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**Distributive Trades
in Canada:**

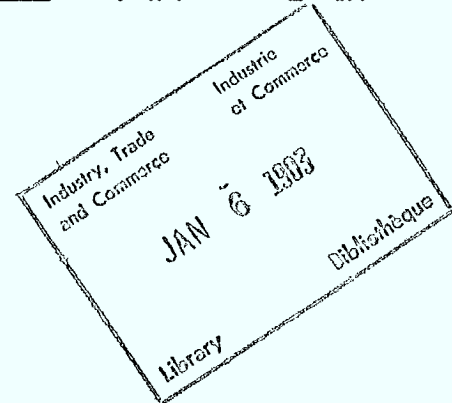
**Opportunities
&
Expectations**

L. Canada

DISTRIBUTIVE TRADES CONSULTATIVE COMMITTEE
Chairman: Thomas G. Bolton

April 7, 1982

The Honourable Herb Gray, P.C., M.P.,
Minister of Industry, Trade and Commerce,
House of Commons,
Ottawa, Ontario.
K1A 0A6



Dear Mr. Gray:

It is with pleasure that I submit herewith the Report of the Distributive Trades Consultative Committee as requested by you in your letter of April 7, 1981. As you know, this Committee consisted of senior representatives of the business, labour and academic communities. The Committee's meetings were attended by a number of observers from provincial governments.

You will recall receiving last September the Committee's Interim Report, which contained several recommendations relating primarily to tax matters. This submission provided the Committee with an opportunity to record as early as possible its views on these matters in order that they might be taken into account by the government in its preparation of the November 1981 budget. The Interim Report is included in full in the body of the text and our understanding of the government's responses to date to these recommendations is contained in Appendix 2.

In presenting this Report, the Committee trusts that its recommendations, and the accompanying analytical discussion, will demonstrate to governments the thorough and dedicated manner with which the Committee approached its task. Accordingly, the Committee hopes its recommendations will receive careful consideration by governments within a reasonable period of time.

On behalf of the Committee, I wish to express our appreciation for this opportunity to participate in the formulation of government policy through the consultative process.

Yours truly,

A handwritten signature in black ink, appearing to read "T.G. Bolton", is written over the typed name.

T.G. Bolton.
Chairman
Distributive Trades Consultative Committee

DISTRIBUTIVE TRADES CONSULTATIVE COMMITTEE

REPORT

A Report prepared for the
Department of Industry,
Trade and Commerce
March 1982

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Mr. J. Dean Muncaster, Vice-Chairman
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Government of New Brunswick

Ms Ruby Samlalsingh
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Government of New Brunswick

The Committee wishes to acknowledge with appreciation the contribution of Mr. Alasdair McKichan and the staff of the Retail Council of Canada, including J.P. Carter, M. Fruitman and P. Porth to this consultation.

The Committee would also like to thank the many other Canadian businessmen and association and government representatives who contributed to the work of the five sub-committees.

INTRODUCTION

The Distributive Trades Sector is comprised of some 230,000 firms, employing, on average, eight people. The sector thus provides employment for 1.8 million Canadians, representing some 17 per cent of the Canadian workforce. In 1980, sales of the wholesale group amounted to \$73 billion, trading houses \$5 billion, and the retail group \$89 billion (including automotive sales of \$24 billion and alcoholic beverages of \$3 billion). The average growth rate for employment in the sector was over 3 per cent a year over the decade 1970-1980 and, given a favourable economic environment, is likely to continue at that pace. Capital investment of the sector, other than real estate, is of the order of \$2.3 billion a year.

The distributive trades sector can thus be seen to be of substantial economic importance and industrial strength. Its success in fostering and satisfying demand has a profound effect on almost all goods-producing industries in Canada and on the businesses that supply equipment and services to the trade. The sector acts as a generator and provider of many tens of thousands of new and satisfying jobs each year. It is a vast outlet for entrepreneurial enterprise and offers one of the few investment areas where an entrant with access to only modest capital can succeed, and in a short space of time develop a sizable business.

The growth that has been a principal feature of the sector's advancement in the past ten or fifteen years can continue into the foreseeable future. In this connection, appropriate government policies and their intelligent implementation can significantly assist the distributive trades sector to realize increasingly its potential for contributing to the economy of Canada.

In recognition of the significance of the sector and its potential for growth, the Distributive Trades Consultative Committee was established in April 1981 on the initiative of the Honourable Herb Gray, Minister of Industry, Trade and Commerce. The Committee, chaired by Mr. T.G. Bolton, Deputy Chairman, Dominion Stores, brought together retail and wholesale interests and was made up of twenty-one senior representatives who, because of their diverse background, were able to bring a variety of perspectives on a large number of issues of current concern to the industry.

As set out in its terms of reference, the objectives of the Committee were to advise the Minister of Industry, Trade and Commerce on:

- the status of the industry, including its future growth potential and how this might be advanced;
- the level and quality of employment within the sector;
- constraints and ways of overcoming them; and,
- actions aimed at increasing the contribution of the sector to the Canadian economy.

To enable the Committee to achieve these objectives, five subcommittees were established in the following areas:

Economic Environment	Douglas J. Tigert - Chairman
Market Channel Links	Ruby I. Osten - Chairman
Distribution Channels	Frank M. Warnock - Chairman
Human Resources	Martin E. Goldberg - Chairman
Energy	Walter J. Hachborn - Chairman

The Report reflects the subcommittee structure, the various sections being the work of their subcommittees under their respective chairmen.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report has been prepared by the Distributive Trades Consultative Committee. It represents close to one year of concentrated analysis of issues of significant concern to firms in the distributive trades. The Committee recommends a number of actions which, it believes, will assist governments in the development of appropriate policies to enable this sector to capture opportunities and achieve its full potential. Recognizing that not all solutions rest with governments, the Committee has directed a number of its recommendations to the industry itself.

A summary of each recommendation, together with an identification of the body to which each is directed is contained in Appendix I. The full text of the recommendations is listed at the end of this summary as well as being contained in the body of the text. Set out below are the main issues reviewed by the Committee and the thrust of its recommendations.

The Need For A Continuing Advisory Committee

It has long been apparent to members of the distributive trades that it would be to the advantage of both the federal government and the industry in Canada if some means existed for the exchange of views between the Department of Industry, Trade and Commerce and the distributive trades on a consistent and organized basis. This conclusion has been amply confirmed by the experience of those who have served on the Distributive Trades Consultative Committee.

The establishment of an advisory committee for other industrial sectors has met with considerable success. In view of the significance of this sector in terms of employment, capitalization and overall impact on manufacturing through its influence on purchasing patterns, the establishment of a similar advisory committee for this sector seems logical. The Committee therefore recommends that such a body be established.

Investment and Financial Considerations

The Distributive Trades are frequently not perceived to create the economic stimulus customarily associated with the activities of the resource development, manufacturing and processing sectors. Consequently the interests of the distributive trades are not always taken into account in the development of economic measures and policies directed toward

the wellbeing of other industries. Often small changes in existing legislation and program criteria would allow the benefits of such legislation and programs to extend to the distributive trades without diminishing the positive effects accruing to the other sectors. This is particularly true of legislation pertaining to financial and developmental matters. To redress this situation, a number of changes are recommended.

First of all, the distinction between the distributive trades and the manufacturing sector with respect to accelerated depreciation should be eliminated and improved writeoffs on equipment and vehicles be allowed; this would permit the distributive trades to improve efficiency and reduce costs. The inventory tax credit should be raised from 3 per cent to 10 per cent to more closely parallel the true impact of inflation and a move to full LIFO accounting should be implemented at the earliest possible opportunity. The Committee further recommends that the indexing feature of personal income tax be retained in its present form, and financing through the Small Business Loans Act and Small Business Development Bond be available for working capital. Eligibility requirements of ITC programs, including the Enterprise Development Program and the Micro-Electronics Support Program should also be broadened to allow participation by wholesalers and retailers, and a thorough examination of all federal and provincial programs be undertaken to identify and remove barriers to participation.

In the view of the Committee, the federal government has not sufficiently recognized that legislation affecting the operation of foreign multinationals (MNEs) in Canada, particularly within the distributive trades sector, may also, if foreign governments retaliate with similar restrictions, affect the Canadian MNE abroad. The Committee wishes to draw the attention of the Foreign Investment Review Agency (FIRA) to these circumstances and recommends that FIRA take account of them in its administration of the Foreign Investment Review Act. The Committee feels that overly strict treatment by FIRA of foreign investors in this sector, which is predominantly Canadian owned and controlled, could have adverse effects on the presently hospitable climate for Canadian investors in the distributive trades abroad.

Policy Formulation and Regulatory Concerns

The Distributive Trades Consultative Committee (and its views are shared universally within the distribution sector) has the strongest negative views in relation to the proposal introduced in the November budget to shift the federal sales tax from the manufacturing to the wholesale level. At any

time, the move would be extremely disruptive of the commercial process, and likely absorb considerable cost and management time and attention which should be devoted to other priorities. At the present time, this move would be particularly unwelcome as it carries with it the threat of inducing substantial inflationary consequences in the merchandise sectors affected. It is acknowledged that inequities exist among commodities -- particularly imports and domestic products as a result of the current valuation for duty procedures. However, it is believed that these problems can be tackled in other and less disruptive ways. It is the strong recommendation of the Committee that the Department of Finance refer this matter to a Parliamentary Committee.

The government's policy on trade restrictions in the footwear and apparel sectors has, in the opinion of the Committee, interfered adversely with the conduct of business in the distributive trades. In the formulation of restructuring and adjustment programs, the government should endeavour to make these programs applicable to industry as a whole, with representatives of the entire industrial spectrum involved in assessing the impact of such policies and their implications for the future. Panels or committees that advise the Minister on trade policy should reflect this industry-wide approach.

Government policy that develops in response to particular objectives or specific pressure from special interest groups can also interfere with open-market conditions. Such a situation has developed through the federal powers given to marketing boards for eggs, turkeys, broilers and industrial milk. These supply management bodies have maintained artificially high prices for the benefit of Canadian farmers, while ignoring the costs to manufacturers, distributors and consumers. The cost to the distributive trades has been restriction of their ability to market products at reasonable prices to consumers.

One of the most disturbing aspects of the supply management system of marketing boards is the maintenance of the quota system, which inhibits production by making the marketing of food illegal without a government licence. The Committee recommends that government begin to dismantle those board policies that unduly distort relations between market and production.

While concerned about the fairly rapid pace of mergers and acquisitions in Canada, and the difficulties created by the present legislation in considering their desirability or otherwise, the Committee is equally concerned about the nature and direction of the proposed amendments to the

existing legislation. Recommendations in the Interim Report address proposed amendments to this legislation.

The Committee views with dismay the profusion of regulations in various fields affecting distribution. The vast number of regulations at all levels of government and the amount of overlap and contradiction of these regulations at different government levels and across government departments have created considerable uncertainty and increased the cost of doing business in the distributive trades. The Committee recommends a number of actions, among them that ITC should place high priority on reviewing the most important federal regulations and policies that affect the distributive trades.

The distributive trades are of the opinion that Canadian consumers would benefit from a greater uniformity in the field of consumer protection. The mobility of Canadian citizens makes greater homogeneity of provincial consumer laws desirable, if consumers are to understand properly their rights and obligations. It is recognised, of course, that this legislation must mesh with other aspects of provincial law. However, the present laws, in their diversity, are a burden to the distributive trades, and may create disincentives to the expansion of individual firms across the country.

The Committee therefore recommends that all federal and provincial regulations covering consumer protection should be summarized and collected within one publication and that a federal/provincial task force be created to carry out this task.

Myriad federal and provincial regulations also affect the trucking industry, private and "for-hire" trucking fleets in particular. This had led to inefficiency in two-way hauling trips and, consequently, higher costs and prices within the distribution services sector. The Report contains recommendations for correcting these problems.

International Trade

Exports

The government's efforts to increase Canada's export performance is characterized by its tendency to think mainly in terms of manufacturers or primary producers. However, several thousand firms in the distributive trades now play an important part in Canada's export efforts; their role needs to be recognized and developed.

The Committee therefore recommends that an effort be made on the part of government to include the distributive trades more fully in matters concerning export marketing. Government should also take steps to ensure that its sponsored agencies and Crown corporations do not have an unfair advantage over private trading houses. The scope of such programs as the Business Opportunities Sourcing System should be broadened to include the distributive trades more effectively.

Imports

The use of quotas and restriction of the market have damaged the distributive trades. The situation appears to have arisen in which government decides which industrial sectors or firms have the potential to become internationally competitive and so should be assisted, and which sub-sectors should be phased out. Yet it is the distributive trades -- the people in the import and retail business who have shopped the markets of the world -- who know which firms can compete and which cannot. This knowledge could be profitably used in government policy formulation.

To ensure that government policy is representative of industry-wide interests, representatives from across the industry should be involved in assessing the impact of trade restrictions. At the same time, sectors in which quotas are involved should be closely monitored to make sure they are attempting to attain the goals the programs are designed to help them achieve.

As a general principle the Committee believes that government intervention in the market place should be reduced wherever possible and no import restrictions of a special nature be imposed except those that recognize the tariff and/or other safeguard agreements under GATT.

Education and Training

Firms in the distributive trades recognize the role and benefits of personnel training to their operation. The Committee has observed that while a significant amount of federal funding is available for the training of personnel in occupations designated or classified as being in the retail and wholesale sector, the actual courses available do not adequately match the needs of the industry. To meet these needs, the Committee recommends a number of actions, including having industry associations, either collectively or individually, seek human resource planning agreements with the Canada Employment and Immigration Commission. In general, the objectives of such agreements will be to identify and catalogue the development and training

requirements of the sector, undertake a detailed audit of available development and training programs, and determine the applicability and suitability of these programs so as to identify shortcomings and gaps.

Distribution Systems

Shopping centres account for a substantial proportion of retail space in Canada, and in the future are likely to be the main provider of new retail space. The cost of occupancy in shopping centres, therefore, is and will increasingly become an important retail cost element. While rental rates are negotiated between landlord and tenants, charges for maintaining common areas often are not and these costs are rising sharply. To help monitor and control these costs, the Committee recommends that the cooperative work already underway between landlord and tenant organizations be continued and intensified and, where appropriate, accounting standards for the treatment of various categories of expense be developed.

Other areas of concern regarding distribution systems include the need to standardize case and carton sizes to fit as unit loads on transportation pallets of standard dimensions.

Operations and Information

A number of the recommendations in this Report deal with the operations of the distributive trades and their need for information tailored to fit their requirements. This includes the gathering of appropriate statistics, the continuation of the Census of Merchandising, productivity measurement studies and the establishment of a labour market intelligence service that would assemble data, reconcile it with other economic evidence and disseminate the results as widely as possible.

Energy

While the distributive trades have benefited from a number of the existing government energy conservation programs and research activities, these programs have, up to now, been largely oriented towards the manufacturing or processing industries. A concerted focus by government on the energy problems of the distributive trades has not occurred, nor has an energy conservation task force been established for wholesalers and retailers around which a Distribution Energy Conservation Program could be built.

To this end the Committee recommends several measures, including the establishment of an energy conservation task

force specifically for the distributive trades. There is also a need for programs aimed at the special needs of the distributive trades in energy conservation, tax measures and transfer of research.

Other measures suggested by the Committee towards energy conservation include standardization among provinces of the weight and dimensions of trucks to improve their load-carrying capacity and special programs to train drivers in energy conservation techniques.

Recommendations

1. That forthwith, on the conclusion of the work of the Distributive Trades Consultative Committee, the Minister of Industry, Trade and Commerce constitute a continuing Distributive Trades Advisory Committee to advise the Department of Industry, Trade and Commerce and, through it, other federal departments, on issues under the jurisdiction of the federal government that have significance for the trade.

It is recommended that the Advisory Committee be made up of members drawn from the proprietor, chief executive or senior management levels of businesses in the sector; representation by firm size, geographical location, trade function, and, where appropriate, commodity specialization, is desirable. Labour within the industry should also be represented. (See Recommendation 47.) The sectors of the industry from which members should be drawn are:

independents (representing food, clothing/ footwear drug, furniture/appliance, and one other merchandise category; this category may include franchisees)

supermarket retailers

department stores

chain specialists (one each from men's clothing, women's clothing, and two other merchandise categories)

wholesalers (one each from food, drug, hardware and automotive)

export/ import

labour.

2. The Foreign Investment Review Agency, FIRA, in administration of its Act, should take into consideration that successes of Canadian investors in distributive trades

Recommendations (cont'd)

ventures abroad far outweigh the influences of foreign investment in the sector in Canada. The Committee feels that excessively strict treatment by FIRA of prospective foreign investors in this sector in Canada could adversely affect the hospitable climate enjoyed by Canadian distributive trades investors abroad.

3. FIRA should allow foreign MNE takeovers whenever:
 - a) a Canadian owner wishes to retire and there are no competitive bids from a Canadian company;
 - b) it is in the best interest of a Canadian owner to join a foreign franchise organization; this will help provide appropriate levels of Canadian management and direction within such an MNE.
4. FIRA should review some of its past rulings to examine the impact they have had on the economy and jobs for Canadians; this information should be taken into consideration in all future decisions.
5. That ITC recognize the potential of the distributive trades for significantly increasing their contribution to the economy of Canada through greater productivity and efficiency and take steps to ensure that this potential is fully taken into account in government policy formulation and implementation through consultation with the proposed Advisory Committee (see Recommendation 1) on all legislation affecting the distributive trades.
6. That ITC place a high priority on reviewing the most important federal regulations and policies that affect the distributive trades. We suggest a task-force approach with contributions from the distributive trades.
7. That the distributive trades be made fully eligible to participate in all programs under Category 2, and problems of applicability be overcome where found in Category 1. Special attention should then be paid to changing the publicity on these programs to reflect the new situation.
8. That a thorough examination of all federal and provincial programs that might be useful to the distributive trades be coordinated by the Distribution Services Branch of ITC, and that resources be made available for this purpose.
9. The federal government should focus greater attention on involving the distributive trades (trading houses, wholesalers, brokers and agents, retailers and franchisors) in

Recommendations (cont'd)

increasing Canadian exports of products and services. This should include identification and development of the role or contribution that the various elements of the distributive trades can make in this regard. With this knowledge established, normal government policies and programs to encourage export can be applied.

10. Because of the lack of detailed information on the export performance of the distributive trades, and the tendency of government and manufacturers not to take advantage of their export expertise, the Committee recommends that:

- a) the scope of such programs as the Business Opportunities Sourcing System (BOSS) be broadened to include all components of the distributive trades that are involved in international trade;
- b) Statistics Canada merchandising surveys and other government information sources be expanded to include more information on export sales and international expansion activities of the distributive trades;
- c) both industry associations and government officials actively encourage the distributive trades to become involved in the export arena.

11. The recommendations made by the Honourable Mr. Justice H.F. Gibson in regard to the Canadian Dairy Commission's dealings with private sector exporters should be adopted for all marketing boards or government-sponsored agencies such as Crown corporations. The thrust of these recommendations is that government-sponsored agencies should refrain from exclusionary acts related to pricing, supplies and the ability of the private trades to deal directly with foreign buyers; the need to keep private traders informed on all aspects of export subsidies and other matters of concern to them was also emphasized. The full text of these recommendations is contained in Appendix 4.

12. Because of the lack of people in Canada who are trained or experienced in exporting, the Committee urges that education in international trade be actively encouraged. To assist in this effort, it recommends that:

- a) a directory be published identifying colleges or universities that offer courses in international trade;
- b) the above identified educational facilities be supplied with information about trading house capabilities and functions;

Recommendations (cont'd)

- c) an examination be made of the export training needs of distributive trades exporters;
- d) the federal government be encouraged to aid provinces to expand and develop educational curricula that will include such training.

13. Because some food products destined for the export market do not always receive adequate inspection, problems that should have been identified prior to shipment are often not discovered until merchandise is received by the foreign buyer. This occurs frequently enough to damage Canada's trading reputation. It is therefore recommended that:

- a) government and industry place greater priority on ensuring that food products for export are properly inspected and handled;
- b) inspection should take place at the time of shipment and the export certificate should include a detailed explanation of what was inspected (what codes, how much);
- c) if it is determined that a problem has occurred because of inadequate inspection, then the government should be held accountable; inadequate handling should be alleviated by government/industry programs.

14. Trade commissioners should be encouraged to provide prompt information to Canadian exporters on the reliability of overseas buyers. This would include such things as financial or credit information, size of company, and so on. To this end, the Trade Commissioner Service should make itself aware of the possibilities inherent in using the distributive trades as an export market channel.

15. The Export Development Corporation's insurance policies should be modified to permit greater flexibility on the part of exporters in specifying coverage, including recognition of the special needs of trading houses and other components of the distributive trades.

16. The concept of trading houses is not as well understood in Canada as in some other countries. Government efforts to support the sector in promoting a better understanding of the role of trading houses should be encouraged.

17. In addition, the Committee supports and recommends continuance of current government efforts to develop a better system of rewards for exporters through such means as tax

Recommendations (cont'd)

incentives and official recognition through awards, plaques or publicity.

18. The Committee supports the recommendations of the Export Promotion Review Committee's Report (the Hatch Report), with the proviso that trading houses and other distributive trades businesses be recognized as major export players. The Committee also applauds ITC and the federal government for acting in such a positive manner on this report. (See Appendix 5.)

19. As a general principle the Committee believes that government intervention in the marketplace should be reduced wherever possible and no import restrictions of a special nature be imposed except those that recognize the tariff agreements under GATT or other special international agreements.

The Committee nevertheless realizes that special trade policy action may have to be taken where damage to a sector is clearly in evidence. It strongly urges, however, that damage be assessed on an industry-wide basis and that trade restrictions be struck at a level that has an overall industry benefit. The Committee therefore recommends that:

The total industry - suppliers, manufacturers, wholesalers, importers, retailers and representatives from all employment sectors - be involved in assessing the impact of trade restrictions on an ongoing basis through a representative committee; this sectoral committee should also include a consumer representative. The sectoral committee should assist in assessing problems, advise on sectoral trends and issues, recommend policy options, and advise on all aspects of buyer/supplier relationships in a way that least disrupts the marketplace.

20. Monetary restructuring and adjustment programs such as the recently created Canadian Industrial Renewal Board should be established to deal with any problems that occur as the result of a special trade policy position. As these problems can occur in any sub-sector within the industry, this concept would apply to all sectors where import restrictions are being discussed, but only on an industry-wide, not a sector-specific, basis.

21. If the committee identified in Recommendation 19 ascertains that import quotas are required, this decision should be accompanied by a schedule under which the quotas would be progressively relaxed. This would then be made public and adhered to by all parties. This kind of trade

Recommendations (cont'd)

policy should also be accompanied by a program of domestic restructuring, with these two dimensions being closely linked together. The nature of this link will ensure that maximum funding for assistance is made available at the time of maximum protection and that both will reduce at equal rates. This quota reduction schedule should be clearly defined and all industry sector representatives express commitment to it.

22. When quotas restricting import volumes are announced, the sectors to which these quotas apply should be monitored to determine their progress towards achieving the objectives for which the quota was designed. This monitoring process should be performed by government and information on it made available to the industry committee specified in Recommendation 19. This process will help draw attention to sub-sectors not taking advantage of restructuring programs, thus making it possible to identify problems quickly. If the sub-sector in question is not willing to move towards the internationally competitive position that the program is designed to help it achieve, support and protection should be immediately withdrawn.

23. Any special trade policy put in place to restrict the volume of imports into the country should be drawn up on the advice of the aforementioned committee; such policy should offer the greatest degree of flexibility to importers (see Recommendation 19): the ability to move from country to country, from category to category, from season to season and from size range to size range. This stress on flexibility will help eliminate quota premiums being levied in exporting countries. Policy should be so structured to preserve the flexibility of the buyer in the international marketplace, thus ensuring that consumers' needs are satisfied.

24. Domestic restructuring programs designed to enable producers to become internationally competitive must stress and give credit for exports and export efforts undertaken by the domestic producer. An analysis of the marketing practices of firms in this area would help ensure that products are competitive in style, quality and price and are promoted appropriately.

25. The Minister's Advisory Panel on Textiles and Clothing is judged to represent primarily a consensus of the manufacturing sector. It should therefore be replaced with a body representative of the clothing industry. This body should be similar in nature and function to the National Footwear Conference of Canada.

Recommendations (cont'd)

26. All provincial and federal regulations covering consumer protection should be summarized and collected within one publication.

27. A federal-provincial task force should be created with the aim of removing discrepancies and establishing a common standard for consumer protection.

28. Government should begin dismantling those marketing-board policies that unduly distort the relation between market and production. This restructuring process should ensure that:

- a) production cost formulas are not inflated by artificial costs;
- b) quota charges are gradually eliminated;
- c) production transfer policies are liberalized;
- d) production restrictions gradually reflect true market conditions;
- e) free movement of production across borders is encouraged, not discouraged; and
- f) an increasing emphasis be placed on marketing and coordination with distribution channels (both domestic and export).

29. Given the existence of legislation in Alberta and Quebec, the latter not yet in force, and the stated intentions of other provinces, the Distributive Trades Consultative Committee favours the development of a "model" franchise regulatory act by the Uniform Law Conference of Canada. This model act would then constitute a means of encouraging uniformity amongst those provinces that subsequently decide to enact legislation affecting franchising.

The legislative approach to be adopted should be the following: full disclosure by franchisors to prospective clients of information about the franchisor, his business, his experience, the terms of the agreement and other relevant information. (See Recommendation 29 in the body of the text for a full list of matters that the Committee believes should form the basic disclosure required of all franchisors.)

30. A study be undertaken by the proposed Distributive Trades Advisory Committee (see Recommendation 1) to assess

Recommendations (cont'd)

the impact of electronic merchandising on the distribution system.

31. Retailers should actively participate in the Telidon field trials on teleshopping.
32. Landlords should be encouraged to continue to derive their return on investment solely from the payment of rental charges and not from rechargeable expenses.
33. Trade associations should seek the cooperation of landlord organizations in the development of guidelines for the control and fair allocation of rechargeable expenses between landlords and their tenants.
34. The Canadian Institute of Chartered Accountants should be requested to provide guidance and assistance in:
 - a) reviewing the model accounting standards for calculating disclosure of rechargeable expenses for common areas that have been developed for the Retail Council of Canada by Price Waterhouse Associates, a national member firm of the Institute;
 - b) establishing such standards in a form acceptable to the Institute;
 - c) encouraging the use of such standards.

The possibility of developing guidelines for the calculation of rechargeable expenses for fast-food common areas should also be explored.

35. When the Retail Council's Committee on Recharges has completed the suggested clauses dealing with recharges for inclusion in leases, these clauses should be made available to all retailers and landlords for their consideration.
36. In the interest of distribution efficiency, procedures should be instituted with manufacturers, suppliers and the Canadian Standards Association to standardize case sizes. The standardization of dimensions should be such that packages will fit as unit loads on transportation pallets of standard dimensions.
37. The proposed continuing Distributive Trades Advisory Committee (which this Committee has recommended be established) should promote the acceptance of the Census of Merchandising by asking for the support of associations (which number between 50 and 60) and their members in the distribution-services sector.

Recommendations (cont'd)

38. Retailers and wholesalers should pay particular attention to the transportation alternative provided by air cargo. They should also inform themselves about the distribution-system research program available from Air Canada.

39. Given the continuing rise in costs and consumer resistance to price rises, the industry fully supports the efforts of the federal government in its studies on measuring productivity and efficiency in the retail sector and asks that consideration be given to a similar study for the wholesale sector.

40. The proposed continuing Distributive Trades Advisory Committee (which this Committee recommends be established) should study the profitability to the entire industry of Sunday openings and extended store hours. This study should seek to establish:

- a) whether modification of store hours throughout the week (with and/or without Sunday opening) might allow a reduction of total store hours without loss of sales volume;
- b) whether modified store hours, both during the week or on Sunday, would result in a profitable increase in sales volume;
- c) the socio-economic impact of additional hours.

The study should consider a variety of types of store, and contain an assessment of constraints imposed by shopping-centre leases.

41. In consideration of the significant contribution of the distributive trades to the economy, the substantial funding by the government to employee training and development, and the Committee's concern that available funds could be used more effectively if given a more accurate fit between training availability and the industry's needs, and, taking account of the diverse character of the industry, its geographical distribution, variation in business practices, and so on, the Committee recommends that industry associations, either collectively or individually, seek human resource planning agreements with the Canada Employment and Immigration Commission. (Appendix 8 contains an example of such a proposed agreement.) In general, the objectives of such agreements will be to:

Recommendations (cont'd)

- identify and catalogue the development and training needs of the distributive trades sector
- undertake a detailed audit of available development and training programs
- determine the applicability and suitability of these programs to the needs of the sector so as to identify shortcomings and gaps in the array of available programs.

42. Where human resource development agreements are to be signed, consideration should be given to the desirability of having the Minister of Industry, Trade and Commerce and/or the Minister of State for Small Business and Tourism co-sign these agreements as appropriate.

43. The Committee further recommends that funds be made available to industry associations to assist in covering the development costs of new courses, training aids and seminars to meet identified needs.

44. It is recommended that CEIC and provincial governments undertake a review of the effectiveness of existing training programs to determine if trainees are, as a result, entering the retail and wholesale occupations for which they have been prepared.

45. In respect of the Committee's concern about the need for management expertise by retail and wholesale organizations, particularly in small firms and at the first line supervisory level, it is recommended that the issue of management training be addressed in the context of the proposed Human Resources Planning Agreement.

46. It is recommended that CEIC and industry associations undertake cooperatively to prepare and deliver information packages outlining the array and purpose of training programs relevant to the distributive trades, bearing in mind trade publications as an efficient delivery vehicle for such information.

47. It is recommended that a committee on human resources be struck as a subcommittee of the proposed continuing Distributive Trades Advisory Committee and that there be labour representatives on both committees.

A principal mandate of the human resources subcommittee would be to examine the implications for labour relations of all issues coming before the proposed advisory body, such as productivity and technological changes. In addition, the proposed Distributive Trades Advisory Committee should address a number of concerns presented by the labour representative, including:

Recommendations (cont'd)

- hours of operation and work scheduling
- conditions of work, particularly for part-time employees
- high labour turnover rates
- employee safety and health.

If these and similar areas of concern are to be resolved, business and labour should take steps to put in place a structure to improve communication and motivate employees. Teamwork seems the appropriate way to solve identified problems in the work place, and implement as effectively as possible solutions that have been agreed to by both parties.

48. To ensure more effective use by industry of information relating to manpower planning already collected by governments, the Committee recommends:

- (a) the establishment of a Labour Market Intelligence Service within the Department of Employment and Immigration (see discussion below on Labour Market Development Task Force Report). This service would assemble data, reconcile it with other economic evidence and disseminate the resulting information as widely as possible;
- (b) that trade publications be considered as a prime vehicle for the purpose of transferring this information to the industry.

49. It is recommended that the policies and administrative requirements of the existing tax concessions be amended to recognize those costs incurred by all professionals, regardless of their employment status, when participating in programs to upgrade their skills and keep them abreast of current developments.

50. To assist in the provision of training programs for part-time employees, the Committee recommends that a) federal and provincial departments and agencies examine the need to extend training to permanent part-time employees and the feasibility of such a step; and b) government compile improved statistics on part-time employment and those seeking it.

51. It is recommended that within the context of the proposed human resources manpower planning agreements, industry and governments take account of the implications of the continuing introduction of electronic data processing equipment into the distributive trades by a) the provision of retraining programs for employees whose positions become

Recommendations (cont'd)

redundant and b) the development and implementation of training programs based on the new technical and related skills associated with electronic data processing.

52. The federal government and industry should actively support the immediate establishment of a Distributive Trades Energy Conservation Task Force to work in close conjunction with the sector's trade associations, the Department of Energy, Mines and Resources, and the proposed continuing Distributive Trades Advisory Committee. This group would have similar functions to existing task forces representing other sectors including:

- a) exchanging information and increasing awareness amongst wholesalers and retailers about the opportunities for and means of achieving more efficient use of energy;
- b) setting and reporting on targets for improvements in energy efficiency;
- c) serving as a focal point for government/industry discussions on the energy situation, barriers to energy conservation, research priorities, and so on.

53. Energy conservation programs and research and development aimed at the special needs of wholesalers and retailers should be increased and strongly supported. This should apply, in particular, to the retail store, shopping centre and warehousing aspects of the program entitled "Development and Dissemination of Integrated Design Retrofit and Operation Guidelines for Major Building Categories in Canada," sponsored by the Department of Energy, Mines and Resources. Furthermore, the proposed funding level of \$2 million by 1984/85 should be considered a minimum for these three building categories.

54. Funding of energy conservation research and development should be increased by both governments and industry. This should include:

- a) increasing the level of funding for energy conservation research so that it represents a more significant proportion of the total federal energy budget;
- b) research on heat reclaim systems, less energy intensive lighting and better electrical and refrigeration design;
- c) identifying and seeking solutions to energy conservation barriers; this might include examining the impact on energy consumption of:

Recommendations (cont'd)

- shopping centre lease arrangements
 - rate structures for gas, electricity and oil
 - regulations affecting temperature standards in buildings
 - transportation regulations
 - cost of energy conservation equipment
 - government tax on alternative fuels, such as propane;
- d) research and development related to intermodal freight services and terminals, rail electrification, rail communication, control and automation, and to improvements in the rail system which would allow wholesalers and retailers to take greater advantage of this less energy intensive transportation mode;
- e) research related to energy conservation in urban goods movement, particularly urban trucking;
- f) examining the impact of rising energy costs on shopping centres, retail stores and distribution centres' location and sales;
- g) continued research and development on alternative fuels and efforts to improve the energy efficiency of transportation vehicles.

55. To encourage energy conservation, governments should consider broadening the range of energy saving equipment and materials that are exempt from sales tax.

56. Mechanisms for transferring energy conservation technology to wholesalers and retailers should be actively pursued. This should include:

- a) incorporating into research programs the means of communicating the results of new technology to distributive trade associations and businesses;
- b) paying particular attention to providing small wholesalers and retailers with the information needed to complement their own energy conservation programs through such means as seminars, manuals and energy audit programs.

57. In the event of petroleum supply shortfalls the government can authorize a mandatory allocation program. Due to the high-speed nature of the distribution business, however, the Committee is concerned that during a shortage ongoing adjustments might not be able to address problems in time to avoid considerable damage to businesses. It therefore recommends that:

Recommendations (cont'd)

- a) the government, in consultation with industry, place greater emphasis on planning for and anticipating the results and problems of a disruption in energy supplies;
- b) within the planning process, greater consideration be given to the potential problems outlying areas and regions of the country will face;
- c) under the Petroleum Products Allocation Program, the distribution of essential perishable food products be given the same "A" priority rating that is given the production and processing of these items.

58. The Committee recommends that governments and industry redouble their efforts to achieve greater standardization of vehicle weights, dimensions, axle requirements, and so on, between provinces with the objective of maximizing the load carrying capacity of trucks.

59. More specifically, the work initiated on this subject by the Council of Ministers Responsible for Transportation and Highway Safety and involving the Transport Canada Highway Transportation Research and Development Advisory Board should be strongly supported and encouraged. Furthermore, it is recommended that the proposed research program be speeded up and given more priority.

60. To maximize energy savings, government should also:

- a) permit increased truck lengths and the use of double and triple trailers on highways in Canada;
- b) ease transportation regulations to permit intercorporate private trucking and private carriers to move goods for compensation on the backhaul portion of their journey.

61. The Committee recommends that efforts to conserve fuel through improved commercial vehicle driver training be encouraged and supported by governments and industry.

62. More specifically, the Committee recommends that the work on this subject already started by the Transportation Development Centre of Transport Canada be actively pursued in conjunction with the provinces and industry. In particular the Committee supports such activities as:

- a) the development of curricula for the training and retraining of drivers to achieve greater fuel efficiency;

- b) assessment of the effectiveness of driver incentive programs and vehicle aids in improving fuel efficiency;
- c) demonstration of the value of idling programs in reducing fuel consumption;
- d) development of audio visual material, manuals and other aids that could be used to train drivers in fuel efficient techniques.

Interim Report Recommendations

- 1. a) The distinction between the distributive trades and the manufacturing sector held by Revenue Canada, with respect to accelerated depreciation, should be eliminated.
 - b) More specifically, two-year writeoffs for tax purposes should be extended to include such items as:
 - i) electronic front-end equipment (for example, scanners and electronic cash registers)
 - ii) backroom computers/controllers and head office mainframe mini-computers
 - iii) computer software
 - iv) automated warehouse equipment
 - v) energy equipment such as refrigeration, heating, controls, lighting, and so on, which leads to reduced energy consumption
 - c. Three year writeoffs should be allowed for fuel-efficient trucks.
- 2. a) Short-run: The inventory tax credit should be raised from 3 per cent to 10 per cent to more closely parallel the effects of a shift from FIFO to LIFO accounting procedures already adopted in the U.S., and to more closely parallel the true impact of the current inflation rates on the overstating of corporate incomes.
 - b) Long-run: The accounting principles in Canada should be gradually changed to methods of financial reporting and tax assessment which are better able to reflect the effects of inflation on the corporate financial position. The LIFO system eventually

adopted should pay attention to simplification of accounting procedures.

