



**FOODSERVICE INDUSTRY PRE-BUDGET
SUBMISSION
NEWFOUNDLAND AND LABRADOR**

Canadian Restaurant and Foodservices Association

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Halifax, Nova Scotia

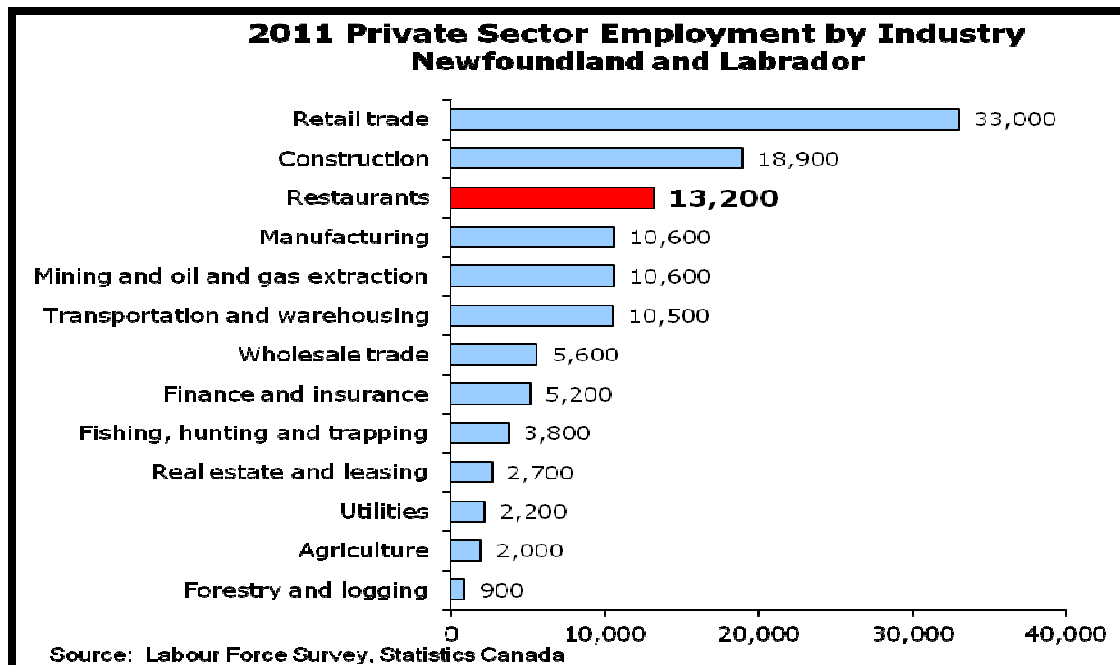
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Newfoundland and Labrador Foodservice Industry

Foodservice operators and their employees are an integral part of Newfoundland and Labrador's economic and social fabric. In financial terms, the industry is made up of 1,076 small businesses generating nearly 3 percent of the province's GDP or \$860 million 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 13,200 employees or 5.9% of the workforce, foodservice employs as many residents of the province as the farming, fishing and forestry industries combined. This makes our industry the third largest employer in Newfoundland and Labrador.

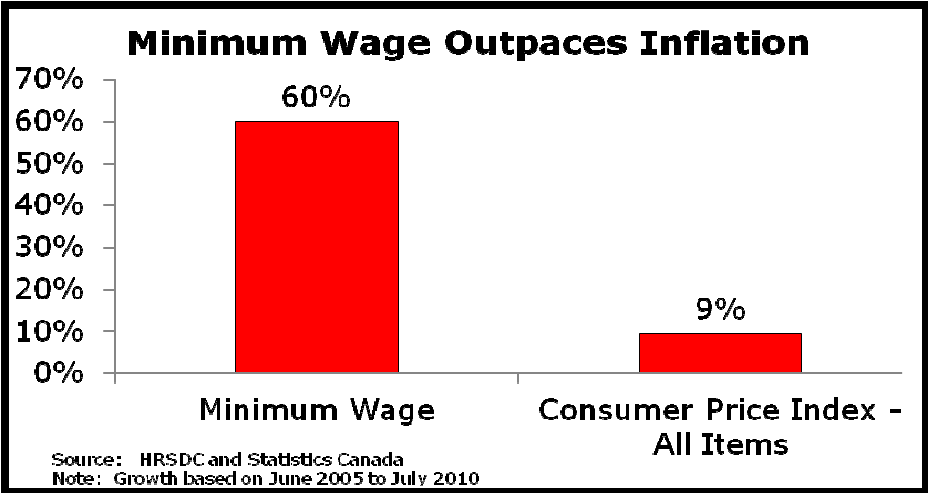


The foodservice industry contributes to communities of all sizes across the province.

