SENATE SÉNAT

CANADA

THE COSTS AND BENEFITS OF CANADA'S ONE-CENT COIN TO CANADIAN TAXPAYERS AND THE OVERALL CANADIAN ECONOMY

Report of the Standing Senate Committee on National Finance

The Honourable Joseph A. Day, Chair
The Honourable Irving R. Gerstein, Deputy Chair (until December 1, 2010)
The Honourable Richard Neufeld, Deputy Chair

December 2010

Ce rapport est aussi disponible en français

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MEMBERS

The Honourable Joseph A. Day, Chair of the committee
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The Honourable Catherine S. Callbeck
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The Honourable Art Eggleton, P.C.
The Honourable Irving R. Gerstein
The Honourable Elizabeth Marshall
The Honourable Lowell Murray, P.C.
The Honourable Robert W. Peterson
The Honourable Pierrette Ringuette
The Honourable Robert William Runciman

Ex-officio members of the committee:
The Honourable Senators Marjory LeBreton, P.C., (or Gérald Comeau) and James Cowan (or Claudette Tardif).

Other Senators who have participated from time to time in the study:
The Honourable Senators Salma Ataullahjan, Tommy Banks, David Braley, Doug Finley, Fabian Manning, Yonah Martin, Paul J. Massicotte and Marie-P. (Charette) Poulin.

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Adam Thompson

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FOREWORD

It is our sincere pleasure to present this final report of the Standing Senate Committee on National Finance on the costs and benefits of Canada's one-cent coin.

When the Finance Committee undertook this study, we resolved to hear all perspectives. We invited government officials, officials from foreign countries that have experience with similar issues, retailers, bankers, consumer groups, charities, collectors and independent economists. Not everyone we invited to appear before us accepted our invitation, but we did hear from witnesses in every category listed above, and the testimony we heard was compelling. It is fair to say that this issue proved immeasurably more complex and more interesting than we had expected.

It is hoped that this report will exemplify the high standard of objective analysis that can be achieved when senators come together earnestly and in a spirit of non-partisanship for the purpose of improving Canada's public policy for the good of all Canadians.

Committee members are indebted to the staff of the Senate Committees Directorate and the Library of Parliament for helping to bring this report to fruition. We applaud their professionalism and commitment to public service.

Senator Joseph A. Day
Chair

Senator Irving R. Gerstein
Deputy Chair*

Standing Senate Committee on National Finance

* Throughout this study, and at the time this report was adopted by the committee, Senator Gerstein served as Deputy Chair. Subsequently, on December 1, 2010, Senator Neufeld was elected Deputy Chair.

ORDER OF REFERENCE

Extract from the *Journals of the Senate*, Tuesday, April 27, 2010:

The Honourable Senator Gerstein moved, seconded by the Honourable Senator Segal:

That the Standing Senate Committee on National Finance be authorized to examine and report on the costs and benefits of Canada's one-cent coin to Canadian taxpayers and the overall Canadian economy;

That in conducting such study, the committee take particular note of:

(*a*) The recent cost-saving changes to Canada's currency system announced by the Royal Canadian Mint;

(*b*) The direct cost to taxpayers of producing and distributing one-cent coins in relation to their actual value;

(*c*) The costs and productivity implications for Canadian businesses in light of the counting, handling and redistribution requirements of the coin; and

(*d*) International experiences with eliminating low-denomination coins; and

That the committee submit its final report to the Senate no later than December 31, 2010, and that the committee retain all powers necessary to publicize its findings for 180 days after the tabling of the final report.

After debate,

The question being put on the motion, it was adopted.

Gary W. O'Brien

Clerk of the Senate

SUMMARY OF RECOMMENDATIONS

Please note that these recommendations are best understood in the context of the reasoning presented in the body of the report. To locate the section of the report relevant to each recommendation, please see the page number in parentheses following the recommendation.

The Standing Senate Committee on National Finance recommends the following:

RECOMMENDATION 1: That Canada's one-cent coin be removed from circulation. [page 10]

RECOMMENDATION 2: That the Government of Canada, in cooperation with the provinces and with the retail and service sectors, issue clear voluntary guidelines for rounding after-tax total purchase prices symmetrically to the nearest five cents. [page 14]

RECOMMENDATION 3: That price rounding be applied in cash transactions only. [page 17]

RECOMMENDATION 4: That production of the one-cent coin for circulation cease as soon as practicable, that the one-cent coin be removed from circulation starting 12 months thereafter, and that the calling-in period last an additional 12 months. [page 19]

RECOMMENDATION 5: That one-cent coins continue to be legal tender until the end of the 12-month calling-in period, so that Canadians may continue to use them in commercial transactions during that time. [page 19]

RECOMMENDATION 6: That the Bank of Canada continue to redeem one-cent coins indefinitely, and that financial institutions be allowed to choose whether, and for how long, they will continue to facilitate the return of one-cent coins to the Bank of Canada after the calling-in period ends. [page 20]

RECOMMENDATION 7: That the Government encourage charitable organizations to implement fundraising campaigns that would assist in the collection of one-cent coins for removal from circulation. [page 28]

RECOMMENDATION 8: That the Royal Canadian Mint be allowed to decide on the basis of profitability whether to continue limited production of the one-cent coin for direct sale to collectors. [page 29]

PART ONE – INTRODUCTION

BACKGROUND

In light of the current fiscal environment and ongoing cost-saving initiatives, the Standing Senate Committee on National Finance feels that this report on the costs and benefits of Canada's one-cent coin is opportune.

The Government has made clear its intention to identify and eliminate areas of inefficient spending. In early March 2010, the Government announced cost-saving changes to Canada's currency. Canadian bills will be printed on polymer instead of cotton-based paper, in part because polymer is far more durable. The Mint is also changing the composition of Canada's one-dollar and two-dollar coins to reduce costs.

This is by no means the first time the future of Canada's one-cent coin, commonly called the penny, has been questioned by parliamentarians or by others. Several Private Members' Bills to eliminate the penny have been introduced in the House of Commons, including Bill C-252 in the current parliament. In 2007, the Royal Canadian Mint and the Department of Finance commissioned a market study of the implications of removing the penny from circulation.[1] The same year, Desjardins Group conducted an economic study of the proposed removal of the penny from circulation.[2] Others, including economists from Wilfrid Laurier University in Waterloo[3] and the University of Western Ontario[4], have also studied this issue. These prior studies have provided valuable information and insights to the committee.

Many arguments have been made for eliminating the one-cent coin from Canada's currency system. Canada's one-cent coin has lost 95% of its purchasing power since it was first produced in 1908. What used to cost a penny now costs twenty cents. This loss of value is a key point in the debate on the costs and benefits of the one-cent coin. Pennies today have little utility, as they are no longer accepted in vending machines, have virtually no purchasing power individually, and cannot legally be used more than twenty-five at a time to pay debts, including to retailers and service providers.[5] Many consumers no longer use pennies at all, preferring to hoard them, give them away, or even discard them. For

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[1] Altitude Marketing Research. *The Future of the Penny in Canada – Market Study of Implications (AMR Project Ref No. 701),* September 2007.

[2] Desjardins Economic Studies. *Should we stop using the Penny?* 15 February 2007.