3.
 - a) Small Business Loans Act loans should be made available for working capital.
 - b) Financing under the Small Business Development Bond (SBDB) should be used for working capital.
 - c) The SBDB time frame should be extended indefinitely and be used up to a maximum of \$500,000 in as many individual bonds as retailers and wholesalers need to develop their business potential over time. In other words, retailers and wholesalers should be allowed to finance a series of bonds up to the \$500,000 level as their business matures.
 - d) The federal government should use some of its large advertising budget to promote a much wider level of awareness to the business community, both for the SBDB and the SBLA. In addition, commercial banks should be encouraged to broaden their participation in these loan programs.
 - e) The terms of the SBDB should be extended to 1990.
4. The indexation feature of the personal income tax should be retained in its present form. The recent oil price agreement should substantially alleviate the cash flow problems of the federal government. This agreement will, in itself, reduce consumer expenditures on other goods and services (see Appendix 10, Table 3). Thus, both the consumer and the consumer goods producing and distribution sectors would be in double jeopardy should the current indexation formulas on personal income tax be removed.
5. (Formulated prior to recent oil pricing agreements)
 - a) The National Energy Program should be amended so that Canadian wellhead prices for oil reach 75 per cent of the F.O.B. international price by 1985 (projected to be \$62.99), and be tied to the world price at that ratio thereafter.
 - b) That efforts be redoubled to secure a solution to energy pricing and revenue sharing agreement between the federal and provincial governments and the producers at the earliest possible opportunity.
 - c) The oil sand projects (Alsands, Cold Lake and Petro Canada) be undertaken as quickly as possible, and a scheduling commitment be obtained from the

sponsoring oil companies in light of higher oil prices, revenues and rising development costs.

- d) In recognition of the enormous shifts required to reach self-sufficiency, energy/usage shares should be monitored closely and programs be adjusted where necessary to ensure that the objectives on oil substitution are achieved.
6. a) The direction contemplated in the proposed amendments with respect to monopoly power should be changed in favour of an approach which deals with misuse of a dominant position in the case of mergers and acquisitions.
 - b) Certain proposed examples of anti-competitive behaviour may well be examples of pro-competitive behaviour and should be reconsidered. They include "fighting brands" (for example, generics), selective price-cutting (for example, weekly specials), market saturation advertising, and so on.
 - c) The Committee supports the 29 June 1981 submission of the Retail Council of Canada to the Minister for Consumer and Corporate Affairs (see Appendix 10, Item 4) and requests additional consultation with the distribution services sector before any proposed changes in the legislation are tabled in Parliament.
7. a) The Committee recommends the adoption of the following recommendations made by the Economic Council of Canada in its report entitled Reforming Regulations - 1981.
 - all regulatory restrictions on the operating freedom of existing for-hire motor carriers be removed.
 - in place of the present cumbersome and often costly process whereby applicants for trucking licenses must establish that their service is for "public convenience and necessity," the regulatory board maintain requirements with respect to such matters as bonding, insurance, and vehicle registration and that they issue licences on a "first-come" basis.
 - that price regulation and the formal requirements for rate filing in trucking be abolished. The provincial regulatory boards should, however, retain broad powers to obtain rate information from individual carriers when they deem it necessary.

- the definition of private carriage in trucking be expanded to include transport by member of a corporate family where the affiliate firms are effectively controlled by a parent corporation.
 - b) The Committee recommends that private carriers be permitted to move goods for compensation on the backhaul portion of their journey.
 - c) The Committee recommends that the report by the Economic Council, Reforming Regulations - 1981, and in particular, the sections on trucking deregulation, be a priority item of the next First Ministers' meeting. Further, the Committee recommends that the First Ministers acknowledge the need for deregulation and take steps to set in motion the government apparatus necessary to deregulate the trucking industry.
8. Statistics Canada should totally review its efforts in the distribution services sector in terms of:
- reversal of the decision to cancel the 1981 census of merchandising;
 - definitions of commodity categories and trading area boundaries;
 - what is collected, how often and from what geographic territory;
 - definitions of retailers and of independents versus chains;
 - the establishment of a permanent consultative users group within the distributive trades to interact with Statistics Canada on an ongoing basis. Potential subjects might include:
 - weekly or monthly reporting of department and chain store sales by major "kinds of business" categories
 - annual financial operating ratios
 - annual or bi-annual reports of shopping centre developments to track major structural changes in the industry
 - monthly retail trade estimates expanded to cover other census metropolitan areas (such as Calgary, Edmonton, Hamilton)
 - periodic merchandise inventory levels

- labour force breakdowns by sector or sub-sector.
- 9. a) The new agency established to administer the textile and clothing sector adjustment program should include on the Board distribution services sector representation and provide continual consultation with that sector.
- b) Similar agencies, if established, for example on footwear, need distribution services sector representation.

Resolution on Excise Tax on Cosmetics and Repackaging

The Committee passed a resolution at its first meeting pertaining to the excise tax on cosmetics and repackaging. The resolution read:

- Whereas changes to the Excise Tax Act (Bill C-57) pertaining to the shift in excise tax from the manufacturer to the wholesaler level of distribution and who is deemed a manufacturer are discriminatory towards wholesalers and their customers, and
- Whereas these changes are also disruptive to existing trade channels,
- Be it resolved that the Department of Finance be requested to rescind these changes and that no further moves be made to shift the excise tax from manufacturers to legitimate wholesalers.

A briefing note was prepared for the three Ministers of Industry, Trade and Commerce, informing them of this resolution. The intention of this note was to further focus their attention on the issue and involve them in its resolution.

The Committee also strongly recommends that the Department of Finance refer the proposal introduced in the November 1981 budget to shift the federal sales tax from the manufacturing to the wholesale level to a Parliamentary Committee. The move at any time is seen as being extremely disruptive of the commercial process and likely to absorb considerable cost and management time and attention which should be devoted to other priorities. The movement at this time would be particularly unwelcome as it carries with it the threat of inducing substantial inflationary consequences in the merchandise sectors affected. It is acknowledged that inequities exist among commodities - particularly imports and domestic products as a result of the current valuation for duty procedures. However, it is believed that these problems can be addressed in alternative and less disruptive ways.

REPORT, MARCH 31, 1982

THE NEED FOR A CONTINUING ADVISORY COMMITTEE
REPRESENTATIVE OF THE DISTRIBUTIVE TRADES

It has long been apparent to members of the distributive trades industry that it would be to the advantage of both the federal government and the industry in Canada if some means existed for the transmission of views between the Department of Industry, Trade and Commerce and the distributive trades on a consistent and organized basis. This conclusion has been amply confirmed by the experience of those who have served on the Distributive Trades Consultative Committee. The Committee provided the industry with the means to bring together concerns on policy matters affecting the industry, study the interrelationship of these issues, list priorities, and test solutions on representatives of businesses of a wide variety of size, trade specialty, function and geographical location. It was thus possible to establish common positions within the industry before formulating the resolutions presented to the Minister of Industry, Trade and Commerce in the Interim Report in September 1981, and in this Report.

Prior to the establishment of the Consultative Committee, the trades' viewpoint on existing or planned federal government policy was delivered on a fragmented basis, issue by issue. Although some sectors of the trades could speak forcefully, and influence policy, not all sectors had the opportunity to form and express a viewpoint.

There has been considerable success in establishing sectoral advisory committees for other trade and industry segments. The distributive trades industry is so large in terms of employment and capitalization, its influence on domestic manufacturing industries is so important, its interaction with federal government departments so pervasive, that the establishment of a similar advisory committee for this industry seems only logical.

Recommendation 1

That forthwith, on the conclusion of the work of the Distributive Trades Consultative Committee, the Minister of Industry, Trade and Commerce constitute a continuing Distributive Trades Advisory Committee to advise the Department of Industry, Trade and Commerce and, through it, other federal departments, on issues under the jurisdiction of the federal government that have significance for the trade.

It is recommended that the Advisory Committee be made up of members drawn from the proprietor, chief

executive or senior management levels of businesses in the sector; representation by firm size, geographical location, trade function, and, where appropriate, commodity specialization, is desirable. Labour within the industry should also be represented. (See Recommendation 47.) The sectors of the industry from which members should be drawn are:

independents (representing food, clothing/footwear, drug, furniture/appliance, and one other merchandise category; this category may include franchisees)

supermarket retailers

department stores

chain specialists (one each from men's clothing, women's clothing, and two other merchandise categories)

wholesalers (one each from food, drug, hardware and automotive)

export/import

labour

Terms of Reference

Without intending to limit the prerogative of the Minister or the proposed advisory body to establish appropriate terms of reference, the Committee suggests the following terms of reference for the continuing Advisory Committee.

On behalf of the distributive trades, the Advisory Committee should advise the Minister of Industry, Trade and Commerce on a continuing basis on:

- a) the status of the industry, its growth potential and how this might be advanced; the level and quality of employment within it; the constraints affecting its growth and ways of overcoming them; and the means whereby the industry can increase to the fullest its contribution to the Canadian economy;
- b) the manner in which legislation, policies and programs of the Department of Industry, Trade and Commerce that have a bearing on distributors can be improved for the purpose of increasing the effectiveness of the industry;

- c) ways in which legislation or policies and programs of other federal departments or agencies that have a bearing on distribution can be improved so that the objectives are more efficiently met while ensuring that their effect on the distribution industry is made more positive;
- d) the coordination of federal/provincial policies that affect the distributive trades.

It is understood that any such advice will be tendered with the national as well as the industry interest in view.

Scope of Activity

As the Terms of Reference suggest, it is proposed that the Committee provide advice to the Department not only on matters that are the Department's immediate responsibility and concern (including those which, while not specifically directed to the distribution sector, may have an effect on it), but also on issues concerning other federal government departments or agencies, to which the Department of Industry, Trade and Commerce could act as spokesman on behalf of the trade within the federal government's policy formulating processes.

As the market channel for domestic orientated consumer goods, the sector has tremendous influence on the overall productivity and efficiency of the Canadian economy. Savings through increased productivity can meet government objectives of:

- lowering price increases
- stimulating capital investment
- expanding market values and production.

In relation to the Department of Industry, Trade and Commerce's immediate responsibilities, the Committee would expect to provide advice on:

- trade policy that affects the sector
- opportunities for export for Canadian manufactured consumer goods
- opportunities for import substitution
- small business policy development (the majority of small business is in the distributive and/or service area)

- industrial adjustment policies, especially in development of new domestic markets and labour shifts by region or skill
- policies affecting domestic consumer goods industries that supply distributors
- policies affecting suppliers of services to the trade and other matters of this nature
- the productivity and efficiency of all economic sectors, including the manufacturing sector.

Policies that are the direct responsibility of other ministries or federal agencies, but in which the trade has a strong interest, include: consumer protection, health and safety, competition, transportation, economic management, taxation, energy, employment and immigration (especially training programs), employee benefits, and postal issues.

Subcommittees

The distributive trades cover an extraordinarily wide range of functions and specialties. Some issues are common across most of the trade; others are of interest only to specialists in a function or commodity grouping. From time to time there will be issues that affect wholesalers or trading houses only, or companies involved in food distribution. If the issues affecting any sub-sector at any particular time are sufficiently serious, it may be appropriate to convene subcommittees of the main group to deal with those specific issues.

Frequency of Meetings

It would probably not be necessary to convene the entire Committee more than three or four times a year on a regular basis; emergency meetings might be necessary from time to time to deal with specific short-term problems.

Effect on the Department of Industry, Trade and Commerce

With the establishment of the Advisory Committee outlined above, and given the scope of its mandate, it is expected that the Department of Industry, Trade and Commerce resources and structure would have to be modified. It is the wish of this present Committee that any changes that take place would foster an appropriate and adequate working relationship between the Advisory Committee and the Department.

It is hoped that ITC will provide the Committee with the resources needed for its establishment; subsequent industry funding may be provided if necessary.

ECONOMIC ENVIRONMENT

The recommendations affecting the economic environment that were contained in the Interim Report focused on tax, small business development and combines legislation. These were regarded as being of pressing importance at that time, due to the imminence of the fall 1981 federal budget and other federal government initiatives.

While these subjects are still of major and continuing interest to the distributive trades, the recommendations of the Economic Environment Subcommittee contained in this Final Report concern themselves mainly with legislation affecting multinationals, foreign ownership, regulations and program eligibility.

The nature of the distributive trades industry, being as it is neither a manufacturing nor a processing industry, means that its interests are sometimes not served by legislation designed to serve these other industries. Often, small changes in existing legislation would allow these benefits to extend to the distributive trades without affecting the benefits that accrue to other industries.

Multinationals and Foreign Ownership

The federal government has not sufficiently recognized that legislation affecting the foreign multinational (MNE) in Canada, particularly within the distributive trades sector, may also affect the Canadian MNE abroad, if foreign governments retaliate with similar restrictions. Many Canadian MNEs now contribute a great deal to the Canadian economy and the international balance of payments.

More important, the distributive trades are of the opinion that the Foreign Investment Review Act (FIRA) rules, if strictly applied, can cause undue hardship for firms facing bankruptcy; certainly they unduly impinge upon the freedom to dispose of equity without ensuring commensurate benefits from increased Canadian ownership.

In the past few years, the number of Canadian companies in the distributive trades that have expanded to the United States has become an impressive total. The significant examples include: Birks Jewellers, Bowring, Reitman's Inc., Dylex, Steinberg Inc., Coles The Book People, Peoples Jewellers, Grafton, Loblaws Co. Ltd., Canadian Tire Corporation and Pennington's.

At a time when this healthy invasion of the U.S. market is occurring, Canada is not unduly threatened by foreign nationals in the distributive trades sector. The distributive trades are basically Canadian owned with only about 15 per cent foreign ownership, which includes several large firms such as K-Mart and Safeway. Through their decisions on what stocks to carry and from which sources to get them, some of these firms provide significant benefit to the Canadian business environment by emphasizing Canadian supply.

The potential benefits of Canadian MNEs in this sector moving into the U.S. market in the 1980s and '90s far outweigh the presence of a few foreign MNEs in Canada. The Canadian MNEs have a direct impact on the economy and will increasingly generate foreign capital flow into Canada. Relative to manufacturing, the requirement for investment capital is low and the profit/capital ratio is high. Consequently, investments abroad lead to small outflows and rapid and high inflows from profits, royalties and service payments.

Under FIRA rules, a foreign takeover of an existing Canadian enterprise is not allowed unless there is significant benefit to Canada from such a takeover; these rules apply even when there are no interested Canadian buyers. There are, however, circumstances when an existing Canadian owner may be hurt by the inability to join or sell out to an MNE. The MNE may, for example, choose to open a competitive outlet, which is allowed under FIRA if the MNE already operates in Canada. The Canadian outlet could be severely damaged, even forced into bankruptcy, whereas it might have become even more profitable had it been allowed to join a foreign MNE franchise organization.

A further example is what can happen when a Canadian owner wants to retire. A foreign MNE might offer a substantially higher price for this Canadian outlet compared to any offer from another Canadian company. Yet there is no provision in the act to help potential Canadian buyers with loans that would enable them to compete with foreign bidders.

Recommendation 2

The Foreign Investment Review Agency, FIRA, in administration of its Act, should take into consideration that successes of Canadian investors in distributive trades ventures abroad far outweigh the influences of foreign investment in the sector in Canada. The Committee feels that excessively strict

treatment by FIRA of prospective foreign investors in this sector in Canada could adversely affect the hospitable climate enjoyed by Canadian distributive trades investors abroad.

Recommendation 3

FIRA should allow foreign MNE takeovers whenever:

- a) a Canadian owner wishes to retire and there are no competitive bids from a Canadian company;
- b) it is in the best interest of a Canadian owner to join a foreign franchise organization; this will help provide appropriate levels of Canadian management and direction within such an MNE.

Recommendation 4

FIRA should review some of its past rulings to examine the impact they have had on the economy and jobs for Canadians; this information should be taken into consideration in all future decisions.

Regulations

The vast number of regulations at all levels of government and the amount of overlap and contradiction of these regulations at different government levels and across government departments have created high uncertainty and increased the cost of doing business in the distributive trades.

In addition, the rapid growth of such regulation has caused uncertainty about the future economic environment and created a strong concern about the lack of consultation between the distributive trades and the federal government. There is now a strong awareness of the need to come to grips with the effectiveness and the costs of maintaining such a vast array of regulations.

The tables in Appendix 3 clearly spell out the alarming array of regulations in Canada at the present time. Those that most affect the distributive trades include: consumer protection/information; environmental management; production and distribution; framework (Combines Act, FIRA, etc.);

health and safety; human rights; labour; liquor; transportation; other - rent control, wage and price control, etc. (See Table 1.)

By 1978, some 140 different federal statutes were on the books, and 1,600 statutes had been enacted at the provincial level. (See Tables 2 and 3.)

In the 1970s alone, 262 new provincial statutes came into existence (Table 4), many of which have an impact on the distributive trades. An enormous task would be faced if a review of these statutes were recommended by this Committee. Over 25,000 pages of statutes exist at the provincial level alone. (See Table 5.)

The regulation of the production and distribution of food products occurs at every stage in the food system from farms to retail shelves. Federal and provincial legislation has helped create agricultural marketing boards that control supply, distribution and price. It is estimated that there are 18 federal and 115 provincial statutes directly concerned with the regulation of agriculture and fisheries.

Other areas where control is disproportionate to any social or economic benefits derived include health and safety conditions on the job; the enhancement or protection of human rights; collective bargaining and minimum wage levels; transportation (including airlines, railroads and trucking); rents; wages and prices.

The overriding issue here is what to do about the regulation issue. While our recommendations may seem mild at this stage, we are hesitant to recommend a full-scale task force review because of the enormous costs in manpower and dollars that would undoubtedly be required.

Recommendation 5

That ITC recognize the potential of the distributive trades for significantly increasing their contribution to the economy of Canada through greater productivity and efficiency and take steps to ensure that this potential is fully taken into account in government policy formulation and implementation through consultation with the proposed Advisory Committee (see Recommendation 1) on all legislation affecting the distributive trades.

Recommendation 6

That ITC place a high priority on reviewing the most important federal regulations and policies that affect the distributive trades. We suggest a task-force approach with contributions from the distributive trades.

Program Eligibility

Programs to aid Canadian industry tend, through the way industry is defined or through the terms of eligibility, to be geared towards manufacturers, processors and primary producers. Distributors, except those wholesalers who act as manufacturers' agents, are consequently excluded from many programs even though the program objectives of government and the business objectives of the distributive trades may coincide. There are, for example, programs to enhance productivity that are appropriate to all industry sectors, but, in the body of a program's regulations, processing or production becomes the eligibility factor. This often disqualifies the distributive trades because they provide services rather than goods. The services they offer, however, have a direct effect on and are themselves beneficially affected by improved productivity. Moreover, the methods of providing distribution services seem an appropriate area in which to carry out research and development.

There are several reasons for this oversight. Many programs have been designed to help specific sectors without consideration being given to the possibility that the distributive trades could contribute to the objectives of the program. For many programs the exclusion of the distributive trades is perfectly valid; for example, the Defence Industry Productivity Program. For other programs the distributive trades could assist government efforts to strengthen the Canadian economy; for example, the institutional assistance programs provided by ITC. (See Category 2, below.)

Other explanations for the exclusion of the distributive trades stem from the size, diversity, openness and independence of the sector. The size and diversity make government programs to stimulate, help and interact with the sector a more demanding task than is the case with the more homogeneous sub-sectors of manufacturing. Ease of entry and exit have created the erroneous impression that smooth and efficient adjustments continuously take place. In the process government may not have paid sufficient attention to the fact that business failures and low productivity cause

hardships, transitory unemployment, and high costs not only in manufacturing, but in distribution as well. The independence, diversity of distribution and regional ubiquity produce less concerted pressure on the government than the more cohesive manufacturing sector.

All the ITC programs listed in Category 1, below, are open to the distributive trades at present; programs in Category 2 could and should apply to the distributive trades.

There are many more programs, sponsored by other departments and agencies, that could also be amended to apply to the distributive trades. By ensuring that the distributive trades are eligible, the objectives of government could be served in many different areas, such as energy conservation, consumer protection, and transport.

Category 1

ITC Programs that now Apply to the Distributive Trades

Small-business Loans

Under the provisions of the Small-business Loans Act, all chartered banks, Alberta Treasury branches and other approved lenders such as credit unions, caisse populaires, trust companies, and so on, are authorized to make guaranteed loans to small business enterprises for the purpose of modernization of equipment or premises, and for the purchase of land. Unfortunately, as indicated in the Interim Report, the primary requirement of the distributive trades is for guarantees for working capital and the SBLA does not provide this.

Program For Export Market Development (PEMD)

The Program for Export Market Development encourages Canadian suppliers of goods and services to enter new export markets or undertake additional export development activities by sharing the costs incurred. The promotional activity surrounding this program is almost entirely orientated to manufacturers, and many distributors and others who could benefit are unaware of the program.

Industry and Labour Adjustment Program (ILAP)

In 1981 the Canadian government announced its \$350 million special Industry and Labour Adjustment Program designed to alleviate the hardships caused by permanent large-scale industry dislocation. This will provide a series of

community-based measures for industrial restructuring and manpower adjustment. From time to time the Minister of Industry, Trade and Commerce may designate commercial firms other than those engaged in manufacturing or processing for assistance under this program.

Category 2

Programs Not Now Applicable to the Distributive Trades
(Criteria should be broadened to include the distributive trades.)

Enterprise Development Program (EDP)

The objective of the Enterprise Development Program (EDP) is to encourage the growth of the manufacturing and processing sectors of Canadian industry by providing assistance to qualified companies to improve their viability and international competitiveness. It should be noted that the portion of the program related to innovation may allow distributors to qualify, but all publicity and advice given to the public indicate that this is a program for manufacturers only.

Institutional Assistance Program (IAP)

Financial support is provided to non-profit institutions offering specialized services to industry, or to fund activities or studies which foster industrial development in Canada. The program has three sections: institutions, scholarships and studies, and miscellaneous.

a) Business Institutes

Seed money is provided to industry associations, research institutes and so on, with terms and conditions which require financial self-sufficiency within a reasonable period of time.

b) Scholarships and Studies

Grants are provided for studies and scholarships and the development of courses in areas where gaps in knowledge or deficiencies in the managerial or technological capabilities of certain sectors have been identified.

c) Miscellaneous

Funds are provided to cover the unrecovered costs of a seminar or conference which will encourage industrial or trade development: non-profit organizations or individuals responsible for organizing a conference or seminar, including those which disseminate scientific or technical information and information on the management of technological innovation and entrepreneurship. NOTE: This component of the program is applicable to the distributive trades.

Business Councils

A business council coordinates volunteer specialist resources made available to it by the area's larger business enterprises. These volunteer consultants are then made available to small manufacturers at a nominal fee that partially offsets the council's operating costs. The business council thus enables small manufacturers to obtain the advice of specialists familiar with the "state of the art" as it relates to a variety of problems encountered by small manufacturers.

Microelectronics Support Program (MSP)

The overall objective of the Microelectronics Support Program (MSP) is to encourage the application of microelectronics to all sectors of Canada's industry. The thrust of the program is to encourage manufacturers to obtain the potential benefits of productivity and competitiveness that the application of microelectronics to their products and operation can provide.

Industry Energy Research and Development Program (IERD)

The IERD program encourages research and development of new and improved processes and equipment that will reduce energy consumption in industry and ensure the widest possible use of this technology. The program is part of a larger joint industry/government conservation program coordinated by the federal Department of Energy, Mines and Resources.

Recommendation 7

That the distributive trades be made fully eligible to participate in all the programs under Category 2, and problems of applicability be overcome where found in Category 1. Special attention should then be paid to changing the publicity on these programs to reflect the new situation.

Recommendation 8

That a thorough examination of all federal and provincial programs that might be useful to the distributive trades be coordinated by the Distribution Services Branch of ITC, and that resources be made available for this purpose.

MARKET CHANNEL LINKS

Export Involvement

If Canada is to improve its balance of trade and maintain its standard of living, the country's export performance must be improved. This will require a greater emphasis on export by all sectors of the economy and a better understanding and use of all potential Canadian contributors to better export performance. The distributive trades need and deserve more recognition from government of their potential contribution to Canada's export efforts, especially in the area of semi-processed or finished consumer goods.

The government's efforts to increase Canada's export performance is characterized by its tendency to think mainly in terms of manufacturers or primary producers. However, several thousand firms in the distributive trades now play an important part in Canada's export efforts; their role needs to be recognized and developed. Similarly, the export of services, another rapidly developing field of endeavour for the distributive trades, has not been taken into consideration in government policies.

Opportunities exist for the distributive trades to assist in increasing Canada's exports of manufactured items. While a number of Canadian-based manufacturers are successful exporters it is also true that myriad small to medium-sized manufacturers, many with international marketable items, are not. This situation could be improved by encouraging such companies to use distributive trades exporters which have international marketing experience as the appropriate export vehicle.

The distributive trades are particularly suited to supplying markets where small quantities of a large number of items are required. Large manufacturers may not find such small markets economically viable, and small manufacturers with limited volume or lines do not have the capacity to effect market penetration. Conversely, in large markets such as the U.S., Japan or the EEC, small manufacturers can find excellent market opportunities, but need the help and expertise of "middlemen" to establish themselves.

Recommendation 9

The federal government should focus greater attention on involving the distributive trades (trading houses, wholesalers, brokers and agents, retailers and franchisors) in increasing Canadian

exports of products and services. This should include identification and development of the role or contribution that the various elements of the distributive trades can make in this regard. With this knowledge established, normal government policies and programs to encourage export can be applied.

Recommendation 10

Because of the lack of detailed information on the export performance of the distributive trades, and the tendency of government and manufacturers not to take advantage of their export expertise, the Committee recommends that:

- a) the scope of such programs as the Business Opportunities Sourcing System (BOSS) be broadened to include all components of the distributive trades that are involved in international trade;
- b) Statistics Canada merchandising surveys and other government information sources be expanded to include more information on export sales and international expansion activities of the distributive trades;
- c) both industry associations and government officials actively encourage the distributive trades to become involved in the export arena.

Recommendation 11

The recommendations made by the Honourable Mr. Justice H.F. Gibson in regard to the Canadian Dairy Commission's dealings with private sector exporters should be adopted for all marketing boards or government-sponsored agencies such as Crown corporations. The thrust of these recommendations is that government-sponsored agencies should refrain from exclusionary acts related to pricing, supplies and the ability of the private trades to deal directly with foreign buyers; the need to keep private traders informed on all aspects of export subsidies and other matters of concern to them was also emphasized. The full text of these recommendations is contained in Appendix 4.

Recommendation 12

Because of the lack of people in Canada who are trained or experienced in exporting, the Committee urges that education in international trade be actively encouraged. To assist in this effort, it recommends that:

- a) a directory be published identifying colleges or universities that offer courses in international trade;
- b) the above identified educational facilities be supplied with information about trading house capabilities and functions;
- c) an examination be made of the export training needs of distributive trades exporters;
- d) the federal government be encouraged to aid provinces to expand and develop educational curricula that will include such training.

Recommendation 13

Because some food products destined for the export market do not always receive adequate inspection, problems that should have been identified prior to shipment are often not discovered until merchandise is received by the foreign buyer. This occurs frequently enough to damage Canada's trading reputation. It is therefore recommended that:

- a) government and industry place greater priority on ensuring that food products for export are properly inspected and handled;
- b) inspection should take place at the time of shipment and the export certificate should include a detailed explanation of what was inspected (what codes, how much);
- c) if it is determined that a problem has occurred because of inadequate inspection, then the government should be held accountable; inadequate handling should

be alleviated by government/industry programs.

Recommendation 14

Trade commissioners should be encouraged to provide prompt information to Canadian exporters on the reliability of overseas buyers. This would include such things as financial or credit information, size of company, and so on. To this end, the Trade Commissioner Service should make itself aware of the possibilities inherent in using the distributive trades as an export market channel.

Recommendation 15

The Export Development Corporation's insurance policies should be modified to permit greater flexibility on the part of exporters in specifying coverage, including recognition of the special needs of trading houses and other components of the distributive trades.

Recommendation 16

The concept of trading houses is not as well understood in Canada as in some other countries. Government efforts to support the sector in promoting a better understanding of the role of trading houses should be encouraged.

Recommendation 17

In addition, the Committee supports and recommends continuance of current government efforts to develop a better system of rewards for exporters through such means as tax incentives and official recognition through awards, plaques or publicity.

Recommendation 18

The Committee supports the recommendations of the Export Promotion Review Committee's Report (the Hatch Report), with the proviso that trading houses and other distributive trades businesses be recognized as major export players. The Committee also applauds ITC and the federal government for acting in such a positive manner on this report. (See Appendix 5.)

Import Policy

Over the past decade, many Canadian manufacturers have faced increasing competition from products manufactured in foreign countries. In some cases, particularly in the apparel and footwear sectors, these imported products captured a significant portion of the market because they were perceived to offer better value to Canadian consumers.

After studying the problem, the federal government, fearful that a continuing high volume of imported goods would be detrimental to the economic wellbeing of the manufacturing sectors, introduced extraordinary measures of protection by means of programs limiting the quantities that could be imported into Canada.

Unfortunately, during the deliberations (perhaps because of the format of the inquiries) inadequate consideration was given to interaction between the manufacturing and distributing sectors and the effects measures which disrupted the normal flow of goods would have on the members of the distributive trades and Canadian consumers. The fact and method of implementation adversely affected the ability of the distributive trades to meet the demand of their customers, increased the cost of doing business and, in some cases, even caused a decline in sales volume. These factors, obviously, have had a negative effect on profitability, employment and expansion within the retail sector.

One example of a process which gives inadequate consideration to the effect of special measures of protection (in this case, to the manufacturing sector) on the economy as a whole is the method by which the Textile and Clothing Board reaches its recommendations and government implements policy based on these proposals and government's reaction to it. In 1976, the Textile and Clothing Board examined the market share of domestic producers and employment trends over the preceding ten years. It paid only cursory attention to the marketing reasons for the shifts which occurred and to the needs of Canadian consumers and retailers. As a result, recommendations were made to the Minister of Industry, Trade and Commerce that bilateral agreements be negotiated with Canada's major trading partners, principally in the Pacific Rim, who were perceived to be injuring the Canadian manufacturing industry. Domestic producers were encouraged to strengthen and upgrade their operations. Unfortunately, it appeared, at least to those outside the agreements, that manufacturers diverted much of their energy from this process to instituting an extensive series of political negotiations aimed at ensuring maximum protection and funding for their

sector. The effect of this combination of events on Canadian importers, retailers and consumers was not given adequate consideration.

As a result, imports of lower-priced merchandise of a type generally purchased by lower-income families declined. Countries exporting to Canada traded up in the value of merchandise they were exporting. In addition, the quota itself became a commodity and acquired value. To some extent, even inefficient domestic producers were able to stay in business because of shortages in the marketplace. It is interesting to note that an unforeseen result of the trading up was that Canadian manufacturers producing goods at the mid-point of the marketplace faced increasing competition. One further element of the program was that quotas were, in some instances, placed on commodities not even produced in Canada.

Unfortunately, this restrictive trade policy did not have the desired results. The production sector continued to have problems and in 1980 the Textile and Clothing Board recommended bilateral protection for up to ten more years. Government is now in the process of negotiating new agreements for a five-year period and has also established the Canadian Industrial Renewal Board, which has a mandate to provide adjustment assistance of up to \$250 million. Within the footwear sector, similarly restrictive measures have been taken on the flow of imports into Canada. While it appears that results may have been slightly more beneficial than they were in the apparel sector, nonetheless, all of the distortions associated with this kind of trade policy appeared in the marketplace.

There is little doubt that the use of quotas and the restrictions placed thereby on the free operations of the marketplace have caused harm to the distributive trades and the Canadian consumer. We are faced with the situation in which the government, without full and complete knowledge, decides which sectors, or even entities within a sector, have the potential to become internationally competitive and so should receive assistance and which sub-sectors should be phased out. This process tends to ignore the availability of market intelligence within the distributive trades sector. Those organizations in the import and retail business that have shopped the markets of the world are aware of the availability of products worldwide, and the needs of both domestic and foreign markets. In the absence of a comprehensive analysis of the requirements, it is possible that the government will continue to encourage the manufacturing of commodities that are not readily marketable.

As a means of ensuring that future actions are appropriate to the continuance of a viable manufacturing sector, it is suggested that government reappraise the composition and mandate of the existing advisory committees which, because of lack of sufficient input from other sectors of the trade, tend to function as pressure groups. Government should, we believe, establish a new committee structure that would represent the entire industry with sector representation on an equal footing and include consumer interests. This would help de-politicize the issues to be dealt with and encourage the industry to attempt to solve its own problems.

In essence, the creation of an industry-wide committee, with a broad mandate to analyze trends and problems, would be a positive move forward and would allow the government to reduce, if not eliminate, the need for quota protection. By allowing industry, backed up with appropriate aid from government, to solve its own problems, there is a far greater possibility that solutions can be found that are acceptable and equitable to all parties.

Recommendation 19

As a general principle the Committee believes that government intervention in the marketplace should be reduced wherever possible and no import restrictions of a special nature be imposed except those that recognize the tariff agreements under GATT or other special international agreements.

The Committee nevertheless realizes that special trade policy action may have to be taken where damage to a sector is clearly in evidence. It strongly urges, however, that damage be assessed on an industry-wide basis and that trade restrictions be struck at a level that has an overall industry benefit. The Committee therefore recommends that:

The total industry - suppliers, manufacturers, wholesalers, importers, retailers and representatives from all employment sectors - be involved in assessing the impact of trade restrictions on an ongoing basis through a representative committee; this sectoral committee should also include a consumer representative. The sectoral committee should assist in assessing problems, advise on sectoral trends and issues, recommend policy options, and advise on all aspects

of buyer/supplier relationships in a way that least disrupts the marketplace.

Recommendation 20

Monetary restructuring and adjustment programs such as the recently created Canadian Industrial Renewal Board should be established to deal with any problems that occur as the result of a special trade policy position. As these problems can occur in any sub-sector within the industry, this concept would apply to all sectors where import restrictions are being discussed, but only on an industry-wide, not a sector-specific, basis.

Recommendation 21

If the committee identified in Recommendation 19 ascertains that import quotas are required, this decision should be accompanied by a schedule under which the quotas would be progressively relaxed. This would then be made public and adhered to by all parties. This kind of trade policy should also be accompanied by a program of domestic restructuring, with these two dimensions being closely linked together. The nature of this link will ensure that maximum funding for assistance is made available at the time of maximum protection and that both will reduce at equal rates. This quota reduction schedule should be clearly defined and all industry sector representatives express commitment to it.

Recommendation 22

When quotas restricting import volumes are announced, the sectors to which these quotas apply should be monitored to determine their progress towards achieving the objectives for which the quota was designed. This monitoring process should be performed by government and information on it made available to the industry committee specified in Recommendation 19. This process will help draw attention to sub-sectors not taking advantage of restructuring programs, thus making it possible to identify problems quickly. If the sub-sector in question is not willing to move towards the internationally competitive position that the program is designed to help it achieve, support and protection should be immediately withdrawn.

Recommendation 23

Any special trade policy put in place to restrict the volume of imports into the country should be drawn up on the advice of the aforementioned committee; such policy should offer the greatest degree of flexibility to importers (see Recommendation 19): the ability to move from country to country, from category to category, from season to season and from size range to size range. This stress on flexibility will help eliminate quota premiums being levied in exporting countries. Policy should be so structured to preserve the flexibility of the buyer in the international marketplace, thus ensuring that consumers' needs are satisfied.

Recommendation 24

Domestic restructuring programs designed to enable producers to become internationally competitive must stress and give credit for exports and export efforts undertaken by the domestic producer. An analysis of the marketing practices of firms in this area would help ensure that products are competitive in style, quality and price and are promoted appropriately.

Recommendation 25

The Minister's Advisory Panel on Textiles and Clothing is judged to represent primarily a consensus of the manufacturing sector. It should therefore be replaced with a body representative of the clothing industry. This body should be similar in nature and function to the National Footwear Conference of Canada.

Consumer Protection

A large body of both federal and provincial legislation pertaining directly to consumer information and protection has appeared in Canada over the last ten years. There are more than 150 federal, provincial and territorial statutes, ordinances and regulations relating to the field of product safety law in Canada. The list is even bigger when such disparate items as broadcasting, transportation, and consumer credit are included. These regulations have had a great impact on the work of the distributive trades.