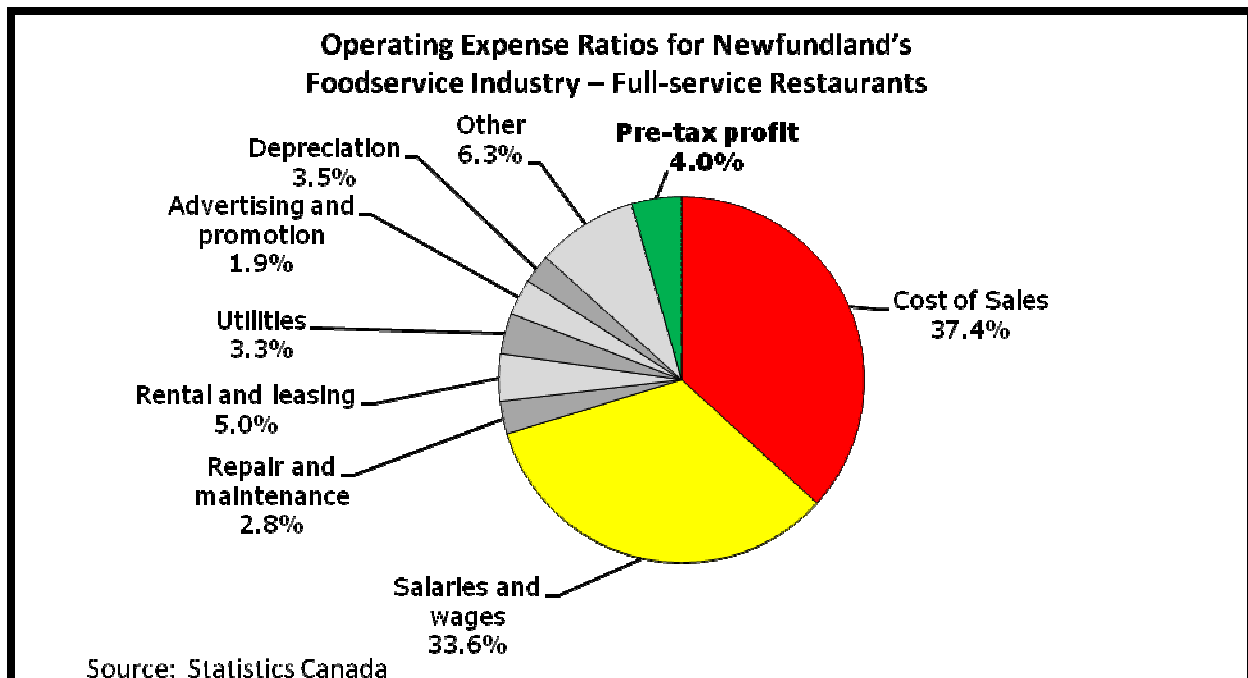
Two-thirds of Newfoundland and Labrador's restaurants are locally owned and operated by independent entrepreneurs. In addition to good food and good times, operators serve up jobs, investment and community involvement. The industry's restaurants, cafeterias, coffee shops and bars are gathering spots 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 Newfoundlanders gather to celebrate, do business, talk politics, and spend time with family and friends.

In terms of employment, 36% or 4,700 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.

While Newfoundland and Labrador was fortunate to benefit from the boom in natural resources in recent years, the labour intensive nature of the industry coupled with massive increases in minimum wage meant the foodservice industry did not benefit from the economic boon as much as other industries. The 60% minimum wage increase over a 4-year period was 7 times the rate of inflation, was a major obstacle to industry growth. Major cost increases in labour, energy, food and beverage alcohol have eroded profitability, particularly at full-service restaurants where pre-tax profits are just 4.0%.



This decline in profitability has meant a large number of establishment closures with the number of commercial units in the province declining from 1,429 in 2001 to just 1,076 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 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.

Newfoundland and Labrador Fiscal Challenges

Like all Newfoundlanders, CRFA and the foodservice industry are very concerned by the current fiscal state of the province. The current provincial projected 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 the recommendations to reduce spending and for government to create an environment for positive economic growth. CRFA also recommends that any surpluses generated should be used to reduce the provincial debt rather than pay for new or expanded programs.

Taxation

Income Taxes

The government of Newfoundland must be congratulated for making great strides to increase productivity and competitiveness through the reduction of personal income taxes. That being said government must move to address the low level of basic personal and spousal exemptions (\$8,237 and \$6731 respectively) which continue to lag most other jurisdictions in the country. Most economists agree increasing tax threshold levels, rather than increasing the minimum wage are the most effective ways to put money into the pockets of low income Newfoundlanders.

Payroll Tax

Payroll taxes increase the cost of labour while leaving the cost of capital unchanged. Government has made great strides in reducing the impact of the Payroll Tax for many restaurants by increasing the threshold to \$1.2 million. However, the ever increasing cost of labour and the labour intensive nature of foodservice has meant that many foodservice businesses continue to be negatively impacted by this tax.

For the employee-intensive foodservice industry where thirty four cents of every dollar of sales goes to employees, higher payroll taxes force employers to reduce the labour component in their operations. Instead of providing young people with entry level positions and the opportunity to acquire skills and job experience, employers are being encouraged to invest in processes and equipment that require fewer staff. Self-serve arrangements, the practice of purchasing pre-prepared and semi-prepared foods, and the use of automatic equipment such as french fry

machines, are now more prevalent in restaurant operations. Commitments made by Minister Marshall during the recent election campaign to eliminate this tax must be acted upon.

Beverage Alcohol

While the Newfoundland Liquor Corporation has seen relatively stable overall sales, the licensed sector of the industry has continued to see a steady long-term decline. Government action to eliminate the much-hated Licensee Levy was greeted enthusiastically by the industry and has helped many licensees survive. However, it has not been enough to overcome the impacts of the price gap between products consumed at home versus those in licensed establishments. While the reasons for this increasing price gap are multi-faceted, the end result has been fewer sales for licensees. Fewer sales mean the loss of employment opportunities as well as the economic spin-offs related to the sale of value added beverage alcohol products.

One means to stimulate the industry would be to introduce discounts for wholesale purchases. This standard retail practice is already in place for Agency Stores but equal treatment is not afforded to the hospitality industry. One method to introduce a wholesale program to licensees would be a discount on full case lots. Licensees would receive a discount on the full case lots thereby saving the Newfoundland Liquor Corporation the high labour costs associated with split case purchases and frequent warehouse ordering.

Canadian Restaurant and Foodservices Association

The Canadian Restaurant and Foodservices Association (CRFA) is the largest hospitality industry association in Canada. Since its founding in 1944, CRFA has grown to more than 33,000 members. 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. 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

