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Ontario Convenience Stores Association (OCSA)

Presentation to the Committee of Finance and Economic Affairs
Pre-Budget Consultations

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Good evening, I am Dave Bryans, CEO of the Ontario Convenience Stores Association. It's a great opportunity every time I'm able to present to the Committee of Finance and Economic Affairs in advance of the Budget. Obviously, this has been a different and much more challenging year, and I want to commend this committee in convening and hearing from stakeholders during this unprecedented time.

Today I am going to use my time to provide some context as to the impact of COVID-19 on our members – many of whom are small, family run businesses. I am also going to suggest three creative ways in which this government could help these families get back up on their feet and continue to play the important role they play in their communities across this province.

Before I outline these recommendations, I want to state publicly that **the OCSA does not accept any money from tobacco companies**. In 2018 this association became “tobacco free” meaning that our association no longer accepted any type of financial or in-kind contribution from tobacco-based interests. We feel it is important to highlight this so government understands that the recommendations being made here this evening are not influenced by big tobacco companies and only represent the interests of small business retailers.

Before I outline our industry's recommendations I will take a quick moment to remind this committee of our organization and our importance to the Ontario government and the Ontario economy. The OCSA is one of the largest small business advocacy groups in this province. Our association represents the interests of approximately 9,000 small business convenience stores (6,000 of which are members). The industry employs 78,000 Ontarians, and serves approximately 3 million customers every single day. Other facts I'm proud to communicate to you today include that:

- Our channel facilitates \$2.4 billion in lottery sales every year for the province
- We collect \$4.7 billion in taxes every year

- Our hard-working employees pass government-imposed inspections at a rate of 96% (these are numbers sourced from Ontario Public Health)
- We proudly employ more New Canadians, seniors and students than any other industry; and
- Our industry gives back to the neighbourhoods we operate in. We recently completed another successful “C-store week” that many of you may have participated in. Last year our C-store week raised over \$20,000 for Sick Kids and Ontario Children’s hospitals, and despite the current climate we expect to raise a similar amount when the contributions are tallied in the coming days.

COVID-19 has been a difficult time for our members. We were encouraged early on by the Premier announcing that convenience stores were considered an essential business and were allowed to remain open during the lock-down.

Despite being granted this critical distinction, our members saw a dramatic drop in business. For instance, our channel relies heavily on petroleum sales to drive revenue and foot traffic. As you can well imagine, this category is no longer a necessary expense for many Ontarians who are working from home or out of a job all together. In addition, our members were forced to invest their scarce resources to install equipment that would keep their employees and customers safe.

We are not alone in this challenging environment and understand that many businesses, particularly in retail and hospitality are being hit hard. As such we believe it is time to come together and work with government to facilitate creative ways to support these family run businesses while respecting the taxpayer and government’s limited resources.

Our first recommendation is for government to address the issue of contraband tobacco in a meaningful way. One of the opportunities that the shut-down period has afforded our channel was the ability to experience in real-time its effect on legal tobacco sales in our stores. The principal source of illicit tobacco for Ontarians remains the shops located on First Nations reserves. During the shut-down period, almost all First Nations reserves barred entry and their stores were closed to the average Ontarian. Based on a survey we conducted with our membership between June 2nd and June 30th, we found the following:

- **There was a dramatic increase in legal tobacco sales** – convenience stores throughout Ontario showed an increase in tobacco dollars sales between 10% to over 30%;
- **The proximity of our stores to a reserve played little role** – sales increased across the board, irrespective of the store’s proximity to a reserve. Almost half of the stores surveyed (46%) were over 30 kilometers from the closest reserve;
- **Our independently owned and operated stores were the most impacted** – 80% of the retailers who responded were independent, family owned and operated stores who are subject to a small 5-10% margin on their tobacco sales;

- **Geographically agnostic** – respondents were relatively evenly distributed between GTA, Southwestern Ontario, Eastern Ontario and Northern Ontario, with each region reporting a similar surge in legal tobacco sales.

This research has proved what many of us in the industry have known for a long time, namely that legal tobacco revenues are impacted by up to 40% thanks to the availability of illicit alternatives. This is bad for small businesses, public health and it's bad for the Ontario government which continues to lose millions in tax revenue.

Contraband Tobacco

On illicit tobacco we recommend that government consider the following:

1. Increase/enhance law enforcement to mirror the success in the province of Quebec;
2. Impose fees on tobacco companies that CANNOT be passed down to the consumer and which can be leveraged to fund public education and retailer training programs; and
3. Restrict tobacco companies from increasing prices on their products, which, more than tax increases, has accelerated the shift to the illegal market.

On the last point, it may interest this committee to know that tobacco companies have imposed their own price increases by up to \$16 per carton over the past 24 months. In comparison, the Ontario government has only increased taxes by \$4 a carton over the same period. Earlier this month there was a price increase of \$3 to \$4.50 per carton that was imposed on our retailers by the tobacco companies. These increases represent revenue that goes directly to big tobacco companies. Small businesses suffer when prices are increased as they experience a loss in foot traffic, sales and absolutely no increase in margin. These corporate price increases, more than government tax, is to blame for the proliferation of illicit tobacco and we encourage this committee to remember this when interacting with tobacco companies and other small business associations that are influenced by them.

Lottery Commission Recommendation

The second recommendation I'd like to make on behalf of our members is related to OLG lottery revenues. Our stores account for 76% of all Ontario lottery sales for the OLG and remain the number one partner for the Ontario government in collecting revenue through this stream. The value to our members of having an OLG lottery license is largely limited to the foot traffic it generates as the margins are quite small. Specifically our stores only make 5% on standard electronic tickets and 8% on scratch tickets. Under any other circumstance, a retailer would participate on such a small margin. In addition, these margins have remained at these rates for over 20 years. We feel that in order to support small businesses, the government should consider increasing the margin by 2%. This would represent an injection of an estimated \$30

million into our channel, which we feel would help the majority of our 6,000 members weather this unprecedented economic period.

Beverage Alcohol Expansion

My last recommendation is for government to finally deliver on its promise to extend beverage alcohol retail to our channel. It has now been three years since the leaders of this government made a public commitment to further open up beverage alcohol retail. Our members have been busy preparing for this eventuality, and the OCSA continues to work with Ontario Craft Brewers and Wineries to ensure the roll out will benefit local businesses. This is a common sense request that. Beer and wine is available in an open, competitive and convenient environment through c-stores all over North America and the world. In Ontario, the retail landscape is complicated by the existence of a foreign-owned entity known as the Beer Store, and which has somehow managed to negotiate exclusive rights to sell a commonly accessible product. It makes no sense, and it's hurting our small business retailers who require this destination category product to survive. We ask this government to provide a timeline to the public as to when they can expect to buy beer and wine at their local convenience store so that our small businesses can start planning for it and so that some assurances can be made on the sustainability of their shops.

Thank you for your time this evening, and I'm happy to take questions.