The constitutional problem is probably the biggest complicating factor. Neither level of government in Canada has exclusive legislative jurisdiction, whether the scope of consumer protection is limited to consumer credit transaction or is extended by giving the term "consumer protection" a broader and more liberal interpretation to include product quality, warranties, labelling, merchandising practices and advertising. This results in an extraordinarily large number of pieces of legislation that are by no means uniform. This lack of uniformity seems to be based upon political, social and economic disagreements about the method of approaching and solving the problem.

In many instances the differences between various legislative measures are not large, but for the distributive trades that carry on operations in more than one province, even slight differences make it necessary to have different forms and operating procedures for each province with resulting increases in operating costs.

The distributive trades are of the opinion that the Canadian consumer would benefit from a greater commonality in the field of consumer protection. The mobility of Canadian citizens makes uniformity of provincial consumer laws a necessity if they are to properly understand their rights and obligations as Canadian consumers. The present laws are a burden to the distributive trades and create disincentives to their expansion across the country and the provision of the services much needed by the Canadian consumer. The uniformity of consumer protection laws will help reduce costs, thus ultimately reducing the cost of goods and services to the consumer.

Recommendation 26

All provincial and federal regulations covering consumer protection should be summarized and collected within one publication.

Recommendation 27

A federal-provincial task force should be created with the aim of removing discrepancies and establishing a common standard for consumer protection.

Marketing Boards

Government policy has often been developed in response to particular objectives or specific pressures from special-

interest groups. In some cases, such policy has interfered with open-market conditions and restricted the distributive trades' ability to market products at reasonable prices to consumers. Such a situation has developed through the federal powers given to marketing boards for eggs, turkeys, broilers and industrial milk. These supply-management bodies have maintained artificially high prices for the benefit of Canadian farmers while ignoring the costs to manufacturers, distributors and consumers.

The Committee wishes to make a clear distinction between these boards and those that do not have supply-management powers. Many boards are beneficial to farmers through the organization of market conditions and the encouragement of sound marketing and production practices in the commodity area they serve. Such actions provide stability in the marketplace, but do not have the aspects of rigidity and artificial pricing that federal boards have.

Thirty-nine of the 102 provincial marketing boards and all federal boards have supply-management powers that enable them to license producers, regulate the quantity of production through quotas, and set prices either unilaterally or through negotiated contracts between producers and buyers.

The Economic Council's May 1981 report concluded that the supply-management aspects of marketing board operations added billions of dollars to consumers' food costs by inhibiting production, maintaining artificial scarcity, and establishing farm gate prices that could not be justified on economic grounds. The Council recommended "great caution" in the licensing of additional supply-management marketing boards, and called for production quotas to be relaxed over a five-to-ten-year period.

Over a third of all Canadian agricultural production is now subject to the supply-management process. This total could reach 60 per cent if present efforts to establish such marketing boards for beef, hogs and potatoes are successful.

The full impact of government policies with respect to supply-management marketing boards has been to:

- inhibit farm output through rigid enforcement of production quotas
- maintain artificially high consumer prices for Canadian agricultural products

- increase the cost of agricultural products to the Canadian food processing industry above prevailing world price levels
- depress earnings in the Canadian food processing industry, making it difficult to attract the needed re-investment for industry modernization and improvement
- imperil Canada's long-term goal of greater self-reliance in food.

One of the most objectionable aspects of the supply-management system of marketing boards is the maintenance of the quota system, which inhibits production by making the marketing of food illegal without a government licence. Quotas contribute nothing, by themselves, to the ability of a farmer to raise a product, yet the price that quotas command on the open market often acts as a barrier to the entry of new producers.

While supply-management policies may generate additional revenue to primary producers in the short term, the artificially high consumer prices lead to reduced consumption, and lessened world competitiveness, thereby restricting farm income in the long run.

The extra expenditures required of consumers because of supply-management policies in the broiler and egg industry alone are estimated to be \$76.5 million annually for broilers and \$55.8 million annually for eggs.

These supply-management policies in this single industry add approximately \$132 million a year to the food bill of Canadian consumers. Supply-management policies as a whole, which affect 35 per cent of all Canadian agricultural output, could run as high as \$1 billion a year.

Recommendation 28

Government should begin dismantling those marketing-board policies that unduly distort the relation between market and production. This restructuring process should ensure that:

- a) production cost formulas are not inflated by artificial costs;
- b) quota charges are gradually eliminated;
- c) production transfer policies are liberalized;

- d) production restrictions gradually reflect true market conditions;
- e) free movement of production across borders is encouraged, not discouraged; and
- f) an increasing emphasis be placed on marketing and coordination with distribution channels (both domestic and export).

DISTRIBUTION CHANNELS

Proposal for Uniform Franchise Legislation

The Uniform Law Section of the Uniform Law Conference of Canada agreed at its meeting of 20-29 August 1981 in Whitehorse that the Government of Alberta be asked to prepare, in cooperation with other jurisdictions that might wish to participate, a policy analysis of franchises and a draft Uniform Act based on its conclusions.

There are four distinct legislative approaches open:

1. Full disclosure by franchisors to prospective clients of information about the franchisor, his business, his experience, the terms of the agreement and other relevant information.*
2. Registration with a government office or agency together with disclosure requirements.
3. Regulation of all or certain substantive aspects of the agreement, especially its termination or renewal.
4. A combination of options 2 and 3.

The Distributive Trades Consultative Committee recommends that uniform franchise legislation enacted in Canada take the form of a disclosure-only regime. This view is based on the belief that a disclosure-only regime is the most cost-effective method of providing adequate protection to prospective franchisees, and will provide the most practical vehicle to ensure disclosure to prospective franchisees in Canada. While it is admitted that a disclosure-regulation regime may in some cases provide a higher degree of disclosure, its higher costs make it unattractive for governments.

A disclosure-registration regime, by definition, involves the review by appropriate government agencies of the disclosure documentation filed by the franchisor. Such a review involves numerous personnel at varying levels, whose purpose is to identify errors in the disclosure instrument or abuses of the franchise relationship as it pertains to the province in question, and deal with whatever concerns are

* In this proposal and recommendation, we have accepted the definitions for "franchisor" and "franchisee" outlined in the Franchise Act of Alberta.

made known by various other government agencies having authority in the province. The large number of government personnel involved in the review process greatly increases the costs of that procedure. In addition, the review process is, by its nature, lengthy; often weeks pass between the date of filing the disclosure documentation and the date of final registration. These increased costs in both time and money must be borne by the franchisor, and thus ultimately by the franchisee and the public at large. Such costs can only be justified if the review process itself is substantially instrumental in eliminating those abuses for which the disclosure-registration legislation has been enacted.

It is the view of the Distributive Trades Consultative Committee that the review process, by itself, contributes little to the elimination of the perceived abuses; rather, it is the requirement placed on the franchisor to provide the disclosure documentation that provides the most compelling reason not to abuse the franchise relationship. This results, in part, from the remedies provided to franchisees, which comprise some combination of rescission rights and rights to damages in the event of material misrepresentation or omission in the disclosure documentation; criminal sanctions against the franchisor and its senior management are also provided. The Committee believes that it is these remedies, and not the review process itself, that weigh most heavily with franchisors. These remedies are also, however, equally available under a disclosure-only regime, without the attendant costs associated with disclosure-registration. This is of particular importance to small Canadian franchisors and provincial administrations working under budgetary constraints. The disclosure-only regime is a self-policing mechanism virtually cost-free to government and the public.

Concerns are frequently voiced that, in a disclosure-only regime, a franchisee may not be in a financial position to bear the expense of enforcing his legal rights in the courts. It must be pointed out, however, that a franchisee would have to incur the same expenses under a disclosure-registration regime. In addition, it should be remembered that criminal sanctions may be provided in a disclosure-only regime.

The disclosure-registration regime relies heavily on the unfettered discretion of a government agency (customarily exercised by a single director), thus permitting the agency to dictate the terms on which consenting parties, acting on the basis of full disclosure, can agree to conduct their business relations. In the view of the Committee, this is entirely inappropriate. Given adequate disclosure, it is the prospective franchisee himself who is best qualified to

determine the adequacy of the contract into which he is about to enter. Indeed, this is the fundamental logic underlying the exemptions contained in existing provincial securities legislation.

In the view of the Committee, adequate disclosure is assured, in virtually all cases, whenever the result of a failure to provide adequate disclosure leaves the franchisor exposed to possible claims by franchisees for rescission or damages or criminal sanctions. The use of such remedies by franchisees strikes at the very foundations of the franchisor's system. If franchisees can successfully rescind their agreements, the position of the franchisor in the market is substantially affected.

In summary, the Committee believes that a disclosure-registration regime has but marginal benefits that cannot be supported, financially or otherwise, in light of the vastly increased costs to the public of providing and maintaining the review procedure.

It is the intention of the DTCC to submit the following proposals for consideration by the Alberta Government in formulating its draft Uniform Act.

Recommendation 29

Given the existence of legislation in Alberta and Quebec, the latter not yet in force, and the stated intentions of other provinces, the Distributive Trades Consultative Committee favours the development of a "model" franchise regulatory act by the Uniform Law Conference of Canada. This model act would then constitute a means of encouraging uniformity amongst those provinces that subsequently decide to enact legislation affecting franchising.

The legislative approach to be adopted should be the following: full disclosure by franchisors to prospective clients of information about the franchisor, his business, his experience, the terms of the agreement and other relevant information.

Set forth below is a list of matters the Committee believes should form the basic disclosure required of all franchisors. It should be noted that the recommended headings of disclosure closely parallel the disclosure required under the Uniform Franchise Offering Circular adopted by many states in the United States of America. Our objective is,

of course, uniformity throughout North America to facilitate greater access by Canadians to U.S. markets.

Items of Disclosure

1. The Franchisor
 - a) Name and trade names of the franchisor.
 - b) Principal business address.
 - c) Business form.
 - d) Description of franchised business.
 - e) Franchisor's business experience.
2. Identity and Business Experience of Persons Affiliated with the Franchisor Having Management Responsibilities
3. Litigation and Claims:
 - a) Proceedings involving fraud or other similar practices.
 - b) Proceedings involving violation of franchise- or business-practices laws.
 - c) Claims and investigations by government departments and/or agencies.
4. Bankruptcy:
 - a) Previous bankruptcies of the franchisor, over the last five years.
5. Initial Franchise Fees and Payments:
 - a) The initial franchise fee, method of calculation, manner of payment, use of application of fee and refundability.
 - b) Deposits and refundability.
6. Other Fees:
 - a) Royalties.
 - b) Service fees.
 - c) Training fees.
 - d) Lease payments.
 - e) Advertising fees.
 - f) Transfer fees.
 - g) Management fees.
 - h) Late payment fees.
 - i) Purchasing fees.

7. Franchisee's Initial Investment:

- a) Real property and leasehold improvements.
- b) Equipment, fixtures and other fixed assets.
- c) Opening inventory.
- d) Security deposits.
- e) Working capital.

8. Franchisee's Obligation to Purchase Materials or Products from Designated Suppliers or in Accordance with Specifications or Quality Standards:

- a) Obligations to purchase from designated suppliers.
- b) Obligations to purchase from suppliers approved by the franchisor.
- c) Obligations to purchase in accordance with the franchisor's specifications and quality standards.

9. Financing and Leasing Arrangements:

- a) Terms and conditions of financing and leasing arrangements offered by franchisor.
- b) Practice of franchisor in discounting notes or contracts.
- c) Financing placement fees received by franchisor.

10. Obligations of Franchisor:

- a) Pre-opening obligations.
- b) Obligations during operation of franchised business.
- c) Site-selection obligations.
- d) Training program.

11. Territorial Rights and Obligations:

- a) Exclusive territory, if any.
- b) Franchisor's right to establish franchised or company-owned units within the territory.
- c) Criteria, if any, for continuation of exclusivity of territory.

12. Trade Marks:

- a) Description of trade marks and registration particulars.
- b) Registered user obligations.
- c) Canadian or U.S. oppositions to or litigation involving the trade marks.

13. Continuing Obligation of Franchisee:

- a) Obligations regarding operation of the franchised business.
- b) Non-competition covenants.
- c) Restrictions as to goods and services offered.
- d) Obligations to maintain or upgrade the franchised premises.
- e) Obligations to conform to accounting or bookkeeping systems.
- f) Obligations to maintain insurance.
- g) Advertising obligations.
- h) Obligations regarding the forum of litigation with the franchisor.

14. Term, Renewal and Termination:

- a) Term of the agreement.
- b) Renewal rights.
- c) Termination rights of franchisor and franchisee.
- d) Obligations of franchisee after termination.

15. Franchisor's Rights of Repurchase/Final Settlement upon Termination of Franchise

Should the franchisor withdraw the franchise in accordance with the contract or should the franchisee relinquish the franchise under similar circumstances obligations must exist with respect to inventory, equipment, lease and goodwill.

16. Franchisee's Rights of Assignment.

17. Rights of Franchisee's Heirs to Continue the Franchised Business upon Death or Incapacity of the Franchisee

18. Earnings Claims:

- a) Rules regarding the use of potential earnings claims.
- b) Rules regarding the use of actual results.

19. Franchising and Business History of the Franchisor:

- a) Number of company wholly-owned outlets.
- b) Number of franchised outlets.

20. Financial Statements:

- a) Audited financial statements of the franchisor for each of the two (2) fiscal years preceding the date of the prospectus, consisting of a balance sheet and a statement of income, or, in the case of a private

company, attestation by banking references and outside auditors.

- b) Unaudited interim financial statements, if the audited financial statements are more than one hundred and eighty (180) days old.

21. Contracts to be Appended to Prospectus:

- a) Franchise agreement.
- b) Registered user agreement.
- c) Other material contracts.

22. Certificate of Full Disclosure

Electronic Merchandising

Telecommunication shopping is more than technological paraphernalia enabling revisions of buying habits. It represents a great leap beyond the conventional concept of retailing.

Concurrent with this change is the expansion of technological capability in retailing. This technology will play a central role in shaping retail competition, especially for mass-merchandised items. Mechanisms now exist for distributing almost any product direct from the point of production to the point of consumption. Serious problems remain, but they are not nearly as great as the problems that have already been solved.

Traditionally, stores have served as the primary distributors for retail products because consumers were accustomed to shopping there; few acceptable alternatives existed, and the value of consumers' money exceeded the value of their time. Nonstore retailing was hindered because of inadequate systems for merchandise display, payment transfer, and purchase delivery.

These impediments to the growth of telecommunication shopping appear to be rapidly diminishing - and just at the time when increased energy costs are giving North Americans an incentive to cut down on trips to retail centres. Several new methods of choosing, buying, and obtaining merchandise are now in various stages of development. These methods include specialty catalogues, catalogue showrooms, electronic funds-transfer systems, interactive in-home television linkages, and electronic "mail" delivery. Significant as they are, however, these methods make up only part of the picture.

Experts agree that teleshopping will have a major impact on retailers when it arrives. When this will be, no one knows. Some systems, albeit small ones, already exist. Comp U Star is America's first electronic shop-at-home service for users of home computers and subscribers to interactive cable television services. With a membership in Comp U Star, consumers anywhere in the country can use the Comp U Star data-base to get information on product features, current model numbers, and discount prices for over 30,000 products for the home - all from the convenience of their own house or office. In addition to this information, consumers can arrange to purchase products such as appliances, home entertainment equipment, cameras, watches, fine china, sterling, and crystal.

The key to adapting to changing technology is preparedness. More information is required on the impact of electronic merchandising. Such an opportunity is available to retailers who wish to take part in the Telidon field trials.

To better prepare the retailing community, research and analysis needs to be done to assess the impact of teleshopping on shopping patterns where competitors are no longer next door, but 300 miles away, and to study the advent of retail consumer associations formed to do electronic price shopping. Figures to assess the growth of teleshopping are difficult to find, but experts state that nonstore annual sales are expanding from three to five times faster than those of traditional store outlets.

Corporations involved with retailing in any way cannot afford to ignore developments in electronic merchandising, nor can they wait for the future to unfold before formulating appropriate strategies. The challenge to management in all these retail-related industries is to grasp the dimensions of the coming telecommunication revolution now. Soon it will be time to participate in that revolution.

Recommendation 30

A study be undertaken by the proposed Distributive Trades Advisory Committee (see Recommendation 1) to assess the impact of electronic merchandising on the distribution system.

Recommendation 31

Retailers should actively participate in the Telidon field trials on teleshopping.

Shopping-Centre Rechargeable Expenses for Common Areas

A major element in determining retailers' location strategy has for the past thirty years increasingly been the growth of shopping centres in Canada. These have proliferated to the extent that they now are the dominant factor in location selection; the retailer's location strategy is to a great extent determined by the developers' expansion programs and their decisions on location.

The costs that must be borne by the retailer in order to locate in a shopping centre take two forms over which retailers have little control. These are:

1. Rental charge according to square footage as provided for in his lease. This charge, while negotiable, is established by the developer in such a manner as to provide an appropriate return on his investment.
2. A common-area expense (usually referred to as "rechargeable expenses"), which, according to recent practice, includes all the increasing costs of maintaining, cleaning, keeping secure and repairing common areas of the mall, including parking areas and associated landscaping, as well as the provision of heating and ventilation.

The combined effects of continued inflation and the wide-spread "aging" of the early malls is making this latter charge an increasingly onerous burden. These cost increases bear heavily on a retailer's ability to make a profit - but he has no means of controlling them; he does not determine how the money will be spent, although he pays the bills.

The Retail Council of Canada's Recharges Committee has been conducting research into this industry-wide problem, and has succeeded in isolating and analyzing, for the first time, the elements that enter into each area of rechargeable expenses.

The Committee is working with the development community in a cooperative fashion to increase understanding of the retailers' concerns in this area and assist landlords in ascertaining those methods of shopping-centre management that are most effective in controlling rechargeable expenses, while meeting the common merchandising goals of centre management and tenant retailers.

When the Committee has completed Phase II of this project, retailers will have at their disposal not only vastly improved tools for analyzing their rechargeable

expenses and isolating anomalies, but also a definition of what does and does not constitute common-area maintenance from a retailer's point of view and suggested retail-protection clauses to attach to their offers to lease. In addition, through continued cooperation and negotiation with landlords and continued publicity of the goals and progress of the Recharges Committee, the entire industry will become much more conscious of the impact of rechargeable expenses on retailers' operating profits, and both landlords and retailers will continuously monitor these costs with a view to controlling them within reasonable limits.

To reinforce the approach of continued cooperation and negotiation between the developers/landlords and the retailers, the Distributive Trades Consultative Committee is of the opinion that both sides in this issue could benefit from the objective analysis of the Canadian Institute of Chartered Accountants and be guided by its recommendation. To this end, we have asked the Institute (see Appendix 6) first, to study the possibility of setting accounting standards for calculations of shopping-centre rechargeable expenses for common areas (including specific charges levied on fast-food areas) and their disclosure, and second, to develop a multi-user financial report for the rechargeable expenses of common areas.

Recommendation 32

Landlords should be encouraged to continue to derive their return on investment solely from the payment of rental charges and not from rechargeable expenses.

Recommendation 33

Trade associations should seek the cooperation of landlord organizations in the development of guidelines for the control and fair allocation of rechargeable expenses between landlords and their tenants.

Recommendation 34

The Canadian Institute of Chartered Accountants should be requested to provide guidance and assistance in:

- a) reviewing the model accounting standards for calculating disclosure of rechargeable expenses for common areas that have been developed for the Retail Council of Canada by Price Waterhouse Associates, a national member firm of the Institute;

- b) establishing such standards in a form acceptable to the Institute;
- c) encouraging the use of such standards.

The possibility of developing guidelines for the calculation of rechargeable expenses for fast-food common areas should also be explored.

Recommendation 35

When the Retail Council's Committee on Recharges has completed the suggested clauses dealing with recharges for inclusion in leases, these clauses should be made available to all retailers and landlords for their consideration.

Standardized Packaging

The dimensions of primary packages are now specified by market advertising interests. Shipping case or carton sizes are based on these given package sizes, order quantities and the greatest number of cartons that can fit on a selected pallet. Under these conditions space voids of up to 500 mm are created within a unit load. This causes inefficiencies in the use of storage and transportation space.

The rapidly increasing costs of energy, transportation, storage and labour could be reduced by standardizing transport packaging unit load sizes and case sizes.

The approach currently being adopted by Europe is the standardization of unit-load sizes to make the best use of transport and storage space. To this end, the smallest possible number of modular carton sizes are being used. Under this scheme, primary package sizes are designed to fit exactly the transportation space available.

The benefits of this modular packaging system are twofold:

1. Material handling operations using this system:
 - a) facilitate the use of automated warehouse sorting operations, b) permit the use of palletless vehicle-loading with clamp trucks. Where pallets are used, 12 per cent more space is provided; where pallets are not used, vehicle hand-loading time is reduced by approximately ten man hours.

2. Retail stores save floor space through the standardization of shelf and display systems.

Problems facing rationalization of the present system include:

- existing international container standards
- differences in the size of Canadian and United States road vehicles
- current investments in industry storage and pallet systems and associated conversion costs
- the dominance of marketing interests over those of distribution in specifying package sizes
- the absence of any national organization to tackle these problems, given that costs and benefits would accrue to different sectors.

Factors favouring the evaluation of such a system include:

- the energy crisis
- the stated desire for modular packages by the trade associations concerned
- the introduction of new domestic-container sizes by Canadian Pacific Railway
- metric package conversion
- the establishment of the Canadian Standards Association's Committee on Materials Handling and Distribution.

Recommendation 36

In the interest of distribution efficiency, procedures should be instituted with manufacturers, suppliers and the Canadian Standards Association to standardize case sizes. The standardization of dimensions should be such that packages will fit as unit loads on transportation pallets of standard dimensions.

Census of Merchandising

One of the recommendations of the Distributive Trades Consultative Committee's Interim Report requested improved statistical data gathering and analyses by Statistics Canada. The Committee also asked for the reversal of the decision to cancel the 1981 Census of Merchandising.

In response, the Minister, the Honourable Herb Gray, stated that the business community had asked that government reduce the amount of information it requires of business firms. The Minister stated that he would respond positively to the request of the Distributive Trades Consultative Committee if it were demonstrated that the entire industry supported such a census.

The Distributive Trades Consultative Committee believes that the industry itself should promote acceptance of the Census of Merchandising. All associations in the distribution-services sector should be asked for their support. Evidence of this support should then be sent to the Minister responsible for Statistics Canada and to the Minister of Industry, Trade and Commerce, asking that the Census of Merchandising be undertaken.

Recommendation 37

The proposed continuing Distributive Trades Advisory Committee (which this Committee has recommended be established) should promote the acceptance of the Census of Merchandising by asking for the support of associations (which number between 50 and 60) and their members in the distribution-services sector.

Physical Distribution

Air cargo as an alternative to other transportation modes is often overlooked by retailers and wholesalers. Yet studies have shown that air transportation is cost-competitive for small distances/light weight and for long distances/heavy weight. Air Canada Cargo has available, at no charge, a total distribution-system research and computer analysis program for retailers and distributors who wish to do a cost analysis of their total distribution. Retailers and wholesalers concerned about rising energy and fuel costs in the transportation of goods from supplier to retailer and from retailer to consumer would be well-advised to give this program closer study. High interest levels have demanded

strict inventory control. The savings that result from this closer control may, at times, offset the higher costs of air freight.

Recommendation 38

Retailers and wholesalers should pay particular attention to the transportation alternative provided by air cargo. They should also inform themselves about the distribution-system research program available from Air Canada.

Productivity in the Retail and Wholesale Sectors

The growth of electronic data and communications systems provides great potential for technological and managerial change in retailing and wholesaling. Pressure for growth in real wages has hit the labour-intensive service sector heavily at the same time. This has forced competitive managers to concentrate on reducing costs - in particular the cost of their labour input.

In wholesaling, computerization and automation are used increasingly to handle a more varied product mix. Growth in sales may maintain job creation, but it is doing so at a decreasing rate. As wholesalers become more efficient, they may capture some distribution functions from manufacturers and retailers, thus reducing labour requirements in those sectors.

Technical advances in the retail sector are just beginning to affect employment. Full scanning systems coupled with electronic cash registers will enhance efficiency greatly and eliminate some job requirements. This is already taking place in the food sub-sector, which has gone further with labour-saving strategies than other sub-sectors. Because of a basic levelling in the growth of consumer demand, caused by slow growth in population and consumer spending, the distributive trades are reassessing their productivity and labour requirements. Efforts to raise productivity and cut costs are now the central themes in corporate strategies, and investment in technology rather than space is being intensified.

The large number of firms in this sector makes the transition to productive maturity a long one; this factor is potentially dangerous for smaller businesses that cannot adapt quickly, and gives large corporations a competitive advantage.

It is generally predicted that as the effects of the baby boom decrease the latter half of the 1980s will see labour shortages in the unskilled categories. Even now there are labour shortages in one or two sub-sectors, for example, in fast-food outlets. By increasing their productivity, the distributive trades could maintain services to the Canadian public when the labour shortages projected for the latter 1980s become acute.

Efforts are already underway in the Department of Industry, Trade and Commerce to define productivity and develop productivity measurements in the retail and wholesale sectors. Once this is accomplished, productivity measurements can be applied to the various sub-sectors with the objective of assisting individual firms attain certain productivity norms.

The increased use of advanced technology by employers in the distributive trades (computer hardware and so on) could give rise to a substantial demand for electronic devices. This would be reflected in accelerated industrial development in the manufacturing sector.

Recommendation 39

Given the continuing rise in costs and consumer resistance to price rises, the industry fully supports the efforts of the federal government in its studies on measuring productivity and efficiency in the retail sector and asks that consideration be given to a similar study for the wholesale sector.

Sunday and Extended Store Hour Openings

Under provincial legislation, municipalities are empowered to determine whether to allow stores of particular types to open on Sundays; these decisions are usually based on the results of a referendum.

During the 1970s, many municipalities passed legislation allowing Sunday openings. A patch-work effect resulted, whereby some stores were open on Sundays, while others across the street in another municipality were not. These factors have combined to heat up the debate in recent years.

Neither of the arguments for or against Sunday opening and extended hours is well supported by factual evidence. Modification of store hours to align them more closely with current working patterns might significantly reduce the

desire or need for Sunday shopping if, indeed, it exists. Such modification (which does not necessarily mean an increase) of store hours would require improved productivity from both plant and personnel.

All arguments for and against Sunday openings are secondary to or derive from the main discussion of whether Sundays openings generate new sales. Again, there is insufficient evidence to support either position. One element that might affect the volume of Sunday sales is tourist shopping. In certain areas of some municipalities designated as tourist zones, stores are allowed to remain open on Sundays. It is unknown, however, whether the level of activity generated by tourists would in itself be sufficient to provide for profitable Sunday openings.

In summary, the arguments for or against Sunday openings have not been proven. What is certain is that the opening of a store for a seventh day would put an increased and perhaps onerous burden on the owner-operated enterprise in which procedures and controls have not been established to allow for the hiring of help for an additional day.

Recommendation 40

The proposed continuing Distributive Trades Advisory Committee (which this Committee recommends be established) should study the profitability to the entire industry of Sunday openings and extended store hours. This study should seek to establish:

- a) whether modification of store hours throughout the week (with and/or without Sunday opening) might allow a reduction of total store hours without loss of sales volume;
- b) whether modified store hours, both during the week or on Sunday, would result in a profitable increase in sales volume;
- c) The socio-economic impact of additional hours.

The study should consider a variety of types of store, and contain an assessment of constraints imposed by shopping-centre leases.

HUMAN RESOURCES

There are two approaches that can be taken by firms in either the manufacturing or service economies to achieve improved productivity - the application of more efficient processes, technology or equipment, and better employee training and motivation. While the relationship between the two is recognized, this section is concerned with the latter and contains recommendations for action that governments, business and labour can implement to attain higher productivity while improving the quality of work life for the employee.

Manpower policy, in the view of the 1978 Tier II Committee, "should endeavour not only to ensure industry with a labour force necessary to meet its needs, but also aim at providing the individual Canadian worker with opportunities to improve his or her level of skill, encourage mobility, and enable the individual to have a more fulfilling and satisfying work experience." The Distributive Trades Consultative Committee supports this view and believes that through cooperative planning among business, labour and various levels of government, these policy objectives can be achieved in the retail and wholesale sector to a significantly greater extent than is currently the case.

It is the hope of the Committee that the recommendations that follow will assist governments in their endeavour to achieve the broad manpower policy objectives set out by the Tier II Committee. These recommendations are discussed under the headings: training, labour relations, improved information flow, and other issues.

Training: Matching Training Programs to Training Needs

In any organization, whether in the service or manufacturing sectors and whether large, medium or small in terms of volume of business, the employee as an individual or member of the "team" ranks high in terms of his/her contribution to the productivity and efficiency of the enterprise. For the retail and wholesale trades, as with all sectors, growth, improved productivity and job satisfaction are closely linked to the availability and effective use of training programs at all levels of the organization - from stock-clerk through to manager. Success is generally attributable to the quality of the training available.

While all firms in the distributive trades may be said to recognize the role and benefits of training to their

operation, most of the firms in this sector are too small (average size: eight employees) to justify the development and provision of in-house training programs. As a consequence, they must rely on external resources, including seminars and training courses and programs available from provincial and federal governments and trade associations, to meet their needs. Even when such courses are available, however, they are not equally available to firms in all regions, or the industry is not sufficiently aware of their existence.

The Committee has been advised that during the fiscal year 80/81, the federal government, through the Canada Employment and Immigration Commission (CEIC), disbursed about \$5.5 million under the Canadian Manpower Training and Canadian Manpower Industrial Training programs for the training of personnel in occupations designated or classified as being in the retail and wholesale sectors (see Appendix 7).

The Committee wishes to make three principal observations with respect to this training. First, an understanding of the diverse character of the distributive trades makes it clear that human resource development programs must be tailored to "fit" more precisely the industry's special needs. On the basis of information available to this Committee, it appears that while the amount of federal funding is significant, the actual training available does not adequately reflect the needs of the sector. Specifically, the Committee notes that of the \$5.5 million directed to the training of personnel in retail and wholesale occupations, about 80 per cent was directed to skills such as accounting, partsmen, meat cutting, and baking, which, while applicable to the trade, do not completely represent the more familiar retail and wholesale "core" occupations such as buyers, salespersons and cashiers. Only 20 per cent was spent on these core occupations.

Second, the Committee has observed that little of this training appears to be directed to the basic management skills generally required by first-line supervisory employees, especially those skills that relate to the handling of personnel matters or labour relations issues. Finally, it is the opinion of the Committee that provincial governments and CEIC regional management exhibit a certain inflexibility toward industry recommendations on training and development courses. This is due in large part, it is believed, to a lack of understanding of the economic importance and diverse character of the industry on the part of governments at all levels.

Existing federal and provincial involvement in development and training programs for the distributive trades demonstrates their willingness to assume responsibility in this area. The questionable effectiveness of the government initiatives so far appears to be the result, at least partially, of the industry's inability to influence governments' awareness of the economic importance of the sector or to communicate effectively its training and development needs. If government were to study, together with business and labour, the industry's training and development requirements before putting programs into effect, this cooperative approach should, in future, avoid the present unfortunate results, which include less than optimum performance for the industry and the economy.

Recommendation 41

In consideration of the significant contribution of the distributive trades to the economy, the substantial funding by the government to employee training and development, and the Committee's concern that available funds could be used more effectively if given a more accurate fit between training availability and the industry's needs, and, taking account of the diverse character of the industry, its geographical distribution, variation in business practices, and so on, the Committee recommends that industry associations, either collectively or individually, seek human resource planning agreements with the Canada Employment and Immigration Commission. (Appendix 8 contains an example of such a proposed agreement.) In general, the objectives of such agreements will be to:

- identify and catalogue the development and training needs of the distributive trades sector
- undertake a detailed audit of available development and training programs
- determine the applicability and suitability of these programs to the needs of the sector so as to identify shortcomings and gaps in the array of available programs.

Recommendation 42

Where human resource development agreements are to be signed, consideration should be given to the desirability of having the Minister of Industry,

Trade and Commerce and/or the Minister of State for Small Business and Tourism co-sign these agreements as appropriate.

Recommendation 43

The Committee further recommends that funds be made available to industry associations to assist in covering the development costs of new courses, training aids and seminars to meet identified needs.

Recommendation 44

It is recommended that CEIC and provincial governments undertake a review of the effectiveness of existing training programs to determine if trainees are, as a result, entering the retail and wholesale occupations for which they have been prepared.

Training: Management Training

In any business, the quality of management is one of the most critical factors in the survival and success of the firm, regardless of size. Inadequate management practices can be found in both large and small firms, but it is generally the smaller independent firms in the retail and wholesale sector whose inability to survive or grow can be directly traced to the insufficient availability of management expertise.

The need for this expertise becomes all the more crucial as high interest rates continue to have a serious impact on the level of economic activity, and more specifically on operating costs. To meet these higher costs, retail and wholesale firms are seeking improved efficiency in various ways, including the search for better management.

Few owners/managers of small firms are able to institute or maintain in-house training or employ outside professionals to acquire the "first line supervisory" skills necessary to develop and apply better management techniques. In the distributive trades, the term "first line supervision" is generally taken to include varying degrees of ability in all or some combination of the following skills: cash management and planning; inventory control; pricing policy; personnel management/staffing; merchandising; general accounting/record keeping; advertising and promotion; store layout and appearance; security. (More detailed information on these skills and their importance to improved efficiency is contained in Appendix 9).

Many small firms do not have adequately trained personnel with these managerial first line supervisory skills available within their own organization. Even the proprietor may lack some of these skills. Moreover, unlike large organizations that have the resources to develop in-house training, small store managers are often unable to do this; neither are they always aware of how to tap external sources, if they exist.

Although CEIC is spending approximately \$5.5 million for the training of skills identified as being in retail and wholesale-related occupations, little of this funding is for the training of first line supervisors (Appendix 8). The challenge before the industry and government is clear. Resources must be made available to develop programs that will improve performance; and programs must be based on the needs of the industry, with particular attention to its unique structure. The Committee therefore concludes that a critical need exists for assistance in the development and distribution of this kind of training to individual small independently operated stores as well as to store or department store managers of the larger organizations.

Recommendation 45

In respect of the Committee's concern about the need for management expertise by retail and wholesale organizations, particularly in small firms and at the first line supervisory level, it is recommended that the issue of management training be addressed in the context of the proposed Human Resources Planning Agreement.

Training: Better Awareness of Available Training Programs and Procedures

Many firms in the retail and wholesale trades, particularly small store operators, are not sufficiently informed about federal and provincial training programs applicable to their business.

Training programs are useful only if they are delivered to the target audience. At present, many people are unaware of the purpose and availability of federal and provincial manpower training support. It is the concern of the Committee that even if more appropriate training programs were to be developed through the use of human resources planning agreements, they would still be ineffective unless they were made available on a broad geographic basis with

those most in need not only being made aware of their availability, but also being actively encouraged to participate.

Recommendation 46

It is recommended that CEIC and industry associations undertake cooperatively to prepare and deliver information packages outlining the array and purpose of training programs relevant to the distributive trades, bearing in mind trade publications as an efficient delivery vehicle for such information.

Labour Relations

In the distributive trades, perhaps to a greater extent than in any other sector, employees are a firm's most valuable resource. While this is widely recognized, there is still room for improvement in labour relations. The Committee wishes to note that although labour relations are generally conducted on a bipartite business/labour basis, government legislation establishes boundaries within which these activities take place. For the purpose of this document, the term "labour relations" is taken to be synonymous with "employee relations".

The Committee endorses the recognition by employers that organized labour is an integral part of Canadian society and has a vital role to play in the economic and social life of the country.

It endorses recognition by labour that the prosperity of the distributive trades is vital to the wellbeing of both employee and employer and that management and labour have responsibility in improving the workers' knowledge with respect to the economics of business, to ensure that industry and business remain viable, thereby ensuring employment in this sector.

The Committee recognizes that workers in the distributive trades, as in other industries, have the fundamental right to choose to form or join unions and to bargain collectively with their employers. The Committee also recognizes that the prime responsibility for healthy and progressive relations with labour, in both unionized and non-unionized situations, rests with management.

The Committee has noted the recommendation of the Tier II Committee which called for labour and business to enter

into a much more intensive and active discussion at all levels in order to seek out areas where agreement exists or may be possible and, where disagreement exists, to provide a better basis of understanding.

Recommendation 47

It is recommended that a committee on human resources be struck as a subcommittee of the proposed continuing Distributive Trades Advisory Committee and that there be labour representatives on both committees.

