never makes less than the general minimum wage. CRFA believes provisions could be added similar to protections already in place in the New Brunswick legislation for piece work. *“Wages paid to piece workers shall not be less than the minimum wage for the number of hours actually worked during a pay period.”*

The State of Maine also has provisions to protect server income, similar protection could be added in New Brunswick: *“must be able to show that the employee receives at least the minimum hourly wage when direct wages and tip credit are combined.”*

Incremental Tip Differential Phase In

The minimum wage is scheduled to increase by \$0.50 on April 1, 2012. A differential should be instituted at this time. To ensure all minimum wage workers are given an increase, the general minimum wage would increase to \$10 while the wage for tip earners would go to \$9.70. In the future, increases for tipped workers would continue to be at 40% of the general rate until such time as a differential similar to other provinces is established.

Pilot Project

Given the concern expressed by some parties, the tip differential could be introduced on a pilot project basis. After one year a review would be conducted. Unless compelling reasons are brought forward for the elimination of the tip differential, it would become permanent.

A Training or Inexperienced Wage Differential

Virtually all independent research indicates that the people hardest hit by a minimum wage increase are inexperienced workers and unskilled youth. According to Statistics Canada figures for December 2010, the unemployment rate for youth in New Brunswick is 15.8% as compared to a general unemployment rate of 9.4%. This differential would offset the additional costs associated with hiring and training inexperienced workers for their first job. One of the worst results of increasing the minimum wage is that it robs small business of the ability to create first time job experiences. A training wage differential would ensure youth and inexperienced workers are not locked out of valuable first job experience and denied the opportunity to save for and contribute to their education.

A training differential would be put in place by maintaining the current rate for inexperienced employees until a 50-cent differential is achieved. The two wages would then increase proportionately. This inexperienced wage would be put in place for those entering the workforce for the first time. It would not apply to those changing jobs. Inexperienced differentials are already in place in three Canadian provinces. New Brunswick has a 50-cent differential for the first three months of employment, Ontario has a 60-cent differential for students and British Columbia has a two dollar differential for the first 500 hours of employment.

Benefits

- Does not discriminate by age, or whether a new hire is part-time or full-time
- Allows for maximum job creation and training opportunities for inexperienced employees
- Strong incentive for employers to invest in training
- Minimum of new red tape created for administration

A train or inexperienced wage differential, as with a tip differential could be phased in and initiated as a pilot project.

Revenue Generation– Privatize NB Liquor

CRFA and the foodservice industry believes the province could take a significant and responsible step towards the goal of putting its financial house in order by selling off the retail assets of the NB Liquor.

Recent actions by NB Liquor to generate additional revenue through large price increases show how out of touch the corporation is with New Brunswick small businesses. These increased prices have led to significant volume reductions in licensee purchases thereby robbing government of revenue generated by the added value foodservice industry.

In terms of privatization. New Brunswick has taken a number of steps to involve the private sector in the retailing of alcohol by introducing Agency Stores. This tentative steps have meant more revenue to government, better customer service and increased economic activity. CRFA and the foodservice industry believes there could be even more benefits by going further and spinning off all the retail sale of alcohol to the private sector.

Not only would government achieve a one-time windfall from the sale of NB Liquor assets, but there is also the potential for government to reap additional revenue annually without the responsibilities associated with the operation of the NB Liquor. These responsibilities include managing collective agreements, maintaining leased and owned properties as well as selecting, purchasing and marketing alcohol products.

By privatizing New Brunswick's liquor system, the government can:

- safe-guard provincial revenues,
- stimulate economic development, and
- maintain firm regulatory control over alcohol products.

Government Revenues Will be Secured

Critics claim government will lose its significant liquor revenues under a private liquor system. Nothing could be further from the truth. Government makes its money by taxing liquor. Under privatization, government can improve control over liquor revenues by switching to a flat tax.

With a flat tax, government decides how much money it needs, estimates how much liquor will be sold, and simply adds a fixed tax to each bottle.

Small Business Will Thrive

Privatization will generate new retail businesses, new jobs, and new economic development across the province. It will stimulate local construction and investment in services, materials and equipment needed to open, operate and maintain these shops.

Since Alberta privatized, over 500 new businesses have opened, creating over 4,000 additional jobs. Seventy new communities have benefited from the expansion and, within the first two years, more than \$100 million had been invested in the province.

