

## **Land Border Duty Free Competitiveness Report**

### ***Immediate Action to Level the Playing Field for Canadian Land Border Duty Free Stores and Protect Border Economies***

#### **Executive Summary**

Canadian Land Border Duty Free Stores are integral to Canada's economy, particularly for rural communities along the border. These businesses, which sell uniquely Canadian products, represent the last opportunity to keep money within Canada that would otherwise be spent in the U.S. However, these businesses are at a distinct disadvantage due to the misapplication of domestic policies and taxes that are not applied to their U.S. counterparts. This disparity has severely hindered their ability to recover from the 20-month pandemic border closure, subsequent restrictions, and the current decline in cross-border travel. Additionally, looming tariff threats add to the uncertainty.

These small Canadian businesses are not asking for a handout, but for a **level playing field** with their only competitors—the U.S. Land Border Duty Free Stores and U.S. retailers. The current regulatory and tax landscape places Canadian businesses in a position where they cannot compete fairly, leading to losses in sales, revenue, and jobs. Immediate action is necessary to remove red tape and allow these stores, governed and regulated by the Canadian government, to operate as the duty free model was originally intended.

#### **Introduction**

The Canadian Land Border Duty Free Stores play a vital role in promoting **Canadian-made goods** and contributing to the national economy. However, over the years, Canadian land border duty free stores have been hampered by policies designed for domestic markets that have been misapplied to the duty free industry which is an export sector. Unlike their U.S. counterparts, Canadian duty free businesses are burdened with taxes and domestic regulations that increase operational costs and limit their ability to recover from the disruptions caused by the pandemic and the current decline in cross-border travel.

With the added threat of tariffs from the U.S., Canadian duty free businesses are at risk of being pushed to the brink of survival. These businesses are calling for immediate and fair regulatory changes to ensure they can compete with U.S. retailers on a level playing field. If these changes are not made, Canada's economy stands to lose millions in potential revenue, jobs, and business activity that would otherwise remain in the country.

Like border communities, the Canadian land border duty free industry is the first and hardest hit by Canada-U.S. border issues, facing significant challenges from border closures, restrictions, and trade disruptions.

## **The Disadvantages Facing Canadian Duty Free Businesses**

### **1. Misapplication of Domestic Policies and Taxes**

Canadian duty free stores face the burden of domestic excise taxes, and regulatory standards that are not imposed on U.S. duty free stores. For example, Canadian stores must adhere to the Canadian Food Inspection Agency (CFIA) regulations on domestic labeling, which increases costs removes products from the duty free channel and makes duty free stores less competitive. U.S. stores, on the other hand, do not face the same constraints, leading to a significant product and price disparities. These taxes and regulations were originally intended for domestic markets but are improperly applied to Canadian duty free businesses, creating an uneven playing field.

### **2. Pandemic Recovery and Border Restrictions**

The 20-month closure of the Canada-U.S. border during the pandemic caused irreparable damage to the duty free sector. The pandemic's impact on tourism and cross-border traffic has left these businesses struggling to regain their footing. During this period these stores were 95% down with no option to pivot its business model and despite the border reopening, reduced cross-border travel continues to limit sales, and the application of unfair domestic policies prevents these businesses from recovering fully.

### **3. Tariff Threats from the U.S.**

With tariff threats from the U.S. now looming over Canadian businesses, the situation is becoming increasingly dire. U.S. tariffs would further disadvantage Canadian duty free stores, making their products less competitive and exacerbating the already-existing challenges. At this critical juncture, it is imperative for the Canadian government to step in and ensure that these businesses are not subject to further unfair burdens. A failure to act will result in Canadian businesses being unable to survive the growing pressures from both domestic policies and international trade barriers.