A principal mandate of the human resources subcommittee would be to examine the implications for labour relations of all issues coming before the proposed advisory body, such as productivity and technological changes. In addition, the proposed Distributive Trades Advisory Committee should address a number of concerns presented by the labour representative, including:

- hours of operation and work scheduling
- conditions of work, particularly for part-time employees
- high labour turnover rates
- employee safety and health.

If these and similar areas of concern are to be resolved, business and labour should take steps to put in place a structure to improve communication and motivate employees. Teamwork seems the appropriate way to solve identified problems in the work place, and implement as effectively as possible solutions that have been agreed to by both parties.

Improved Information Flow

Firms in the distributive trades require up to date labour-market intelligence to enable them to carry out effective and efficient manpower planning. Although governments at all levels collect a vast array of information from companies in the distributive trades, little of this information or studies based on the results of any government analyses is returned to the industry. Even in cases where such information is placed in the public domain, small firms are seldom apprised of its availability. Examples of such

information that would be useful to the industry include demographic forecasts, government analysis of sectoral trends, and current and forecast patterns in consumer spending and saving.

Recommendation 48

To ensure more effective use by industry of information relating to manpower planning already collected by governments, the Committee recommends:

- (a) the establishment of a Labour Market Intelligence Service within the Department of Employment and Immigration (see discussion below on Labour Market Development Task Force Report). This service would assemble data, reconcile it with other economic evidence and disseminate the resulting information as widely as possible;
- (b) that trade publications be considered as a prime vehicle for the purpose of transferring this information to the industry.

Other Issues: Tax Deductions for Professionals

Existing tax regulations favour self employed professionals and can discriminate against employed professionals wishing to update their skills and keep abreast of current developments.

It is the view of the Committee that all practising professionals, regardless of their employment status, should have access to an equitable tax concession for these purposes.

All taxpayers are allowed to deduct tuition fees above \$100 paid to accredited educational institutions. Self-employed professionals, however, are also allowed to deduct the cost of attending up to two conventions a year where these are related to their professional activity. Professionals employed within firms are unable to do this. Since such conferences often play an important role in upgrading the skills and knowledge of professionals, failure to extend this deduction to paid employees is discriminatory. The Committee urges that such discrimination be eliminated and paid employees be accorded the same treatment as their self-employed counterparts.

Recommendation 49

It is recommended that the policies and administrative requirements of the existing tax concessions be amended to recognize those costs incurred by all professionals, regardless of their employment status, when participating in programs to upgrade their skills and keep them abreast of current developments.

Other Issues: Part-time Employment

Over the past decade, there has been a substantial increase in the ratio of part-time to full-time employees in the distributive trades. In some firms, particularly those in the food sector, up to 50 per cent of the staff is part-time. This rapid growth is tied directly to the benefit part-time employment offers both employee and employer.

Employers use part-time staff to meet evening and weekend peak load requirements more efficiently, to provide for replacements, to have access to specialized skills not required on a full-time basis, to provide relief for full-time employees and/or to staff for seasonal activities. Employees seek part-time work for a number of reasons. Those attracted to part-time work include students needing extra money, those not available for full-time employment, people with personal handicaps, a need to supplement family income, a desire for more leisure time, and, possibly, the need for a transition from home to the labour force.

Generally, part-time employees benefit to the same extent as full-time employees from protection provided under federal and provincial legislation. Exceptions exist and include overtime pay, annual leave and paid holidays.

One area of substantial difference between full and part-time employees is that of training. Whether employees are engaged in full or part-time employment, their contribution to the firm can be increased through effective training. However, largely because of high turnover rates - often about four times higher than for full-time - few firms, regardless of size, are prepared to offer any formal training program to part-time employees. Moreover, to a large extent, federal and provincial training programs are similarly neglectful of part-time employees.

Recommendation 50

To assist in the provision of training programs for part-time employees, the Committee recommends that

- a) federal and provincial departments and agencies examine the need to extend training to permanent part-time employees and the feasibility of such a step; and
- b) governments compile improved statistics on part-time employment and those seeking it.

Other Issues: New Technology

Electronic data processing in the distributive trades, particularly the use of scanning, can be expected to contribute significantly to improved productivity in this sector over the next decade. Concern has been expressed that this trend represents a potential threat to employment by reducing the need for certain skills, such as cash handling and inventory control. A more realistic assessment shows that although the demand for certain skills will be reduced, more technical and marketing jobs are being created. Firms that have adopted electronic data processing are now finding that while they have gained rapid access to valuable information, they often lack trained personnel with the technical background to make decisions based on that information, or to translate it so that it can be used by management.

The challenge the industry faces from the introduction of new technology is twofold. First is the need for retraining. Employees whose positions are becoming redundant must be given an opportunity to retrain for other occupations. As these employees have already gained valuable experience in the distributive trades, every effort should be taken to provide training and development that will allow them to continue in other careers in the industry. Second, the industry must support provincial training institutions in the development of training programs to provide the required new technical skills associated with electronic data processing.

Recommendation 51

It is recommended that within the context of the proposed human resources manpower planning agreements, industry and governments take account of the implications of the continuing introduction

of electronic data processing equipment into the distributive trades by a) the provision of retraining programs for employees whose positions become redundant and b) the development and implementation of training programs based on the new technical and related skills associated with electronic data processing.

Work for Tomorrow

The Committee has reviewed the Report of the Parliamentary Task Force on Employment Opportunities for the '80s, Work for Tomorrow, and is concerned that the Report has focused to an excessive extent on the development and training requirements of primary and secondary industries without paying adequate attention to the needs of the distributive trades.

Apart from this general statement, the Committee supports many of the principal findings and thrusts of the Task Force report, in particular the adoption of the following Task Force recommendations:

- Government must give on-the-job training a much higher priority.
- In order to achieve more on-the-job training, the federal government must encourage more cooperation among business, government, labour and education authorities. To this end, it must help establish industrial training advisory boards or the equivalent throughout the country.
- Governments, educational authorities and private-sector donors should review their funding for education and training to make sure that those faculties and disciplines that will be in the greatest demand during the '80s will benefit most from their funding.
- In its occupational training programs the federal government should be more open to local decision-making based on advice from community and regional employment councils.
- Governments should facilitate shared and part-time work, so that persons who wish to stay at home on a part-time basis will also be able to work on a part-time basis.
- In the national interest, education and research in management should be expanded to increase the number and quality of business and institutional managers.
- More innovative and flexible management education programs must be introduced.

- There should be provincial employment councils in every province to assess employment and training needs there and bring together all levels of government with business, labour and educators.

Labour Market Development Task Force Report

The Committee has reviewed the Report of the Task Force on Labour Market Development and similarly supports a number of its principal findings and recommendations. Specifically, the Committee supports the following recommendations.

- National industrial manpower committees should be formed in each sector, including the retail and wholesale sectors and should consist of representatives of large and small firms, industry associations and unions with provincial and federal officials serving as ex-officio members. The purpose of these committees will be to develop medium-term and long-term sectoral outlooks, forecast labour requirements and identify and suggest means of reducing bottlenecks in skill retraining.
- A small Labour Market Intelligence Service should be established within CEIC to assemble data, reconcile it with other economic evidence and disseminate the resulting information as widely as possible. (See Recommendation 48, above.)
- More flexibility is required in federal policies designed to influence occupational training so that they more clearly relate to the requirements of the labour market.
- Federal training resources should be re-allocated from low-level skill development into higher-level skills.

It is the view of the Committee that the establishment of a National Industrial Manpower Committee for the Distributive Trades, supported by the Labour Market Intelligence Service, and working in conjunction with the industry through the proposed human resources planning agreements, would greatly enhance the quantity and quality of information regarding future labour market developments, thereby assisting firms, training institutions and governments in formulating policies which will ensure an adequate supply of labour for the retail and wholesale sectors.

Proposed Industrial Labour Market Institute

The 1978 Tier II Committee on Policies to Improve Canadian Competitiveness recommended that "an autonomous body, jointly sponsored by provincial and federal governments, and by business and labour, should be created to integrate sector inventories of manpower availability and needs, and to advise on manpower policy training and educational requirements." The purpose of this body was to make reports assessing medium- and long-term manpower requirements. This recommendation was never fully implemented.

The Business Council on National Issues and the Canadian Labour Congress have recently activated the earlier Tier II recommendation and are now proposing the establishment of an Industrial Labour Market Institute. As stated in their proposal, the Institute would provide "a means by which labour and business, with government participation, can provide practical knowledge, advise on policy issues, make recommendations for policy changes, provide access to the work place, and gather data on supply and demand by sector, by region and on a national basis.... There will be times when the Institute will be critical of government programs and policies but this will be done in a positive way with the view to developing more efficient and effective labour market policies."

The Distributive Trades Consultative Committee endorses this proposal and recommends financial support by government as requested by the Business Council on National Issues and the Canadian Labour Congress.

ENERGY

Energy Conservation

A voluntary system of energy conservation task forces was established in 1975 in response to the government's call for a program to encourage energy conservation throughout Canadian industry. Working closely with these task forces, the federal government has developed the Industrial Energy Conservation Program, which consists of a variety of measures and programs primarily designed to assist the industrial sector to identify energy waste and undertake corrective measures to reduce energy consumption and costs. At the same time, many of the provinces have implemented programs to reduce industrial energy consumption, frequently in cooperation with the federal government.

While the distributive trades have benefited from a number of the existing government energy conservation programs and research activities these programs have, up to now, been largely orientated towards the manufacturing or processing industries. A concerted focus by government on the energy problems of the distributive trades has not occurred, neither has a network of energy conservation task forces been established for wholesalers and retailers around which a Distribution Energy Conservation Program could be built. Needless to say, the distributive trades do not use as much energy as the industrial sector, but they are still significant users both in the direct operation of their own enterprises and in transportation. For example, a typical 2,000 m² (about 22,000 sq. ft.) supermarket may pay \$40,000 to \$60,000 per year or more for its utility bills and many companies operating their own fleets of vehicles use hundreds of thousands of litres of diesel fuel and gasoline per year.

The Committee fully recognizes that the National Energy Program will build upon the array of existing federal initiatives to further encourage energy conservation efforts in all industries, including the distributive trades. New programs such as the Development and Dissemination of Integrated Design Retrofit and Operation Guidelines for Major Building Categories in Canada, the National Energy Audit Program and the Propane Conversion Program are taking shape at the same time as the scope of some of the existing programs are being broadened and the task force network enlarged. Nevertheless, the Committee is concerned at the speed at which changes are taking place, and feels that greater efforts should be placed on involving the distributive trades in the government's energy conservation efforts.

An important step in this direction would be for the distributive trades and government to give priority to the establishment of an energy conservation task force for wholesalers and retailers. The distribution industry lacks information about the many energy conservation activities, programs and objectives of governments in Canada today. Such a task force would provide a vital mechanism to enable wholesalers and retailers to become better informed about the programs they are eligible for, and the research and development that is taking place; it would also provide a potential means of obtaining unbiased information on energy conservation devices and technology. In turn, the sector could assist government in establishing its research priorities, identifying barriers to conservation, and meeting its energy conservation objectives.

Recommendation 52

The federal government and industry should actively support the immediate establishment of a Distributive Trades Energy Conservation Task Force to work in close conjunction with the sector's trade associations, the Department of Energy, Mines and Resources, and the proposed continuing Distributive Trades Advisory Committee. This group would have similar functions to existing task forces representing other sectors including:

- a) exchanging information and increasing awareness amongst wholesalers and retailers about the opportunities for and means of achieving more efficient use of energy;
- b) setting and reporting on targets for improvements in energy efficiency;
- c) serving as a focal point for government/industry discussions on the energy situation, barriers to energy conservation, research priorities, and so on.

Recommendation 53

Energy conservation programs and research and development aimed at the special needs of wholesalers and retailers should be increased and strongly supported. This should apply, in particular, to the retail store, shopping centre and warehousing aspects of the program entitled

"Development and Dissemination of Integrated Design Retrofit and Operation Guidelines for Major Building Categories in Canada," sponsored by the Department of Energy, Mines and Resources. Furthermore, the proposed funding level of \$2 million by 1984/85 should be considered a minimum for these three building categories.

Recommendation 54

Funding of energy conservation research and development should be increased by both governments and industry. This should include:

- a) increasing the level of funding for energy conservation research so that it represents a more significant proportion of the total federal energy budget;
- b) research on heat reclaim systems, less energy intensive lighting and better electrical and refrigeration design;
- c) identifying and seeking solutions to energy conservation barriers; this might include examining the impact on energy consumption of:
 - shopping centre lease arrangements
 - rate structures for gas, electricity and oil
 - regulations affecting temperature standards in buildings
 - transportation regulations
 - cost of energy conservation equipment
 - government tax on alternative fuels, such as propane.
- d) research and development related to intermodal freight services and terminals, rail electrification, rail communication, control and automation, and to improvements in the rail system which would allow wholesalers and retailers to take greater advantage of this less energy intensive transportation mode;

- e) research related to energy conservation in urban goods movement, particularly urban trucking;
- f) examining the impact of rising energy costs on shopping centres, retail stores and distribution centres' location and sales;
- g) continued research and development on alternative fuels and efforts to improve the energy efficiency of transportation vehicles.

Recommendation 55

To encourage energy conservation, governments should consider broadening the range of energy saving equipment and materials that are exempt from sales tax.

Recommendation 56

Mechanisms for transferring energy conservation technology to wholesalers and retailers should be actively pursued. This should include:

- a) incorporating into research programs the means of communicating the results of new technology to distributive trade associations and businesses;
- b) paying particular attention to providing small wholesalers and retailers with the information needed to complement their own energy conservation programs through such means as seminars, manuals and energy audit programs.

Recommendation 57

In the event of petroleum supply shortfalls the government can authorize a mandatory allocation program. Due to the high-speed nature of the distribution business, however, the Committee is concerned that during a shortage ongoing adjustments might not be able to address problems in time to avoid considerable damage to businesses. It therefore recommends that:

- a) the government, in consultation with industry, place greater emphasis on planning for and anticipating the results and problems of a disruption in energy supplies;
- b) within the planning process, greater consideration be given to the potential problems outlying areas and regions of the country will face;
- c) under the Petroleum Products Allocation Program, the distribution of essential perishable food products be given the same "A" priority rating that is given the production and processing of these items.

Uniformity of Trucking Regulations

There is a lack of uniformity amongst provinces in the regulations covering the allowable weight, dimensions and axle requirements of trucks. This results in inefficiency for shippers and carriers operating across Canada as they are unable to maximize load-carrying capacity and energy savings.

The National Energy Program supports the substitution of other fuels such as propane for gasoline in transportation. However, this is a long-term solution to improving the security of our energy supplies and in the short run conservation must play a big role in encouraging efficient use of fuel. While improvements in vehicle design and driver behaviour will be important steps in conserving and improving fuel efficiency, the lack of uniformity in trucking regulations between provinces has created a barrier to improved efficiency in truck transportation. Greater uniformity of truck regulations could lead to improvements in carrier productivity through maximization of load carrying capacity and in turn more efficient use of energy and labour. The regulatory burden on industry would also be reduced.

Recommendation 58

The Committee recommends that governments and industry redouble their efforts to achieve greater standardization of vehicle weights, dimensions, axle requirements, and so on, between provinces with the objective of maximizing the load carrying capacity of trucks.

Recommendation 59

More specifically, the work initiated on this subject by the Council of Ministers Responsible for Transportation and Highway Safety and involving the Transport Canada Highway Transportation Research and Development Advisory Board should be strongly supported and encouraged. Furthermore, it is recommended that the proposed research program be speeded up and given more priority.

Recommendation 60

To maximize energy savings, government should also:

- a) permit increased truck lengths and the use of double and triple trailers on highways in Canada;
- b) ease transportation regulations to permit intercorporate private trucking and private carriers to move goods for compensation on the backhaul portion of their journey.

Commercial Vehicle Driver Training

Conservation must play an important role in achieving a more efficient use of fuel supplies in Canada. In the trucking industry the conservation efforts required will mean that drivers will have to change and adjust their driving habits and practices. For this to occur, increased attention must be paid to the training of commercial drivers for the specific purpose of achieving fuel economy.

The trucking industry is adopting fuel conserving methods such as aerodynamic wind deflectors that reduce air drag, high torque engines that reduce engine speed, and the conversion to propane fuel. To make full use of these fuel conservation measures, drivers must be trained in the techniques of fuel conservation. Recent research in energy consumption patterns indicates that commercial drivers can obtain fuel savings of up to 20 per cent through a change in driving habits and practices. With increasing technological advances in engine design, the fuel potential of these engines can sometimes only be achieved by training drivers in the correct operating techniques.

While commercial vehicle operators have the major responsibility in the training of drivers, government

involvement is also important and necessary. The industry as a whole and particularly the smaller companies require assistance in obtaining unbiased information on effective training programs and fuel saving devices and techniques. Government support in working towards more uniform training and testing procedures that emphasize the training of drivers, not only in safe driving techniques but in fuel saving techniques as well, is vital.

Recommendation 61

The Committee recommends that efforts to conserve fuel through improved commercial vehicle driver training be encouraged and supported by governments and industry.

Recommendation 62

More specifically, the Committee recommends that the work on this subject already started by the Transportation Development Centre of Transport Canada be actively pursued in conjunction with the provinces and industry. In particular the Committee supports such activities as:

- a) the development of curricula for the training and retraining of drivers to achieve greater fuel efficiency;
- b) assessment of the effectiveness of driver incentive programs and vehicle aids in improving fuel efficiency;
- c) demonstration of the value of idling programs in reducing fuel consumption;
- d) development of audio visual material, manuals and other aids that could be used to train drivers in fuel efficient techniques.

INTERIM REPORT, SEPTEMBER 1981

DISTRIBUTIVE TRADES CONSULTATIVE COMMITTEE
INTERIM REPORT

September 23, 1981

The Honourable Herb Gray,
P.C., M.P.
Minister of Industry, Trade
and Commerce
235 Queen Street
Ottawa, Ontario
K1A 0H5

Dear Mr. Minister:

On April 16, 1981, the Distributive Trades Consultative Committee was established at your direction. I indicated to you that the Committee would endeavour to provide you with an Interim Report by the early fall, and would work towards the completion of a final report early in 1982. In fulfilment of the first part of that undertaking I now have the pleasure in enclosing the Interim Report of the Committee. Also included is a draft background profile paper on the sector prepared by the Distribution Services Branch (see Industry Profile). This paper was reviewed by the Consultative Committee at its first meeting and we found it a very useful document in describing the sector and establishing the background for our deliberations. The Committee expects to be able to fulfill the second part of its obligations in a timely fashion also.

The Committee has included in its interim recommendations those subjects on which early action is clearly desirable. In some cases the recommendations have relevance to the forthcoming federal budget and it was felt necessary to bring forward the proposals at this time so that they could receive consideration during the period of policy formation prior to the budget. The selection of these particular items for the interim report does not imply that the other issues on which the Committee is working are in any sense less important. In the case of some of them, considerably more research and development is necessary prior to the formulation of concrete proposals.

The Sector

Common to all the participants in the Committee has been their recognition of the fact that the significance and influence of this industry tends to be severely underestimated by other sectors of the business community, by

many in governments and, indeed by the population in general. They particularly asked me to record in this letter, although the facts are probably well known to you, Mr. Minister, some of the salient features of the industry which demonstrate its significance.

In fact, the industry is comprised of some 230,000 firms, employing an average of eight employees, indicating that small business is a strongly predominant feature of the sector. That statistic in itself, however, is somewhat misleading because the sector also embraces some of Canada's largest businesses, performing several billion dollars in sales and employing many thousands of employees. The distribution services sector provides employment for 1.8 million Canadians, representing some 17 per cent of the Canadian workforce. In 1980, sales of the wholesale group were \$73 billion, trading houses \$5 billion, and the retail group \$89 billion (including automotive sales of \$24 billion and alcoholic beverages of \$3 billion). The growth rate for employment in the sector has averaged in excess of 3 per cent per year over the decade 1970-1980 and, given a favourable economic environment, is likely to continue at that pace. Capital investment of the sector, other than real estate, is of the order of \$2.3 billion per annum.

These are impressive figures. Even more important is the fact that the success distribution has in fostering and satisfying demand has a profound effect on almost all of our goods producing industries and on the businesses which supply equipment and services to the trade. When retailing flourishes so does the manufacturing sector.

Yet, industrial and trade development in the sector has been largely taken for granted by government policy makers in both the provincial and federal areas of influence, on the general premise, presumably, that service industry development takes place automatically and efficiently in the wake of expansion of the commodity production sectors.

If this posture were ever justified, it is, in the opinion of the Distributive Trades Consultative Committee, no longer so. The economic environment, as it currently exists, is having deleterious effects on distribution which are difficult to overcome. Rapid and extensive advances in communications, management and marketing technology and the increasing needs of the industry for capital investment have radically altered the character of distribution. It is a sector of substantial economic importance, industrial strength and dynamism in itself. It acts as a generator and provider of many tens of thousands of new satisfying jobs each year. It is a vast outlet for entrepreneurial

enterprise. It is one of the few businesses where an entrant with access to only modest capital can succeed and in a short space of time develop a sizeable business.

The encouraging growth that has been a principal feature of the sector's advancement in the past ten or fifteen years will continue into the foreseeable future if suitable encouragement is given the sector. Appropriate government policies and their intelligent implementation can significantly assist this sector to realize increasingly its potential for contributing to the economy of Canada.

A Continuing Advisory Vehicle

The members of the Consultative Committee have been unanimous in their view that the consultative process in which they are participating has the potential for bringing a much better understanding of the sector's needs and aspirations to the attention of the federal government and, indeed, through it, other governments and sectors. The flow of information takes place both ways. Senior members of the trade have had the opportunity of gaining a better understanding of government objectives and policies in many areas.

It is the belief of this Committee that the positive results of this relationship are so significant that they should not be confined to the limited period of the life of the Committee. New issues and new priorities will obviously arise in the future in which it is important for government and private enterprise parties to have a good appreciation of the viewpoints of the other. It is this Committee's strong recommendation that prior to the end of its life, machinery be established for the regular periodic exchange of views between an all-industry senior consultative group and all appropriate elements of your Ministry. I know the members of the Committee would value the opportunity to discuss this subject with you at the appropriate time.

The Contribution of Those in the Distribution Services Workforce

It may seem unusual that, in an industry as labour-intensive as distribution, an item dealing with personnel functions does not appear as a recommendation in this interim report. The absence of such a topic should not be taken as a signal of any lack of interest or attention on the part of the Committee. In fact, a subcommittee has been working vigorously on the whole subject of people resources and is in the course of formulating a number of recommendations particularly related to training, skill development and recruitment. This will ensure that the distribution services

sector will be seen as a positive place to pursue a rewarding career. The matter requires considerable research and the subcommittee's work is not sufficiently advanced to provide you with concrete proposals at this time.

Also, I should mention that in the case of labour relations, responsibility in the retail sector lies largely with the provincial governments. Members wish, meanwhile, to record their appreciation of the contribution made by the labour representative to the affairs of the Committee, and, of course, of the continuing contribution made by the almost two million employees, both in unionized and non-unionized sectors, whose dedication made the sector the efficient entity it is. To match this dedication with the development of skills necessary to improve productivity and to enhance career development in distribution is a primary concern of the committee.

Areas of Continuing Study

The Committee has established five sub-committees dealing with the following areas:

1. The Economic Environment Subcommittee (Chairman, Doug Tigert) dealing with horizontal economic policy issues such as regulatory reform, market structure and conduct and financial indicators.
2. The Market Channel Links Subcommittee (Chairman, Ruby Osten) is investigating the impact of trade policy on distribution and a wide range of issues dealing with buyer/supplier relations.
3. The Distribution Channels Subcommittee (Chairman, Frank Warnock) is investigating various forms of distribution and new technologies.
4. The Human Resources Subcommittee (Chairman, Martin Goldberg) is progressing with the very complicated issue of training and human development.
5. The Energy Subcommittee (Chairman, Walter Hachborn) is focusing on the impact of energy requirements and changes on distribution.

I can assure you that recommendations will be coming forward from all these subcommittees for your consideration in the final report.

Design of Interim Report

The recommendations set out in the Interim Report are accompanied by a synopsis of the rationale behind them and a more detailed background paper expanding these arguments.

Excise Tax Recommendation

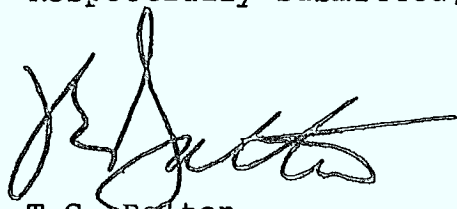
The Committee wishes to restate its earlier recommendation to the Minister on the matter of excise taxes. Specifically, it is the recommendation of the Committee that the shift to a wholesale tax on cosmetics be removed. The Committee realizes that there are some manufacturing functions conducted by importers which should have an excise tax imposed. However, a generally applied wholesale tax would be taxing service functions, which by all acceptable standards should be tax free. Any such shift of the excise tax would have serious negative repercussions on the distribution services sector and would establish a series of inequities in tax law which would be particularly onerous to small business.

Conclusion

May I take this opportunity of recording my personal thanks to my colleagues on the Committee for the very substantial contribution of time, effort and imagination which they have already contributed at this stage. I know I am assured of similar support from my colleagues in the work ahead of us. On behalf of the Committee, I would also like to thank you for allowing us the opportunity to express our concern through the consultative committee process.

In presenting this Interim Report the Committee hopes that its recommendations will be carefully considered by you and your colleagues, and that their disposition be accorded priority. As I have previously mentioned, certain of the recommendations have implications for the forthcoming budget.

Respectfully submitted,



T.G. Bolton
Chairman
Distributive Trades
Consultative Committee

INTERIM REPORT

EXECUTIVE SUMMARY

This interim report focuses on nine specific recommendations of the Distributive Trades Consultative Committee. These preliminary recommendations are made at this time in the hope that some of them will have an impact on the forthcoming budgetary process of the federal government.

Each recommendation is supported by the appropriate background material covering key issues, rationale and supporting documentation. Where possible, quantitative analyses have been made concerning the impact of the recommendations on the financial health of both the industry and the country. Each recommendation is addressed on a separate page, followed by supporting documentation in a series of appendices. The recommendations cover the following topics.

1. Accelerated writeoffs on various equipment categories.
2. Accounting for inflation, the inventory tax credit adjustments and the move to LIFO accounting principles.
3. Changes in the Small Business Loans Act and the Small Business Development Bond.
4. Retention of the indexing of personal income tax.
5. Energy pricing and federal/provincial relationships.
6. Amendments to the Combines Investigation Act.
7. Deregulation in the trucking industry.
8. Improvements in statistical data gathering and analysis by Statistics Canada.
9. Distribution services contribution to adjustment agencies.

It is the position of the Committee that positive action by the government on these recommendations will greatly contribute to increased efficiency, productivity and the financial health of the distribution-services sector and in

so doing, will support the early recovery of the Canadian economy.

In support of these recommendations, there are a number of observations which the Committee wishes to bring to the attention of the government.

- (a) In spite of its size and importance, the distribution services sector has not been included in the mainstream of policy development, either by ITC or by other federal departments. Any action taken to enhance the process by which the views of the distributive trades sector are taken into account in the formulation of government policy would result in substantial payoffs for both the trades and government. The Committee strongly advises that ITC's position vis-à-vis the sector be strengthened on an ongoing basis. This expanded role needs to happen if both the sector and the government are to take advantage of the many opportunities for advancement which exist in each other's respective areas of interest.
- (b) The Committee views this formal consultative process as valuable, and is reviewing several options as to how consultation can be strengthened on a more permanent basis in the future.
- (c) The Committee recognizes that many of the issues it still has under discussion will not require government action but, rather, must be addressed by the industry itself. Some examples include: improving the industry's image within the educational system; consumerism; and standard business practices.

It is the intention of the Committee to continue its deliberations through the remainder of this year and, early in 1982, provide the Minister of Industry, Trade and Commerce with a final report and recommendations on the subject matters which remain to be addressed.

ACCELERATED WRITEOFFS

The Issues

Under the existing Canadian tax rules, manufacturing and processing firms have the right to write off new machinery and equipment over two years (accelerated capital costs allowances). This tax concession, implemented to encourage investment in order to stimulate manufacturing, and to partly offset the deleterious effects of inflation, does not apply to firms in the distribution services sector.

Recommendation 1

- a) The distinction between the distributive trades and the manufacturing sector held by Revenue Canada, with respect to accelerated depreciation, should be eliminated.
- b) More specifically, two-year writeoffs for tax purposes should be extended to include such items as:
 - i) electronic front-end equipment (for example, scanners and electronic cash registers)
 - ii) backroom computers/controllers and head office mainframe mini-computers
 - iii) computer software
 - iv) automated warehouse equipment
 - v) energy equipment such as refrigeration, heating, controls, lighting, and so on, which leads to reduced energy consumption
- c. Three year writeoffs should be allowed for fuel-efficient trucks.

Rationale (see also Appendix 10, Item 1)

The rising cost of labour, physical facilities, interest, and mechanical or electrical equipment within the distributive trades have narrowed any previous distinction between this service sector and the manufacturing/processing sectors. The adverse effects of inflation are universal. They cause profits to be artificially high and accumulated depreciation charges to be too low for inflated replacement costs. Consequently, the ability and willingness of firms to invest is inhibited, and the demand for Canadian end product

manufactured goods is diminished. As unemployment problems become self-correcting in the 1980s, the sector's attention will increasingly turn towards increased efficiency and productivity.

Firms in the distributive trades sector, by being excluded from the two-year writeoff provision, have not been able to improve efficiency, reduce cost, and exert downward pressure on prices to the extent that would have been possible with larger investments in energy-saving, labour-saving and automated time-saving equipment and machinery. Accelerated writeoffs would stimulate both demand for and supply of such equipment.

ACCOUNTING FOR INFLATION

The Issue

The current 3 per cent inventory tax credit, established in the past to counteract inflationary pressures on the rising cost of carrying inventory, is no longer adequate.

Recommendation 2

- a) Short-run: The inventory tax credit should be raised from 3 per cent to 10 per cent to more closely parallel the effects of a shift from FIFO to LIFO accounting procedures already adopted in the U.S., and to more closely parallel the true impact of the current inflation rates on the overstating of corporate incomes.
- b) Long-run: The accounting principles in Canada should be gradually changed to methods of financial reporting and tax assessment which are better able to reflect the effects of inflation on the corporate financial position. The LIFO system eventually adopted should pay attention to simplification of accounting procedures.

Rationale (see also Appendix 10, Item 2)

The supporting documentation clearly shows that the introduction of the 3 per cent inventory tax credit was a very positive move on the part of the government. This was based on a move towards fair tax treatment for business at a time when inflation was projected in the order of 7 per cent per annum. However, between 1977 and 1980 the impact of the 3 per cent level has been to reduce the benefit from approximately 43 per cent LIFO equivalency to only 29 per cent LIFO equivalency. The 3 per cent tax credit is much easier to implement than LIFO accounting but any inventory tax credit encourages firms to hold very large inventory levels at least once a year. Thus, while we recommend a short-term solution of moving from 3 per cent to 10 per cent tax credit, our preferred solution is to go to full LIFO accounting at the earliest opportunity. LIFO accounting evaluates inventory at full replacement cost and has the impact of eliminating corporate taxes on phantom profits while simultaneously increasing cash flow.

A number of countries in addition to the U.S. have already moved to LIFO accounting or to an equivalent accounting principle in recognition of the insidious impact of inflation in overstating corporate profits. These countries include Australia, Belgium, Italy, Japan, Spain.

SMALL BUSINESS LOANS ACT AND
SMALL BUSINESS DEVELOPMENT BOND

The Issues

At present, both of these federal government assistance programs do not allow for loans on the basis of working capital requirements, but rather for investments in plant and equipment. In the distribution services sector, the primary investment objective is for working capital, most of which is represented by inventory investment.

Recommendation 3

- a) Small Business Loans Act loans should be made available for working capital.
- b) Financing under the Small Business Development Bond (SBDB) should be used for working capital.
- c) The SBDB time frame should be extended indefinitely and be used up to a maximum of \$500,000 in as many individual bonds as retailers and wholesalers need to develop their business potential over time. In other words, retailers and wholesalers should be allowed to finance a series of bonds up to the \$500,000 level as their business matures.
- d) The federal government should use some of its large advertising budget to promote a much wider level of awareness to the business community, both for the SBDB and the SBLA. In addition, commercial banks should be encouraged to broaden their participation in these loan programs.
- e) The terms of the SBDB should be extended to 1990.

Rationale

Most small businesses in the distribution services sector do not start off with capital requirements in the \$500,000 range. As they expand into a third or fourth store, or into additional warehouse facilities, their capital requirements are sequential. Allowing for a series of smaller bonds, up to the \$500,000 maximum, would facilitate their orderly growth.

More important, many retailers lease their physical facilities. Their key working capital requirements are for leasehold improvements, electronic equipment and inventory. Depending on the rate of inventory turnover, inventory investment could represent upwards of 80 per cent of working capital requirements. High interest rates are just as devastating to low turnover retailers as they are to the manufacturing or resource sectors in Canada. Provisions for SBDB financing at a rate of half of prime plus 1 would be a major benefit to retailers and wholesalers.

INDEXING OF PERSONAL INCOME TAX

The Issue

There is a strong threat that the indexation feature of personal income tax will be removed or emasculated in the Fall/81 budget. That removal would squeeze consumer expenditures to the point where a large number of wholesale and retail businesses, especially the smaller ones, would be in serious financial difficulty.

Recommendation 4

The indexation feature of the personal income tax should be retained in its present form. The recent oil price agreement should substantially alleviate the cash flow problems of the federal government. This agreement will, in itself, reduce consumer expenditures on other goods and services (see Appendix 10, Table 3). Thus, both the consumer and the consumer goods producing and distribution sectors would be in double jeopardy should the current indexation formulas on personal income tax be removed.

Rationale

The Committee finds it repugnant that the body which has the task of providing leadership in the fight against inflation - government - should become a covert beneficiary of its malign growth.

Projections made within the Economic Council's "Candide" econometric model show that de-indexation would substantially reduce total real consumer expenditures during the 1980s, by about 2 per cent per annum. Declining real incomes would put immediate pressure on unemployment as consumer spending declined. Declining real incomes would also push up wage demands (and justifiably so) to compensate for declining incomes. The wage push spiral could become insidious and lead to runaway inflation.

Finally, we observe that the U.S. is moving to cuts in personal income tax but also to imposition of the indexing feature by 1985 at a time when Canada is considering removal of the very same feature.

THE NATIONAL ENERGY PROGRAM

The Issues

The National Energy Program, while progressive in both its intentions and its scope, has to date had a very negative impact on the economy by eroding confidence in Canada both inside and outside the country. The current situation of a country with enormous resources yet being a net importer of high-priced oil is viewed as intolerable.

Recommendation 5

(Formulated prior to recent oil pricing agreements --see following note)

- a) The National Energy Program should be amended so that Canadian wellhead prices for oil reach 75 per cent of the F.O.B. international price by 1985 (projected to be \$62.99), and be tied to the world price at that ratio thereafter.
- b) That efforts be redoubled to secure a solution to energy pricing and revenue sharing agreement between the federal and provincial governments and the producers at the earliest possible opportunity.
- c) The oil sand projects (Alsands, Cold Lake and Petro Canada) be undertaken as quickly as possible, and a scheduling commitment be obtained from the sponsoring oil companies in light of higher oil prices, revenues and rising development costs.
- d) In recognition of the enormous shifts required to reach self-sufficiency, energy/usage shares should be monitored closely and programs be adjusted where necessary to ensure that the objectives on oil substitution are achieved.

Rationale (see also Appendix 10, Item 3)

It is the Committee's view that the energy program appears to have placed undue emphasis on protecting consumers from high oil prices while jeopardizing the objective of security of supply and self-sufficiency. The Committee considers the current policies to be inadequate to encourage conservation, substitution and exploration and development. An extensive analysis, through the Candide model, has

indicated a substantial negative impact on consumer spending through higher oil prices but more-than-compensatory benefits in the form of reduced federal deficits, growth in the economy over the long run and a healthier investment climate, as well as a faster movement towards energy self-sufficiency.

Note: As a result of the recent oil pricing agreement between the federal government and Alberta, some of our concerns have been addressed. In particular, the settling of the oil pricing dispute and the increase in Canadian oil prices to more realistic levels are matters which this Committee considered essential for the economic wellbeing of Canada. The higher oil prices will certainly have a negative effect on consumer spending and thus on the distribution-services sector. However, it is a price the Committee is sure all distributors are willing to pay for the chance of achieving security of supply and, in turn, economic stability.