Consumers Will Have More Choice

A private liquor system will offer consumers competitive pricing, greater convenience, and increased product selection. The number of outlets, the location of stores, and product availability will be determined by customer demand, not government intervention. Since Alberta privatized, the number of liquor stores has tripled; product listings have jumped from 3,325 to 16,701; and the average liquor store stocks 30% more product lines.

In a private liquor system, consumers can also shop around for the best deal, and will benefit from specials, volume discounts and limited time offers.

Dispelling the Myths

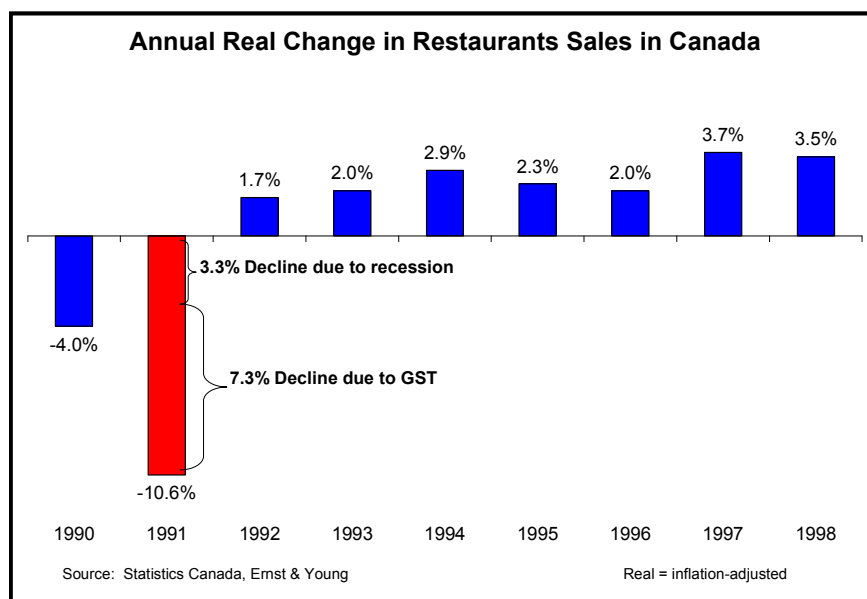
Critics claim privatization will lead have negative social consequences. In the last number of years a large portion of New Brunswick liquor sales has moved to the private sector through the agency and private wine store network. This has not had any impact on store security, under-aged drinking or drunk driving. The recent Nova Scotia experience has proven the private sector can retail responsibly. Critics ignore government's important role in regulating liquor. In a private system, government will continue to license, regulate and monitor liquor activities, while leaving the selection and retailing of liquor products to the private sector.

HST Flaws Exacerbated by an Increase

Some organizations have suggested increasing the HST as a means to generate additional revenue for government. This is problematic for CRFA and the foodservice industry as an HST increase will only make the province less competitive and that much harder to attract new businesses to the province. The proposed increase to the HST is especially offensive to the foodservice industry not only because it will make our value added tax the highest in the country and reduce disposable income – our primary objection is because the HST discriminates against food sold in our establishments.

HST Flaws Are Unique to Foodservice

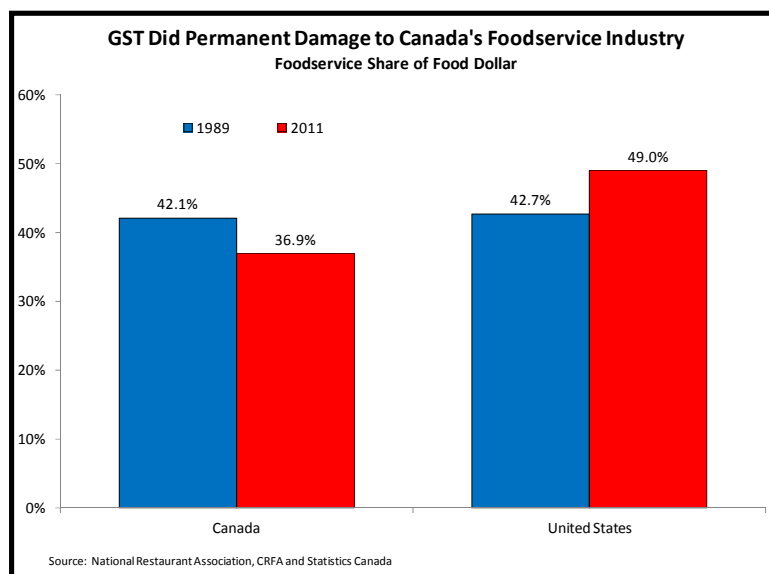
CRFA and the New Brunswick foodservice industry are very concerned the provincial government may increase the HST. While big businesses that do not sell directly to consumers support an increase to the HST, the foodservice industry has major issues with a HST increase. To the foodservice industry a HST increase exacerbates an already discriminating flaw put in place when the GST was first introduced – the unequal tax treatment of food. Recent experience in BC where an HST was introduced and in Nova Scotia where it was increased proves that it negatively impacts foodservice sales.