[3] Dinu Chande and Timothy C.G. Fisher, Department of Economics, Wilfrid Laurier University. *Have a Penny? Need a Penny? Eliminating the one-cent coin from circulation.* Canadian Public Policy, Volume XXIX, No. 4, 2003.

[4] John Palmer, Associate Professor, Department of Economics, University of Western Ontario.

[5] *Currency Act*, R.S.C. 1985, c. C-52. Subsection 8(2)(e).

retailers and others, counting, handling and processing one-cent coins impairs productivity and often costs more than the face value of the coins themselves.

However, there are many other considerations to be made in deciding the future of the penny, including the impact on charitable organizations that receive coins as donations; the potential cost to retailers associated with converting their change-making systems; the initial cost to the federal treasury associated with removing pennies from circulation and liquidating them; and the potential impact on pricing methods and overall price levels.

There is extensive international experience to draw from in considering changes to Canada's currency system. Many countries, including Finland, Sweden, Norway, Denmark, Israel, the Netherlands, Australia, New Zealand, France, Spain, South Africa, Switzerland and Brazil have eliminated single-unit coins from their decimal-based currency systems. The United Kingdom has eliminated its half pence coin. Australia and New Zealand have removed both their one- and two-cent coins from circulation, and New Zealand has done the same with its five-cent coin.

GOVERNANCE OF CANADA'S COINAGE SYSTEM

The Standing Senate Committee on National Finance has received testimony from the Department of Finance, the Royal Canadian Mint and the Bank of Canada, all of which share some responsibility for Canada's currency regime.

Production of the one-cent coin is the responsibility of the Royal Canadian Mint, a for-profit Crown corporation mandated to produce and distribute all circulating coins for Canada based on market demand. The *Royal Canadian Mint Act* authorizes the Minister to pay the Mint for the production, storage and movement of coins. A memorandum of agreement between the Department of Finance and the Mint sets out the conditions for these activities and the related costs.

In his appearance before the committee, Wayne Foster, Director, Financial Markets Division, Financial Sector Policy Branch, Department of Finance, described the relationship between the Department of Finance and the Royal Canadian Mint as it concerns circulating coins in Canada:

> *Under the provisions of the Royal Canadian Mint Act, the Minister of Finance has the authority to take delivery of Canadian circulating coins produced by the mint. The Act also provides authority for the minister to pay the mint for the production, storage and movement of coins. The terms and conditions for these activities and related costs are defined in a memorandum of understanding between the department and the Royal Canadian Mint.*
>
> *The objective of the coinage system and all denominations within it is to meet the payment needs of Canadians and the economy, overall. Any decision to change the coinage system will be taken by the Government of Canada in*

> *consultation with the mint. Such a decision will take into consideration the effect of this action on consumers and businesses, among other things.*[6]

Mr. Foster also explained that officials of the Department of Finance and the Royal Canadian Mint meet regularly to discuss coinage matters and the functioning of the coinage system.

The Bank of Canada issues bank notes, but is not involved in the production or circulation of coins. However, the Bank of Canada carries out monetary policy, the cornerstone of which is targeting a healthy and stable inflation rate, and from that perspective it takes an interest in proposed changes to Canada's coinage system.

LEGAL FRAMEWORK AND DEFINITIONS

The *Constitution Act, 1867*,[7] authorizes Parliament to make laws regarding "Currency and Coinage,"[8] and "Legal Tender."[9] The *Currency Act*[10] and the *Royal Canadian Mint Act*[11] were enacted in accordance with this constitutional jurisdiction.

Under section 9 of the *Currency Act*, the Governor-in-Council may, by proclamation, call in coins or make regulations regarding the redemption of coins that have been current in Canada. The *Currency Act* treats the terms "current" and "legal tender" as interchangeable. A coin that is legal tender may be used in payment of a debt, including to a retailer, service provider or other merchant. To "call in" a coin is to remove it from circulation. A coin that has been called in is no longer legal tender.[12] To "redeem" a coin is to provide payment in exchange for the coin in the amount of its face value. This concept is separate from the status of a coin as legal tender.

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[6] Wayne Foster, *Evidence*, 26 May 2006.

[7] *Constitution Act, 1867*, (U.K.), 30 & 31 Victoria., c. 3, reprinted in R.S.C. 1985, App. II, No. 5.

[8] *Constitution Act, 1867*, subsection 91(14).

[9] *Constitution Act, 1867*, subsection 91(20).

[10] *Currency Act*, R.S.C. 1985, c. C-52

[11] *Royal Canadian Mint Act*, R.S.C. 1985, c. R-9.

[12] *Currency Act*, *s*ubsection 8(4).

PART TWO – WHITHER THE ONE-CENT COIN?

FISCAL CONSIDERATIONS

Impact on government expenditures

Although the *Royal Canadian Mint Act* states that the object of the Mint is to "mint coins in anticipation of profit,"[13] the Mint currently produces Canada's one-cent coin at a loss.

Beverley A. Lepine, Chief Operating Officer of the Royal Canadian Mint, told the committee:

> *Unlike any of our competitors in the world markets, we are able to keep the material costs of producing a penny below one cent per coin. However, with the addition of manufacturing and distribution costs, the total unit price of putting a penny into circulation is higher than one cent.*[14]

She later specified:

> *The cost of the penny today is approximately 1.5 cents, so a penny and a half to produce and distribute a penny.*[15]

Ms. Lepine also told the committee that if the Mint ceased production of the one-cent coin, there would be greater production capacity to produce foreign currency, which could be more profitable for the government and the Mint.

Finance Canada pays the full cost of each penny to the Mint, but receives only the face value of each penny sold to financial institutions. The resulting loss is known as "negative seigniorage." Wayne Foster of the Department of Finance explained:

> *. . . If we use the cost of a cent-and-a-half per cent as a benchmark that the department pays for, say, a billion pennies, using that estimate going forward, that is $15 million per year. We receive a cent per penny sold to the financial institutions. Therefore, we spend $15 million and we receive $10 million. That is a net of $5 million, which currently is a loss . . . If one were to cease production of the penny, those figures imply that the government will save $5 million per year, based on those assumptions.*[16]

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[13] *Royal Canadian Mint Act*, subsection 3(2).

[14] Beverly A. Lepine, *Evidence*, 26 May 2010.

[15] Ibid.

[16] Wayne Foster, *Evidence*, 26 May 2010.

However, Mr. Foster also pointed out that there would be up-front costs associated with removing the one-cent coin from circulation:

> *There will be transition costs . . . There will be communications around that transition. We also will have to deal with the outstanding stock that will come back . . . If we say that 10 billion pennies will come back, that is about $100 million. We are buying back pennies, so there is a cost of $100 million. However, we will not throw those pennies away; we will use the metals in them. What will we receive from melting down that stock? We will not receive a penny . . . but something less than that, probably less than half a cent. Of the $100 million, we will receive back $50 million, say, in salvage value.*
>
> *If we add up those numbers, we have an upfront cost if we buy the pennies that come back, and then we have ongoing savings. Therefore, we have a potentially positive long-run economic benefit, but we may have upfront costs that are higher than the annual cost savings.*

Impact on government revenues

Mr. Foster went on to explain that by rounding off only the total purchase price after taxes have been applied, there would be no impact on the amount of consumption taxes collected or the way in which they are calculated:

> *The GST and HST are applied to the total bill, so that total will not be affected. The rounding will come after that . . . The full GST will be paid and either the consumer or the business will take care of the rounding up or down. Therefore, it does not appear there will be any impact on GST.*[17]

ECONOMIC CONSIDERATIONS

Return of money to circulation

The committee considered an article entitled *Poll finds majority of Canadians would ditch penny*,[18] published in the Windsor Star on August 13th, 2010, which cited Mr. David Watt, a Vice President of RBC Capital Markets, as indicating that the Canadian economy could benefit from the elimination of the penny. If the government called in the coins, Canadians would have an incentive to stop hoarding them and trade them for cash, putting the money back into the economy. This benefit would be in addition to the savings realized by ending the production of the penny at a loss.