RESPONSE TO THE PROPOSED AMENDMENTS
TO THE COMBINES LEGISLATION

The Issues

There is a shared concern about the inability of the current Combines legislation to deal with the fairly rapid pace of mergers/acquisitions in Canada. However, there is even more concern about the nature and direction of the proposed amendments to the existing legislation, especially given the situation that the distributive trades were not extensively involved in the deliberations about those changes, and given that this sector may be adversely affected by the proposed changes. Some of the proposed changes are totally unworkable for smaller trading areas and for certain well established competitive marketing practices. Further, there is a lack of specificity in the proposed definitions of products, markets, retailers and so on.

Recommendation 6

- a) The direction contemplated in the proposed amendments with respect to monopoly power should be changed in favour of an approach which deals with misuse of a dominant position in the case of mergers and acquisitions.
- b) Certain proposed examples of anti-competitive behaviour may well be examples of pro-competitive behaviour and should be reconsidered. They include "fighting brands" (for example, generics), selective price-cutting (for example, weekly specials), market saturation advertising, and so on.
- c) The Committee supports the 29 June 1981 submission of the Retail Council of Canada to the Minister for Consumer and Corporate Affairs (see Appendix 10, Item 4) and requests additional consultation with the distribution services sector before any proposed changes in the legislation are tabled in Parliament.

Rationale (see also Appendix 10, Item 4)

The proposed amendments argue for a simplistic definition of market concentration based on a single firm or a four-firm

concentration ratio. In many small communities, there may well be only one firm in certain product lines. In larger communities, the retail trading area might well support only three firms for specific product classes. There are also serious problems with the definition of "market" and serious concerns that the proposed amendments have not considered the concept of product/market boundaries at the commodity level. The Committee's view is that competition should be examined and analyzed primarily at the commodity level.

DEREGULATION IN THE TRUCKING INDUSTRY

The Issues

Myriad federal and provincial regulations affecting both private and "for-hire" trucking fleets have led to inefficient use of capacity elimination of many two-way hauling trips and the consequent higher cost/higher pricing structure within the distribution services sector.

Recommendation 7

- a) The Committee recommends the adoption of the following recommendations made by the Economic Council of Canada in its report entitled Reforming Regulations - 1981.
- All regulatory restrictions on the operating freedom of existing for-hire motor carriers be removed.
 - In place of the present cumbersome and often costly process whereby applicants for trucking licenses must establish that their service is for "public convenience and necessity," the regulatory board maintain requirements with respect to such matters as bonding, insurance, and vehicle registration and that they issue licences on a "first-come" basis.
 - That price regulation and the formal requirements for rate filing in trucking be abolished. The provincial regulatory boards should, however, retain broad powers to obtain rate information from individual carriers when they deem it necessary.
 - The definition of private carriage in trucking be expanded to include transport by member of a corporate family where the affiliate firms are effectively controlled by a parent corporation.
- b) The Committee recommends that private carriers be permitted to move goods for compensation on the backhaul portion of their journey.

- c) The Committee recommends that the report by the Economic Council, Reforming Regulations - 1981, and in particular, the sections on trucking deregulation, be a priority item of the next First Ministers' meeting. Further, the Committee recommends that the First Ministers acknowledge the need for deregulation and take steps to set in motion the government apparatus necessary to deregulate the trucking industry.

Rationale

Rising interest rates have forced the distributive trades to seek ways to keep inventories down and to turn inventories faster. Improved delivery schedules are one method of achieving these objectives. But with the rising costs of energy, suppliers have tried to keep costs down by consolidating shipments and reducing deliveries. Thus, it is often suppliers, not retailers, who control the timing of deliveries.

This situation has led retailers (who are not already operating fleets) to evaluating on a cost/benefit analysis basis, the possibility of operating their own "in-house" truck distribution fleet. However, regulations governing back-haul and compensation possibilities for private fleets have discouraged many retailers from developing private fleets. These restrictions, which generally prevent firms from handling the goods of other firms, including corporate affiliates and subsidiaries, prevent efficiency in energy consumption. In addition, for-hire fleets have been burdened by excessive regulations across a number of areas including rates, licensing, and route structure. The end result has been higher costs, higher retail prices and inefficient transportation systems in the trucking area.

IMPROVEMENTS IN STATISTICAL DATA GATHERING AND ANALYSES
BY STATISTICS CANADA

The Issue

In an era of "scrambled merchandising" and development of whole new retail and wholesale sectors (such as home improvement centres), the data provided by Statistics Canada on the distribution services sector has become obsolete. Major improvements are needed if the sector is to be provided with timely and useful data on which to make important strategic decisions.

Recommendation 8

Statistics Canada should totally review its efforts in the distribution services sector in terms of:

- reversal of the decision to cancel the 1981 census of merchandising;
- definitions of commodity categories and trading area boundaries;
- what is collected, how often and from what geographic territory;
- definitions of retailers and of independents versus chains;
- the establishment of a permanent consultative users group within the distributive trades to interact with Statistics Canada on an ongoing basis. Potential subjects might include:
 - weekly or monthly reporting of department and chain store sales by major "kinds of business" categories
 - annual financial operating ratios
 - annual or bi-annual reports of shopping centre developments to track major structural changes in the industry
 - monthly retail trade estimates expanded to cover other census metropolitan areas (such as Calgary, Edmonton, Hamilton)

- periodic merchandise inventory levels
- labour force breakdowns by sector or sub-sector.

Rationale (see also Appendix 10, Item 5)

Almost all of these recommendations were made by a task force of information users, who directed a paper to the Chief Statistician in 1978. All are still relevant today. The private sector makes use of these types of data in determining industry trends, economic locations of new stores, warehouses, shopping centres and manufacturing facilities. It uses the data to understand underlying shifts in population patterns, and shifting shopping patterns and to measure market potential. Federal, provincial and municipal governments use the same data for planning and urban development.

DISTRIBUTION SERVICES CONTRIBUTION TO ADJUSTMENT AGENCIES

The Issue

The Canadian Government instituted quota protection systems as part of a program of support for the apparel, textile and footwear manufacturing sectors. A recently announced adjustment program for the apparel/textile sector (one is likely to be introduced for footwear also) does not appropriately recognize either the policy support which can be provided by the distribution services sector or the impact trade restrictions have on this sector.

Recommendation 9

- a) The new agency established to administer the textile and clothing sector adjustment program should include on the Board distribution services sector representation and provide continual consultation with that sector.
- b) Similar agencies, if established, for example on footwear, need distribution services sector representation.

Rationale

In the announcement outlining the new policy for the textile and clothing sector, Messrs. Gray and DeBané indicated that the industry was to restructure towards more viable lines of production. The agency to be established to administer the program and provide a service for firms requiring modernization and restructuring will "decide the merits of company applications and allocate its resources accordingly."

For a manufacturing firm to be viable, there must be a market for its products. While retailers are ostensibly the purchasers of the output from the Canadian clothing manufacturers, they, of course, are reselling to the consumer. The livelihood of retailers depends on an accurate interpretation of the needs, demands, purchasing power, fashion consciousness and vagaries of the consumer. Because of this, they are in the best position to provide a marketing orientation and appropriate input to the deliberations of the agency. The lack of such a perspective appears to have been a factor contributing to the current difficulties of those manufacturing sectors.

In addition, the adjustment agency is charged with encouraging new firms (from other sectors) to locate in areas in which there may be a surplus of workers due to restructuring, and to assist in the job relocation process. Members of the distribution sector, which is a large employer, generator of capital investment and user of new technology, are ideally suited to assist in this process also.

RESOLUTION ON EXCISE TAX ON COSMETICS AND REPACKAGING

The Committee passed a resolution at its first meeting pertaining to the excise tax on cosmetics and repackaging. The resolution read:

- Whereas changes to the Excise Tax Act (Bill C-57) pertaining to the shift in excise tax from the manufacturer to the wholesaler level of distribution and who is deemed a manufacturer are discriminatory towards wholesalers and their customers, and
- Whereas these changes are also disruptive to existing trade channels,
- Be it resolved that the Department of Finance be requested to rescind these changes and that no further moves be made to shift the excise tax from manufacturers to legitimate wholesalers.

A briefing note was prepared for the three Ministers of Industry, Trade and Commerce, informing them of this resolution. The intention of this note was to further focus their attention on the issue and involve them in its resolution.

The Committee also strongly recommends that the Department of Finance refer the proposal introduced in the November 1981 budget to shift the federal sales tax from the manufacturing to the wholesale level to a Parliamentary Committee. The move at any time is seen as being extremely disruptive to the commercial process, and likely to absorb considerable cost, management time and attention which should be devoted to other priorities. The movement at this time would be particularly unwelcome as it carries with it the threat of inducing substantial inflationary consequences in the merchandise sectors affected. It is acknowledged that inequities exist among commodities - particularly imports and domestic products as a result of the current valuation for duty procedures. However, it is believed that these problems can be addressed in alternative and less disruptive ways.

IV

SECTOR PROFILE

SECTOR PROFILE

Summary

The distributive trades sector is large, diverse, and of significant importance to the Canadian economy. There are over 230,000 wholesale, retail and trading house establishments in Canada, compared to about 50,000 manufacturing establishments. More than 12 per cent of the Real Domestic Product (1977) stems from the activities of the distributive trades, compared to 9.6 per cent from transportation, storage and communications, another important service industry sector. Within the goods-producing sector,¹ construction accounts for 6.5 per cent; transportation equipment for 2.8 per cent; and textile, knitting and clothing combined for 1.6 per cent.

The distributive trades employ nearly eight times as many people as textile, knitting and clothing, and more than nine times as many as the transportation equipment industries. Nearly one out of every five employed Canadians (17 per cent) works in the distribution system, and unlike the concentration of manufacturing employment in specific regions and locations, employment in the distributive trades takes place in small as well as large communities in every part of Canada. In spite of the size and extent of the sector, government lacks information about it and may seem to be indifferent to its problems and unaware of the changes taking place in it.

The Distributive Trades In Perspective

The distributive trades sector is defined as the wholesale and retail trades.² It includes all firms that distribute goods from manufacturers and primary producers (or both) in the market channels supplying consumers in Canada and foreign markets. The sector is composed of a wide assortment of wholesale and retail entities which serve particular types of markets. Each firm makes its decisions on the basis of factors such as the types and range of products it carries,

1 The industries included in the goods-producing sector are listed in Table I

2 For the purposes of this report, the term "wholesale" includes wholesalers, brokers, jobbers, commission agents and the other forms of businesses which make up the link between manufacturers and retailer.

its size, location, market philosophy, and its perception of consumer demand and service requirements. These decisions usually result in specialization: even the largest corporations specialize by carrying particular commodity lines and locating in particular regions, although there is a growing trend towards generalized product mix among them.

Characteristics of the Distributive Trades

In simplest terms, the distributive trades provide the market channels through which production is transformed into consumption. Their function ensures that consumers can buy the products they want at the time and place best suited to their needs. How the various activities are carried out by a particular firm depends on the commodity or commodities it carries, the distance from its supply, the size of the other firms interacting with it, their competing philosophies as related to their perception of the marketplace, and the firm's social and economic environment. The various kinds of retail distributors represent market responses to consumer perception of quality and price; they range from discount stores to very expensive retail outlets. Because they serve all possible consumer expenditure levels, there is a definite stratification of retail outlets within any community. Firms in the distributive trades tend to stay within their strata because to do otherwise would necessitate changes in image, consumers, suppliers, and so on. The chief exceptions are the large chains, which sometimes create more than one image, each aimed at a different consumer market. This combination of factors means that there are literally hundreds of different marketing channels, all of which are "optimum" only for particular firms at particular times in their business evolution.

Some retailers are broadening their market appeal by selling additional services such as insurance or travel. While this type of activity is found mainly outside the retail sector, it is seen by retailers as a move toward "one-stop" shopping.

All aspects of the behaviour of the distributive trades are based on the concepts of demand translation and service. A retailer's survival depends on an ability to perceive consumer demand and predict its trend. This anticipated demand is then communicated to the production system, largely through buying patterns, but increasingly by product specification.

A Competitive Environment

A fuller understanding of the sector's behavioural patterns and the possibilities for partnership can be obtained by realizing that a firm in the distributive trades operates in an intensely competitive environment. This is true of both the wholesale and the retail trades.

Wholesalers face competition from other types of business as much as from firms with an exclusively wholesale function. They stay in business only as long as they ensure that: (i) the retailer receives the right quantity of a product at the right price, time and place, and (ii) the manufacturer sells the product according to its production schedule. The wholesaler must constantly maintain and improve company efficiency to guard against the tendency of both retailers and manufacturers to assume part or all of the wholesaler function in order to "eliminate the middleman."

A wholesale company overcomes competition by specializing in a particular type of goods, which it assembles, stores and delivers. Consequently there are several types of wholesalers: the general merchandise, which carry a broad assortment of unrelated products; the general line, which supply one complete product line; and the specialty, which handle only a limited number of items. Yet another type of wholesaler is the full-service wholesaler: these businesses not only supply products, but offer a full range of services.

Wholesalers perform market functions at a lower cost than manufacturers or retailers. They flourish by providing small and medium-sized manufacturers and retailers with such services as buying for customers and selling for suppliers, assembly, delivery, warehousing, credit, assumption of risk, and to an increasing extent provision of advice on the various "how-to" aspects of distribution. They maintain their competitive edge by providing an economical transfer of goods and by including a greater and greater degree of service in their transaction price.

A wholesale firm generally exists as an independent business, but it can also be an arm of a larger corporation (either retailer or manufacturer); or it may belong to a group of manufacturers or retailers who have banded together into a cooperative or voluntary association.

Competition in retailing occurs in a number of different ways. In the first place, entry into retailing is relatively easy. Capital costs are low, and inventory is obtainable on credit. Superficially, the requisite skills appear to be

within the capability of most people. In addition, opportunities for entry are perceived to exist because of new products, concepts and locations. Retailing and, by extension, parts of the service industry have become the most accessible business opportunity for many individuals; thus great competitive pressure exists in retailing on the basis of numbers alone.

Competition also occurs between firms already in the industry. All retailers are constantly expanding or reducing their product mix in response to the economic climate and changes in demand and supply. Some stores are trying to capture a market share in a greater range of commodities by adding lines not normally associated with them: food stores, for example. Other retailers are specializing in a narrower product mix in order to capture a larger share of a smaller market base.

Long-term retail strategy is based on expected population changes and economic conditions. All large companies have five to ten-year plans for expansion into new markets and locations, and the competition for future choice locations is intense.

Concentration

The wholesale industry is fragmented: no individual firm holds more than two per cent of the market, even though some general merchandise wholesalers have very substantial dollar sales (see Table 1).

Within the general merchandise category, however, there has been some concentration; for example, hardware lines, where high stock-keeping costs are a major contributing factor. A number of technologically sophisticated wholesalers have developed in this area and one firm has captured 10 per cent of the market.¹ This is not unusual in hardline goods, where manufacturers are relinquishing the wholesale function.

In food, the ten largest wholesale firms accounted for \$4.8 billion¹ of a total market of \$11.6 billion in 1978.² Most of the large firms in this field are closely identified with, and provide a number of services and price advantages to, the independent segment of the retail grocery market.

1 Dun and Bradstreet, Annual Reports, and Distribution Services Branch (DSB) estimates.

2 Statistics Canada, Catalogue No. 63-008.

The wholesale pharmaceutical industry is a little more concentrated, with nine companies accounting for 51 per cent of the market in 1978.¹ Again, these wholesalers support the independent retailer. There are also many small distributors of specialized drug products and most pharmaceutical manufacturers have a direct selling arm to retailers.

There is a greater degree of concentration at the retail level of the general merchandise area: one corporation has 11 per cent of the market. In department store sales, the Hudson's Bay Company, Sears and Eaton's have a combined

TABLE 1
PER CENT DISTRIBUTION OF NUMBER OF ESTABLISHMENTS FOR
WHOLESALE AND RETAIL TRADE BY SALES GROUP in 1978

TOTAL SALES	UP TO 99.9\$T	100\$T TO 499.9\$T	500\$T TO 999.9\$T	1\$M TO 4.9\$M	5\$M TO 9.9\$M	10\$M AND UP	N/R	TOTAL
WHOLESALE TRADE								
- TOTAL	16.1	27.6	11.2	15.5	2.3	2.0	25.2	100
Food	11.3	23.9	12.5	20.3	4.0	4.2	23.8	100
Drugs and Sundries	15.2	22.2	9.6	14.4	3.6	3.6	31.6	100
General Merchandise	14.7	25.4	10.5	15.0	2.5	1.5	30.2	100
Other	16.8	28.4	11.2	15.1	2.1	1.8	24.6	100
RETAIL TRADE								
- TOTAL	34.3	34.1	5.6	4.3	0.5	0.4	20.9	100
Food	33.3	32.2	5.0	3.3	0.2	0.2	25.8	100
Drugs, etc.	10.0	51.6	14.1	7.7	0.4	0.3	16.0	100
General Merchandise	38.7	33.4	5.4	3.4	0.3	0.2	18.5	100
Automotive and Alcohol	27.6	36.9	6.3	7.5	1.4	0.8	19.4	100

Source: Dun and Bradstreet, June, 1979.

¹ Dun and Bradstreet, Annual Reports, and Distribution Services Branch estimates.

market share of more than 75 per cent.¹ Competition is beginning to increase from specialty chain retailers who compete directly with department stores on a commodity basis.

Gross sales of the five largest grocery chains were approximately \$8.4 billion during the 1978 fiscal year.² This total reflects consolidated sales of the chains and their subsidiaries and so cannot be compared directly with the total sales of \$16.3 billion by supermarkets and grocery stores.³ It is estimated that the chains held 60 per cent of the market in 1978, down slightly from 1977.⁴ Competition from convenience store chains and specialty stores is growing.

The market share of chain stores in drug retailing is estimated at 49.5 per cent in 1979, with franchise groups accounting for 56.8 per cent of this total.⁵

Regional Distribution

Regional shares of sales are, of course, closely tied to the size, density and income of the population. Large urban centres have more retail outlets and a greater sales volume than their population would suggest. The most densely populated provinces, Ontario and Quebec, account for more than 60 per cent of retail sales, but Ontario's share has declined over the last decade. During the same period Alberta's share has increased steadily (see Table 2). The growth rate of retail sales fluctuates both nationally and regionally, with Ontario and Manitoba having the lowest regional growth rates in 1979 (see Table 3).

Past Performance

In 1979 the distributive trades sector was made up of some 230,000 firms (see Table 4), employed more than 1.8 million persons (see Table 5) and reported sales in excess of \$160

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- 1 Individual company annual reports and Statistics Canada, Department Store Sales and Stocks, Catalogue 63-002.
 - 2 Dun and Bradstreet, Annual Reports, and Distribution Services Branch estimates.
 - 3 Statistics Canada, Catalogue No. 63- 005.
 - 4 Maclean-Hunter Research Bureau, based on Statistics Canada data.
 - 5 Estimated by Distribution Services Branch.

billion (see Table 6). Its contribution to the Gross Domestic Product was a little more than 11 per cent (see Table 7).

TABLE 2
PER CENT DISTRIBUTION OF ANNUAL RETAIL SALES
IN CANADA BY REGION BETWEEN 1960 AND 1979

	ANNUAL AVERAGE (%)			
	1960-1964	1965-1969	1970-1974	1975-1979
Canada	100.0	100.0	100.0	100.0
Atlantic Provinces	8.4	8.2	8.2	8.1
Quebec	25.6	25.9	25.2	25.2
Ontario	38.2	38.2	38.2	36.6
Manitoba	4.7	4.4	4.4	4.1
Saskatchewan	4.8	4.4	3.9	4.3
Alberta	8.0	7.9	8.1	9.6
Prairie Provinces - Total	17.5	16.6	16.4	17.9
British Columbia, Yukon and the Northwest Territories	10.3	11.1	12.0	12.0

	1974	1975	1976	1977	1978	1979
Canada	100.0	100.0	100.0	100.0	100.0	100.0
Atlantic Provinces	8.1	8.1	8.1	8.0	8.2	8.2
Quebec	25.4	25.3	25.3	25.2	25.0	25.5
Ontario	37.0	37.3	36.8	36.8	36.6	35.7
Manitoba	4.4	4.3	4.2	4.1	4.0	3.8
Saskatchewan	4.2	4.4	4.4	4.2	4.2	4.2
Alberta	8.3	8.9	9.2	9.6	9.9	10.5
Prairie Provinces - Total	17.0	17.5	17.9	17.9	18.0	18.4
British Columbia, Yukon and the Northwest Territories	12.4	11.8	11.9	12.1	12.2	12.2

Source: Statistics Canada. Retail Trade. Catalogue 63-005,
(CANSIM 2431; 78; 2300), July 2, 1980.

TABLE 3
PER CENT CHANGE IN ANNUAL RETAIL SALES
IN CANADA BY REGION BETWEEN 1960 AND 1979

ANNUAL AVERAGE GROWTH RATES (%)						
	1960-1964 ¹	1965-1969	1970-1974	1975-1979		
Canada ²	4.3	5.2	10.4	11.5		
Atlantic Provinces	3.2	6.3	10.7	11.6		
Quebec	6.8	6.4	10.5	11.5		
Ontario	4.0	7.5	9.4	10.7		
Manitoba	1.1	6.4	11.0	8.1		
Saskatchewan	0.5	2.7	13.0	11.1		
Alberta	2.6	8.4	10.8	16.7		
Prairie Provinces - Total	1.6	6.4	11.4	13.3		
British Columbia, Yukon and the Northwest Territories	5.9	8.7	12.0	11.2		

	1974	1975	1976	1977	1978	1979
Canada	16.7	14.9	11.2	7.8	11.6	11.9
Atlantic Provinces	17.5	14.6	11.0	6.4	14.0	12.1
Quebec	17.4	14.4	11.0	7.7	10.4	14.2
Ontario	14.2	15.6	10.0	7.8	10.9	9.2
Manitoba	17.0	10.2	9.8	4.4	8.5	7.8
Saskatchewan	24.2	17.8	12.5	1.9	11.9	11.5
Alberta	21.6	22.0	16.1	12.0	14.7	18.5
Prairie Provinces - Total	21.0	17.9	13.7	7.7	12.6	14.5
British Columbia, Yukon and the Northwest Territories	17.0	9.5	12.3	9.3	13.1	11.5

Source: Statistics Canada. Retail Trade. Catalogue 63-005,
(CANSIM 2431; 78; 2300), June 27, 1980.

1 1960 sales figures from: B. Thériault, Retail Trade Section,
Merchandising and Services Division, Statistics Canada.

2 1960 Canada total includes fuel dealers - 323.8\$M; restaurants -
569.4\$M; and lumber and building supply dealers - 435.9\$M.

TABLE 4
 NUMBER OF ESTABLISHMENTS FOR WHOLESALE AND RETAIL TRADE,
 TRADING HOUSES AND MANUFACTURING IN 1978

WHOLESALE TRADE - TOTAL	47,334
Drugs and Sundries	564
Food	4,382
General Merchandise ¹	4,613
Other Merchandise ²	37,775
RETAIL TRADE - TOTAL	183,465
Drugs and Sundries	4,027
Food ³	56,720
General Merchandise	87,083
Other ⁴	35,635
TRADING HOUSES - TOTAL ⁵	1,100
ALL TRADES - TOTAL	231,899
MANUFACTURING - TOTAL	52,454 ⁶

Source: Dun and Bradstreet, June, 1979.

- 1 Includes wholesalers of general merchandise (SIC 612), tobacco products (SIC 615), apparel and dry goods (SIC 617), household furniture (SIC 618).
- 2 Includes petroleum products (SIC 609), motor vehicles and accessories (SIC 619), lumber and building materials (SIC 626) and wholesalers, n.e.s. (SIC 602, 606, 611, 621, 622, 623, 624, 625, 626, 627, 629).
- 3 Includes retail food stores (SIC 631) -- 23,337; and hotels and motels (SIC 881), lodging houses and residential clubs (SIC 883), camping grounds and trailer parks (SIC 884), restaurants, caterers and taverns (SIC 886) -- 33,383.
- 4 Includes retailers of automotive products (SIC 652, 654, 656, 658), wine and beer stores. (SIC 696).
- 5 Estimated by Distribution Services Branch.
- 6 Canadian Manufacturers' Association total is approximately 31,500 companies (but this figure is low -- according to CMA.)

TABLE 5

DISTRIBUTION OF THE EMPLOYED LABOUR FORCE

BY INDUSTRY IN CANADA DURING 1946, 1977 AND 1979

	1946		1977		1946-1977	1979	
	Number	Proportion of Total, All Industries (Per cent)	Number	Proportion of Total, All Industries (Per cent)	Average Annual Employment Growth Rate (Per cent)	Number	Proportion of Total, All Industries
	(Thousands of persons)		(Thousands of persons)			(Thousands of persons)	
Service Industries	<u>1,937</u>	<u>41.5</u>	<u>6,422</u>	<u>66.6</u>	<u>4.0</u>	<u>6,904</u>	<u>66.6</u>
Trade - Wholesale and Retail	619	13.3	1,679	17.4	3.0	1,806	17.4
Transportation, Storage and Communications	413	8.9	819	8.0	1.8	900	8.7
Finance, Insurance and Real Estate	124	2.7	531	5.0	4.6	553	5.3
Community, Recreation, Business and Personal Services and Public Administration	781	16.7	3,393	35.2	5.2	3,645	35.1
Goods-Producing Industries	<u>2,729</u>	<u>58.9</u>	<u>3,226</u>	<u>33.4</u>	<u>0.6</u>	<u>3,466</u>	<u>33.4</u>
Primary ¹	1,372	29.4	705	7.3	-2.1	756	7.3
Secondary ²	1,357	29.1	2,521	26.1	2.1	2,710	26.1
Manufacturing	1,148	24.6	1,888	19.6		2,070	20.0
All Industries	<u>4,666</u>	<u>100.0</u>	<u>9,648</u>	<u>100.0</u>	<u>2.4</u>	<u>10,370</u>	<u>100.0</u>

Source: Statistics Canada, Labour Force Survey, Catalogue 71-001 (CANSIM 2064),
June 30, 1980.

¹ Includes agriculture, forestry, fishing and mining.

² Includes construction and manufacturing.

TABLE 6
 WHOLESAL AND RETAIL TRADE,
 TRADING HOUSES SALES AND MANUFACTURING SHIPMENTS DURING 1979

	\$ Million
WHOLESALE TRADE - TOTAL ^{1a}	72,574
Automotive	5,767
Drugs and Sundries	990
Food	14,617
General Merchandise	51,200
RETAIL TRADE - TOTAL ^b	89,306
Automotive	23,546
Drugs and Sundries ²	2,398
Food ³	28,810
Alcoholic Beverages ⁴	3,242
General Merchandise	28,310
TRADING HOUSES - TOTAL ^c	5,000
ALL TRADES - TOTAL	161,559
MANUFACTURING - TOTAL ^d	150,249

Sources: a Statistics Canada, Wholesale Trade, Catalogue 63-008, (CANSIM 114), 1979.
 b Statistics Canada, Retail Trade, Catalogue 63-005, (CANSIM 2300), 1979.
 c Estimated by Distribution Services Branch.
 d Statistics Canada, Inventories, Shipments and Orders in Manufacturing Industries (Catalogue 31-001), 1979.

- 1 Excludes SIC 606 (coal and coke products).
- 2 Includes drug stores including proprietary stores.
- 3 Includes annual sales of \$19,488 M from Statistics Canada, Retail Trade, Catalogue 63-005; and annual sales of \$9,322 M from Dun and Bradstreet (Datacrown) to cover sales by hotels and motels, lodging and clubs, campgrounds and trailer camps, and restaurants and taverns.
- 4 Includes annual sales of liquor, wine and beer (except in Quebec, where beer is sold in grocery stores).

TABLE 7
PER CENT DISTRIBUTION OF
GROSS DOMESTIC PRODUCT BY SECTOR IN
SELECTED YEARS BETWEEN 1951 AND 1978

	1951	1961	1971	% 1975	1976	1977	1978
Goods-Producing ¹ Sector	53.4	41.3	37.5	38.0	36.6	35.9	35.6
Manufacturing	29.5	26.0	22.9	21.2	20.8	20.4	20.8
Other	23.9	15.4	14.6	16.8	15.8	15.5	14.8
Service Sector ²	45.6	58.7	62.5	62.0	63.4	64.1	64.2
Trade	10.9	12.7	11.9	12.1	12.0	11.3	11.3
Wholesale Trade	3.9	4.8	5.1	5.1	5.1	4.8	4.8
Retail Trade	7.0	7.8	6.8	6.9	6.8	6.5	6.4
Other	35.7	46.0	50.6	49.9	51.4	52.8	53.1
TOTAL ALL INDUSTRIES	100.00	100.00	100.00	100.00	100.00	100.00	100.0

Source: Statistics Canada, National Income and Expenditure Accounts,
Catalogue 13-001, (CANSIM Matrix No. 563), June 27, 1980.

- 1 Includes agriculture, forestry, fishing, mining, construction and manufacturing.
- 2 Includes transportation; storage; communication; electric power, gas and water utilities; wholesale trade; retail trade; finance, insurance and real estate; public administration and defence; community, business and personal services.

While the size of the sector is impressive, its true importance is situational. Because it is the link between production and consumption, there is often very close co-operation between manufacturers and retailers when markets are being created for new products. Indeed to a certain extent, the sector determines the quality of life: when it is strong, it stimulates the economy; when it is weak, it dampens the level of economic activity.

Yet despite its size and importance in relation to other sectors, there is little contact between it and the federal government. At the same time, wholesalers and retailers have entered a period of instability and opportunity unprecedented in Canadian experience. The industry needs encouragement to grow and to modify its institutional arrangements in order to increase its potential to serve the Canadian economy.

Since 1975, wholesale and retail sales have grown at an average annual rate of more than one per cent (see Table 3). Historically, growth in the sector results from

- increases in per capita disposable income
- population growth
- expanded product mix
- improved merchandise quality
- aggressive merchandising.

Since 1951, the service industries of the economy have increased their share of the Gross National Product from 46.6 per cent to 64.4 per cent in 1978. During the same period the wholesale and retail trade sectors have maintained a relatively stable share with a low of 10.8 per cent in 1951 and a high of 12.7 per cent in 1961 (see Table 7).

Employment

There has been a continuous shift in employment to the service industries over the past 30 years (see Table 5). Between 1946 and 1979, the labour force grew by about five million workers: about 3.4 million of these were employed in the service sector. During the same period employment in the trade sector increased by more than one million, while in the manufacturing industries it increased by only 0.9 million and there was an actual decline of 660,000 jobs in primary industry.

The service sector frequently is the first place of employment and it employs a higher proportion of youths, women and unskilled workers than the manufacturing sector. The importance of the sector as an employer varies from

province to province, but it is particularly significant in the eastern and western regions where there is less manufacturing.

Workers in the distributive trades generally have a low level of skills. Many are first-time workers or second wage earners. There is a high degree of turnover and a low level (10 per cent) of unionization. The retail and wholesale trades employed 1.8 million workers in 1979: this represents 17.4 per cent of the employed labour force out of a total of 20.0 per cent in all manufacturing (see Table 5).

Capital Stock

The rate of growth in capital stock has been lower in the trade sector than in manufacturing (see Table 8). As a result, the capital stock in the wholesale and retail trades as a percentage of manufacturing has been falling steadily since 1961 when it was about 30 per cent. In 1979 it was estimated at 23.4 per cent.

The growth rate of new investment fluctuated considerably: it rose from 2.6 per cent in 1962 to 4 per cent in 1967, then gradually declined to 2.1 per cent in 1971. Significant recovery began in 1974, but with shrinking profit margins in the trade sector and the rising cost of capital, the growth rate of new capital investment fell to a record low of less than 1 per cent in 1979.¹

Productivity

Output per employed worker has grown more rapidly in goods - producing than in service industries (see Table 9).

Within the commercial services sector, output per worker in transportation and communications has increased rapidly because the industry is a heavy beneficiary of advanced technology. Its productivity has outpaced the manufacturing average by about 0.8 percentage points per year since 1950. The increase in output per trade worker has averaged 2.1 per cent a year over the same period; this is only slightly below the national average. The productivity of other components of the service industries are also below national averages. Lower productivity by the commercial service sector is caused by several factors: these include the lower rate of capital employed per worker, the lower level of training and required skills and the faster decline in the hours of work per employee.

¹ Statistics Canada, Fixed Capital Flows and Stocks, Catalogue 15-568 (1926-1978) and 13-211 (1972-1978).

TABLE 8
ANNUAL GROWTH IN GROSS CAPITAL STOCK AND CAPITAL INTENSITY
IN TRADE AND MANUFACTURING
IN SELECTED YEARS

Year	Growth in Gross Capital Stock (%)				Capital Intensity in Trade vs. Manufacturing	
	Trade		Manufacturing		Trade as % of Manufacturing Stock	
	(Current) (\$)	(Constant) (1971 \$)	(Current) (\$)	(Constant) (1971 \$)	(Current) (\$)	(Constant) (1971 \$)
1961	4.9	3.9	4.7	2.6	30.6	29.9
1965	5.9	3.0	12.0	6.1	26.8	28.9
1971	7.6	2.1	10.1	5.0	24.8	24.8
1975	15.4	3.7	19.5	4.7	22.9	23.9
1976	12.5	3.6	13.5	4.2	22.7	23.8
1977	10.7	3.3	11.2	3.8	22.6	23.6
1978	9.0	2.7	11.6	3.2	22.1	23.5
1979	11.9	2.1	12.6	2.7	21.9	23.4

Source: Derived from Statistics Canada, Fixed Capital Flows and Stocks, Catalogue 15-568 (1926-1978) and 13-211 (1972-1978).

TABLE 9
PERCENTAGE CHANGE IN REAL OUTPUT, EMPLOYMENT, MAN-HOURS
OUTPUT PER WORKER AND PER MAN-HOUR, AND CAPITAL/LABOUR
RATIO BY SECTOR IN CANADA BETWEEN 1950 AND 1977

	Average Annual Rates (%)					
	Real Output	Employment	Output per Worker	Man-hours	Output per man-hour	Net capital per employed Worker
All industries ¹	4.7	2.5	2.2	1.8	2.9	3.1
Goods sector	4.5	0.8	3.7	0.2	4.3	4.6
Service sector	4.9	4.0	0.9	3.1	1.8	2.0
Commercial service sector ²	5.1	2.8	2.3	2.2	2.9	2.3

Source: Economic Council of Canada Data Bank.

1 Total output for all industries excludes owner-occupied dwelling rents.

2 The commercial service sector includes wholesale and retail trade, finance, insurance and real estate, and transportation and communications.

Between 1950 and 1977, plant and equipment purchases in the service and goods-producing industries were about the same. However because employment in the service sector rose more quickly, the annual rate of increase in capital per worker has been less than half that in the goods-producing sector. In 1977 the service sector had about 37 per cent less capital in plant, machinery and equipment per worker than the goods sector.¹

Although productivity gains have been lower, workers in the service industries have managed to obtain wage increases of almost the same percentage as workers in the goods-producing sectors. As a result, the relative cost of labour in the service sector has increased nearly twice as fast as its productivity.

The distributive trades have had to be concerned with efficiency and cost savings, but until the mid-seventies they tended to concentrate on pricing, rather than on cost-reduction mechanisms to maintain acceptable levels of profit. Today, rapidly rising costs and consumer resistance to price increases have made efficiency their paramount objective. This has created a wide range of new business format and control initiatives and a new attention to cost-saving detail.

Gross Margins

Gross margins² in the retail trades have been shrinking, according to analysis by Statistics Canada.³ For the sector as a whole, gross margins over the past five years have fallen from 26.7 per cent to 24.2 per cent.

Supermarkets have tended to have even lower gross margins, some as low as 19 per cent. Some of this decrease may have been supported by productivity gains, but most of it occurred at a time of rapidly rising unit costs of labour, energy and land. The reduction in gross margins is also due

1 In 1977 the service sector had invested about \$52,000 in gross capital per worker, while the comparable figure for the goods sector was about \$83,000. These figures are based on Statistics Canada mid-year estimates of gross capital stock in current dollars (see Statistics Canada, Catalogue No. 13-568, 1926-1978).

2 Gross Margin = Net sales minus the cost of goods sold.

3 Statistics Canada, Industrial Corporations (Catalogue 61-003), 1979.

to higher prices and the reluctance of retailers to pass all cost increases on to the consumer.

Gross margins are also falling in wholesaling: they are now at 17.7 per cent, down from 20 per cent five years ago.¹ Wholesale margins are lower from the outset because the marketing effort at the wholesale level does not require the high corporate profile of the retail trade.

It is interesting that gross margins for the total economy have, for the most part, remained unchanged throughout this five-year period. This indicates that cost increases occurring in the manufacturing and other sectors have generally been passed on. This has not been done by the distributive trades, which have borne the negative effects of rapidly rising prices to a greater extent than other sectors.

