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CANADIAN FEDERATION OF INDEPENDENT GROCERS · FÉDÉRATION CANADIENNE DES ÉPICIERS INDÉPENDANTS
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OPEN LETTER

February 1st, 2021

Hon. Chrystia Freeland, M.P.
Deputy Prime Minister and Minister of Finance

Hon. Mary Ng, M.P
Minister of Small Business & International Trade

Dear Ministers:

Over the course of the last several months, as COVID has wreaked havoc of the lives and livelihoods of so many in Canada, the refrain heard most often has been "we're in this together." There is no doubt that literally, this is true. But the spirit of sharing and sacrifice behind that expression, has certainly not been shared by all. Early last year, as the pandemic began to take hold, we saw clearly that the pandemic was changing how Canadians were paying for goods and services and that this was at the expense of many businesses. The situation almost a year later, has grown worse, to a degree that could not have been foreseen.

As officials in both of your respective departments know, according to the last estimate done years ago by the Competition Bureau of Canada, some $5 billion in interchange fees are siphoned out of the pockets of businesses in Canada, by Mastercard and Visa. These fees without a doubt, have a significant impact on the prices Canadians pay for a plethora of goods and services and impairs the ability of many small and medium size entrepreneurs to invest and grow their business.

While anti-maskers or Canadians jetting off for international travel during this pandemic have justifiably drawn public attention and scorn, the practices of these two payment company behemoths have curiously, escaped scrutiny.

Back in 2018, as a result of efforts by the Small Business Matters Coalition, led by Canada's independent grocers, we worked closely with your government to facilitate a new agreement with these card companies, to voluntarily lower their fees to an 'overall' rate of 1.4%. (Although companies like Wal-Mart and Loblaws, inexplicably, pay a fee percentage much lower than Canada's small and medium size business sector) But that agreement was negotiated in the pre-COVID world, nor did it apply to on-line purchases. Yet the existing and post COVID payments landscape is and will be, a much different one than that which existed this time a year ago, and in a way that only benefits the credit card companies and banks.

That is because the impact of these egregious interchange fees has been exacerbated by the significant changes in consumer purchasing necessitated by COVID. There has been an almost seismic transition to on-line purchases to facilitate deliveries and curb-side pickups. Since the aforementioned fee reductions *excluded* on-line purchases, this shift in consumer purchasing has been entirely at the expense of small business and again, solely to the benefit of Visa, Mastercard and the banks. Incredibly, in a remarkable demonstration of being tone deaf, Mastercard even decided last year to actually *increase* some of their on line transaction fees. A move that is reminiscent of the same 'we're in this together' spirit exemplified by Wal-Mart and Loblaw, who last year, decided that what better time, than during a pandemic, to impose new fees on all their suppliers, who were struggling to meet the demands of the supply chain during COVID.

At the same time, even for in-person shopping, there has been a huge migration away from cash transactions in favour of credit card and contactless payments. Which means the erosion of small and medium size business margins from interchange fees is being further whittled away. If for example, you are an independent grocer or restaurant owner—the latter entirely dependent on on-line orders and curbside pickup--and operating on margins of about 1.5%, it is obvious that this new digital math is not sustainable.

Let us put all of this in context. Our small and medium size businesses impose no fees on their suppliers, they also pay higher interchange fees and they have invested at their own expense, in the bricks and mortar of physical store locations, buying and hiring local. They have also adapted to COVID with additional expenditures for new in-store health and safety measures and adapted their business model to the burgeoning demand for curbside pick up and delivery.

Yet while our small businesses must also cope with a complex array of regulations, fees, zoning restrictions, taxes, premiums, outdated holiday closing laws and proportionately higher COVID expenses—the e-commerce giants and credit card companies share no such burden.

In that context, along with the fact that the Department of Finance is also now beginning a review of the Payments Code of Conduct, commencing an in tandem review of the current fee structure, would be a fair, reasonable and overdue response to the new digital payments era. We must help our Canadian businesses save jobs, remain price competitive and continue serving a myriad of rural and sometimes remote communities--- and all without costing the taxpayer a cent. As well, in the last federal election the Liberal Party promised to eliminate the interchange fees paid on the HST-GST portion of transactions. This commitment we shared widely with our members and welcomed by small businesses across Canada. For a business to pay interchange fees on taxes levied by government, represents the most avaricious aspects of the payments system in Canada. There is no better time for Ottawa to now act on that pledge than in the context of the tsunami that has swept over the payments landscape.

COVID-19 has wreaked terrible on our economy. In the spirit of being in this together, Canadians would hope that the banks and card companies would have stepped up and voluntarily reduced their fees. But that did not happen and calls to do so have been met with a deafening silence. It is clear that in the new economy created by COVID, even the most dispassionate observer would agree that Ottawa needs to recalibrate the approach to the payments industry if the industry will not do so itself.

Thank you for your consideration.

Gary Sands

Senior Vice President, Canadian Federation of Independent Grocers and former Chair, Small Business Matters Coalition