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[17] Wayne Foster, *Evidence*, 26 May 2010.

[18] Giuseppe Valiante, Postmedia News

Enhanced productivity

Dinu Chande, an Economics Teacher at Glebe Collegiate Institute, co-authored with Dr. Timothy Fisher a paper exploring the economic implications of removing the one-cent coin that was published in *Canadian Public Policy* in 2003.[19] He told the committee:

> *We know that pennies are very expensive to produce relative to their monetary value. Our paper went a step further and attempted to quantify the time costs associated with the penny. Basically, we considered the additional time that pennies can add to cash transactions as either consumers or retailers count out the pennies to make change, and we applied an average wage to this lost time. The result was tens of millions of dollars of lost productivity every year attributed to the penny.*[20]

Estimating the total cost of the penny

In its economic analysis[21] of this subject, the Desjardins Group estimated the total annual cost to the Canadian economy associated with the penny to be over $130 million in 2005. The analysis examined the costs to government, financial institutions, retailers and consumers.[22] The Desjardins Group also tried to identify the cost of lost interest, since stored pennies are a non-interest bearing asset. There is also a cost involved in the time required for rolling the coins and going to the bank to deposit them.[23]

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[19] Dinu Chande and Timothy C.G. Fisher, Department of Economics, Wilfrid Laurier University. *Have a Penny? Need a Penny? Eliminating the one-cent coin from circulation.* Canadian Public Policy, Volume XXIX, No. 4, 2003.

[20] Dinu Chande. *Evidence*, 1 June 2010.

[21] *The 100th anniversary of the Canadian penny: An opportunity to re-examine the usefulness of our coins and bank notes in circulation*.

[22] François Dupuis, Vice-President and Chief Economist, Mouvement Desjardins. *Evidence*, 1 June 2010.

[23] Jean-Pierre Aubry, Economic Consultant, Mouvement Desjardins. *Evidence*, 1 June 2010.

Table 1 – Desjardins estimate of the total annual costs of the penny to the Canadian economy in 2005[24]

Cost Category	Estimated Cost ($ millions)	
Production at a loss	**11.25**	(750,000,000 coins x 1.5¢)
Cost to financial institutions	**20**	(Lost interest, storage and transportation costs)
Cost to retailers	**60**	(Storage, transportation, accounting, loss of productivity)
Additional cost to consumers	**40**	(Transportation, handling)
Total Cost	**131.25**	

No impact on inflation

According to research commissioned by the Royal Canadian Mint in 2007, among the 33 per cent of consumers who were against eliminating the penny, the most common reason cited was the fear that retailers would round prices up more often than down, resulting in inflation. The committee spent considerable time exploring this concern.

Pierre Duguay, Deputy Governor of the Bank of Canada, explained why the Bank of Canada does not anticipate any inflationary impact from the elimination of the penny.

First, he indicated that even if eliminating the penny resulted in prices being rounded up to the nearest multiple of five cents—which is unlikely if businesses want to be competitive—this would be a one-time increase and not a change in the trend of inflation. Inflation is a continuous rise in the price level.

Second, Mr. Duguay indicated that the one-time price increase of one or two cents would be so small relative to the cost of the basket of goods and services priced by the Consumer Price Index (CPI) that it would not register in this index, even though the CPI is calculated to one-tenth of one percent.

Third, Mr. Duguay addressed the concern that before-tax prices ending in nine cents would be rounded up. He asserted that this is unlikely because such rounding would not carry over to the final price once sales tax is applied, and retailers would lose the perceived marketing benefit of prices that end in nine cents.

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[24] Based on data from http://www.desjardins.com/en/a_propos/etudes_economiques/actualites/point_vue_economique/pve70215.pdf.

Mr. Duguay stated:

> *. . . any impact on inflation would be insignificant and more likely non-existent . . . In the absence of a penny, rounding would only need come into play in cash transactions and would apply to the total bill after tax, and not to each individual item purchased. If applied symmetrically, rounding down of cash purchases ending in 1, 2, 6, and 7 cents would offset the rounding up of those ending in 3, 4, 8, and 9 cents. It is more or less because these things balance each other out that some shopkeepers, for example, have a ``take a penny/leave a penny'' jar.*

Mr. Duguay cited international experience in support of the Bank of Canada's assessment that removing the penny from circulation would have no inflationary impact:

> *In Australia and New Zealand, the elimination of small coins — the one-cent and two-cent coins in Australia and New Zealand and also the five-cent coin in New Zealand — had no noticeable effect on inflation.*

Alan Boaden, Head of Currency for the Reserve Bank of New Zealand, confirmed this. He described the price impact resulting from the elimination of low-denomination coins in New Zealand as follows:

> *A survey carried out by the independent Consumers Institute found that prices actually fell slightly when one and two cents were withdrawn. They attributed this to competition in the retail sector . . ."*

Mr. Boaden also noted that individual items in New Zealand continue to be priced to the nearest cent, and retailers continue to employ prices ending in nine cents as a marketing strategy, rather than rounding such prices up.

Mr. Duguay summed up the impact of rounding on prices as follows:

> *On some transactions, the merchant loses and the consumer wins; on some, the merchant wins and the consumer loses. However, on balance it evens out.*

Dinu Chande described a retail simulation conducted by him and Dr. Fisher as part of the research for their 2003 paper[25]:

> *We entered into our spreadsheet the prices of all the items at a famous coffee chain. Indeed, many of these items had prices ending in 9. We carried out a 10,000-item transaction simulation involving single- and multi-item purchases,*

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[25] *Have a Penny? Need a Penny? Eliminating the One-Cent Coin from Circulation*, Chande and Fisher, 2003. The authors conclude based on data from Tim Horton's that rounding prices to the nearest nickel would not be inflationary.

with the application of the sales taxes. As we expected, the rounding was symmetric; that is, sometimes prices get rounded up, sometimes they get rounded down, and sometimes they do not require rounding at all. In the end, the average rounding was zero.

In sum, the committee believes there are significant fiscal and economic advantages, and negligible disadvantages, to removing the one-cent coin from circulation.

RECOMMENDATION 1: That Canada's one-cent coin be removed from circulation.

PART THREE – IMPLEMENTATION

PRICE ROUNDING

Legislated or voluntary system?

The testimony received by the committee, and particularly that concerning the experience of New Zealand, suggests that it would not be necessary to impose a price-rounding regime on retailers to accommodate the removal of the one-cent coin from circulation, as retailers themselves would likely choose to round down at least as often as they round up.