Debt

The short-term debt load (short-term liabilities) of the distributive trades is extremely high. The Canadian average for all retail trade is 136 per cent and for wholesale trade 182 per cent, compared to 68 per cent for all manufacturing.² This reflects the importance of inventory rather than fixed assets in a typical distribution business.

The cost of debt is extremely volatile in the current economic environment as most of it is short-term and susceptible to the fluctuations in interest rates. This means that any increases in prime rates have a more severe effect on the viability of firms in retail and wholesale than on manufacturing companies. The value of defaults through bankruptcy has doubled between 1977 and 1978 to \$185 million: this represents 30 per cent of the national total. The comparable figures for manufacturing are \$88 million and 14 per cent.³

Rates of Return

Statistics available on rates of return cover only the top one-third of companies in distribution services. While the

1 Statistics Canada, Industrial Corporations (Catalogue 61-003), 1979.

2 Statistics Canada, Corporation Financial Statistics, Catalogue No. 61-207, 1977, Table 2A.

3 Statistics Canada, Commercial Failures (Catalogue 61-002), 1979.

figures are not indicative of the total sector, they are nevertheless significant. In 1977 the after-tax return on capital employed for larger retailers was 15.5 per cent, compared to 6.8 per cent for manufacturing; for the wholesale trade it was 8.1 per cent.¹

Medium-Term Outlook

The prospects of the wholesale and retail sector will vary with changes in the disposable income and the share allocated to consumer goods. With rising energy prices and high interest rates, the share of disposable income spent on energy, shelter and debt servicing will increase. Consequently the total market is not likely to grow substantially in the foreseeable future, so that any absolute increase in the market share of individual companies will be at the expense of other companies competing in the same sub-sector. A recent market innovation has been the move by retailers into the sale of services in an attempt to enhance their market share. The regional exceptions are Alberta and British Columbia where population and income are increasing at a fast rate.

The reverse scenario is equally valid. If consumer expenditures increase, then the distributive trades will have sufficient leeway to change any number of factors: they could reduce their substantial debt load, invest in new technologies and offer more services as well as increase volume buying and selling. Long-term strategic planning is not a strong tradition of the retailing community; however, many members are making decisions on the basis of a pessimistic outlook for at least the next two to three years.

Labour, Technology and Productivity

It has generally been assumed that output and employment in the distributive trades sector were relatively stable and that the relationship between them, "labour productivity," was relatively constant. This assumption was based on limited statistical knowledge and the further assumption that little technological change would take place in the sector.

The medium-term outlook cannot continue to rely on the latter assumption. With the advent of electronic data and communications systems, a great potential now exists for technological and managerial change in retailing and wholesaling. In addition, pressure for growth in real wages has hit the labour-intensive service sector heavily. This

¹ Statistics Canada, Corporation Financial Statistics, Catalogue No. 61-207, 1977, pp. 201, 205 and 209.

has forced competitive managers to concentrate on reducing costs -in particular the cost of their labour input.

In wholesaling, computerization and automation are used increasingly to handle a more varied product mix. Growth in sales may maintain job creation, but it is doing so at a decreasing rate. As wholesalers become more efficient, they may capture some of the distributive functions from manufacturers and retailers and reduce the labour requirements in those sectors.

Technical advances in the retail sector are just beginning to affect employment. Full scanning systems coupled with electronic cash registers will enhance efficiency greatly and eliminate some job requirements. This is already taking place in the food subsector which has gone farther with labour-saving devices than other sub-sectors. Technical advances will undoubtedly dampen the historical trends of job creation.

The rapid growth of the western provinces and the relative decline of central Canada is leading to a redistribution of opportunities and labour requirements across the country. Quebec and Ontario have to be judged as mature markets, with new jobs created through displacement only. They may even be over-stored: future adjustments may well lead to a stabilization in jobs over the next few years. Alberta and British Columbia will continue to create jobs in the distributive trades at a moderate rate.

In response to a rapidly growing consumer demand in the 1970s, the sector expanded through job creation (3 per cent annually; see Table 5) and concentrated on investment in space rather than improved technology. This led to a deterioration in labour productivity, but has been advantageous to the overall Canadian economy in that large numbers of people who would otherwise have been at home or unemployed were contributing to the Gross National Product.

There is an increasing amount of evidence that the distributive trades are reassessing their productivity and labour requirements completely. This is the result of a basic levelling in the growth of consumer demand caused by slow growth in population and consumer spending. Consequently efforts to raise productivity and cut costs are now the central themes in corporate strategies.

Investment in technology rather than space will be intensified. The large number of firms in this sector makes the transition to productive maturity a long one. This factor poses inherent dangers to the smaller businesses that

cannot adapt quickly, and gives large corporations a competitive advantage.

It is generally predicted that the latter half of the 1980s will see labour shortages in the unskilled categories. Even now there are labour shortages in one or two sub-sectors, for example, in fast food outlets. By increasing their productivity, the distributive trades could be in a position to maintain services to the Canadian public when the labour shortages projected for the latter 1980s become acute.

Efficiency

Rising costs, consumer resistance to price rises and a greater concentration of suppliers are some of the reasons why the distributive trades have made improved efficiency a paramount objective. This has created a wide range of new business format and control initiatives and an attention to cost-saving detail which was not apparent five years ago. A revolution is taking place in the distributive trades. The following points illustrate the wide range of new circumstances which are causing it.

The degree of competition varies from one subsector to another and from one region to another, but all companies see expansion of market area as one of the central criteria for growth. This is the main determinant in decisions on capital investment, change in store mix, mergers, acquisitions, and the multitude of other decisions which eventually result in a healthy, competitive environment and an expansion of the national economy. These aspects of the distributive trades make them fundamentally different from the manufacturing sector, yet the criteria currently used to judge the degree of acceptability of structural changes in a sector have a manufacturing bias.

The complex relationships between the retailer, his supplier and the consumer have been interpreted at the government level from the viewpoint of supplier and consumer only. Obligations have been placed on the retailer for which there is no compensation and which entail considerable loss in efficiency. In addition, retailers have had "bad press". The suspicion always exists that the retailers' market conduct is nefarious - note the various provincial price inquiries directed against the retailer, for example, those in British Columbia and Ontario on the retail food industry. These suspicions have not disappeared even though it has been

proved consistently that retail profits are not excessive.

With rapidly rising energy costs, most large companies have hired specialists to coordinate energy conservation programs. One development is the computer-controlled energy management systems. Unfortunately, given the large number of firms in the sector, the dissemination of knowledge on the efficient conservation programs is going to be very slow.

The additional cost of transportation is changing supply patterns and shipping requirements. This is exacerbating supplier-retailer relationships to a certain extent, but it also presents an opportunity to create more efficient movement of commodities.

Management

The distributive trade sector as a whole is going through a period of turmoil unprecedented in Canada. Managers can no longer complacently assume that business will continue in the future as it has in the past. Today, complacency results in being bought out or forced out of the market. The last several years have seen little or no real growth in retail sales over and above floor space increases, which has meant that the competitive situation within the retail trades is becoming even more fierce. In addition, the last two years have seen a growing consumer resistance to rising prices. The early 1980s will be a time when managers will have to interpret and adjust to a new environment governed by factors such as:

- a) a rapidly changing consumer lifestyle and growth in the variety and sophistication of consumer demand (including a possible overall downgrading of consumer expectations);
- b) a geographic supply area which is expanding outside normal channels and familiar business practices;
- c) new areas in management-labour relations (including technological labour displacement);
- d) an economic environment which is basically outside the experience of managers but whose impact pervades their business enterprise.

Many managers will be unable to cope effectively with these changes. The rest will respond by changing supply patterns and merchandising techniques, shifting investment

and controlling costs by improving both efficiency and productivity. Retailers will gradually shift to more highly skilled labour as they incorporate new technology into their businesses. Managers will spend more and more time outside the firm to ensure adequate supplies, preferably from domestic manufacturers who are willing and able to change their commodity lines; otherwise they will have to turn to imports. Productivity improvements through the development of skilled labour and management are receiving greater attention in large firms, but remain a problem for small and medium-sized retailers. This process will create the new type of entrepreneur who is already beginning to affect business practices in this country. This stimulation within the retail trades will provide concepts and products which are bound to be beneficial to the whole Canadian economy.

Investment Climate

The health of this sector is closely tied to the general wellbeing of the consuming public and the general economic conditions. Consequently economic and social developments which affect profits and the availability of (and demand for) funds for inventory, new store developments and improved technology will also affect the investment climate in the sector.

Profitability

The profits of the distributive trades are, and will continue to be, squeezed by inflation and unemployment. Rapidly rising prices are being passed on by manufacturers and importers; this leads to an increase in the cost of equipment and inventory. At the same time consumers are resisting price increases, cutting back on volume, and substituting low for high-value commodities or buying better-quality, more durable products. This process has shrunk gross margins to the point where many firms are in serious financial trouble, and the trend is likely to continue until there is a turnaround in the economy. Until this happens, there is little incentive for new investment. These negative influences are partly offset by an increased emphasis on improvement of productivity and tentative moves to capture a market share in other countries, as well as by the buoyancy in Alberta and British Columbia.

Financing

The need for future financing comes from three sources, each of which exhibits contradictory trends for capital requirements.

First, inventory financing continues to be the major requirement for most wholesale and retail businesses. Because of the current economic situation, a shift is taking place in the way the buyer and the supplier relate to each other over credit. This is creating problems that have not been resolved. Many manufacturers and other suppliers would like to tighten and reduce credit to the distributive trades, but attempts to do so have reduced their sales at a time when there is already a downward pressure on volumes. Retailers also want to reduce their requirements for inventory capital financing, but they want to do so by reducing volumes rather than by changing the financial arrangements with their suppliers. The adjustments to this problem will be as varied as the number of businesses involved but could cause a fundamental shift in the way business is conducted in the country.

The second area of investment financing consists of the long-term capital requirements for new stores, warehouses, and so on. These requirements have been reduced and will continue to decline as retailers in central Canada respond to the slow market growth. Expansion will continue in Alberta and British Columbia, but this will not change the overall downward trend in demand for long-term investment significantly. Developers control a major proportion of the capital funds needed for future expansion. It is now generally recognized that further large regional shopping centre developments will be carried out very selectively in the East although they are still common in the West. Community strip plazas will continue to be built, however, and existing urban space will continue to be refurbished or upgraded for retail purposes. This change will decrease capital requirements generally, but, again, it will be felt more acutely in central Canada than elsewhere.

Thirdly, financing is needed for technological improvements in existing firms. Most large companies can finance this investment because the savings generated by reduced labour and other operating costs, such as energy, will be large enough to pay for it. However small businesses, which make up the vast majority of retail firms, may not benefit from "efficiency savings" to the same extent and could very well fail to obtain the funds required for technological improvements. Solutions to the funding problem could be found in leasing or technical groupings by the small retailers.

Distribution Channels

The changed economic and social conditions that have led to tighter inventory control, less new expansion and an increase

in the use of computer technology have also affected the channels of distribution. The distinct role of the different sectors and the established routes from manufacturers through wholesalers and retailers to consumers are changing in two ways.

First, shrinking gross margins have made retailers more responsive to what consumers want. They will spend time and money to ensure that manufacturers provide goods satisfying given specifications. In some cases, retailers will help organize production lines to ensure that the goods have uniform characteristics and are in stable supply. Increasingly, success demands that manufacturers keep the lines of communication with wholesalers and retailers open, and that they be willing to adapt to new methods and products.

Second, the growing use of computer technology and the increasing size of some firms have led to an integration of information systems between the distribution and manufacturing sector. This trend, started in response to supply problems, is still spotty, but is likely to expand. In one way or another, retailers are becoming major decision-makers within the manufacturing process.

The strong influence of the distributive trades on manufacturing is not as apparent in manufacturing sectors with a large export component. But even here, manufacturers of consumer goods for export will seek the advice of wholesalers and retailers because of their knowledge of market characteristics and marketing challenges.

External Orientation

The constant pressure to excel, especially in a market with poor growth potential, has induced several of the larger Canadian companies to investigate the possibility of expanding beyond the domestic market. The size and diversity of the industry, its management capability, its link to the Canadian consumer and its involvement in overseas trade are all factors that can allow it to make a greater contribution towards a positive Canadian international trade and balance of payments position. This contribution can be broken into at least four interrelated areas of endeavour: import replacement, export opportunities, invisible outflows and foreign ownership.

Import Replacement

The potential for import replacement comes from two areas. First, the sector is a major buyer of materials and

store equipment for its own use; second, it is also the direct buyer of consumer goods for resale. A significant portion of both types of product is imported.

In addition to the requirement for new expansion, merchandising has a constant need to revitalize existing stores by upgrading and modernizing layouts and fixtures in order to maintain the store's image and competitive position. Many of these materials and products are not bought from Canadian sources even though the Canadian market is sufficiently large to support Canadian manufacture for many items. To match retail and wholesale demand with manufacturers' supply will take concerted and united effort at a level not normally found due to the diversity and number of businesses. However, retailers are beginning to coalesce into groups or utilize groups or agencies able to understand and transmit their requirements to manufacturers. Canadian manufacturers need to be made aware of the requirements of the sector and be encouraged to establish new product lines specifically for it.

The distributive trades are most conscious of the fact that their health depends upon the prosperity of the Canadian consuming public. Thus they have supported programs and policies that would increase national prosperity. In fact, there is a constant flow of information between some retail companies and some manufacturers, but the advantages of this would be much greater if it involved all sectors - distribution, manufacturing, and, where appropriate, government. Canadian production of goods for Canadian consumers would gain from faster and universal information channels between these sectors.

Export Opportunities

The Canadian wholesale and retail community has begun looking at new areas of endeavour in light of a long-term structural slow-down in the rate of growth in the domestic market. One avenue of expansion receiving increasing attention is marketing abroad; particularly into the United States, but also into other countries. It has been stressed that the basic strength of the distributive trades is their expertise in marketing and their understanding of the operation of market channels. Wholesalers in particular have the double advantage of facilities as well as a wide range of products. Some of these could be competitive in almost any market.

Two areas of hesitation are slowing down the rate of entry by this type of Canadian businessman into the export market. The first is that those who have excellent contacts for imports have not actively pushed for an effective two-way

flow of commodities. The second area is felt to be a lack of the additional requisite management and management's unwillingness to participate in adventures abroad. There is a need to address these problems as most companies that have entered the international sphere do become committed to that kind of activity.

Invisible Monetary Flows and Foreign Ownership

In the service sector, Canada has the worst record for invisible monetary flows in the Organization for Economic Co-operation and Development. The recent increase in acquisitions of small retail chains by Canadian companies, primarily in the United States, represents the first steps toward the creation of Canadian-owned distribution multinationals. Because the capital-to-sales ratio is low, acquisitions in the service sector do not require as large an outflow of money as manufacturing acquisitions. The possibilities of royalties, profits and other invisible flows coming back to Canada would thus occur earlier than would normally be expected.

The trend so far has been for Canadian parents to supply some goods to their foreign acquisitions from the distribution system in Canada. While this supply practice has limits, it does provide an additional market channel for Canadian producers into markets where they may have had difficulty becoming established in the past.

There has also been a growing trend toward foreign acquisitions in the Canadian service industry. It is recognized that such acquisitions contribute little to the Canadian economy and have the potential to cause serious long-term disruptions to government objectives. This trend needs to be understood and discouraged in order to retain the dominant position of Canadians in this sector; at the same time it should be recognized that the total service sector is becoming more international in its orientation.

Policy and the Regulation Process

Government policy in the past has been formulated to meet particular objectives in primary and secondary sectors or to meet social objectives, but the distributive trades have been essentially left out of policy development. This situation has come about because of the innocence with which government views the distributive trades - a situation which government is currently trying to correct through a formal consultative process. Even though the magnitude and heterogeneity of the sector seems overwhelming, government is trying to determine

how policy written to solve problems in other areas will affect the distributive trades.

The regulatory process is another area where frequent and in-depth consultation is needed, even in areas where clientele other than the distributive trades are being served. Because of their function as the domestic market channel, the distributive trades can make positive comment on a wide range of regulations. In the process this can reduce possible inefficiencies or profit losses and enhance the trades' ability to service the consuming public.

The amount of work required for action to result from the consultative process is substantial, but the payoffs can be great. In addition, if and when cooperation between government and the distributive trades becomes closer, it could lead to substantial increases in the ease with which their respective objectives are met. Such cooperation requires an informed understanding by government of the business climate and the requirements of the sector, and an informed understanding of government processes and objectives by businessmen in the sector.

Social Contributions

The above sections have dealt mainly with the economic issues of sales, employment, investment, capital stock and location. However, the primary objective of the distributive trades is to serve consumers by ensuring that they obtain the goods and services they want, when and where they want them. The efficient execution of these functions creates a flexible society, eases the attainment of social and economic goals, and contributes to a rising standard of living for Canadians.

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APPENDICES

APPENDIX 1

CENTRES OF RESPONSIBILITY TO WHICH RECOMMENDATIONS ARE DIRECTED

The recommendations listed below have been abbreviated to conserve space and do not always completely reflect the full intention of the complete recommendation and its accompanying text, contained in the body of the Report. They are listed here in abbreviated form for the purpose of allowing easy identification of the areas of responsibility to which they are directed. The last column shows on which page the complete recommendation is contained.

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
1. The Minister of Industry, Trade and Commerce should constitute a continuing Distributive Trades Advisory Committee to advise governments on issues under federal jurisdiction that affect the distributive trades.	X			Page 1
2. FIRA should recognize that excessively strict treatment of foreign investors in this sector could adversely affect Canadian opportunities for international expansion.	X			Page 6
3. FIRA should allow foreign MNE takeovers in certain cases where it is in the best interests of Canada and/or Canadians.	X			Page 7
4. FIRA should review its past rulings to examine their impact on the economy and jobs for Canadians; this information should be taken into consideration in future decisions.	X			Page 7

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
5. ITC should ensure that government policy formulation and implementation takes into account the potential of the distributive trades for increasing their contribution to the economy of Canada.	X			Page 8
6. ITC should place a high priority on reviewing the most important federal regulations and policies that affect the distributive trades.	X			Page 9
7. The distributive trades should be made fully eligible to participate in all federal programs which favour the manufacturing sector.	X			Page 12
8. An examination should be made of all federal and provincial programs that might be useful to the distributive trades to ensure that they are eligible to participate in these programs.	X	X		Page 13
9. The federal government should focus greater attention on involving the distributive trades in increasing the export of products and services.	X			Page 14
10. The scope of such programs as the Business Opportunities Sourcing System, and the collection of information by Statistics Canada should be broadened to include the interests of the distributive trades.	X			Page 15

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
11. The recommendations made by the Honourable Mr. Justice H.F. Gibson regarding the Canadian Dairy Commission's dealings with private sector exporters should be adopted for all marketing boards or government sponsored agencies.	X			Page 15
12. Education in international trade should be actively encouraged through the publication of an educational directory and other means.	X	X		Page 16
13. Government and industry should place greater priority on ensuring that food products for export are properly inspected and handled.	X		X	Page 16
14. Trade commissioners should be encouraged to provide prompt information to Canadian exporters on the reliability of foreign buyers.	X			Page 17
15. The Export Development Corporation's policies should be modified to include recognition of the distributive trades' special needs.	X			Page 17
16. Government should promote better understanding of trading houses.	X			Page 17
17. Current government efforts to develop a better system of rewards for exporters through such means as tax incentives and official recognition through awards, plaques or publicity should be continued.	X			Page 17

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
18. The recommendations of the Export Promotion Review Committee should be supported, with the proviso that trading houses and other distributive trades exporters be recognized for their contribution.	X			Page 17
19. To ensure government policy formulation is truly representative of industry-wide interests, suppliers, manufacturers, wholesalers, importers, retailers and representatives from all employment-sectors must be involved in assessing the impact of trade restrictions.	X			Page 20
20. Restructuring and adjustment programs established to deal with problems occurring as the result of special trade policy positions should be applicable to the industry as a whole.	X			Page 21
21. A schedule of quota reductions should accompany any decisions by committees advising on import quotas.	X			Page 21
22. Sectors in which quotas restricting import volume are applied should be closely monitored by government to ensure that sub-sectors being helped under the program are achieving the goals the program is designed to help them attain.	X			Page 21
23. Any special trade policy to restrict imports into Canada should be drawn up on the advice of industry-wide committees.	X			Page 22

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
24. Domestic restructuring programs designed to enable producers to become internationally competitive must stress and give credit for exports and export efforts undertaken by the domestic producer.	X			Page 22
25. The Minister's Advisory Panel on Textiles and Clothing is judged to represent primarily a consensus of the manufacturing sector only. It should therefore be replaced with a body representative of the clothing industry.	X			Page 22
26. Provincial and federal legislation concerning consumers should be summarized within one publication.	X	X		Page 23
27. A federal-provincial task force should be created with the aim of removing discrepancies and establishing a common standard for consumer protection.	X	X		Page 23
28. Government should begin dismantling those marketing-board policies that unduly distort the relation between market and production.	X	X		Page 25
29. A model franchise regulatory act should be drawn up by the Uniform Law Conference of Canada.	X	X		Page 29

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
30. A study should be undertaken by the proposed continuing Distributive Trades Advisory Committee to assess the impact of electronic merchandising on the distributive system.			X	Page 34
31. Retailers should actively participate in the Telidon field trials on teleshopping.			X	Page 34
32. Landlords should be encouraged to continue to derive their return on investment solely from the payment of rental charges and not from rechargeable expenses.			X	Page 36
33. Trade associations should be encouraged to cooperate with landlord organizations in the development of guidelines for shopping-centre rechargeable expenses.			X	Page 36
34. The Canadian Institute of Chartered Accountants should be asked to provide guidance in reviewing model accounting standards for calculating disclosure of rechargeable expenses and in establishing standards and their use.			X	Page 36
35. When the Retail Council's Committee on Recharges has completed the suggested clauses dealing with recharges for inclusion in leases, these clauses should be made available to all retailers and landlords for their consideration.			X	Page 37

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
36. Manufacturers, suppliers and the Canadian Standards Association should collaborate to standardize case sizes to fit as unit loads on transportation pallets of standard dimensions.			X	Page 38
37. The proposed continuing Distributive Trades Advisory Committee should promote the acceptance of the Census of Merchandising in the industry.			X	Page 39
38. Retailers and wholesalers should pay particular attention to the transportation alternative provided by air cargo. They should also inform themselves about the distribution-system research program available from Air Canada.			X	Page 40
39. The federal government's efforts to improve productivity and efficiency in the retail sector should be supported and continue at a vigorous pace. The government should consider carrying out similar studies for the wholesale trade.	X			Page 41
40. The proposed continuing Distributive Trades Advisory Committee should study the profitability to the industry of Sunday openings and/or extended store hours, and the impact any changes might have on society.			X	Page 42

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
41. Industry associations should seek human resource planning agreements with the Canada Employment and Immigration Commission to determine the applicability and suitability of existing training programs to the needs of the sector.	X		X	Page 45
42. The Minister of Industry, Trade and Commerce and/or the Minister of State for Small Business and Tourism should co-sign human resource planning agreements as appropriate.	X			Page 45
43. Funds should be made available to industry associations to assist in development costs of new courses, training aids and seminars.	X	X		Page 46
44. CEIC and provincial governments should review existing training programs to determine whether trainees enter the fields for which they have been trained.	X	X		Page 46
45. The issue of management training should be tackled in the context of human resource planning agreements.	X		X	Page 47
46. CEIC and industry associations should prepare and deliver information on training programs through vehicles such as trade publications.	X		X	Page 48
47. A committee on human resources should be struck as a subcommittee of the proposed continuing Advisory Committee and labour be represented on both committees.	X		X	Page 49

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
48. A Labour Market Intelligence Service should be established within the Department of Employment and Immigration to collect and disseminate information through vehicles such as trade publications.	X			Page 50
49. Existing tax concessions should be amended to include all professionals who wish to participate in upgrading programs, regardless of their employment status.	X			Page 51
50. Federal and provincial departments and agencies should examine the feasibility of extending training to permanent part-time employees and compile improved statistics on part-time employment.	X	X		Page 52
51. The implications of electronic data processing on employment should be examined in the context of human resources planning agreements.	X		X	Page 52
52. The federal government and industry should support the immediate establishment of a Distributive Trades Energy Conservation Task Force.	X		X	Page 57
53. Energy conservation programs and research and development aimed at the special needs of wholesalers and retailers should be increased and strongly supported.	X	X		Page 57

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
54. Funding of energy conservation research and development should be increased by both government and industry.	X	X	X	Page 58
55. Government should broaden the range of energy saving equipment and materials that are exempt from sales tax.	X	X		Page 59
56. Mechanisms for transferring energy conservation technology to wholesalers and retailers should be actively pursued.	X	X		Page 59
57. Government, in consultation with industry, should make greater efforts to plan for disruptions in energy supplies.	X			Page 59
58. To maximize load carrying, greater standardization should be sought between provinces in such things as vehicle weights, axle requirements and so on.	X	X	X	Page 60
59. The work initiated on vehicle standardization by the Council of Ministers Responsible for Transportation and Highway Safety and the Transport Canada Highway Transportation Research and Development Advisory Board should be supported, encouraged and given more priority.	X	X		Page 61
60. To save energy, government should permit increased truck lengths and ease transportation regulations concerning the backhaul portion of journeys.	X	X		Page 61

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
61. Improved commercial-vehicle driver training should be encouraged and supported by governments and industry in the interests of energy conservation.	X	X	X	Page 62
62. The work on driver training for energy saving started by the Transportation Development Centre of Transportation Canada should be actively pursued in cooperation with the provinces and industry, especially through the development of curricula and demonstration programs.	X	X	X	Page 62
<u>Interim Report</u> 1.a) Revenue Canada should eliminate the distinction it now makes between the manufacturing sector and the distributive trades with respect to accelerated depreciation. b) Two-year writeoffs for tax purposes should be extended to include such items as electronic, automated and energy equipment. c) Three year writeoffs should be allowed for fuel-efficient trucks.	X			Page 70
2.a) In the short run, the inventory tax credit should be raised from 3 per cent to 10 per cent to more closely parallel the effects of the shift from FIFO to LIFO accounting procedures in the U.S. and the true impact of inflation on the overstating of corporate incomes.	X			Page 72

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
b) In the long run, accounting principles in Canada should be gradually changed to the LIFO system, which should pay attention to the simplification of accounting procedures.	X			Page 72
3.a) The Small Business Loans Act should be available for working capital. b) Financing under the Small Business Development Bond should be used for working capital. c) The SBDB time frame should be extended indefinitely and be used up to a maximum of \$500,000 in as many individual bonds as are needed by retailers and wholesalers to develop their business potential. d) The federal government should promote a wider level of awareness of the SBDB and the SBLA in the business community and encourage commercial banks to broaden their participation in these loan programs. e) The terms of the SBDB should be extended to 1990.	X X X X			Page 74
4. The indexation feature of the personal income tax should be retained in its present form.	X			Page 76

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
<p>5.a) The National Energy Program should be amended so that Canadian wellhead prices for oil reach 75 per cent of the F.O.B. international price by 1985 and be tied to the world price at that ratio thereafter.</p> <p>b) Efforts should be redoubled to secure a solution to energy pricing and revenue sharing between the federal and provincial governments and producers as soon as possible.</p> <p>c) The oil sands projects should be undertaken as quickly as possible and a scheduling commitment be obtained from sponsoring oil companies.</p> <p>d) Energy-usage shares should be monitored closely and programs adjusted where necessary to ensure that objectives on oil substitution are achieved.</p>	<p>X</p> <p>X</p> <p>X</p> <p>X</p>	<p>X</p> <p>X</p> <p>X</p>	<p></p> <p>X</p> <p>X</p>	<p>Page 77</p>
<p>6.a) The direction contemplated in the proposed amendments to monopoly power should be changed to deal with <u>misuse</u> of a dominant position in the case of mergers and acquisitions.</p> <p>b) Certain examples of anti-competitive behaviour should be reconsidered in view of the fact that they may well be examples of pro-competitive behaviour.</p>	<p>X</p> <p>X</p>	<p></p>	<p></p>	<p>Page 79</p>

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
<p>c) The Committee supports the 29 June 1981 submission of the Retail Council of Canada to the Minister for Consumer and Corporate Affairs and requests further consultation with the distributive-services sector before changes in legislation are tabled in Parliament.</p>	X			Page 79
<p>7.a) The Committee recommends adoption of the following recommendations made by the Economic Council of Canada in its report entitled <u>Reforming Regulations - 1981</u>: regulatory restrictions on the operating freedom of existing for-hire motor carriers should be removed; the present cumbersome and often costly process for obtaining trucking licenses should be replaced by one in which the regulatory board maintains requirements on bonding, insurance and vehicle registration and issues licenses on a first-come basis; price regulations and formal requirements for rate filing in trucking should be abolished but provincial regulatory boards should retain broad powers to obtain rate information as they deem necessary; the definition of private carriage in trucking should be expanded to include transport by members of a corporate family when affiliate firms are controlled by a parent organization.</p>	X	X		Page 81
<p>b) Private carriers should be permitted to move goods for compensation on the backhaul portion of their journey.</p>	X	X		

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
<p>c) <u>The Economic Council's report, Reforming Regulations - 1981, particularly the part on trucking deregulation, should be a priority at the next First Ministers' meeting, and First Ministers should acknowledge the need for deregulation in the trucking industry and take steps to start this deregulation process.</u></p>	X	X		Page 82
<p>8. Statistics Canada should review its efforts in the distribution-services sector: its decision to cancel the 1981 Census of Merchandising should be reversed; it should review its definitions of commodity categories and trading area boundaries, what statistics are collected and from where, definitions of retailers and of independents versus chains; it should also consider establishment of a permanent users group within the distributive trades to work with Statistics Canada to ensure that appropriate material is collected.</p>	X			Page 83
<p>9.a) The new agency established to administer the textile-and-clothing-sector adjustment program should include distribution-services representation on the Board and provide continual consultation with the distribution-services sector.</p> <p>b) Similar agencies, if established, for example on footwear, need distribution-services sector representation.</p>	X			Page 85

Recommendation	Federal Government	Provincial Government	Industry	Complete Recommendation
<p><u>Resolution:</u> The Department of Finance should be requested to rescind changes in the Excise Tax Act pertaining to the shift in excise tax from the manufacturer to the distributor and the definition of who is or is not a manufacturer or wholesaler. (This resolution was formulated at the first meeting of the Committee and was sent immediately to the Minister of Industry, Trade and Commerce.) The Committee also strongly recommended that the Department of Finance refer the proposal introduced in the November 1981 budget to shift the federal sales tax from the manufacturing to the wholesale level to a Parliamentary Committee.</p>	X			Page 87

APPENDIX 2

RESPONSE OF THE FEDERAL GOVERNMENT TO THE
SEPTEMBER 1981 INTERIM REPORT OF THE
DISTRIBUTIVE TRADES CONSULTATIVE COMMITTEE

Accelerated Write-offs

Recommendation 1

That the accelerated write-off provision available to manufacturers and processors be broadened to include the distributive trades sector.

Federal Response

The Budget did not broaden the two-year write-off to include additional sectors such as the distributive trades.

Committee Position

The industry notes the lack of a positive federal response to the above recommendation and urges action at an early date.

Accounting for Inflation

Recommendations 2

That the inventory tax credit be raised from 3 per cent to 10 per cent to parallel more closely the effects of a shift from FIFO to LIFO accounting procedures already in place in the U.S. and to reflect the true impact of current inflation rates on the overstating of corporate incomes.

That accounting principles in Canada be shifted to reflect the effect of inflation on companies' financial positions and that the LIFO system eventually adopted pay attention to simplification of accounting procedures.

Federal Response

The Budget did not contain any provision with respect to adjustment of the inventory tax credit nor did it address a possible shift from FIFO to LIFO accounting procedures.

Committee Position

The Committee regrets that the 1981 Fall Budget failed to consider the matters contained in the above recommendation and hopes that the government will re-examine its position in the next Budget.

Small Business Loans Act and
Small Business Development Bond

Recommendation 3

That financing through the SBLA and SBDB be available for working capital.

That the time frame of the SBDB be extended indefinitely and its term extended to 1990, and that it be utilized up to a maximum of \$500,000 in as many individual bonds as retailers and wholesalers need to develop their business potential.

That more extensive federal advertising of the SBDB and SBLA and greater participation by the banks in the program be encouraged.

Federal Response

A number of major revisions were made to the Small Business Development Bond including its retitling as the Small Business Bond (SBB). The Bond has been extended until the end of 1982 and its coverage broadened to take in farmers, fishermen, and other unincorporated businesses. Existing arrangements whereby a businessman may not finance more than one bond have been modified so that as many bonds as necessary can be used, up to a maximum of \$500,000. Given that the bond now focuses on financial hardship, financing under the SBB can be used for working capital.

No amendments were made to the Small Business Loans Program in the Budget.

Committee Position

The action taken by the government on this matter does not adequately meet the concerns of the Committee as expressed in the above recommendation. The Committee believes that the recent revisions to the SBB program, have generally diminished the value of the bond to small firms in this sector.

Indexing of Personal Income Tax

Recommendation 4

That the indexation feature of the personal income tax be retained in its present form.

Federal Response

As part of the Budget, it was announced that the government will continue to index personal exemptions and tax brackets.

Committee Position

The Committee notes the positive action on the part of the government and urges continuation of the indexation feature in personal income tax.

National Energy Program

Recommendation 5

In its original recommendations, the Consultative Committee called for Canadian wellhead prices to reach 75 per cent of international prices by 1985 and be tied to that ratio thereafter. The Committee also requested the establishment of an energy-pricing and revenue-sharing agreement at the earliest opportunity. It also asked that the various oil sands projects be undertaken as quickly as possible and that the necessary programs be adjusted to ensure that the country's objectives on oil substitution are achieved.

Federal Response

Essentially, the concerns of the Consultative Committee were largely alleviated with the Canada-Alberta agreement on energy pricing. Negotiations are continuing on such matters as offshore energy development and the oil sands projects.

Committee Position

The Committee urges speedy resolution of outstanding matters such as offshore energy developments so that the country's objectives on energy self-sufficiency can be achieved.

Combines Legislation

Recommendation 6

That the direction contemplated in the proposed amendments to the Combines Legislation with respect to monopoly power be changed in favour of an approach which deals with misuse of a dominant position in the case of mergers and acquisitions.

That certain proposed examples of anti-competitive behaviour be reconsidered.

That there be additional consultation with the distribution services sector before any proposed changes in the legislation are tabled in Parliament.

Federal Response

No formal response to date; however ministerial assurances have been given that the amendments will be substantially revised to take into account the comments from a number of business groups, including the Distributive Trades Consultative Committee.

Committee Position

It is the continued hope of the Committee that its views on this matter will be taken into consideration in the forthcoming amendments.

Trucking Deregulation

Recommendation 7

That recommendations on trucking deregulation as outlined in the Economic Council of Canada's report entitled "Reforming Regulations - 1981" be adopted.

That trucking deregulation be a priority of the next First Ministers' meeting.

Federal Response

No action to date.

Committee Position

The Committee has learned that some provinces are proposing positive action along the lines of the above recommendation and urges that the federal government and other provincial governments undertake similar action.

Statistical Data Gathering and Analyses

Recommendation 8

That Statistics Canada should totally review its efforts in the distribution services sector in terms of:

- a) reversal of the decision to cancel the 1981 Census of Merchandising;
- b) definitions of commodity categories and trading area boundaries;
- c) what is collected, how often and from what geographic territory;
- d) definitions of retailers and of independents versus chains;
- e) the establishment of a permanent consultative users group within the distributive trades to interact with Statistics Canada on an ongoing basis.

Federal Response

No specific response to the Census of Merchandising; however, meetings have been undertaken by ITC and Statistics Canada officials to see where better information systems can be developed.

Committee Position

The Committee notes the ongoing consultation between ITC and Statistics Canada and looks forward to an early positive reaction to its recommendations.

Distribution Services Contribution
To Adjustment Agencies

Recommendation 9

That the new agency established to administer the textile and clothing sector adjustment program include on the Board distribution-services sector representation and provide continual consultation with that sector.

That similar agencies, if established, for example on footwear, need distribution-services sector representation.

Federal Response

A senior representative from a major firm in the distributive trades has been appointed to the Canadian Industrial Renewal Board.

Committee Position

The Committee is pleased to note the appointment of a representative of the distributive trades to the Canadian Industrial Renewal Board and continues to urge similar action in like situations.

Excise Tax

(This resolution was submitted to the Minister after the first meeting of the Committee)

That the shift to a wholesale tax on cosmetics be removed and no further moves be made towards a generally applied wholesale tax.

Federal Response

The Budget resulted in a general shift of the federal sales tax to the wholesale level. An additional tax will be imposed upon large retailers who purchase directly from manufacturers. It is proposed that these changes go into effect 1 July 1982.