The year the GST was introduced, the Canadian foodservice industry suffered the single greatest decline it has ever experienced. In 1991, the industry recorded a 10.6% drop in real foodservice sales of which 7.3% was directly due to GST implementation. Same-store sales declined by 22.7%. Over 42,000 Canadian restaurant and foodservice workers were laid off in 12 months as a direct result of the new tax.

The effect of the GST/HST, however, was not simply a one-time event. Because the industry's closest competitors -- prepared meals available in grocery stores -- remain tax-exempt, the foodservice industry's share of the food dollar declined as well. The Canadian foodservice industry's market share was at a high of 42% in 1989. Throughout the past two decades, the market share has steadily declined to 36.9% in 2011, and has yet to return to 1989 levels. By contrast, the foodservice industry's market share in the United States has steadily risen from 42% in 1989 to 49% in 2011. The HST has distorted the marketplace and further increasing the gap with an increase to the HST will only make things worse.

The following CRFA advertisement from 1991 clearly demonstrates the serious flaw in the HST that taxes the same products differently depending on where they are purchased. Increasing this price discrepancy to 15% will only leave the industry vulnerable to a further erosion of its market share.



TAX FREE	TAXABLE
	
	
	

WHAT'S THE DIFFERENCE?

If you thought that food won't be subject to the new 9% federal sales tax, you're in for a big surprise.

When the federal government promised to exempt groceries under the proposed goods and services tax it created a situation where similar and identical foods would be treated differently. Pizza, milk and chicken purchased in grocery stores would be tax free. The same products sold in school cafeterias, fast food restaurants and snack bars would be fully taxable. What's the difference?

Food is food.

Today, Canadians spend 39% of their food dollar away from home... a response to changing lifestyles and the needs of two income families. Foodservices have become an everyday necessity and a fact of life in the 1980's. Should Canadians be treated differently because they can't return to their home or apartment for every meal? Is that fair?

Eating away from home isn't a luxury.

- 13 million Canadians eat away from home every week.
- The average expenditure in a Canadian restaurant is \$2-45 per person... a basic meal by any standard.
- Low income families, families with working women and tenants spend a higher proportion of their food dollars on restaurant meals.
- Foodservices are provided to Canadians in office, school and plant cafeterias; public and private health care facilities; snack bars and fast food restaurants; catering, take-out and home delivery; banquets and table service restaurants.

A fair sales tax system would treat all food equally.