The committee was informed by Pierre Duguay, Deputy Governor of the Bank of Canada, that:

> *In New Zealand, the choice of rounding up or down on cash transactions was left totally to retailers after the country eliminated its one- and two-cent coins in 1989 . . . Ultimately, there was no noticeable effect on inflation in New Zealand . . .*[26]

Alan Boaden, Head of Currency for the Reserve Bank of New Zealand, confirmed this:

> *We relied on market forces and competitive pressures . . . Those forces meant that almost all retailers were fair in their behaviour.*[27]

He elaborated on this point in response to questions:

> *We recommended a rounding policy . . . but there was no compulsion. Any shopkeeper could do whatever they chose to do. Most retailers followed the practice that we suggested. The supermarkets that I go to had signs at the checkout facility saying that this was the policy.*[28]

John Palmer, Associate Professor of Economics at the University of Western Ontario, argued forcefully that the government should not legislate a system for rounding prices if the penny is removed from circulation:

> *We do not need explicit government intervention to deal with this concern. Let me repeat: We do not need explicit government intervention to deal with this concern. Many merchants will round down. Customers who care will favour merchants who round down or who round up three and four cents to five cents*

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[26] Pierre Duguay, *Evidence*, 26 May 2010.

[27] Alan Boaden, *Evidence*, 6 October 2010.

[28] Ibid.

> *while rounding down one and two cents to zero cents. In New Zealand and Australia, some merchants used rounding down as a marketing tool during their transition period. Furthermore, letters to the editor and news stories will create informal pressure for most merchants to fall in line with an acceptable rounding practice . . . There are many more valuable things for policy-makers and authorities to do with their time than wrangle over what will happen if we start rounding to the nearest zero or five in prices.*[29]

committee members discussed the fact that the voluntary rounding off of prices is already commonplace in the Canadian retail sector. The presence of penny trays on the counters of many retailers in fact constitutes a system for rounding off prices to the nearest five cents. Consumers take a penny when it is necessary in order to pay the exact price, and leave a penny when they receive it in change. It was also observed that some retail businesses who do not want to deal in pennies go a step further, voluntarily and tacitly rounding the total purchase price down to the nearest five cents or giving consumers an amount of change that is rounded up to the nearest five cents.[30]

Nevertheless, Diane Brisebois, President of the Canadian Retail Council, stated:

> *The sector would support the elimination of the penny only if there are rules put in place that all merchants and service sector businesses must follow rather than letting people make the decision as they see fit at the point of sale.*[31]

Ms. Brisebois argued that some consumers may have difficulty understanding how and why prices are rounded off, and that retailers do not want to be held responsible for any confusion or perception of injustice caused by rounding off:

> *. . . retailers face the consumer every day at the cash register and the last thing they want to do is try to explain why a price is rounded up rather than rounded down. Consumers want to go through the cash register as quickly as possible, and ignoring the interface between consumer and retailer will be at our peril.*
>
> *Retailers and consumers must have clear answers from government on how it will work . . . rules and regulations relating to the elimination of the penny must be applied throughout Canada and within all sectors affected, including retail, to ensure a level playing field and to address consumer concerns and needs.*[32]

This sentiment was echoed by David Wilkes, Senior Vice-President, Trade and Business Development, Canadian Council of Grocery Distributors:

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[29] John Palmer, *Evidence*, 1 June 2010.

[30] *Evidence*, 5 October 2010.

[31] Diane Brisebois, *Evidence*, 28 September 2010.

[32] Ibid.

> *. . . with the cautions that have been given by other witnesses, which I would reinforce, our members would support the elimination of the penny. However, it would be incumbent upon the government to have very clearly defined rounding rules across the country. There could only be one set of rules applying to all retailers and all people doing transactions.*[33]

Mr. Wilkes later added:

> *Consumers take very seriously any charge that they do not understand at the point of sale. Without clearly understood rules, there will be confusion, concerns about equity, and concerns about the validity of the direction of this.*[34]

While mindful of the implications of price rounding with regard to the relationship between consumers and retailers, the committee believes the international experience described by Mr. Boaden of the Reserve Bank of New Zealand and Mr. Duguay of the Bank of Canada demonstrates that a legislated price-rounding regime is not necessary in order to ensure clarity and fairness. The committee also considered the legal complexities a legislated price-rounding regime might entail.

Legal/jurisdictional issues

The *Constitution Act, 1867*, gives the provinces jurisdiction over "Property and Civil Rights in the Province"[35] and "Generally all Matters of a merely local or private Nature in the Province."[36]

The courts have traditionally considered the regulation of business, and pricing practices in particular, to fall within this area of provincial jurisdiction.[37]

There is some concern that a federal law requiring retailers to round the point of sale price to the nearest five cents might be an infringement on provincial jurisdiction over the relationship between retailers and consumers.

Certainly, some existing provincial legislation would need to be amended in order to accommodate a federal price rounding regime. For example, Quebec has enacted regulations pursuant to its *Consumer Protection Act*[38] that establish an accurate pricing policy. Under these regulations, when the price of an item at the checkout is higher than the

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[33] David Wilkes, *Evidence*, 28 September 2010.

[34] Ibid.

[35] *Constitution Act, 1867*, subsection 92(13)

[36] *Constitution Act, 1867*, subsection 92(16)

[37] *Nova Scotia Board of Censors* v. *McNeil*, [1978] 2 S.C.R. 662, as cited in Peter W. Hogg, *Constitutional Law of Canada*, 5th Ed., Vol. 1, Scarborough: Thomson Carswell, 2007, p. 622, section 21.6.

[38] *Consumer Protection Act*, R.S.Q., c. P-40.1, subsection 315.1.

advertised price, the consumer pays the lower price. As currently worded, these regulations preclude upward rounding of prices at the check-out.

Gaston Lafleur, President of the Conseil québécois du commerce de détail, raised this issue when testifying before the committee:

> *Under Quebec's Consumer Protection Act, retailers must adhere to an accurate pricing policy, which ensures that the price indicated on the price tag or sign corresponds to the price paid at the cash register, in other words, at the point of sale.*
>
> *If an upward or downward rounding process is used, the price displayed at the cash register may not necessarily reflect the price indicated on the tag or sign.*[39]

Whether or not the federal government has the jurisdiction to legislate a rounding regime, it is evident that communication and coordination with the provinces on this matter is vital.

A role for retailers

International experience suggests that the retail sector itself could play a strong role in supporting a fair price rounding regime. Referring to the role played by New Zealand retailers when the five-cent coin was eliminated in that country, Mr. Boaden of the Reserve Bank of New Zealand explained:

> *The New Zealand Retailers Association recommended to its members that in cash transactions, prices ending in one to five cents be rounded down and prices ending in six to nine cents be rounded up. The reserve bank supported that recommendation. However, each business was free to make its own commercial decision on the matter of rounding. They needed to take account of competition and the potential loss of customer goodwill if prices ending in five cents or less were rounded up. The retailers association also pointed out that where rounding was used, then the policy should be clearly displayed at the point of sale so customers would be appropriately informed.*[40]

The retail sector in Canada could play a similar role in establishing rounding practices if the penny were eliminated.

RECOMMENDATION 2: That the Government of Canada, in cooperation with the provinces and with the retail and service sectors, issue clear voluntary guidelines for rounding after-tax total purchase prices symmetrically to the nearest five cents.

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[39] Gaston Lafleur, *Evidence*, 28 September 2010.

[40] Alan Boaden, *Evidence*, 6 October 2010.