Committee Position

The Committee believes that the government has not adequately considered the effect of its actions in this area on firms in the distributive trades and wishes to continue to express its dissatisfaction with the direction of government policy on this matter. It strongly recommends that the Department of Finance refer the proposal to shift the federal sales tax from the manufacturing to the wholesale level to a Parliamentary Committee.

APPENDIX 3
THE EXTENT OF REGULATIONS IN CANADA

THE SCOPE OF REGULATION IN CANADA

- | | | |
|---|--|---|
| <ul style="list-style-type: none">◦ Communications<ul style="list-style-type: none">BroadcastingRadio (AM, FM)TelevisionTelecommunicationsTelephoneTelegraphSatelliteCable TV
◦ Consumer Protection/Information<ul style="list-style-type: none">Disclosure (product content labeling, terms of sale, etc.)False and Misleading AdvertisingSales Techniques (merchandising)Packaging and LabellingProhibited Transactions, e.g., pyramid sales, referral salesWeights and Measures
◦ Cultural/Recreational<ul style="list-style-type: none">Residency requirementsLanguage (bilingualism)Canadian content in broadcastingHorse RacingGambling (lotteries)SportsFilm, Theatre, Literature, Music, e.g. Canadian content
◦ Energy<ul style="list-style-type: none">NuclearNatural GasPetroleumHydro-electricCoal
◦ Environmental Management<ul style="list-style-type: none">(a) Pollution Control<ul style="list-style-type: none">airwatersolid waste disposal(b) Resource Development<ul style="list-style-type: none">mineralsforestrywater(c) Wildlife Protection<ul style="list-style-type: none">huntingfishingparks/reservesendangered species | <ul style="list-style-type: none">(d) Land Use<ul style="list-style-type: none">planning/zoningdevelopment approvalsub-divisionstrata-title
(e) Weather Modification
◦ Financial Markets and Institutions<ul style="list-style-type: none">BanksNon-banks<ul style="list-style-type: none">Trust CompaniesManagement CompaniesFinance CompaniesCredit Unions/
Caisses PopulairesPension PlansSecurities/CommoditiesTransactionsInsurance
◦ Food Production and Distribution<ul style="list-style-type: none">(a) Agricultural Products<ul style="list-style-type: none">Marketing<ul style="list-style-type: none">pricinggradingstoragedistributionentrysupply(b) Fisheries (marine, freshwater)<ul style="list-style-type: none">priceentryquotasgear
◦ Framework<ul style="list-style-type: none">Competition PolicyAnti-dumping lawsForeign Investment Review ActBankruptcy lawsCorporation lawsIntellectual and Industrial<ul style="list-style-type: none">Propertycopyrightindustrial designpatentstrade marksElection lawscontributorsspendingreporting
◦ Health and Safety<ul style="list-style-type: none">(a) Occupational Health and Safety | <ul style="list-style-type: none">(b) Products — Use<ul style="list-style-type: none">explosivesfirearmschemicals
(c) Product-Characteristics<ul style="list-style-type: none">puritywholesomenessefficacyaccident risk
(d) Building Codes
(e) Health Services<ul style="list-style-type: none">nursing homesprivate hospitalsemergency services
(f) Animal Health
(g) Plant Health
◦ Human Rights<ul style="list-style-type: none">Anti-discrimination legislation in respect to hiring, sale of goods or services etc.Protection of privacy, personal information reporting
◦ Labour<ul style="list-style-type: none">Collective bargainingMinimum wage lawsHours of work, terms of employment
◦ Liquor<ul style="list-style-type: none">Characteristics, e.g. alcoholic contentDistribution and sale
◦ Professions/Occupational Licensure<ul style="list-style-type: none">Certification/LicensureRegistrationApprenticeship
◦ Transportation<ul style="list-style-type: none">Airlines (domestic, international)Marine (domestic, international)RailwaysInter-city BusesTaxisPipelinesTrucking (inter and intra-provincial)Urban Public TransitPostal Express
◦ Other<ul style="list-style-type: none">Rent controlMetricationGeneral wage and price controls |
|---|--|---|

Source: Economic Council of Canada, Responsible Regulation, An Interim Report, November 1979, p. 11, Table 2-1.

TABLE 2

FEDERAL REGULATORY STATUTES BY YEAR OF ORIGINAL ENACTMENT OR ENACTMENT OF THEIR PREDECESSOR

Type of Statutes	pre- 1870	1870- 79	1880- 89	1890- 99	1900- 09	1910- 19	1920- 29	1930- 39	1940- 49	1950- 54	1955- 59	1960- 64	1965- 69	1970- 74	1975- 78	Number of Statutes in 1978
Agriculture					1	1	1	3			1		1			8
Communications	1					1		1								3
Energy					1	1			2				1		2	7
Environmental and Resource Management					1	1	1			1				3	2	9
Financial Markets and Institutions					1	2		3		1				1	1	14
Fisheries	2						1	2	1	3			1			10
Framework	2		2		1	1								2	1	9
Health and Safety	2				2	5	1			1	1		1	2	1	16
Information and Standards:																
Agricultural		1	1		2	1	1	2			1					9
Other	3	1		1	1	1		1				1		3	1	13
Intellectual Property	2				2											4
Occupational Health, Safety and Fairness		1		1	1			1		1				1		6
Transportation	7	5	2			2	2	2		2		1	1	2	2	28
Miscellaneous	1	1						1							1	4
Total	25	9	5	2	13	16	7	16	3	9	3	2	5	14	11	140

SOURCE: Economic Council of Canada, Responsible Regulation,
An Interim Report, November 1979, p. 121, Table B2-1

TABLE 3

PROVINCIAL REGULATORY STATUTES BY DATE OF ORIGINAL ENACTMENT OR
ENACTMENT OF THEIR PREDECESSOR

	pre- 1870	1870- 79	1880- 89	1890- 99	1900- 09	1910- 19	1920- 29	1930- 39	1940- 49	1950- 59	1960- 69	1970- 78	Total*	% enacted after 1960	% enacted before 1920
Alberta	0	3	11	11	10	15	10	16	19	20	29	29	173	34	29
British Columbia	13	8	4	17	10	15	14	18	16	20	12	32	179	25	37
Manitoba	0	15	12	5	5	17	6	13	17	16	15	18	139	24	39
Ontario	20	6	8	8	10	14	17	12	19	20	34	36	204	34	32
New Brunswick	16	4	3	4	6	12	8	15	11	21	18	23	141	29	32
Newfoundland	15	5	3	8	6	9	8	12	7	24	34	29	160	39	29
Nova Scotia	22	3	5	6	7	13	10	12	12	15	23	24	152	31	37
Prince Edward Island	9	4	1	2	2	2	11	12	16	14	20	19	112	35	18
Quebec	30	8	7	4	12	13	17	19	11	8	13	24	166	22	45
Saskatchewan	0	3	12	6	15	23	11	25	20	19	20	28	182	26	32
Total	125	59	66	71	83	133	112	154	148	177	218	262	1608	30	33

SOURCE: Economic Council of Canada, Responsible Regulation, An Interim Report November 1979, p. 122, Table B2-2.

TABLE 4
NUMBER OF PROVINCIAL REGULATORY STATUTES BY FUNCTIONAL AREA IN 1978

	Alta.	B.C.	Man.	N.B.	Nfld.	N.S.	Ont.	P.E.I.	Que.	Sask.	Total	%	No. of Statutes Passed in	
													1960s	1970s
Agriculture & Fisheries	10	12	8	12	10	12	20	13	7	11	115	7.2	16	10
Consumer Protection, Information, and Registration	7	12	6	4	8	8	9	4	7	9	74	4.6	21	25
Culture and Recreation	5	8	8	6	8	9	9	7	9	9	78	4.9	10	10
Energy	14	9	7	5	6	5	6	3	7	9	71	4.4	7	17
Environment	4	4	1	2	1	2	4	1	1	3	23	1.4	7	13
Resource Management	14	11	11	11	11	7	13	4	11	17	110	6.8	10	17
Financial Mkts & Institutions Framework	7	11	5	9	7	9	13	4	9	8	82	5.1	10	14
Health & Safety:	11	11	11	11	12	14	12	11	21	17	131	8.1	14	11
Health Facilities	9	6	9	5	8	6	19	6	4	8	80	5.0	14	11
Other	8	8	5	8	9	8	11	5	6	7	75	4.7	11	13
Land Use/ Planning	3	2	4	2	4	1	5	3	2	4	30	1.9	7	7
Liquor Licensing	2	2	1	2	2	1	3	1	3	2	19	1.2	0	5
Licensing:														
Professions/Occupations	30	29	31	31	22	29	18	18	28	38	274	17.0	37	30
Business	15	13	7	8	14	10	13	9	12	14	115	7.2	25	35
Occupational Health, Safety and Fairness	8	17	10	10	19	10	15	7	14	9	119	7.4	11	14
Standards:														
Food Products	5	3	3	4	6	2	5	3	4	2	37	2.3	1	0
Other	9	7	6	6	4	10	13	9	7	7	78	4.9	13	14
Transportation & Communications	12	14	6	5	9	9	16	4	14	8	97	6.0	3	16
Total	173	179	139	141	160	152	204	112	166	182	1608	100.0	218	262

SOURCE: Economic Council of Canada, Responsible Regulation, An Interim Report, November 1979, p. 123, Table B2-3

TABLE 5

NUMBER OF PAGES OF REGULATORY STATUTES BY PROVINCE, VARIOUS YEARS, 1873-1978

Alberta	yr.		1915	1922		1942	1955	1970
	pp.		729	1206		1930	2990	3163
B.C. ¹	yr.	1888	1911	1924	1936		1948	1960
	pp.	255	1287	1755	2235		2543	2663
Manitoba ²	yr.	1880	1892	1913		1940	1954	1970
	pp.	236	608	1015		1797	2373	2603
New Brunswick	yr.	1877	1903		1927		1952	1973
	pp.	123	529		877		1032	1864
Nfld.	yr.		1896	1916			1952	1970
	pp.		174	447			1125	2357
Nova Scotia ³	yr.	1884	1900		1923		1954	1967
	pp.	339	669		1067		1961	2427
Ontario ⁴	yr.	1877	1887	1914	1927	1937	1950	1960
	pp.	515	725	1253	1494	1867	2203	2623
P.E.I.	yr.						1951	1974
	pp.						603	1263
Quebec	yr.	1888	1909	1925		1941		1964
	pp.	638	1083	1530		2145		2440
Saskatchewan	yr.		1909	1920	1930	1940	1953	1965
	pp.		944	1431	1837	2246	2860	3484

¹ (1897) 806

² (1902) 769

³ (1873) 198

⁴ (1897) 1082

SOURCE: Economic Council of Canada, Responsible Regulation, An Interim Report, November 1979, p. 125, Table B2-5

APPENDIX 4

RECOMMENDATIONS MADE BY THE HONOURABLE MR. JUSTICE
H.F. GIBSON IN REGARD TO THE CANADIAN DAIRY COMMISSION'S
DEALINGS WITH PRIVATE-SECTOR EXPORTERS

To assist private exporters to function effectively, the Honourable Mr. Justice H.F. Gibson recommended that as a start the following guidelines and practices should be adopted:

1. "The Canadian Dairy Commission ought not engage in any exclusionary acts with respect to pricing or supplies to any private Canadian trader. For example, it ought not take advantage of the public purse to bid at a price below that which the available export subsidy would permit a private trader to offer in competition. Likewise, it ought not refuse supplies to any trader who is prepared to meet the Canadian Dairy Commission's published terms of sale when there are stocks available. The mere fact that the Canadian Dairy Commission might also wish to bid on the same business prospect is not a good reason to refuse to make the supplies available to the private trader in the event that he should be the successful bidder.
2. Even in the case of countries or other foreign purchasers who insist on dealing directly with the Canadian Dairy Commission as a government agency for all or most of its purchases, there would seem to be no reason why the current general export subsidy could not be available with respect to any sales that might possibly be made to such purchasers notwithstanding such general policy of such governments. It may be that no private trader will succeed in making any sales to such purchasers, but at the very least it would avoid any suggestion that it is the Canadian Dairy Commission who is responsible for excluding the private trade. Also, to the extent that, or whenever, such foreign government or other purchaser relaxes its preferences for being supplied by the Canadian Dairy Commission, the private sector will be in a position immediately to seek the business.
3. The generally applicable export subsidy level or levels should be fixed and communicated publicly in advance in order that any private trader may readily be advised of them. This will mean that general subsidy levels would have to be announced from time to time. If and when special changes might be considered desirable for a

particular situation and are offered to a particular trader, such changes as are offered to such trader should be offered to any other trader who inquires regarding the subsidy for the same business prospect. Further, information regarding any offers of subsidy and all subsidies granted, which differ from the general applicable level, should be made available to the public after the transaction to which they pertain has closed. The information should include the pertinent details of the transaction and the identity of the recipient. The same would apply equally to all other financial terms of export sales.

4. As a general rule, all Canadian Dairy Commission information that would assist private traders should be publicly available on a timely basis."

APPENDIX 5

GOVERNMENT RESPONSE TO THE RECOMMENDATIONS OF THE EXPORT PROMOTION REVIEW
COMMITTEE AND OTHER GOVERNMENT INITIATIVES TO ASSIST EXPORTERS

Recommendations of the Export Promotion Review Committee	Government Responses and Initiatives
1. <u>Fundamental Commitment to Exports</u>	
<ul style="list-style-type: none">- Renewal of will to maintain international competitiveness- High profile commitment to export by federal government- Export Awards for top export successes- Public awareness must be increased- Development of education syllabuses for export education	<ul style="list-style-type: none">- Appointment of Cabinet Minister having prime responsibility for international trade- Cabinet decision in September, 1980 to accord high priority to export development and subsequent preparation of Export Strategy to provide greater focus to export marketing initiatives- Travel by the Prime Minister to a number of countries where potential for Canadian exports is very high (e.g. Saudi Arabia, Korea, Nigeria). Extensive travel by the Minister of State for Trade to some 30 countries to demonstrate Canadian export capability and influence the conclusion of export contracts.- Minister has approved establishment of an Export Awards Program- Industry, Trade and Commerce Public Information Directorate has developed a number of publicity/awareness programs: films (e.g. Challenger), seminars (e.g. Pacific Rim), booklets (e.g. "Doing Business in..."), ongoing trade fair publicity, major export success stories in <u>Canada Commerce</u>, publication of export market development plans in priority countries, seminars on opportunities for Canadian exporters in development projects financed by the World Bank, Asian Development Bank and Inter-American Development Bank- Compilation by Industry, Trade and Commerce of an inventory of publications, seminars and courses on export education.
2. <u>Formation of an Export Trade Development Board</u>	
<ul style="list-style-type: none">- Coordination of export support services and private sector involvement in framing of priorities to be accomplished through Export Trade Development Board- Majority private sector membership, representation from major governmental agencies involved in export trade	<ul style="list-style-type: none">- Export Trade Development Board established.- 21 private sector members chosen from business, labour and academia representing a cross-section of regions and industry sectors, along with 8 public sector officials, appointed by Minister Lumley, August 1981.

Recommendation of the Export Promotion Review Committee

Government Responses and Initiatives

3. Tax Incentives for Innovation and Exports

- Introduce measures to reduce or defer payment of income tax on export earnings, carry-forward and carry-back provisions for large contracts, liberal tax treatment of Canadians working abroad

- Government-industry task force to examine tax incentives for exports

- Tax incentives for firms manufacturing in Canada to design, develop and market unique products

4. Export Marketing

- Improve PEMD approval and payment procedures

- Federal/Provincial Committee on Export Development established in September 1981 to facilitate contribution of provincial governments to the Board's activities

- Government has enacted legislation permitting Canadians working on overseas projects for more than 6 months to exclude one-half of their overseas employment income up to a maximum of \$50,000 from income for tax purposes. A study is underway by private consultants to examine adequacy of this exemption in terms of Canada's competitive position vis-à-vis other countries

- Study underway by private consultants to examine and assess the extent to which the present tax structure may create disincentives to doing business abroad

- Decentralization of the delivery of PEMD sections B, C and D completed; evaluation study of PEMD effectiveness led to proposals for: further decentralization to regions of sections E and F (Phase I) and further delegations of approval authorities for Regional Offices and Industry Sector Branches, redesign of forms and procedures, decentralization of payment process.

- Announcement by Minister Lumley in January, 1981 that PEMD funding would be increased substantially from a base of \$7.6 million to about \$20 million in 1981-82 and \$25 million in 1982-83

- Broadening of marketing support efforts to other industry sectors, particularly food and agriculture

Recommendations of the Export Promotion Review Committee

Government Responses and Initiatives

- Coordination of export support activities/"one-stop shopping"
 - Increase emphasis on trade in foreign post operations
 - Increase Trade Commissioner Service (TCS) resources, encourage longer postings in hardship posts and TCS specialization by regions
 - Better coordination and focus for Trade Fairs and Missions programs
- Reorganization of the International Marketing area of Industry, Trade and Commerce to provide concentrated export marketing expertise and services, including the coordination of the newly established Trade Development Bureaux, Regional Offices of the Department and the Trade Commissioner Service.
 - Preparation of detailed export market development plans for priority country markets.
 - New trade post opened in Quito, Ecuador (1980-81); proposed post openings: Perth, Australia (1981-82), Munich, West Germany (1982-83)
 - Increased person-years for Trade Commissioner Service posts abroad for 1981-82 and 1982-83
 - Foreign Service Directives now under review, proposals made to: provide financial incentives to encourage longer stays (3-4 years) in "hardship posts", encourage regional specialization of Trade Commissioner Service resources, expand industrial tours for locally-engaged commercial officers
 - Integration of fairs and missions personnel into new Industry Trade and Commerce Trade Development Bureaux to provide better "one stop shopping" service to private sector
 - Allocation of resources to Fairs and Missions Program to be on basis of priorities established in accord with specific export market development plans
 - Recent evaluation of Fairs and Missions Program has led to proposals for improvements in documentation to facilitate project selection and monitoring

Recommendations of the Export Promotion Review Committee

Government Responses and Initiatives

- Improved Export Development Corporation services to clients

- Export Development Corporation has announced the following: intends to work more closely with exporters in early stages of negotiations for long term contracts and will not require evidence of buyer creditworthiness if EDC files have necessary information; provide direct loans to finance export of engineering services, project feasibility studies and management and consulting services

- Improved Insurance Accommodation

- An evaluation of the export insurance program has led to: provision of insurance for banks and financial institutions offering short term financing for exports, separate coverage for political risk insurance; reorganization of insurance functions with decentralization authority given to regional offices in Halifax, Montreal, Toronto and Vancouver

6. The Trade-Aid Interface

- Better coordination of trade and aid policy

- President of the Canadian International Development Agency has been appointed as an ex-officio member of the Export Trade Development Board where aid and trade policies and programs and their relationships will be reviewed.

- Greater emphasis on bilateral vis-à-vis multilateral aid

- The Canadian International Development Agency has put a cap on the level of development assistance going to international financing institutions and has committed itself to growth for the bilateral program

- Parallel financing with the Export Development Corporation

- Industry, Trade and Commerce, the Canadian International Development Agency and the Export Development Corporation are exploring ways to utilize bilateral aid funds in parallel with Export Development Corporation financing, particularly as regards development projects in middle income countries

- Industrial cooperation/joint ventures

Most recent Canadian International Development Agency list of eligible countries recognizes the value of providing selected mechanisms (e.g. Industrial Cooperation program) to assist development of middle income countries where follow-on trade opportunities are possible.

7. Capital Projects Abroad

- Improved information on major capital projects
 - Preferential tax treatment for international marketing costs
 - Creation of public-private facility for risk evaluation and assumption of major risks and establishment of contingent liability fund
- Industry, Trade and Commerce to provide regular listing of multilateral project opportunities in Canada Commerce
 - In February 1981, Minister Lumley held a manufacturers-consultants conference at which dialogue was launched on ways to increase product sales "spin offs" for manufacturers from overseas projects in which Canadian consultants were involved. Working groups established to follow-up findings, and operating level contacts will be undertaken to sensitize procurement specifiers, within consulting engineering firms, to Canadian manufacturing capabilities
 - Seminars held to highlight opportunities for Canadian exporters in development projects financed by the World Bank, Asian Development Bank and Inter-American Development Bank
 - Private consultants appointed to examine the current tax system with respect to exports (see also section 3 above)
 - Government presently studying recommendations of the Special Parliamentary Committee on a National Trading Corporation
 - Business Opportunities Sourcing System was established to provide a comprehensive information bank of Canadian supply capability vis-à-vis market/procurement opportunities and requirements

8. Export and Small Business

- Export support services to be skewed toward small firms
- Following activities are of direct and indirect benefit to small businesses: representation on the Export Trade Development Board, export education programs, export awareness and publicity programs, decentralization and improvements in the Program for Export Market Development approval process, greater use of lines of credit and standardization of loan documentation under Export Development Corporation export financing programs, "one stop shopping" for government export assistance at Industry Trade and Commerce, decentralization to regional offices of Export Development insurance programs

APPENDIX 6

LETTER TO THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

December 29, 1981

Mr. R.D. Thomas
General Director - Research
Canadian Institute of Chartered
Accountants
250 Bloor Street East
Toronto, Ontario

Dear Mr. Thomas:

The Distributive Trades Consultative Committee was created at the direction of the Honourable Herb Gray, Minister of Industry, Trade and Commerce. Since April 16, 1981, the Committee, which is composed of members of the retail, wholesale and distribution-services sector, has been working at identifying issues and problems which face the industry and making recommendations as to possible solutions.

The Distribution Channels Subcommittee has been studying the issue of shopping centre rechargeable expenses for common areas and at its sixth meeting a staff member of the Canadian Institute of Chartered Accountants, Mr. John Kligman, was invited to attend. Mr. Kligman was apprised of the situation.

Several years ago retailers became concerned with the need to control the costs of rechargeable expenses for common areas. The administration of these common areas was the responsibility of the shopping centre landlord, who may not have been as concerned as the retailers about controlling costs, since the latter ultimately had to pay the costs.

There was a wide discrepancy in methods of charge allocations and in deciding what items would be included in the common area charges from one shopping centre to another. The productivity and efficiency in administering common areas varied greatly. Some developers saw the administration of these common areas as a new profit source.

The Retail Council of Canada initiated a study with the accounting firm of Price Waterhouse Associates to develop a form on which were listed all possible common-area charges. Once this form was developed, a study was undertaken with the developers of fifteen shopping centres. The shopping centres were chosen from British Columbia to Newfoundland, with a mix of small, medium and large. Some were in the snow belt area, others were not. Jeff Moore and Associates, consultants on shopping centres, were hired to do the study. It was completed in the Spring of 1981.

Following the results of the study a seminar was held for the participants where the analysis and findings were explained. A seminar for the landlords is in the planning. At the International Convention of Shopping Centres next March, a portion of the program will be devoted to the administration of rechargeable expenses for common shares.

The results of this study are the property of those who participated in the study. However, some of the generalized results were made public. These were given to Mr. Kligman together with the Shopping-Centre Rechargeable Expenses for Common Areas accounting report format which is being promoted by the Retail Council of Canada. The findings of the study confirm the variances between one shopping centre and another in accounting procedures and reporting standards.

The intent of this letter is to request the guidance and assistance of the Canadian Institute of Chartered Accountants, first, in setting accounting standards for calculations of shopping-centre rechargeable expenses for common areas and their disclosure and, second, in developing a multi-user financial report for the rechargeable expenses of common areas. Special attention should be directed at the calculation of rechargeable expenses for fast-food common areas.

This subject matter is of great importance to the distribution-services sector. The Committee is of the opinion that both sides in this issue (the developers/landlords and the retailers) could benefit from the objective analysis of the Institute and be guided by its recommendations.

The Committee members would like to thank the Institute for having made available the services of Mr. John Kligman to assist in our deliberations and we anxiously await your response.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Bolton', written in a cursive style.

Thomas Bolton
Chairman
Distributive Trades
Consultative Committee

APPENDIX 7

CANADIAN MANPOWER TRAINING PROGRAM AND
CANADIAN MANPOWER INDUSTRIAL TRAINING PROGRAM EXPENDITURES
IN THE RETAIL AND WHOLESALE TRADES
(Fiscal Year 1980/81 - By Province)¹

	<u>Training Cost</u>
<u>Nova Scotia</u>	
<u>Course Name</u>	
Building Supply Sales*	\$ 54 110.90
Retail Selling MKT. Mgmt.*	\$256 959.60
Sales Representative Marketing*	\$ 76 062.40
Baking Commercial	\$ 42 113.80
Meat Cutting	\$ 44 528.00
Retail Meat Cutting	\$107 291.84
 <u>Newfoundland</u>	
<u>Course Name</u>	
Business Management*	\$ 13 283.60
Clerk Accounting	\$ 99 503.72
Basic Salesperson*	\$ 63 081.00
Caplin seining	\$ 4 345.65
Crustacean Handling Processing	\$ 24 508.80
Fish Processing Machine Mtnce.	\$ 4 050.00
Fish Processing Machine Mtnce.	\$ 24 165.00
Fundamentals of Seafood Proc.	\$ 33 322.20
Groundfish Handling Processing	\$ 13 153.50
Industrial Productivity Enhance	\$ 14 615.00
Meat Cutting	\$ 36 387.10
Practical Seafood Processing	\$ 9 996.66
Quality Assessment & Industrial	\$ 13 884.25
Skill Training - Fish Trimmer	\$ 3 862.80
Skill Training Filleting Plant WKRS	\$ 66 108.45
Skill Training Filleting Plant UKRS	\$ 42 973.65

¹ Note: This table is a compilation of federal funding for locally initiated training courses. It is not necessarily inclusive of all training provided in the retail and wholesale sectors.

Prince Edward Island

Course Name

Accounting	\$ 2 309.58
Accounting F/T	\$ 9 365.60
Office Management Bus. Admin.*	\$ 2 720.04
Retail Management*	\$ 1 398.78
Retail Merchandising*	\$ 4 111.80
Retailing*	\$ 5 809.38

New Brunswick

Course Name

Bookkeeping & Accounting Upgrade	\$ 26 254.08
Bookkeeping CL Teneur de livres	\$ 5 961.18
Bookkeeping Clerk	\$ 60 129.61
Cashier & Retail Selling*	\$ 2 142.72
Retail Cashier*	\$ 4 464.00
Retail Cashier & Selling*	\$ 6 026.40
Retail Sales & Cashier Training*	\$ 4 465.00
Retail Selling*	\$ 3 348.00
Teneur de livre Bookkeeping Clerk	\$ 26 947.80
Teneur de livres	\$ 9 622.90
Teneur de livres et impôt	\$ 918.00
Vente à l'étalage & caissière*	\$ 8 392.32
Distributive Business Education*	\$ 14 434.35
Boulangier Patissier ERC	\$ 12 039.30

Quebec

Course Name

Tech. Adm. (Transport) "A"	\$ 34 955.40
Bookkeeping Accounting	\$ 23 577.30
Cassier magasin "A"*	\$ 3 343.05
Caissier*	\$ 1 583.55
Caissier (Inst Financière) "A"*	\$ 34 622.15
Caissier "A"*	\$ 31 143.15
Commis Comptable "A"	\$429 744.72
Commis Comptable "B"	\$ 21 817.80
Tech. ADM. (Finance) "A"	\$ 50 204.40
Caissière vendeuse "A"*	\$ 4 222.80
Chef de rayon (alimentation) "A"*	\$ 23 225.40
Commis aux pièces auto "A"	\$ 10 732.95

Commis aux pièces Mach LRDC (A)	\$ 10 381.05
Commis pièces camions "A"	\$ 16 715.25
Commis pièces Mach. LRDC (A)	\$ 8 269.65
Commis Vendeur "A"	\$ 18 650.70
Commis Vendeur "B"	\$ 5 982.30
Vendeur "A"	\$ 58 591.55
Vendeur "B"	\$ 1 583.55
Vendeur Technicien "A"	\$ 66 159.90
Boucher (coupe de viande) "A"	\$ 11 590.20
Boucher (charcuterie) "A"	\$ 58 197.60
Boucher (coupe de viande)	\$ 44 141.40

Ontario

Course Name

Arts & Crafts Prod. Market COORD	\$ 12 648.00
Construction Assistant	\$ 37 536.00
Accountancy Accel.	\$ 49 045.00
Business & Commerce*	\$ 29 988.00
Commercial Refresher*	\$ 5 760.00
General Insurance Clerk (BKC)	\$ 38 250.00
Teller Cashier*	\$ 37 041.00
Automotive Merchandising*	\$ 46 580.00
Building Material Sales*	\$ 51 000.00
Hearing Aid Consultant	\$ 47 334.00
Retail Merchandising*	\$ 69 330.00
Retail Merchandising Supervisor*	\$ 45 354.00
Retail Selling*	\$ 576.00
Baking Techniques	\$433 287.00
Retail Meat Cutting	\$ 83 582.00
Baker Advanced	\$ 30 034.00
Baker Basic	\$ 25 875.00
Retail Meat Cutter Basic	\$ 9 864.00
Hotel Operation & Management	\$ 3 400.00

Manitoba

Course Name

Planning & Management*	\$ 4 657.50
Project Managers*	\$ 64 418.40
Bookkeeping	\$ 47 154.60
Business Accountancy	\$208 656.00
CBOM Accounting	\$ 43 594.20
Commercial and Industrial Sales*	\$ 95 965.20
Commercial Baking	\$ 29 725.20
Meat Cutting	\$ 67 068.00
Bookkeeping	\$ 586.38
Junior Accountant	\$ 1 968.36

Saskatchewan

Course Name

Accounting Clerk	\$ 8 850.00
Agricultural Parts	\$ 12 265.68
Agricultural Parts Marketing	\$ 950.00
Retail Meat Cutting	\$ 32 532.05
Business Administration*	\$ 359.86
Junior Management*	\$ 2 045.60
Accounting	\$ 8 125.32
Clerical Accounting	\$ 2 282.02

Alberta

Course Name

Accounting General Business	\$ 97 168.00
Bookkeeping Payroll*	\$ 42 558.50
Small Business Bookkeeping*	\$ 6 232.00
Teller Trng. & General Business*	\$ 2 849.50
Parts Person Pre-Employment	\$ 6 662.50
Retail Sales Clerk*	\$ 24 600.00
Commercial Baking	\$ 58 168.00
Meat Cutting	\$ 18 678.00
Meat Technician	\$ 24 706.00
Pre-Employment Meat Cutting	\$ 8 008.00
Retail Meat Cutting	\$ 25 278.00
Partsman IB	\$ 3 800.00
Partsman IC	\$ 2 850.00
Partsman IST	\$126 516.25
Partsman ISTA	\$ 4 750.00
Partsman 1ST YRB	\$ 5 343.75
Partsman 1ST YRC	\$120 270.00
Partsman 2ND YR	\$ 1 282.50
Partsman 3RD	\$ 73 268.75
Baker Bread	\$ 5 415.00
Baker Cake	\$ 6 650.00
Baker 1ST	\$ 16 886.25
Baker 3RD	\$ 19 950.00
Jr. Management*	\$ 3 653.70
Accounting	\$ 16 694.96
Canadian Modern Accounting	\$ 2 028.14
Fundamental Accountancy	\$ 8 045.00
Introductory Bookkeeping	\$ 913.44
Jr. Accounting	\$ 5 373.55

British Columbia

Course Name

Bus. Off. Trng. 6 (Bookkeeping)	\$ 9 724.00
Bus. Off. Trng. Accounting Clerk	\$ 27 227.00
Bus. Off. Trng. Bookkeeping	\$ 70 536.00
Business Office Trng. BK p6	\$ 89 386.40
Auto Parts Warehousing	\$ 21 417.00
Partsman	\$ 80 214.20
Retail Sales*	\$ 4 200.00
Baking	\$140 088.00
Baking Options	\$ 66 581.20
Baking PM	\$ 3 837.60
Meat Cutting	\$ 2 995.00
Meat Processing	\$128 731.80
Baking 1	\$ 15 133.50
Baking 2	\$ 24 072.00
Baking 3	\$ 6 756.00
Accounting & Office Mgt.	\$ 2 031.50
Accounting Bookkeeping Clerk	\$ 195.00
Accounting Bookkeeping Upgrade	\$ 1 488.00
Accounting Office Mgt.	\$ 2 826.30
Bookkeeping Clerk	\$ 1 057 00
Business Office Training Upgr.	\$ 482.50
Partsman 2	\$ 66 624.00
Partsman 3	\$ 30 912.00

Northwest Territories

Course Name

Partsman 1st yr.	\$ 2 128.00
Partsman 2nd yr.	\$ 784.00
Partsman 3rd yr.	\$ 1 624.00
Baker 1st yr.	\$ 1 064.00

Yukon Territory

Course Name

Business Office Trng. Accounting I	\$ 38 369.00
Business Office Trng. (Bookkeeping)	\$ 15 417.60

TOTAL \$5 510 790.00

(*Retail and wholesale "core" occupations \$1 156 147)

APPENDIX 8

MANPOWER PLANNING AGREEMENT BETWEEN
" (THE ASSOCIATION) " AND
EMPLOYMENT AND IMMIGRATION

Manpower Planning Agreement

I. Introduction

This Agreement establishes the terms and conditions for continuing collaboration between:

- (1) "The Association" representing its member companies as employers, and;
- (2) The Canada Employment and Immigration Commission (CEIC) representing the Government of Canada,

to develop and implement measures to meet selected manpower requirements presently being experienced, or expected, by the member companies in those occupations identified by "The Association".

II. This Agreement also establishes:

- (1) The role and responsibilities of both parties.
- (2) The terms and conditions under which the parties will carry out their respective activities.

III. General Agreement

Both parties agree:

- (1) That this is an Agreement between "The Association" and the Canada Employment and Immigration Commission and that it cannot commit individual member companies to particular activities;
- (2) That skills development and training of manpower remains the primary responsibility of the private sector, both management and labour, to provide the required manpower;
- (3) Cannot overrule provisions of individual collective agreements;

- (4) That Affirmative Action/Special Measures will actively be promoted among participating member companies, whenever possible.

IV. The Employer Association

In particular, "The Association" agrees so far as it is able:

- (1) To design and develop a manpower projection survey to identify both current and future manpower and manpower development and training needs of the industry as a whole;
- (2) To arrange for the printing and mailing of the survey form to its member companies;
- (3) To undertake a detailed audit of available development and training program to determine their applicability and suitability to the needs of the industry, and to make possible identification of shortcomings and gaps in the array of available programs.
- (4) To advise member companies and CEIC on both private and public measures that should be implemented to resolve manpower imbalances and identified shortcomings and gaps in the industry;
- (5) To develop and maintain, with CEIC cooperation, a follow-up system based on data established by the survey to identify targets and update projection;
- (6) To cooperate with CEIC Public Affairs Division for appropriate media coverage to publicize the signing of this agreement.

V. The Canada Employment and Immigration Commission (CEIC)

In particular CEIC agrees so far as its resources permit:

- (1) To participate in the design and development of the proposed manpower projection survey;
- (2) To assist "The Association" to analyse the manpower projection survey returns and to prepare the final report;
- (3) To assist "The Association" to encourage its member companies to engage in manpower planning;

- (4) To assist "The Association" in undertaking a detailed audit of available development and training programs and determining their applicability and suitability to the needs of industry.
- (5) To apply its various programs and services, in a supplementary and flexible manner, to support the implementation of the manpower plans of the member companies;
- (6) To provide member companies with information and advice respecting forecast levels of occupational demand and supply, wage rates and working conditions, availability of public labour market programs and the utilization of non-traditional labour force;
- (7) To review and analyse (should the proposed survey indicate deficiencies in this area) the adequacy and correctness of the Canadian Classification and Dictionary of Occupations (CCDO) descriptions of occupations in the distribution services industry;
- (8) To assist "The Association" in the coordination, administration, follow-up and evaluation of the efforts undertaken as a result of this agreement;
- (9) To provide advice and assistance to member companies which desire to adopt Affirmative Action/Special Measures within the context of their respective manpower planning activities.

IV. Industrial Training

To assist member companies to increase their capability to develop appropriately trained workers required to meet manpower requirements, thus creating satisfying employment and career opportunities for Canadians:

- (1) CEIC will, within the budgetary limits and eligibility criteria established for its training program, provide financial assistance to support the training activities of the member companies;
- (2) Trainees must be employees of member companies and at least one year past the school-leaving age in the province;
- (3) Financial assistance by CEIC for the reimbursement of eligible training costs will be in accordance with the provisions of the Adult Occupational Training Act.

VII. Amendments

Amendments to the terms of this Agreement may be made by written mutual agreement of both parties.

VIII. Endorsement

Upon the signing of this Agreement, the parties endorse this document and affirm their intention to proceed with the joint collaboration activities included in the Agreement to develop and implement those measures to overcome selected manpower shortages.

