

COVID-19 Ministerial Sub Panel for the Foodservice Sector

Discussion Paper - May 13, 2020

BACKGROUND

Pre COVID-19 pandemic, Ontario's foodservice sector was a \$37 billion industry, directly employing more than 480,000 people, making it the province's number one source of first jobs. Ontario served 9.1 million customers every day.

The average unit volume of a restaurant in Ontario is \$778,000. Data from Statistics Canada show Ontario restaurants rank last in Canada with a pre-tax profit margin of only 3.8%. The average table-service restaurant in Ontario has a pre-tax profit of just 3.1% with small operations achieving less than 2%. These razor thin margins are the primary reason why restaurant operations are struggling to weather the COVID 19 pandemic and keep the doors closed until they can come back to a reasonable capacity for operations at no less than 75% occupancy.

IMPACT OF COVID-19 ON FOODSERVICE SECTOR (SOURCE RESTAURANT CANADA SURVEYS)

- 300,000+ foodservice employees laid off or not working any hours.
- Preliminary revenue estimate is a 49% decline in sales in March and between a 60% to 75% decline in April.
- Ontario's foodservice industry is on track to lose by as much as \$7 billion in sales over the second quarter of 2020.
- 75% of restaurants are either very or extremely concerned about their growing business debt.
- 76% of restaurants state that rent is the biggest factor contributing to their business debt.
- It is anticipated recovery for the sector will lag others, and extend beyond 2 years.
- Nearly half of single-unit restaurants are temporarily closed until emergency measures are eased.
- Nearly one in 10 single-unit restaurants to date have permanently closed
- One out of every two single-unit restaurants are at risk to close in the next three months if current conditions stay the same.

SUMMARY OF SECTOR RECOMMENDATIONS

RENT

- OECRA should include "by division and/or property" type as many companies have several leased properties under their corporate structure.
- The resolution is to advance a forgivable loan to landlords as a solution to this issue as many landlords are not attracted to this program.

BUSINESS EXPENSE ON RESTAURANT MEALS

- Ontario government to work with the federal government to allow business to expense restaurants meals at 100% from the current 50% of on-premise dining.

BEVERAGE ALCOHOL

BEVERAGE ALCOHOL WHOLESALE PRICING

- Recommend that Ontario licensees receive a minimum of 10 per cent reduction in fees from consumer prices when purchasing beverage alcohol products.

BEVERAGE ALCOHOL DELIVERY & TAKEOUT

- Amend the existing regulation of minimum pricing for spirits sold by the bottle to equal the purchasing price licensees pay at the LCBO.

FAIR MINIMUM PRICING FOR DELIVERY OF BEVERAGE ALCOHOL

- Amend the existing regulation of minimum pricing for spirits, wine, beer and cider sold by the bottle to equal the purchasing price licensees pay at the LCBO.

SUPPLY CHAIN

- Engage industry in building a critical timely path of readiness to ensure the sector is prepared.

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RED TAPE REDUCTION

- Decreases of a restaurant's capacity will place a significant pressure to sustain the operation thus we need to look at opportunities that can be found in expansion and in design.

OUTDOOR RESTAURANT SPACE EXPANSION

- Make appropriate changes to the Liquor Licence Act and AGCO procedures as well as municipal by laws in patio to allow expansion of outdoor restaurant service areas per site specific.

INCREASE CAPACITY THROUGH DESIGN

- Ministry of Health work with the sector in developing criteria that provides safety for employees and consumers while tapping into safe design options that have opportunities to increase customer capacity.

ENTREPRENEURISM AND COLLABORATION

- All Government Ministries should have an open-door policy with industry associations in engagement every step on the way to include advocating discussions and resource needs.
- Industry associations to communicate, respond to needs, develop tools and resources and be the voice of industry to government and stakeholders.
- A collaborative effort in examining the various products/services and price points offered by the sector's providers and work towards fair adjustments.

SKILLS AND TRAINING

- Develop and implement the Action Program for Maintaining Employment (APME) to Ontario employers through a fund of \$200 million.

PUBIC HEALTH

- Ministry of Health to engage and work with the sector in developing health and safety guidelines
- Ministry of Health to ensure there is one common approach to set protocols across the province in criteria and inspections and to ensure the appropriate training is provided to public health units to minimize interpretation.