METHODS OF PAYMENT

The committee discussed at considerable length whether prices should be rounded in all transactions, or only in cash transactions.

In his opening remarks, Gaston Lafleur supported rounding for cash transactions only, but he did stress the potential for such a system to affect consumers' choices regarding methods of payment:

> *We believe that the rounding system should apply to cash payments. But we still have concerns regarding the impact on payment methods if, for instance, it is recommended that a rounding method apply to cash payments and that, for the other payment methods, be it the use of debit or credit cards, the transaction be allowed to proceed at its actual value.*[41]

In particular, senators discussed whether the elimination of the penny and the rounding of prices for cash transactions but not electronic transactions would create an incentive for consumers to alter their method of payment.

In response to questions on this issue, Mr. Lafleur stressed what he called a "fundamental concern":

> *. . . that this initiative must not influence consumption patterns when it comes to cash payments versus other methods of payment . . .*[42]

Concerns expressed by Diane Brisebois of the Canadian Retail Council focused on public opinion toward retailers and the government rather than any real impact on consumers:

> *My only concern from a political perspective and from a retailer perspective is that we will appear to disadvantage those who can pay only by cash. The argument then will be that they can obtain a cheap credit card. However, if that credit card charges the consumer 28 per cent interest, the government might fall into that other political black hole by appearing to force someone into debt so they can save two pennies. This situation might sound far-fetched but when I spoke with the consumer association, I heard such comments.*

It is noteworthy that Ms. Brisebois conceded that the notion of someone getting a credit card to save two cents "might sound far-fetched," and attributed it to others rather than stating it as her own view. Nevertheless, she advised the committee:

[41] Gaston Lafleur, *Evidence*, 28 September 2010.

[42] Ibid.

We need to be sensitive to the issue so that we do not appear to force someone into a method of payment.[43]

Neither Mr. Lafleur nor Ms. Brisebois advocated rounding prices for electronic transactions.

When asked whether he thought consumers would be likely to change their method of payment if only cash transactions were subjected to rounding, Mel Fruitman, Vice-President of the Consumers Association of Canada, responded:

I do not think so. We are talking pennies . . . a penny this way or the other will not make a difference . . . [44]

Moreover, it is reasonable to expect that any such incentive would apply equally in both directions; if one or two cents will influence a consumer's payment method, then it will cause them to switch from electronic to cash payments as well as vice-versa. There would be a small incentive toward electronic payment when prices for cash transactions were rounded up, but there would be an equal incentive toward cash payment when prices for cash transactions were rounded down.

In sum, there should be no net shift in payment methods, even if consumers consistently choose whichever payment method allows them to pay the lower price, and no overall advantage or disadvantage for consumers who use either method of payment.

When New Zealand eliminated its lower-denomination coins, it implemented price rounding only for cash purchases. When asked to explain the reason for this decision, Mr. Boaden of the Reserve Bank of New Zealand stated simply:

. . . I think it just seems fair. If something costing $1.98 was rounded up to $2.00 if a person made an electronic transaction, the customer would feel that was not right; they can pay $1.98 and that is what they should pay.[45]

In the same vein, when asked for his opinion on whether rounding should apply to all transactions or only to cash transactions, Mr. Fruitman of the Consumers Association of Canada replied:

I think it would apply only to cash transactions . . . There is no reason to round up or down an electronic transaction where the amounts can be dealt with in the exact amounts.[46]

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[43] Diane Brisebois, *Evidence*, 28 September 2010.

[44] Mel Fruitman, *Evidence*, 29 September 2010.

[45] Alan Boaden, *Evidence*, 6 October 2010.

[46] Mel Fruitman, *Evidence*, 29 September 2010.

RECOMMENDATION 3: That price rounding be applied in cash transactions only.

TIMELINE AND COMMUNICATION

Diane J. Brisebois, of the Retail Council of Canada, made the following comment to the committee:

> *… ultimately, most retail associations we spoke to said it is all about the consumer. If consumers understand and do not feel they are being short-changed, if the rules are clear, then usually the transition is fairly smooth. However, time is also extremely important to allow businesses to make the appropriate changes.*[47]

Ms. Brisebois went on to say:

> *Most of our mid- to large-size retailers have indicated they would not lose any sleep if the penny was eliminated. However, because they have complex businesses, they need the time to ensure that such an elimination is implemented properly.*[48]

Wayne Foster, from the Department of Finance, underscored the importance of an effective communication plan, stating:

> *If you look at what other countries have done, they have communicated it well in advance. They have provided information as to the implications; what the elimination means and what it does not mean.*[49]

He added:

> *It is important that consumers are comfortable with it. You would want to give several months' lead time. You might want to release a background paper to provide information and to give retailers, consumer associations and others a chance to react to that information.*[50]

He also advised the committee that there should be a significant lag between the termination of production of new one-cent coins and the commencement of the removal of one-cent coins from circulation:

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[47] Diane J. Brisebois, *Evidence*, 28 September 2010.

[48] Ibid.

[49] Wayne Foster, *Evidence*, 26 May 2010.

[50] Ibid.

At the mint, we have an inventory of pennies, so ceasing production of the penny should be significantly ahead of when you bring into force the new policy, if you do that.

I do not have any exact dates, but I think you will want to leave several months between the time you announce an intent to eliminate the penny and the time you bring that policy into effect, whether it is six months or nine months. It should be some period of time like that.[51]

David Wilkes, Senior Vice-President, Trade and Business Development, Canadian Council of Grocery Distributors, stated:

We would need appropriate lead time. From consultations with our members, we anticipate that would take approximately one year in advance of the change.[52]

He later suggested:

There must be sufficient timelines for implementation. Recognizing the normal business cycle that retailers go through, they would have to be given sufficient time, whether that is 12 to 18 months, in order to not make this a unique change but a change done as part of their point of sale, updating on a regular basis.[53]

When asked what timeline he felt would be appropriate for the removal of the one-cent coin from circulation, Mr. Fruitman of the Canadian Consumers' Association of Canada said:

Definitely not quick. . . . This is something that needs to be done but is not urgent that it be done now, and it does require lead time . . . There would clearly have to be a very good communications program associated with it.[54]

Pressed to suggest a precise number of months, Mr. Fruitman offered:

A minimum of nine months, probably much longer.[55]

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[51] Wayne Foster, *Evidence*, 26 May 2010.

[52] David Wilkes, *Evidence*, 28 September 2010.

[53] Ibid.

[54] Mel Fruitman, *Evidence*, 29 September 2010.

[55] Ibid.

RECOMMENDATION 4: That production of the one-cent coin for circulation cease as soon as practicable, that the one-cent coin be removed from circulation starting 12 months thereafter, and that the calling-in period last an additional 12 months.

RECOMMENDATION 5: That one-cent coins continue to be legal tender until the end of the 12-month calling-in period, so that Canadians may continue to use them in commercial transactions during that time.