### **4. Impact on Border Communities**

The ongoing regulatory issues faced by Land Border Duty Free industry, combined with tariff threats, have significant ripple effects on border communities. These shops are critical drivers of local economies, providing jobs and supporting businesses in rural and remote areas. A "Canada First" approach to policy reform will prioritize the health of these communities, ensuring that they are not left behind in the face of increasing competition and trade barriers. Decreased duty free sales result in lower local employment, reduced municipal revenue, and decreased investment in infrastructure, threatening the livelihoods of thousands of Canadians living in border communities.

### **5. Impact on Tourism and the Cross-Border Economy**

Tourism and the cross-border economy are inextricably linked to the success of border communities. The tariffs and regulatory burdens currently facing these businesses are a direct barrier to attracting both U.S. tourists to Canada and Canadian consumers to visit border duty free shops. This issue is further compounded by the ongoing challenges of adjusting to the post-pandemic economy, where border communities are struggling to

recover. A "Canada First" approach to the tariff threats must take into account the effect on border communities and border community businesses.

### **The Case for Immediate Action**

#### **1. Support Canadian Businesses**

Canadian duty free stores are independently owned and are deeply embedded in the local economies of border communities. They promote Canadian-made products, from iconic items like maple syrup and craft beer to specialty food and luxury goods. These businesses represent a unique opportunity to keep money in Canada that would otherwise be spent in U.S. stores.

#### **2. Level the Playing Field**

The only competition these Canadian businesses face is from U.S. duty free stores, which operate under much more favorable conditions, and U.S. retailers. By removing domestic and excise taxes and red tape, Canada can level the playing field and give these businesses a fighting chance to thrive in an increasingly competitive environment. These businesses are not asking for subsidies, but for a fair regulatory environment that reflects their status as exporters under the Canadian government's oversight.

#### **3. Economic Impact**

The Canadian duty free industry contributes over \$400 million in economic activity each year, creating over 1,500 full-time jobs and supporting thousands more through indirect employment. Allowing this sector to operate more efficiently and effectively will boost Canada's economy, support border communities, and ensure that the benefits of these sales remain within Canada. Immediate action is required to protect these businesses and prevent the loss of valuable economic activity to U.S. retailers.

### **Proposed Solutions**

#### **1. Reaffirm the Export Status of Canadian Land Border Duty Free Stores**

Canadian land border duty free stores are defined and regulated as export businesses under the Customs Act and CBSA D-memos. To ensure clarity and consistency, a clear directive across federal ministries is required to uphold the export status of these businesses and to prevent the misapplication of domestic policies upon this industry.

#### **2. Cutting Red Tape**

Reducing bureaucratic inefficiencies and aligning regulations with the export duty free model will allow Canadian businesses to operate more competitively. Immediate steps must be taken to streamline the regulatory environment, including addressing labeling conflicts and eliminating unnecessary compliance costs that U.S. competitors do not face.

#### **3. Fair Taxation Policies**

It is crucial that Canada adjusts its tax policies to reflect the export status of these businesses. Removing or significantly reducing excise and domestic taxes will allow Canadian duty free stores to compete with U.S. retailers and retain economic activity within

Canada. Additionally, this will significantly increase revenue back to the Canadian government.

#### **4. Align Policy with Economic Growth Opportunities**

Canada must recognize the importance of the land border duty free sector to its overall economic strategy. Aligning federal policies, such as those from **Destination Canada**, with the growth opportunities in border communities will ensure that these regions can capitalize on cross-border tourism and trade. Fostering a competitive and thriving duty free sector should be an integral part of the national economic agenda, supporting both local economies and the broader Canadian economy.

### **Conclusion**

Canadian Land Border Duty Free Stores represent a vital part of Canada's economy and tourism sector. However, these businesses are facing mounting pressures from domestic policies, U.S. tariff threats, and a decline in cross-border travel. If immediate action is not taken, these uniquely Canadian businesses may not survive. By eliminating red tape, reaffirming their export status, and implementing fair taxation policies, Canada can level the playing field and give these businesses the opportunity they need to recover, thrive, and continue contributing to the Canadian economy. Now is the time to act, for the future of these businesses and the prosperity of Canada.