INNOVATION

- The Province of Ontario to dedicate resources and research in the development and implementation of contact tracing to enable businesses such as restaurants, banquet rooms and theatres to function without distancing requirements.

EMPLOYMENT STANDARDS ACT AMENDMENT

- An immediate and essential amendment to the Ontario Employment Standards Act is to extend the lay off period from the 13-week period to a minimum of 52 weeks.

DETAILED SECTOR RECOMMENDATIONS

A robust plan is required in order to prepare the foodservice sector for success and to enable the re-hiring and retraining of the unprecedented number of laid off workers and support the supply chain to resume service to the sector.

RENT

The highest concern for most especially independent operators is being able to survive the next three months and pay their rent. The Ontario-Canada Emergency Commercial Rent Assistance Program (OECRA) was intended to be a solution however, it is not a fix for all as many landlords are not planning to take advantage of the available loans and are not providing leniency to their tenants.

RECOMMENDATION:

- OECRA should include "by division and/or property" type as many companies have several leased properties under their corporate structure.
- The resolution is to advance a forgivable loan to landlords as a solution to this issue as many landlords are not attracted to this program.

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BUSINESS EXPENSE ON RESTAURANT MEALS

Building consumer trust and confidence will be critical to the hospitality operations. Consumer confidence leads to disposable income which drives the economy. Restaurants will need to gain consumer confidence during the post lockdown transition till a vaccine is found. Incentivizing business to dine in restaurants will aid in boosting on-premise visitation while supporting overall travel. It is an initiative that has been implemented in many other countries.

RECOMMENDATION:

- Ontario government to work with the federal government to allow business to expense restaurants meals at 100% from the current 50% of on-premise dining.

BEVERAGE ALCOHOL WHOLESALE PRICING

There are approximately 17,500 licensee establishments in Ontario and with over 30% direct beverage cost wholesale pricing will be an added benefit to a straggling sector. In 2019 Ontario's licensees purchased \$ 577,000 million beverage alcohol product from the LCBO.

RECOMMENDATION:

- Recommend that Ontario licensees receive a minimum of 10 per cent reduction in fees from consumer prices when purchasing beverage alcohol products.

BEVERAGE ALCOHOL DELIVERY & TAKEOUT

The government has granted a temporary amendment option ending Dec 2020 for Ontario's licensed restaurants to sell alcohol with food take-out and delivery orders between the hours of 9:00 am and 11:00 pm. This program has been adopted by takeout and delivery restaurant concepts providing a one stop shop for consumers while the LCBO continues to benefit from beverage sales. Apart for licensee support there are compelling reasons for allowing this to be permanent including well defined controls, consumer trends & convenience, competitiveness and experience with the "Take Home the Rest" wine program endorsement where a customer can take the partial wine left in the bottle home in a sealed bottle.

According to the existing Ontario liquor rules a standard-sized drink may not be sold or supplied for less than \$2. In keeping with this pricing rule a 26 oz bottle of spirit would have to be sold for a minimum price of \$52. If a licensee offers for sale a serving of liquor that differs in size from those listed above, the minimum price for that serving shall increase or decrease in direct proportion to the difference in volume of liquor contained in that serving. Consumers are linking the set high spirit price to price gouging fueled by the recent government's announcement on this. Furthermore, it is non-competitive for licensees to even consider selling spirits under the existing pricing rule.

RECOMMENDATION:

- Amend the existing regulation of minimum pricing for spirits sold by the bottle to equal the purchasing price licensees pay at the LCBO.

FAIR MINIMUM PRICING FOR DELIVERY OF BEVERAGE ALCOHOL

According to the existing Ontario liquor rules a standard-sized drink may not be sold or supplied for less than \$2. The rule specifies that if a licensee offers for sale a serving of liquor that differs in size from those listed above, the minimum price for that serving shall increase or decrease in direct proportion to the difference in volume of liquor contained in that serving. For example in keeping with this pricing rule a 26 oz bottle of spirit would have to be sold for a minimum price of \$51.72. This has recently been reduced by 33% bringing the price to \$34.65, While the change is an improvement it is still high and does not offer the licensee the selling price flexibility to compete with the LCBO.