The committee expects that pennies would rapidly disappear from circulation once it was announced that production and distribution would cease. Alan Boaden of the Reserve Bank of New Zealand told the committee that when his country eliminated its one- and two-cent coins:

> *almost all the coins we recovered came back in three or four months after we made the change.*[56]

However, Mr. Boaden also informed the committee:

> *After we demonetized the 5-cent coin in 2006, banks continued to accept them and the other withdrawn coins for almost a year later because quite a significant number of people were still going to the bank with jars of coins. After a while, it petered out to a low trickle, and most banks decided it was too costly and had to ship the coins down from Auckland to Wellington.*
>
> *It just depends on the customer. Some banks will continue to take them, but others will determine they cost too much, and, if you want value for them, then you need to get them to Wellington somehow yourself.*[57]

The committee is cognizant of the basic fairness of enabling Canadians to redeem their saved one-cent coins at any time, even if the calling-in period has passed and the coins may no longer be used in commercial transactions. This would have the added benefit of preserving some of the coin's value in the eyes of collectors. (See testimony of collectors and numismatists on pages 28 to 30.)

[56] Alan Boaden, *Evidence*, 6 October 2010.

[57] Ibid.

RECOMMENDATION 6: That the Bank of Canada be required to continue to redeem one-cent coins after the calling-in period ends, and that financial institutions be allowed to choose whether, and for how long, they will continue to facilitate the return of one-cent coins to the Bank of Canada after the calling-in period ends.

PART FOUR – STAKEHOLDER PERSPECTIVES

CONSUMERS

Gaston Lafleur, President of the Conseil québécois du commerce de détail, told the committee :

> *We also surveyed consumers. Based on the results I was given last night —the survey is not yet complete — there were 603 respondents. The results had a margin of error of 4.1 per cent in 95 per cent of cases. This survey revealed that 59.2 per cent of respondents feel that the 1-cent coin should be removed from circulation in Canada, as compared with 36.7 per cent who do not. The council hired an independent firm to conduct the survey.*[58]

Mel Fruitman, Vice-President of the Consumers' Association of Canada, stated:

> *Pennies are considered by most people to be a nuisance because they have so little value. We have to carry them around with us. We see so many stores now that have that little jar or dish -- give a penny, take a penny -- because they do not want to deal with them and consumers do not want to deal with them. . . As far as we can see, there is absolutely no downside to eliminating the penny. Unequivocally, please, let us eliminate the penny.*[59]

Mr. Fruitman was unconcerned about any inflationary impact from the elimination of the penny, agreeing with the assertion that since the rounding of prices would be symmetrical, consumers and retailers would come out even over time.

Mr. Fruitman went on to say that the Consumers' Association of Canada,

> *would want to be involved in whatever the roll-out plan is . . . how it will happen, what the time frame is, how it will come about in the marketplace, what advance information will be given to people, what the time frames are for conversion to take place in the stores and whatever the banks have to do to accommodate it. I think we would want to be involved.*[60]

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[58] Gaston Lafleur, *Evidence*, 28 September 2010.

[59] Mel Fruitman, *Evidence*, 29 September 2010.

[60] Ibid.

BUSINESSES

Businesses favour eliminating the penny

Diane J. Brisebois, President of the Canadian Retail Council, stated:

> *It is important to note that the majority of merchants . . . are in favour of eliminating the penny.*[61]

Kim Lockie, President, Canadian Automatic Merchandising Association told the committee:

> *Just this last week, we had our national vending show and convention in Calgary, as well as a board meeting and a membership meeting. We discussed the penny a little bit to see what would happen to our industry if it were gone. We discussed that its disappearance would be a benefit and that no one in our industry uses pennies anymore.*[62]

Gaston Lafleur stated:

> *We conducted a survey of our members. The preliminary results show that nearly 72 per cent of them would be in favour of eliminating the penny, providing that a set of conditions were met.* [63]

Managing the cost of system conversion

However, Mr. Lafleur also noted that some members of his organization expressed concern about possible transition costs:

> *. . . almost 30 per cent expressed concerns about the need to change software or equipment if the penny were eliminated.*[64]

Mr. Lafleur later expanded on this issue:

> *There will be costs associated with changing point-of-sale systems. For the time being, there is no estimate of those costs. We would recommend that the Department of Finance, or other federal agency, conduct an impact study to assess the costs to businesses, retailers and others of changing and adapting*

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[61] Diane Brisebois, *Evidence*, 28 September 2010.

[62] Kim Lockie, *Evidence*, 28 September 2010.

[63] Gaston Lafleur, *Evidence*, 28 September 2010.

[64] Ibid.

their systems. It is important to keep in mind the capacity of small businesses as compared with large ones, as far as this process is concerned.[65]

Some countries that have eliminated their low-denomination coins have successfully employed a simple and inexpensive strategy to minimize or even eliminate the need for retailers to undertake costly technological adjustments. Pierre Duguay of the Bank of Canada noted*:*

> *Some countries distribute cards to merchants to put on their cash registers so they do not need to adjust their cash registers. The cashier can glance at the card to know what the fair rounding price is.*[66]

Mr. Duguay cited Hungary as one country that has adopted this strategy.

Mr. Foster of the Department of Finance cited New Zealand and Australia as other jurisdictions in which no major technological adjustments were necessitated by the removal from circulation of low-denomination coins:

> *Through our normal dialogue, we have spoken with officials in New Zealand and Australia. I do not think they did anything special to assist retailers in dealing with the cash register. I do not think anything needs to be done. It is easy to round a five to a zero. The Prices Surveillance Authority in Australia put out a background piece, which I have in front of me. It is useful. We can provide the committee with a copy. The short piece speaks to some of the issues, including the rounding, and serves to educate consumers and retailers in terms of what this change means.*[67]

Based on this evidence, the committee believes that the need to round prices for cash transactions would have a minimal financial impact on retailers, particularly if they and their customers were provided with a simple communication piece giving instructions for rounding prices.

Reduced handling costs

Removing the one-cent coin from circulation and rounding cash transactions to the nearest five cents would result in no overall difference in the value of change handled by retailers, but would significantly reduce the volume of change they handle. A single roll of nickels could replace four rolls of pennies, and a single roll of dimes could replace twenty rolls of pennies. The cost to retailers in terms of bank fees, employee wages and machinery maintenance would therefore be considerably reduced by the removal of the penny from circulation. Several witnesses indicated their expectation of such savings.

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[65] Ibid.

[66] Pierre Duguay, *Evidence,* 26 May 2010.

[67] Wayne Foster, *Evidence*, 26 May 2010.

Mr. Lafleur stated:

> *We know that it will have certain advantages. From the retailer's perspective, there will obviously be a reduction in the number of coins being handled, which gives rise to a certain degree of savings and efficiency.*[68]

Kim Lockie, President, Canadian Automatic Merchandising Association told the committee:

> *We only use pennies when we get requests from charities for which people donate their pennies to help out. They ask people in our industry to sort and wrap these coins. . . If we do volunteer to do so, it costs our industry quite a bit in employee wages and wear and tear on the machines. . . it costs me more in wages and wear and tear on the machines than what the actual penny is worth when it comes out the other end . . . As far as our industry is concerned, eliminating the penny would be a good step and a smart business decision.*[69]

Mr. Lockie also pointed out that businesses must pay banks to accept deposits of cash and coins:

> *I pay per roll to deposit my money . . . They charge us to deposit notes and coin. . . Currently, I am looking at Visa, MasterCard and other methods of payment to cut my costs considerably, although the retail industry looks at that as an expense. . . We look at that medium because the banks charge us so much to deposit the coins when someone has to count and roll them. The bank charges me to take the coins . . . Some banks charge 10 cents per roll of pennies. . . Banks do not accept money free.*[70]

David Wilkes, of the Canadian Council of Grocery Distributors, stated:

> *By one estimate, based on some member information, we handle over 10 million pennies a year, which brings with it the costs referred to by the earlier witnesses.*[71]

FINANCIAL INSTITUTIONS

The committee was surprised to learn that the banking sector, while acknowledging the cost of handling one-cent coins, does not have a strong view on whether the coins should be removed from circulation. Darren Hannah, Director, Banking Operations, Canadian Bankers Association indicated:

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[68] Gaston Lafleur, *Evidence*, 28 September 2010.