APPENDIX 9

JOB DESCRIPTION FOR
SMALL STORE MANAGER/SUPERVISOR/PROPRIETOR

Skills Development: Proposed Content of Training Program

- Understanding of retail hours, i.e., evenings, weekends
- Interviewing prospective salesclerks
- The importance of being organized
- Training employees
- Forms and how to complete them
- Scheduling of hours in compliance with local labour laws
- Delegating work and handling staff
- Productivity of staff (sales per person)
- Personal grooming and fashion consciousness

- Use of a cash register
- Making change
- The purpose of sales records
- The importance of sales receipts
- Balancing cash and the use of float
- Company policy on acceptance of cheques
- Bank deposits
- Operation of an imprest petty cash fund
- Night deposits and how to operate
- Credit card sales, refunds and summary cards and use of imprinters

- Merchandising/displays
- Basic selling
- Telephone sales and technique
- Reconciliation of sales tallies to cash
- Handling complaints
- Understanding markups

- Locking up the store
- General procedures for emergencies
- How to handle a shoplifter
- How and when to contact police and fire departments
- Employees' personal belongings
- Employees' purchases

- Cash security
- Employee theft
- Delivery receipts, claims and general dealing with delivery companies

- Daily cleaning and dusting
- Dealing with mall maintenance
- Repairs and maintenance

- Attending Merchants' Association meetings and reporting to company
- Basic tenant/landlord relationships
- General relations with mall, fellow tenants
- Parking
- Hours -- importance of being open according to the lease
- Reporting sales to landlord
- Obligations to advertise as per lease

Job Description

Managing Supervisor, Small Store

Reports to: Supervisor or owner

General Responsibilities

Staffing: Responsible for personnel functions such as hiring and firing. Maintains personnel documents, schedules work hours, and submits time sheets to payroll.

Training: Trains staff in professional selling techniques, by lecture and by example, and in such areas as product knowledge, grooming, handling cash and sales tax regulations. Informs staff of company procedures for personal purchases.

Merchandising/Planning: Sets sales goals for individual staff members consistent with store objectives and plays a leadership role in the sales activity. Maintains inventory at target levels and rotates stock. Records all sales and follows price ticketing according to company policy.

Operations: Ensures that established opening and closing hours are respected. Assigns store keys to appropriate personnel and maintains record of keys. Identifies necessary repairs and takes required action. Maintains business housekeeping standards. Follows procedures for emergencies such as fire, theft and

electrical failure. Ensures that personal articles belonging to staff are secure.

Cash:

Reviews all cash records, ensures that they are accurately maintained, and checks all cash floats.

Advertising:

Advises head office of promotional and advertising opportunities. Prepares and changes displays and signs according to current advertising, promotional and seasonal activities.

APPENDIX IO

SUPPORTING DOCUMENTATION TO THE INTERIM REPORT

Item 1 - Accelerated Writeoffs

In 1972, the Minister of Finance introduced a provision giving manufacturing and processing firms the right to write off new machinery and equipment over two years. This tax concession was implemented to partly offset the deleterious effects of inflation, but more important, was an attempt to stimulate investment, and, consequently, the manufacturing sector.

The cost of depreciable assets is normally amortized against profits through annual depreciation charges over the course of the useful (or accounting) life of an asset. This enables a firm to withhold sufficient resources to replace the depreciable assets when their useful life has ended. During periods of inflation, because depreciation must be based on historical rather than replacement cost, the accumulated depreciation charges fall far short of replacement cost.

Chronic inflation of the kind Canada has experienced during the past and present decade creates a number of adverse consequences for a firm:

- (a) an additional tax burden is imposed on a firm since the capital cost allowance (depreciation) it may charge against taxable income has become increasingly inadequate;
- (b) the shortfalls in depreciation charges lead to overstated distributable earnings causing the payment of excessive dividends, and impair a firm's financial position;
- (c) a firm's accumulated depreciation becomes insufficient in relation to ultimate replacement cost, leading to postponed and reduced investment, and declining efficiency.

The effects of inflation on profits and investment are as pernicious for firms in the distribution-services sector as for firms in manufacturing and processing, but the sector is unable to take advantage of the two-year writeoffs and is consequently placed in an unfair tax situation. Consequently, relative to firms in other sectors, the taxable profits of firms in the distributive trades are artificially high, the accumulated capital cost allowances are too low, and the incentive and ability of the firms to invest have been reduced. The distributive trades sector is encountering these disadvantages at a time when there is a special need for increased investment in energy-saving processes and equipment, in labour-saving electronic equipment, in cost-saving automated warehouse and goods-handling machinery and equipment. In short, the distribution services sector is moving towards a more capital-intensive position to parallel the manufacturing sector. The ability of the trades to increase productivity and improve efficiency has been hampered, the upward pressure on prices has not been mitigated, and the demand for energy-saving, electronic and mechanical equipment from the thousands of firms in the distributive trades has been lower than would have been the case under accelerated writeoffs.

An accelerated capital cost allowance would help to ameliorate the investment climate under which wholesalers and retailers conduct their business. At the same time, no tax revenue is irrevocably lost by permitting accelerated writeoffs. Advancing the claiming of the capital cost allowance shields otherwise taxable income from tax in the years that the accelerated writeoffs accrue, and allows the potential of a more positive cash flow to the sector, which can be used to lower prices and/or stimulate demand for manufactured goods.

In later years, firms which have claimed accelerated writeoffs would have more of their income exposed to tax because the "shield" of normal capital cost allowance is not available; however, judicious decision-makers will have made their companies more productive and efficient. With a negative economic environment being established (re consumer dollars going to energy as opposed to consumer goods), this kind of measure is particularly needed at this time.

Item 2 - The Impact of Inventory Accounting
Procedures on the Distributive Trades

Relationship between inflation, real incomes and cash flows of firms, and tax policy is becoming increasingly well known. Current Canadian accounting practices by

definition creates gaps between real values of assets and liabilities and the nominal values reported in financial statements. Under existing tax rules inflation results in the imposition of additional tax burdens, to the extent that in highly inflationary times, business decisions on investment and inventory level are interpreted in a negative fashion. The fundamental problem is that, before a business can report earnings on capital invested, it must provide out of earnings all the costs associated with maintaining that capital (or inventory).

While inflation affects depreciation, for distributors the main impact of inflation lies in inventory valuation. For many retailers, inventory is the major asset they have and in most cases this is already financed. To pay tax on phantom income becomes particularly onerous. Tax laws dictate that for inventory accounting, goods are sold in the sequence in which they were purchased. The following insidious effects of inflation are widely recognized:

- a) Taxable profits are overstated, because cost of sales (inventory) is understated;
- b) the implicit cost of holding inventory is increased and an incentive exists for firms to reduce their inventory (equally applicable to manufacturers);
- c) overall cash flow is reduced;
- d) the possibility exists that firms overstate distributable earnings and pay excessive dividends;
- e) management takes decisions on apparent cash flows rather than on real returns and, for small business in particular, liquidity problems arise; and
- f) more and more companies are being forced into greater dependance on financial markets.

All decision makers need to be aware that conventional accounting practices can be very misleading and can mask situations where both inventory and capital can be frittered away.

In support of the recommendations, a review illustrating the tax treatment of inventories in OECD nations is attached below. In most countries, this problem is approached by an augmentation of traditional financial statements.

In Canada, 1977 saw a partial solution to the problem. The government introduced an inventory deduction of 3 per cent of opening inventories which does give significant benefit to distribution businesses from spurious inventory profits. The effect of this has been a reduction on their taxable income and improved liquidity and cash flow.

An analysis of the results of the 3 per cent inventory credit and the last-in-first-out inventory (LIFO) accounting was carried out based on what would have happened if all companies had used LIFO. In all years reported the taxes saved with the inventory deduction would have been only a percentage of the maximum taxes that could have been saved by LIFO (LIFO being a true indicator of real taxable profits). As inflation rates rise, the inventory deduction becomes less suitable as a mechanism to resolve the problem.

Tax Treatment of Inventories OECD Nations*

Australia

Inventory may be valued at cost (full absorption cost) market selling value or replacement value, which serves the same end as would a LIFO accounting system.

Austria

The inventory for tax reporting purposes must agree with the books. Inventory must be valued on a moving average basis and other methods (for example, LIFO) are only permitted if they accord with the facts.

Belgium

Inventories usually stated at the lower of cost or market. LIFO is accepted for tax purposes.

Denmark

Lower of cost or market replacement. Inventories so stated may be written down by 30 per cent for tax purposes. A write-down need not be reflected in the books. LIFO is not permitted for tax purposes.

* Prepared by the Financial Policy and Liaison Branch, ITC, August 1981. Following tables prepared by the Distribution Services Branch, ITC, August 1981.

Finland

Inventories may be written down to 50 per cent of lowest of direct FIFO cost, replacement cost less obsolescence or net realizable value.

France

Inventories must be valued at the lowest of cost or market. Cost must be determined in accordance with FIFO or average cost methods. The LIFO method is not permitted.

Germany (Federal Republic)

Inventories are normally valued at the lower of cost or actual cost, replacement cost or net realizable value. Both FIFO and LIFO are not acceptable for tax purposes unless it is shown that the method accords with the facts.

Greece

Inventories are stated at the lower of cost or market (replacement value). LIFO is not permitted.

Ireland

Lower of cost or market in accordance with the facts. Special reliefs give deductions for increase in value due to inflation; this makes the end result equal to LIFO accounting.

Italy

Tax system lays down a method consistent with LIFO. Companies may elect to use another method. There must be consistency between books and tax return for LIFO to be accepted.

Japan

Acceptable methods of inventory valuation include LIFO, FIFO, weighted average, moving average, straight average, most recent purchase, retail and lower of cost or market. Conformity between book and tax reporting is required.

Luxembourg

Lower of actual cost or market. LIFO and FIFO not acceptable for tax purposes unless it can be shown that they conform with the facts.

The Netherlands

In general, inventories stated at lower cost or market. Cost may be determined on basis of FIFO, LIFO, base stock or average cost.

New Zealand

Lower of cost or market. LIFO is not permitted.

Norway

Lower of cost or market. FIFO is also acceptable for tax purposes, but not LIFO. Conformity between book and tax reporting is required.

Spain

In the absence of an identification of the various purchases, LIFO, FIFO or average cost methods are accepted. Conformity between books and tax returns is required.

Sweden

Lower of acquisition or replacement cost. Acquisition cost determined by FIFO. LIFO is not permitted. Conformity between books and tax returns is required. Appropriations may be made to an inventory reserve.

Switzerland

Lower of cost or market. A reserve for unexpected decreases in value can be set up and deducted from income.

United Kingdom

Inventories stated at lower of cost or market. LIFO not permitted. Special tax deduction is available for the effect of monetary inflation on inventories.

United States

Inventories generally stated at lower of cost or market. LIFO, if used for book, can be elected for tax purposes.

TOTAL ALL INDUSTRIES

Companies having \$10 million or more total assets

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
1. Opening inventories (\$000,000)	26,175*	27,915	29,973,	36,933
2. 3% of opening inventories (\$000,000)	785	837	899	1,108
3. Income before provision for income tax (\$000,000)	13,168	15,885	23,197	25,771
4. Adjusted income before tax (\$000,000)	12,383	15,048	22,298	24,663
5. Tax rate on stated income	30.9%	27.7%	27.7%	26.5%
6. Taxes payable on adjustable income (\$000,000)	3,826	4,168	6,177	7,029
7. Inventory profits (\$000,000)	1,832	1,787	3,087	3,878
8. Inventory adjustment allowances as a % of inventory profits	42.8%	46.8%	29.1%	28.6%

*At end First Quarter, 1977

RETAIL INDUSTRY

Companies having \$10 million or more total assets

	Food				Department Stores				Other Retail			
	1977	1978	1979	1980	1977	1978	1979	1980	1977	1978	1979	1980
1. Opening inventories (\$000,000)	544*	636	694	814	1,516*	1,826	1,968	2,476	513*	618	682	919
2. 3% of opening inventories (\$000,000)	16	19	21	24	45	55	59	74	15	19	20	28
3. Income before provision for income tax (\$000,000)	142	172	206	264	211	242	361	369	159	218	246	248
4. Adjusted income before tax (\$000,000)	126	153	185	240	166	187	302	295	144	218	246	248
5. Tax rate on stated income	41.5%	39.0%	38.3%	33.3%	36.5%	19.4%	26.0%	29.3%	46.5%	43.1%	45.1%	42.7%
6. Taxes payable on adjustable income (\$000,000)	52	60	71	80	61	36	79	86	67	86	102	94
7. Inventory profits (\$000,000)	38	41	71	85	106	117	203	260	36	40	70	96
8. Inventory adjustment allowances as a % of inventory profits	42.1%	46.3%	29.6%	28.2%	42.5%	47.0%	29.1%	28.5%	41.7%	47.5%	28.6%	29.1%

*At end First Quarter, 1977

WHOLESALE INDUSTRY

Companies having \$10 million or more total assets

	Food				Lumber and Building Products				Other Wholesale			
	1977	1978	1979	1980	1977	1978	1979	1980	1977	1978	1979	1980
1. Opening inventories (\$000,000)	366*	450	504	606	292*	272	294	307	1,338*	1,355	1,599	2,061
2. % of opening inventories (\$000,000)	11	14	15	19	9	8	9	9	40	41	29	62
3. Income before provision for income tax (\$000,000)	80	112	141	156	51	81	103	73	198	310	497	483
4. Adjusted income before tax (\$000,000)	69	98	126	138	42	73	94	64	158	269	449	421
5. Tax rate on stated income	30.0%	34.8%	33.3%	20.2%	33.3%	29.6%	29.1%	24.7%	47.5%	39.0%	42.5%	42.0%
6. Taxes payable on adjustable income (\$000,000)	21	34	42	39	14	22	27	16	75	105	191	177
7. Inventory profits (\$000,000)	26	29	52	64	20	17	30	32	94	87	165	216
8. Inventory adjustment allowances as a % of inventory profits	42.3%	48.3%	28.8%	28.1%	45.0%	47.1%	30.0%	28.1%	42.6%	47.1%	29.1%	28.7%

*At end First Quarter, 1977

Item 3 - The Economic Impact of Moving to 75 per cent of World Prices by 1985*

A simulation exploring the macro-economic impacts of the crude petroleum oil pricing schedule designed by the Distributive Trades Consultative Committee was performed using the Economic Council of Canada's econometric model, Candide 2.0. The Committee was particularly interested in the impact of the pricing policy on various items of consumer expenditure, both in terms of price and of spending.

Assumptions

- Crude Petroleum

The basic premise underlying the assumptions is that the wellhead price of crude petroleum should reach 75 per cent of the F.O.B. international price by 1985 and be tied to the world price at that ratio for the remainder of the projection period to 1990. In order to reach the 75 per cent mark by 1985, it was assumed that the wellhead price would further increase by \$2 per barrel on 1 November, 1981, thereby averaging \$18.85 for the year, and would then increase by \$7.17 per year until 1985 (\$7.15 in 1985) at which time it would reach \$47.24, 75 per cent of the world price of \$62.99.

The prices for new oil (tertiary recovery) and for tar sands oil are assumed to increase from their respective levels of \$30 and \$38 in 1981 at the real rate of increase in the international price - 2 per cent - plus a projected increase in the Consumer Price Index. The international price (F.O.B.) is \$42.41 in Canadian dollars in 1981 and increases by 2 per cent real growth plus the rate of inflation in the U.S. Wholesale Price in the November 1980 Wharton Base Case. In 1990, it reaches \$97.10.

It was assumed that with the resolution of the pricing impasse, the two large oil sands projects would resume operations at full speed, with the Alsands plant reaching full production of 137,000 barrels per day by 1989 after coming onstream in 1987. The disbanded Cold Lake in situ project was assumed to reach full construction activity after only an 18-month period to reassemble its staff, and to come onstream in 1987 and to reach full two train production level of 140,000 barrels a day by 1991, beyond the projection period. A third project, involving Petro-Canada, was assumed to come onstream in 1988 and to reach full 140,000 barrel per day production level by 1990.

*Prepared by the Economic Council of Canada, August 1981

Because of the more generous wellhead pricing provisions, it was assumed that considerable progress would be made with enhanced recovery production techniques, and that by 1990, 100,000 barrels a day would be forthcoming, adding to the present estimates of conventional production available taken from Energy, Mines and Resources. It was also assumed that, with an oil pricing agreement, Alberta crude petroleum conventional production would be returned to pre-cutback levels in 1982.

Canadian demand for crude petroleum was assumed to decline 0.35 per cent per annum over the 1981-1990 period, with only minimal exports, mostly of heavy crude (with additional exports under the swap arrangement) allowed. Imports of crude petroleum are a residual, that is, total demand is subtracted from total available domestic supply to determine the required level of imports.

- Natural Gas

The domestic and wellhead prices for natural gas have remained at the values in the base case which are close to those suggested in the National Energy Program. The export price of gas has been tied to the movements in the international price of crude petroleum. The rationale behind the gas-pricing pattern is one of providing an incentive to substitute natural gas for crude petroleum. In terms of b.t.u. equivalency, the natural gas price falls from 85 per cent in 1980 to 69 per cent in 1990.

The supply estimates and domestic and export demand for natural gas are taken from the November 1979 Gas Report issued by the National Energy Board. Total primary demand for natural gas, including that scheduled for expanded markets in Eastern Canada, is estimated in the NEB report to increase at 6.6 per cent per annum over the 1980-90 period. Consumer demand for gas has been set to increase in the simulation at an annual average of 5.5 per cent over the decade.

Table 1 presents the various price estimates for crude petroleum and natural gas.

The Results of the Simulation

The assumptions were incorporated into the Economic Council of Canada's Spring Reassessment Base Case described in detail in The Medium-term Outlook: Spring 1981 Reassessment published in early June 1981.

As a result of the shift to higher wellhead prices in the early part of the decade, the rate of inflation is considerably higher in the impact solution than in the base case from 1981 through 1985 (see Table 2). However, on average, throughout the period the rate of inflation in the shock is 10.5 per cent versus 10.4 per cent in the base. Over the decade, the level of the consumer price index is on average 2.1 per cent higher than in the base. What has happened is that inflation throughout the decade is not much higher, however, it has shifted forward to the first half.

In terms of real growth we see a slightly different story. The higher inflation in the economy has an impact on all sectors of the system, resulting in a cumulative loss in real gross national product throughout the period of \$9.7 billion¹, despite an exogenous increase in crude petroleum and natural gas mining investment of 1.9 billion 1971 dollars throughout the period. The loss is centered in the 1982-86 period, and by 1990 real GNP in the shocked solution is just \$370 million (in 1971 dollars) lower than the base case. By the end of the period the effects of the higher inflation have taken their toll and the economy is on the road to recovery. It is interesting to note that this redistribution of GNP results in similar average rates of growth over the period.

Total nominal investment as a percentage of gross national product remains almost the same in both solutions. The additional energy investment has been offset by a reduction in investment in other sectors of the economy. It is in the area of the government balances and the current account balance where the greatest impacts can be seen.

The federal government moves into a surplus position in 1985, rather than in 1986 in the base case, and by the end of the decade this surplus is \$1.6 billion higher. This arises from a combination of factors including lower debt servicing charges on a stock of debt that is reduced \$9.7 billion by the end of the period and some increase in net energy revenues. These factors have been offset to some degree by reduced corporate taxation revenues from the reduced activity in the system.

The provincial governments' surplus increases quite dramatically as a result of increased royalty revenues accruing to the energy-producing provinces. In the assumptions for the impact solution, we have assumed no

¹ Real GNP in the shock is \$169.4 billion (1971 dollars) in 1990.

change from the base case in the provincial royalty structure which, in Alberta, is designed to capture close to 50 per cent of any incremental revenues on conventional oil production. The provinces also benefit from reduced debt servicing costs on a debt stock which is reduced by some \$14 billion by 1990.

Because of the additional crude petroleum production from both early production from tar sands and from the additional enhanced recovery production, the level of crude petroleum imported into Canada has been reduced. By 1990, imports supply only 17 per cent of Canadian requirements compared to 22 per cent in the base case, and are 32 million barrels lower in 1990. As a result of the lower imports there is an improvement in the current account balance, measured as a percentage of GNP in Table 2. By 1990 the current account balance has improved by \$3.8 billion, a fairly substantial improvement.

Table 3 indicates the impact of the Consultative Committee's pricing strategy on the various consumer expenditure items detailed in Candide Model 2.0. Compared to the Spring Reassessment Base Case, the shocked solution results in some reduction in consumer spending, especially in durable goods, and in an average increase over the 10 year period of 1.7 per cent in the consumer expenditure deflator.

While the suggested pricing pattern has a higher inflationary impact in much of the decade and results in some reduction in real growth, it has also resulted in improved deficit positions both for the federal government and our international accounts. Furthermore, the Canadian economy is a good step closer to self sufficiency in 1990 than it is in the Economic Council's Spring Reassessment.

TABLE 1

ENERGY SUB-COMMITTEE ENERGY PRICING SCENARIO

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Crude Petroleum Prices (per barrel)										
International Price (\$ Cdn. F.O.B.)	42.41	47.50	52.54	57.63	62.99	68.79	74.98	81.80	89.16	97.10
International Price at Montreal (\$ Cdn.)	44.06	49.20	54.28	59.43	64.85	70.70	76.95	83.83	91.25	99.25
Domestic Blended Price at Toronto City Gate	26.11	34.33	41.85	48.98	55.92	61.14	66.63	72.91	79.13	86.52
% of International FOB Price	61.6	72.3	79.7	85.0	88.8	88.9	88.9	88.9	88.8	89.10
Domestic Wellhead Price - Conventional Oil	18.58	25.75	32.92	40.09	47.24	51.59	56.23	61.35	66.87	72.82
% of International FOB Price	43.8	54.2	62.7	69.6	75.0	75.0	75.0	75.0	75.0	75.0
- New Oil	30.00	33.42	37.06	40.40	45.01	49.60	54.90	60.45	66.62	73.48
- Tar Sands	38.00	42.33	46.95	52.06	58.00	63.91	70.75	77.90	85.85	94.69
Natural Gas Prices (Per MCF)										
Domestic Price at Toronto City Gate	2.98	3.40	3.85	4.41	5.09	6.02	7.05	8.08	9.11	10.24
Domestic Wellhead Price	1.64	1.75	1.93	2.30	2.79	3.50	4.29	5.04	5.74	6.51
Export Price at the Field	6.03	6.71	7.34	8.13	8.85	9.74	10.68	11.73	12.86	14.08

TABLE 2

COMPARISON OF ENERGY SUB-COMMITTEE PRICING SCHEDULE IMPACT AND SPRING REASSESSMENT BASE CASE

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Real GNE (percent change)										
Energy Sub-committee Impact	2.7	2.8	3.5	3.0	2.2	3.0	2.5	2.2	2.9	2.4
Spring Reassessment	2.9	3.0	4.0	3.0	2.4	2.6	2.9	1.7	2.4	2.4
Consumer Price Index (percent change)										
Energy Sub-committee Impact	11.9	13.3	12.5	11.2	11.2	9.9	9.5	9.0	8.4	8.2
Spring Reassessment	11.4	11.9	11.5	10.5	10.8	10.3	10.4	9.8	9.3	8.6
Unemployment Rate (percent)										
Energy Sub-committee Impact	7.2	6.4	5.6	5.3	5.4	5.6	5.8	6.3	6.4	6.6
Spring Reassessment	7.2	6.5	5.5	5.3	5.4	5.6	5.6	6.2	6.5	6.8
Federal Deficit (billions of dollars)										
Energy Sub-committee Impact	-7.3	-5.5	-3.4	-1.1	.1	1.4	2.3	3.1	5.2	7.1
Spring Reassessment	-8.1	-7.9	-4.0	-1.4	-.1	.5	1.9	2.1	3.6	5.5
Provincial Surplus (billions of dollars)										
Energy Sub-committee Impact	2.60	4.6	4.8	5.8	6.6	8.1	9.1	9.8	12.1	14.0
Spring Reassessment	2.7	3.6	3.4	4.3	5.0	6.4	7.7	7.7	9.1	11.2
Current Account Balance (% of GNE)										
Energy Sub-committee Impact	-0.7	-0.7	-1.2	-1.8	-2.1	-2.4	-2.4	-2.0	-1.8	-1.6
Spring Reassessment	-0.8	-1.4	-1.4	-2.0	-2.4	-2.7	-3.0	-2.5	-2.3	-1.9
Investment as a Percentage of GNE										
Energy Sub-committee Impact	23.5	23.5	24.4	25.0	25.2	25.6	25.4	24.9	24.8	24.7
Spring Reassessment	23.5	23.7	24.4	25.1	25.4	25.6	25.8	25.2	24.9	24.5

Source: Economic Council of Canada, August 1980

TABLE 3

**DIFFERENCE IN IMPACT BETWEEN THE PRICING
SCHEDULE OF THE DISTRIBUTIVE TRADES CONSULTATIVE COMMITTEE AND THAT
OF THE NATIONAL ENERGY PROGRAM**

	<u>10 Year Average Impact on Spending</u>	<u>10 Year Average Impact on Price</u>
Total Consumer Expenditure	-0.90	1.67
Durable Goods	-1.27	0.69
Recreation Equipment	-0.75	0.91
Furniture & Carpets	-1.80	1.00
Household Appliances	-1.91	0.95
New and Used Autos	-1.89	0.38
New Autos	-1.85	0.37
Used Autos	-2.09	0.39
Repairs & Parts	-0.68	0.84
Semi-durable Goods	-0.46	1.03
Men's and Boy's Clothing	-0.22	1.05
Women's, Girl's & Infant's Wear	-0.58	1.37
Footwear & Repair	-0.31	0.99
Books, Newspapers & Magazines	1.05	0.69
Semi-durable Household Furnishings	-0.78	0.76
Jewellery, Watches & Repair	-0.72	0.82
Non-durable Goods	-1.00	2.94
Food & Non-alcoholic Beverages	-0.13	1.13
Alcoholic Beverages	-0.91	0.76
Tobacco	-0.25	0.61
Non-durable Household Supplies	-0.26	0.34
Drugs & Sundries	-1.17	0.97
Toilet Articles & Cosmetics	-1.05	1.17
Electricity	-0.56	0.96
Gas	6.28	0.00
Other Fuels	6.28	15.86
Gasoline, Oil & Grease	-14.44	13.81
Services	-0.64	1.24
Travel Expenditures	-1.94	0.00
Travel Receipts	-1.65	4.18
Recreational Services	-1.28	1.23
Educational & Cultural Services	0.84	1.29
Laundry & Dry Cleaning	0.00	0.97
Domestic Services	-0.26	1.91
Other Household Services	-1.89	0.91
Medical Care	-0.04	0.99
Doctors' Fees	-1.40	3.36
Dentists' Fees	-0.52	0.93
Other Practitioners	-0.75	0.58
Hospital Care	-0.00	0.74

TABLE 3 (CONT'D)

	<u>10 Year Average Impact on Spending</u>	<u>10 Year Average Impact on Price</u>
Services (Cont'd)		
Other Medical Care Expenses	-2.75	0.91
Personal Care	-1.08	0.98
Expenditures on Restaurants, Hotels	-0.59	0.96
Financial, Legal & Other Services	-0.95	1.45
Operating Expenses of Non-profit Organ.	-0.77	1.74
Gross Imputed Rent	-0.22	1.46
Gross Rent Paid	-0.21	1.11
Other Lodging	-0.65	1.03
Other Auto Related Services	-0.99	1.12
Purchased Transportation	-1.59	1.60
Addendum:		
Doctors, Private & Government	-1.40	1.22
Medicare	-1.40	1.03
Hospital, Private & Government	-0.00	0.86
Hospital Care, etc.	-0.00	0.74
Permanent Income Proxy	-0.93	1.67
Consumer Price Index	NA	2.10

Source: Economic Council of Canada, August, 1981.

Item 4 - Competition Legislation

In the view of the Committee, the proposals for amending the Combines Investigation Act introduced by the Honourable Andre Ouellett, the Minister of Consumer and Corporate Affairs, in April 1981, will retard rather than enhance the competitive climate within Canada. Particularly do they appear unsuited to the distributive trades, characterized as they are by competition within local markets, many of which are small. It is the strong recommendation of the task force that the direction contemplated be changed in favour of one which deals with the misuse of a dominant position in case of actual behaviour, or the acquisition of a dominant position in the case of mergers and acquisitions.

The more significant of the Committee's views in relation to the proposals can be summarized as follows:

1. The structuralist approach adopted in the proposals is the subject of spirited controversy in economic circles everywhere. Whatever its application to large markets such as those of the U.S., it would appear to have little relevance to the small, sparsely populated market of Canada. Empirical experience including that in the retail trade, shows that the vigour of competition is not determined by the number of entrants. In fact, in many retail trades, the most vigorous competition only develops after a sector becomes somewhat concentrated.
2. The question of the definition of a "market" is particularly important for the distributive trades. Decisions have to be made in relation to whether a "market" is in fact a local trading area, and also whether levels of competition should be determined by commodity rather than by store type. In the view of the Committee, a trading area is the competitive market for distribution trade purposes, and competition has to be judged by commodity or merchandise grouping rather than by store type. This latter consideration is particularly relevant in an era of "scrambled merchandising".
3. A decision on the forum in which competition cases are dealt with will likely be substantially influenced by the nature of the process. Questions of jurisdiction may also influence whether a civil or criminal law approach is taken. All things being equal, the Committee would prefer to see the Federal Court used as the forum, and all except conspiracy cases dealt with by civil rather than criminal law. Even if a court procedure is used, however, it is felt that there should be an ultimate appeal to a political authority to deal with cases where there are some overriding considerations which are unlikely to be capable of resolution in a court. Otherwise, court procedures do provide the facility of appeal on routine matters and a civil jurisdiction avoids the unnecessary stigma which the criminal jurisdiction casts over the present procedures. It is noted that in any event, the civil remedies may be substantially more onerous than the fines which flow from the successful criminal prosecution.
4. If the type of procedure eventually decided upon raises any constitutional issues (as it is likely to do) it is the Committee's recommendation that constitutional doubts be resolved through the federal government obtaining the

appropriate rulings from the Supreme Court on matters relating to constitutionality.

5. In place of the use of a predesignated market share to test whether a horizontal merger or acquisition should be permitted, or permitted with suitable strictures, we believe attention should be focused on the state of competition which will exist after the merger. Because of retailers' problem with "market" and "market share" we do not think it is realistic to establish any arbitrary figure at which a retailer would be deemed to have a "dominant market position". All over Canada there will be thousands of establishments, independents and branches of multi-unit merchants, who would be deemed to be in a "dominant market position" in a commodity or commodities within their trading areas just because they achieved some share of market which had been laid out in the legislation.
6. The concept of joint monopolization as a status -- without reference to behaviour which is shown to be harmful -- is an artificial concept which we suggest should not be introduced in Canada. Four firm market shares ranging from 40 per cent to 70 per cent are common phenomena in Canadian retailing markets demonstrating healthy competition.
7. We believe that many of the "anti-competitive practices" listed in the discussion paper may be pro- rather than anti-competitive. We refer specifically to such listed practices as "selective price cutting", "narrowing by a vertically integrated supplier of a margin on which an unintegrated competitor is operating", "the use of fighting brands", "pre-emptive acquisition of scarce facilities or resources", "market saturating advertising". All of these practices, in certain circumstances can, in fact, indicate strongly pro-competitive action.
8. We take strong issue with the proposal to introduce a conscious parallelism concept into the conspiracy law. We allude to the findings of the Royal Commission on Corporate Concentration on this subject. We also point out that there are some negotiated restrictions on business which have no negative effects on third parties -- the vendor of a business agreeing with a purchaser that the vendor will not re-enter that business within a given geographical area for a specified length of time, or one or more tenants in a shopping centre and the landlord agreeing that the landlord will not let space to more than a predetermined number of similar businesses

within that centre. We suggest that a per se rule in this context is not apt. The action complained of should be required to be accompanied by a consequence which causes a third party injury.

9. We believe that the exemptions listed in the present section 32(2) of the Act should be retained. Such useful activities as refining product for standards, introducing accepted size and weight norms, establishing packaging levels or quality, have often been undertaken at the request, and with the support, of government. It is argued that no protection is needed if such procedures are not in themselves anti-competitive. However the mere removal of the section is likely to induce suspicion in relation to activities which can be legitimately and safely carried on under its protection. We recommend retention of the status quo.
10. We concur with the proposal that suppliers be required not to refuse supply to customers simply because such customers wish to take delivery of the product in some other location where the suppliers are offering the product to other customers.

The members of the Committee have had an opportunity to review the submission to the Minister of Consumer and Corporate Affairs on this subject prepared by the Retail Council of Canada, dated 29 June 1981. The thrust of that submission is broadly acceptable to the members of the Consultative Committee.

Item - 5 Distributive Trades -- Statistical Needs

Management decisions within the distributive trades, the businesses which supply and service them, and in the public sector, are being severely handicapped because of the paucity, poor quality and lack of timeliness of statistics reflecting the fast changing patterns of distribution activity.

Particularly serious has been the cancellation of the planned 1981 Census of Merchandising and the threat that this census will not now be undertaken in 1982 in a streamlined form, as originally seemed likely.

In addition to the periodic merchandising census which is the keystone of all distributive trade information, a number of other studies deserve to be updated, expedited, and in some cases, instituted. All of these subjects were

addressed in a paper prepared on behalf of a task force of information users directed to the Chief Statistician, and dated 17 February 1978. The views expressed in that paper are still relevant, and the detailed recommendations contained in it are proposed for adoption.

Merchandising census data are considered vital because of the following factors:

- a) essentiality -- accurate benchmark figures which only the census can supply are indispensable; no individual organization can obtain an exact count of businesses, sales and revenue, locations, breakdown by kind of business, and matching employment data;
- b) comprehensiveness -- no other source of data provides detailed figures for all areas and for all types of merchandising enterprises;
- c) reliability -- the method of collecting and analyzing census data eliminates sampling bias;
- d) continuity and comparability -- the consistency of methods used in collecting and reporting census data make the information extremely valuable in demonstrating longer-term trends;
- e) availability -- the census data are available to all users at low cost.

The private sector makes use of the data in determining the most economic location of stores, warehouses, shopping centres and manufacturing facilities. It needs them to form an understanding of shifting trends and shopping patterns, and structural changes in distribution. It provides a measure of market potential for given products. It permits the allocation of outlets, sales staff and advertising to markets in proportion to their significance. The federal, provincial and municipal governments are also users of the information in the formulation of economic policy and sector related programs. Provinces and municipalities need it for urban planning and for a variety of subsidiary uses. Other sectors of the economy, including academic institutions, publishers, private and public research organizations, utilities and transportation companies, consultants, are either primary or intermediary users of the information. These users play an important role in improving the efficiency of the economy as a whole.

It is instructive that the United States, after eliminating the census of business, manufacturers and mining in 1953, felt obliged to reinstate the economic census in 1954 in a truncated form, and has since consistently upgraded the extent and quality of the information derived from its economic census.

The February 1978 paper recommends a number of other improvements in information reporting including:

News Surveys

- weekly reporting of department and chain store sales by major "kind of business" categories
- annual financial operating ratios covering individual sub-sectors over a three year timeframe
- bi-annual reports of shopping centre developments to track major structural changes within retailing
- bi-annual reports of voluntary group stores to track major structural changes in retailing.

Expansion and Improvement of Existing Programs

- monthly retail trade estimates: expanded to encompass major census metropolitan areas such as Calgary, Edmonton, Hamilton, Ottawa, Quebec City and Halifax
- merchandising inventories (monthly or quarterly): to include a breakdown of independent retail stores by dollar level, by "kind of business"
- the labour force: include breakdown of commerce into sectors or sub-sectors
- industrial corporations: include breakdown of retail and wholesale trades into sub-sectors, using same basis as employment earnings and hours.

In the United States the breakdown of communication between statistical users in the private sector and the planners of the U.S. government's business statistical services which was manifested in the precipitate abandonment of the 1953 census and the agitated efforts to restore the damage in the mid- and later 50s resulted in the formation of a Statistical Users Conference. This body was designed to provide the U.S. Government with a sensitive reading of the statistical needs of the commercial community. There is a parallel need for such a body in Canada. It is recommended

that such a body be formed at least for the distribution trades or, if an overall advisory body is contemplated, that there be a strong distribution sector created within it.

With Statistics Canada currently reviewing its priorities and function, establishment of such an advisory council should be regarded as a high priority issue.

In framing all these recommendations the Committee is sensitive to the desirability of minimizing the paper burden on businesses. The census and the surveys which have been suggested can be so undertaken that they are economical of time and effort in the private sector. In any event, the results should recompense the providers of the information many times over for the effort expended on their completion.

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