There is not a reasonable reason why the price of a manufactured sealed bottle sold at retail needs to be higher than the LCBO price when LCBO still receives its share of revenues and selling through take out and delivery with food only boosts its sales while its own selling price sets the minimum price threshold. Certainly, its not about social responsibility.

Consumers are linking these high prices to price gouging fueled by the recent government's announcement on this. Retail has different price expectations than ordering a drink in a licensed establishment. Furthermore, it is non-competitive for licensees to even consider selling spirits under the existing pricing rule.

RECOMMENDATION:

- Amend the existing regulation of minimum pricing for spirits, wine, beer and cider sold by the bottle to equal the purchasing price licensees pay at the LCBO.

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SUPPLY CHAIN

With the closure of many restaurants, the foodservice supply chain has shifted operations to sell direct to grocery. As such, they have no inventory of packaging for bulk and are working with reduced staffing due to distancing protocols. They require a critical path of timing from the Ministry of Health in order to ramp back up to capacity to service the foodservice sector accordingly

RECOMMENDATION:

- Engage industry in building a critical timely path of readiness to ensure the sector is prepared.

RED TAPE REDUCTION

The foodservice sector agrees in distancing being the right approach to society in post lockdown era however, there will be profound consequences to a restaurant's success in this thin profit margin sector. Decreases of a restaurant's capacity will place a significant pressure to sustain the operation thus we need to look at opportunities that can be found in expansion and in design.

OUTDOOR RESTAURANT SPACE EXPANSION

Opportunities exist where outdoor spaces can be expanded into adjoining and nearby areas such as squares, vacant lots, unused parking areas, street extensions and pedestrian alley walkways.

For example, in the City of Toronto the specific regulations that impact exterior licensed space usage and limits a restaurant ability to offer greater social distancing are below:

- AGCO/City of Toronto Zoning: licensed patios are limited to 33% of the interior licensed square footage.
- City of Toronto Zoning: Public Spaces on Private Property (POPs) recognize any barrier as the "privatization" of a public space even though the intended use is to enhance the public domain and improve public engagement with activities and food and beverage. POPs are determined as a % of the site plan of the property as a whole. As long as anyone is permitted in the POP area and the operator upholds smart serve rules and safety of the area, these spaces will become **enhanced public spaces**. The concept of "private" suggests the opposite and that's simply incorrect.
- AGCO requires a barrier around the perimeter of any licensed patio in order to control entry even though public parks -- where alcohol consumption is permitted -- do not have such a fence.

RECOMMENDATION:

- Make appropriate changes to the Liquor Licence Act and AGCO procedures as well as municipal by laws in patio to allow expansion of outdoor restaurant service areas per site specific.

INCREASE CAPACITY THROUGH DESIGN

The 50% total existing capacity rule needs to be challenged and replaced by site specific location guidelines.

RECOMMENDATION:

- Ministry of Health work with the sector in developing criteria that provides safety for employees and consumers while tapping into safe design options that have opportunities to increase customer capacity.

ENTREPRENEURISM AND COLLABORATION

The COVID-19 pandemic has brought unrepresented difficulties and the sector can be stronger to wither this storm if a united collaborative effort is applied. This includes industry government, associations, hospitality institutions and the supply chain with the purpose of supporting businesses as this ends up driving the economy. Collaborative activities should focus on designing and delivering programs to open up the sector post COVID-19 lockdown.

RECOMMENDATION:

- All Government Ministries should have an open-door policy with industry associations in engagement every step on the way to include advocating discussions and resource needs.
- Industry associations to communicate, respond to needs, develop tools and resources and be the voice of industry to government and stakeholders.
- A collaborative effort in examining the various products/services and price points offered by the sector's providers and work towards fair adjustments.

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SKILLS AND TRAINING

The sector anticipates fewer full-time/full-year jobs with more demand for casual or part-time labour. Until a vaccine is in place, many employees on layoff may be reluctant to return to work if unemployment benefits stay attractive. The sector also anticipates issues with employees being sensitive to working in a risky environment while COVID-19 prevails.

Technology in the sector has gradually progressed in payment processes and in the digital highway. With a touchless society and rapid growth in delivery concepts technology will now be embraced by smaller independent operations bringing a new learning curve for many.