[69] Kim Lockie, *Evidence*, 28 September 2010.

[70] Ibid.

[71] David Wilkes, *Evidence*, 28 September 2010.

The banking industry does not have a strong view on the merits of the elimination of the penny. Operationally there would be some savings to banks in reducing coin handling costs. Coins are heavy and bulky, so shipping them to branches to meet the needs of individuals and small business customers does impose a cost.[72]

However, Mr. Hannah proceeded to explain that the financial sector is able to pass those costs on to its clients with a profit margin:

Banks provide a service to their clients. They view handling pennies as a service they provide to their small business clients. They charge for the service because it is an expense, but nonetheless, it is a service. We provide the service as clients need it, and we likewise provide whatever coinage they need. If they need pennies, we provide pennies; if they need nickels, we provide nickels; if they need dimes, we provide dimes; and so forth. The elimination of the penny changes that equation a little but not much. We still have to provide a service to the clients. There will still be coinage in circulation. If the government decides they want to change the denominations, we are happy to work with them to make that change, but it is not something we view as a priority from an industry perspective.[73]

Although he emphasized to the committee that the members he represents have no preference as to preserving or abolishing the one-cent coin, Mr. Hannah indicated that the withdrawal of this coin could be good for consumers of financial services:

With respect to the question about pricing, clearly there are cost savings. This market is competitive; if there are cost savings, eventually they find their way into retail prices. How that happens, the magnitude of this cost savings and how long it takes to find its way into pricing are difficult to assess.[74]

CHARITIES

No impact on donation levels

Many charitable organizations rely heavily on donations of coins to sustain their operations. The committee was very concerned with ensuring that its recommendations would not jeopardize the sustainability of the vital services provided by charities to Canadians in need.

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[72] Darren Hannah, *Evidence*, 29 September 2010.

[73] Ibid.

[74] Ibid.

Michael Maidment, Federal Government Relations Officer for the Salvation Army, indicated he does not believe the elimination of the penny would have any adverse impact on the amount of donations received by the Salvation Army:

> *With respect to the question of whether the elimination of the penny could impact donations to the Salvation Army, we are confident as an organization that there would be no decrease in coin donations. We expect that Canadians will simply choose the next available denomination when donating to a Christmas kettle.*[75]

In response to questioning, Mr. Maidment reinforced this point:

> *From a donations point of view, we are comfortable. We think Canadians will just donate the next largest coins. Their pocketful of change, instead of consisting of pennies, may consist of dimes and nickels and other coins and we do not see a risk to a decrease in donations.*[76]

In a letter to the committee, Kimberly Moran, President and CEO of UNICEF Canada, echoed the statements by Mr. Maidment. She stated:

> *UNICEF Canada's fundraising would not suffer unduly should the Government of Canada decide to dispense with pennies.*[77]

Cost savings

Mr. Maidment further indicated that the elimination of the penny would likely result in cost savings for the Salvation Army, for the same reasons cited by for-profit enterprises:

> *While we value every donation no matter its size, in a cost-analysis of processing coin donations, the cost to process pennies likely outweighs their monetary value. In a scenario played out in Salvation Army centres across Canada each Christmas, volunteers and staff gather daily to count, roll and bring coin donations to their local RBC branch. Strictly from a time investment perspective, a penny is more costly to process than, say, a one-dollar coin, a quarter or any other coin denomination. The time needed to count and roll 100 loonies and 100 pennies is the same, yet the value is very different.*[78]

In some cases the Salvation Army pays a coin processing company to count and roll coins received as donations. Mr. Maidment told the committee:

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[75] Michael Maidment, *Evidence*, 5 October 2010.

[76] Ibid.

[77] Kimberly Moran, *letter to Senator Joseph A. Day, Chair of the Senate Committee on National Finance Re – The future of the Canadian Penny,* 20 October 2010.

[78] Michael Maidment, *Evidence*, 5 October 2010.

In the City of Ottawa, for example, we raised $520,000 in last year's Christmas Kettle Campaign. Roughly $180,000 to $200,000 of that amount was in coins, and we paid $3,000 to process those coins.[79]

His expectation is that this fee would be reduced if the penny were eliminated. Mr. Maidment also explained that cost savings would be realized even in areas where Salvation Army volunteers processes the donated coins:

The cost analysis of other campaigns in different areas includes the many volunteer hours, the materials used, the rolling machines, the coin rolls, other associated items, and the cost of a staff member . . .[80]

Again, the letter from Ms. Moran of UNICEF reflected the same sentiments expressed by Mr. Maidment:

Collecting and processing pennies is expensive for UNICEF Canada. It is of utmost importance to us that we use the donations we receive wisely and cost effectively, ensuring that the most money possible is sent to areas of need, where it can be put to good use helping children.[81]

Assisting the removal of pennies from circulation

The committee heard that the charitable sector could actually realize increased donations in the short term and assist the withdrawal of pennies from circulation by inviting Canadians to donate their pennies instead of returning them to the central bank themselves.

Wayne Foster of the Department of Finance told the committee:

My understanding is that in both countries (Australia and New Zealand), but in particular New Zealand, and in particular with the latest move to eliminate the five-cent coin, that one or more charities stepped up to use the occasion for fundraising purposes. The program was not something that was sponsored by the government per se, but it was encouraged. Charities had these campaigns to bring in pennies or nickels for charity or what have you, and it was successful from that perspective, but it was the charity that stepped up, as opposed to something that was organized.[82]

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[79] Ibid.

[80] Ibid.

[81] Kimberly Moran, *letter to Senator Joseph A. Day, Chair of the Senate Committee on National Finance Re – The future of the Canadian Penny*, 20 October 2010.

[82] Wayne Foster, *Evidence*, 26 May 2010.

Mr. Maidment suggested that Canadian charities such as the Salvation Army would be similarly keen to assist in the removal of pennies from circulation:

> *If the Canadian government chooses to eliminate the penny following your examination of this issue, the Salvation Army would certainly be interested in assisting the government in a strategy to remove the penny from circulation . . . The campaign title "Change Pennies into Hope" has a certain ring to it, we think.*[83]

Later, in response to questions, Mr. Maidment elaborated as follows:

> *Being involved in the implementation strategy of the government if the one-cent coin were in fact eliminated would be very positive. Transferring the money that is currently sitting unused in homes across Canada into something valuable for our sector would be very positive . . . The Salvation Army would like to be involved by using the pennies for the benefit of impoverished Canadians . . . Perhaps the charitable sector could be proactively involved in bringing those pennies in. There could be a significant communications campaign mounted to do that, perhaps in conjunction with the Christmas Kettle Campaign. That could be very effective in reaching Canadians.*[84]

RECOMMENDATION 7: That the Government encourage charitable organizations to implement fundraising campaigns that would assist in the collection of one-cent coins for removal from circulation.