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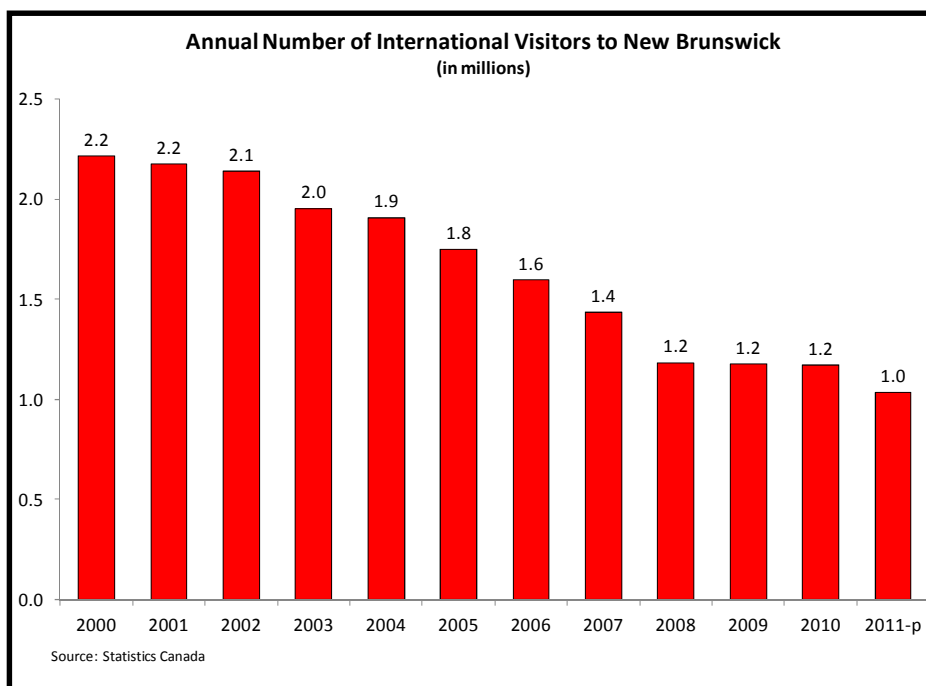
CANADIAN RESTAURANT AND FOODSERVICES ASSOCIATION
 "A message from the 600,000 people employed in Canada's foodservice industry"

HST Increase Has an Adverse Impact on Tourism

An increase in the HST also has a negative impact on tourism, which is an important source of business for many foodservice operators and other small business operators in the province. It is common knowledge that the tourism sector is already suffering from tighter border security, a rising Canadian dollar and a weak economy. In fact there were 53% fewer international tourists to New Brunswick in 2011 than in 2000. The number of tourists from other areas has also declined.

An HST increase would be another major challenge for the tourism industry, the backbone of many rural communities. An increase would make our tourism product uncompetitive and encourage tourists to visit there instead of New Brunswick.

It has always been argued that because the HST is not applied to exports, Canadian businesses became more competitive as a result of the HST. However, in the case of tourism the opposite occurs. Visitors coming to New Brunswick end up paying HST or have the option to avoid paying it or paying less by vacationing outside of New Brunswick.



Big Banks Benefit - Restaurants Lose

Foodservice operators are already struggling to cope with moves by the major credit card companies to significantly increase merchant fees on electronic payments. In fact, due to the outcry from small businesses the Federal government has introduced a code of practice for the electronic payment industry and the Canadian Senate and the Competition Bureau have begun an investigation.

Electronic payment has become standard practice in the industry. In some sectors such as fine dining, up to 100% of sales can be by electronic payment. Merchants pay a fee generally in the range of 2-3% for each transaction. This fee is applied to the price of the meal, tip and HST. In effect, with an increase in HST, restaurateurs will pay more fees to the big banks so they can have the privilege of collecting more tax for government.

Revenue Generation - Focus on Foodservice

It is clear that the foodservice is a major economic engine across all of the regions of New Brunswick. Not only is the industry the largest employer of youth and the fourth largest job generator of the province, there are many direct economic spin off. The Conference Board of Canada reports that for every one dollar spent in a restaurant, an additional \$1.85 is generated in

direct economic spin-offs. The agrifood, fishery and tourism sectors along with hundreds of service sector businesses will benefit by a healthy and vibrant foodservice industry. To this end, CRFA recommends that the government establish a Restaurant Industry Taskforce to study and make recommendations to grow the foodservice industry. This taskforce, co-chaired by CRFA would have representatives from Finance, Post Secondary Education Training and Labour, Tourism, and Agriculture. The taskforce would report directly to Executive Council.

Canadian Restaurant and Foodservices Association

The Canadian Restaurant and Foodservices Association (CRFA) is the largest hospitality industry association in Canada and in New Brunswick. Since its founding in 1944, CRFA has grown to more than 33,000 members, including approximately 1,000 member owned establishments in New Brunswick. Members include restaurants, quick-service establishments, hotels, caterers, institutions, educators and foodservice suppliers.

The association is funded by membership fees and non-dues income from member services and trade shows such as the ApEx Show which is in Moncton in April of 2011. CRFA's mission statement expresses our function: *“To create an environment to help members in every community grow and prosper”*.

For more information about the Canadian Restaurant and Foodservices Association please visit our website at www.crfa.ca