ACTION PROGRAM FOR MAINTAINING EMPLOYMENT

The purpose of the **Action Program for Maintaining Employment** program is to provide support to businesses that have experienced a decline in their operations as a result of the COVID-19 pandemic. It is a program similar to one initiated in the Province of Quebec (officially the *Programme d'actions concertées pour le maintien en emploi*) which aims to provide direct financial support to businesses in order to promote training and the implementation of good human resources management practices. Its purpose is to optimize efficiencies in the operation through workforce development and help business resume business more quickly once the situation has stabilized.

A program of this kind in Ontario would benefit employers needing to reskill and upskill their workforce to meet new and emerging business, health and technology standards upon recovery. Many businesses hope to take advantage of available downtime and created by the COVID-19 pandemic to upgrade the skills of their workforce and to be ready for economic recovery under new operating requirements.

Eligible training and resources would be delivered through remote and online delivery channels and would focus on:

- Return to work protocols
- Digital skills training
- Training on new health and safety standards (cleaning and workplace health & safety)
- Re-skilling and up-skilling to support job sharing and retention initiatives
- Training, toolkits and consultation support for businesses to enable market analysis, business planning and restructuring in keeping with new market norms

However, training and funding for training alone will not be enough to support small and mid sized businesses that lack the economies of scale to launch comprehensive training strategies.

RECOMMENDATION:

- Develop and implement the Action Program for Maintaining Employment (APME) to Ontario employers through a fund of \$200 million.

PUBLIC HEALTH

Health and safety will play a priority role and will impact a new approach to an operation. It is a vehicle to success in order to create trust with employees and consumers. Distancing, sanitation standards and minimize touching points will be new hallmarks of the foodservice sector. These will be driven through design, technology and employee training.

HR policies will have to reflect requirements of employee sick-leave protocols to protect other staff and customers.

RECOMMENDATION:

- Ministry of Health to engage and work with the sector in developing health and safety guidelines
- Ministry of Health to ensure there is one common approach to set protocols across the province in criteria and inspections and to ensure the appropriate training is provided to public health units to minimize interpretation.

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INNOVATION

It is important that we look at alternative ways to eliminate distancing and open restaurants that enable customers to have a full enjoyment of experiences. Extensive automated tracking systems have been implemented in South Asian countries and in Europe which allow for mapping direct contacts identifying disease carriers of individuals through smartphone apps and those of their contacts. Successes are well documented though the system still needs to be perfected. It is not as evasive as passport tracking and in these COVID-19 priorities need to be revisited on any privacy impediments. The Conference Board of Canada cited *“The current pandemic, however, has demonstrated the power of technology in controlling the spread of a deadly virus and ultimately saving lives.”* *

With Google and Apple announcing plans to enable their operating systems to track patients and these providers powering nearly all smartphones in Canada, the province of Ontario needs to participate. Contact tracing systems have the potential capability to enable operation of a business such as a restaurant or a conference room **by screening and allowing strictly “negative only tested” patrons to enjoy and conduct in normal activities.** ID scanning systems have been currently in use by bars and nightclubs to enhance public safety and can be easily retrofitted to register patrons upon entrée.

RECOMMENDATION:

- Province of Ontario to dedicate resources and research in the development and implementation of contact tracing to enable businesses such as restaurants, banquet rooms and theatres to function without distancing requirements.

EMPLOYMENT STANDARDS ACT (ESA) AMENDMENT

The current ESA rule requires termination of an employee with pay if the employee is not called back after 13-weeks. With the immense number of employees being laid off and businesses not recovering in the short term, employers who laid off their employees using the 13 weeks period option will be facing an added expense that most businesses will not be able to meet..

RECOMMENDATION:

- **Extend the lay off period from the 13-week period to a 52-week period at minimum:**
 - This can be done through an immediate and essential amendment to the Ontario Employment Standards Act (ESA)
 - This measure will aid in sustaining a business for employees to work in as the business gradually recovers

OTHER MINISTRIES TO ASSIST WITH FOODSERVICE SECTOR RECOVERY

- Ministry of Health
- Ministry of Finance
- Ministry of Labour Training, Skills and Development
- Ministry of Attorney General
- Ministry of Municipal Affairs and Housing
- Ministry of Economic Development Job Creation and Trade
- Ministry of Agriculture, Food And Rural Affairs (OMAFRA)

* Tracking during public health emergencies – Harry Sharma Director, Innovation and Technology Conference Board of Canada May 6, 2020