COLLECTORS

The Canadian coin collection market

According to Stephen Woodland, Area Director for the Ottawa Region, Royal Canadian Numismatic Association, coin collecting in Canada is approximately a $30 million to $50 million per year industry.[85] Many foreign collectors also cherish Canadian coins, which should not be surprising considering the exceptionally high reputation and quality of coins produced by the Royal Canadian Mint. The U.S. market for Canadian coins is estimated to be worth double the domestic market.[86] The committee gave full consideration to the potential impact on this industry of removing the one-cent coin from circulation.

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[83] Michael Maidment, *Evidence*, 5 October 2010.

[84] Ibid.

[85] Stephen Woodland, *Evidence*, 6 October 2010.

[86] Ibid.

Mr. Woodland told the committee:

> *As collectors we would like to see Canada, through the Royal Canadian Mint, continue to strike one-cent coins, if not for circulation, at least to continue the production of numismatic sets and rolls for the collector market, similar to what is done currently for the fifty-cent coin.*[87]

Bret Evans, Managing Editor and Associate Publisher, Canadian Coin News echoed this advice, although he conceded that the penny has lost its utility as money:

> *As much as I personally love the coin, I see no long-term future for the cent in day-to-day commerce. However, I stress that the coin should not lose its legal tender status . . . That would give the coin legitimacy in the eyes of collectors and allow the Royal Canadian Mint still to include it in collector sets. It may even be possible to produce coins in rolls and sell them to collectors. They would then pay the shipping, as they do with 50-cent pieces. One option would be to declare that the coin is legal tender only in rolls of fifty coins or in units of five, while withdrawing them as they enter the banking system, which we already did with the one dollar and two dollar notes. That would retain the coin's status as money, while eventually removing them from circulation, and it would protect Canadians from any financial loss.*[88]

RECOMMENDATION 8: That the Royal Canadian Mint be allowed to decide on the basis of profitability whether to continue limited production of the one-cent coin for direct sale to collectors.

Legal tender status and value to collectors

Mr. Woodland shared Mr. Evans' view that the value of the one-cent coin to collectors would be most effectively maintained if the coin retained its legal tender status:

> *. . . should Canada decide to cease production of the one-cent coin as a circulation issue, the RCNA recommends continuation of the current practice whereby the one-cent denomination is not demonetized. Canada has never demonetized a coin or bank note, and all coins issued since the first ones in 1870 remain legal tender today. Knowing that a coin or a note has not been demonetized is a strong motivating factor for collectors, and it encourages*

[87] Ibid.

[88] Bret Evans, *Evidence*, 6 October 2010.

> *hoarders to return them into circulation, which as the committee has heard, is both economically and environmentally advantageous.*[89]

It is worth noting that New Zealand did 'demonetize' the lower-denomination coins it removed from circulation. (i.e. It rendered them no longer legal tender.) However, under that country's laws the central bank continues to redeem demonetized coins for their face value.

As mentioned earlier (see under *Legal framework and definitions* on page 7), the term 'demonetize' has no definition in Canadian law. Under Canadian law, 'calling in' a coin renders it no longer legal tender. Maintaining the legal tender status of the one-cent coin indefinitely would mean that retailers would still be obliged to accept it as payment for merchandise. Thus there would be no incentive for Canadians to expend or redeem their hoarded pennies. This would render futile the government's efforts to remove one-cent coins from circulation in a timely manner.

Although bank notes and coins have historically been successfully removed from circulation while retaining their legal tender status, the situation regarding the one-cent coin is quite different. The notes and coins previously removed from circulation have been replaced with other notes or coins of the same denomination, so demand for the items removed from circulation simply shifted to their replacements. For example, the one-dollar coin replaced the one-dollar bill, and new bank note and coin designs have replaced previous ones. These changes to the currency system had no impact on pricing or payment systems, whereas the removal of the one-cent denomination altogether would entail price rounding.

In light of these considerations, the committee feels that it would be impossible to successfully remove the one-cent coin from circulation without establishing a clear date beyond which it would no longer be legal tender.

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[89] Ibid.

PART FIVE – CONCLUSION

The Standing Senate Committee on National Finance recognizes that an appropriate and efficient currency system is essential to the smooth functioning of the marketplace.

More than a century of inflation has both eroded the value and utility of Canada's one-cent coin and escalated the costs associated with its production and use.

The advent and rapidly increasing prevalence of electronic payment methods in recent decades has further undermined the viability of the one-cent coin as currency.

The committee believes that removing the one-cent coin from circulation would reduce costs to the taxpayer, enhance the productivity of the retail and service sectors of the Canadian economy, and streamline the vital operations of charitable organizations.

In sum, the one-cent coin is simply defunct. Indeed, it is our considered opinion that its removal from circulation is long overdue.

However, the government cannot make up for lost time by implementing this change hastily. Rather, it is imperative that the removal of the one-cent coin from circulation be undertaken in a consultative and deliberate manner and with due regard for the interests of all stakeholders, including taxpayers, provincial and territorial governments, businesses, consumers, charities and collectors.

APPENDIX A – WITNESSES WHO APPEARED BEFORE THE COMMITTEE

Bank of Canada
Pierre Duguay, Deputy Governor
(2010-05-26)

Canadian Automatic Merchandising Association
Kim Lockie, President
(2010-09-28)

Canadian Bankers Association
Darren Hannah, Director, Banking Operations
(2010-09-29)

Canadian Coin News
Bret Evans, Managing Editor and Associate Publisher
(2010-10-06)

Canadian Council of Grocery Distributors
David Wilkes, Senior Vice-President, Trade and Business Development
(2010-09-28)

Chande, Dinu, Formerly of the Department of Economics, Wilfrid Laurier University; Co-author of a paper entitled, Have a Penny? Need a penny? Eliminating the one-cent coin from circulation.
(2010-06-01)

Conseil québécois du commerce de détail
Gaston Lafleur, President
(2010-09-28)

Consumers' Association of Canada
Mel Fruitman, Vice-President
(2010-09-29)

Department of Finance Canada
Wayne Foster, Director, Financial Markets Division, Financial Sector Policy Branch
Ian Wright, Chief, Government Financing, Financial Sector Policy Branch
(2010-05-26)

Desjardins Group

François Dupuis, Vice-President and Chief Economist
Jean-Pierre Aubry, Economic Consultant
(2010-06-01)

Palmer, John

Associate Professor, Department of Economics, University of Western Ontario
(2010-06-01)

Reserve Bank of New Zealand

Alan Boaden, Head of Currency
(2010-10-06)

Retail Council of Canada

Diane J. Brisebois, President and Chief Executive Officer
(2010-09-28)

Royal Canadian Mint

Beverley A. Lepine, Chief Operating Officer
J. Marc Brûlé, Chief Financial Officer
(2010-05-26)

The Royal Canadian Numismatic Association

Stephen Woodland, Area Director, Ontario—East
(2010-10-06)

The Salvation Army

Michael Maidment, Area Director, Public Relations and Development, Federal Government Liaison Officer
(2010-10-05)

APPENDIX B – WRITTEN SUBMISSIONS RECEIVED WITHOUT THE AUTHOR'S APPEARANCE

Currency Consulting International
    Bill Melbourne, Consultant
    (2010-06-04)

UNICEF CANADA
    Kimberly Moran, President and CEO (Acting)
    (2010-10-20)