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STATUS OF CO-OPERATIVES IN CANADA

Report of the Special Committee on Co-operatives

Blake Richards, M.P.
Chair

SEPTEMBER 2012

41st PARLIAMENT, FIRST SESSION

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THE SPECIAL COMMITTEE ON CO-OPERATIVES

has the honour to present its

REPORT

Pursuant to the Order of Reference from the House of Commons of Wednesday, May 30, 2012, the Committee has studied the status of co-operatives in Canada and has agreed to report the following:

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STATUS OF CO-OPERATIVES IN CANADA

BACKGROUND TO THE STUDY

On December 18, 2009, the General Assembly of the United Nations (UN) resolved to proclaim 2012 the International Year of Co-operatives. That resolution, which recognized the contribution of co-operatives to economic development and social innovation around the world, was supported by Canada.[1] United Nations proclaim international years to draw attention to fundamental issues. In proclaiming 2012 the International Year of Co-operatives, the UN urged governments to create a supportive environment for the development of co-operatives and to stimulate their contributions to the overall environment in which they operate.

In this context, the House of Commons unanimously adopted the following motion on May 30, 2012:

> That, a special committee be appointed to consider the status of cooperatives in Canada and to make recommendations by: (a) identifying the strategic role of cooperatives in our economy; (b) outlining a series of economic, fiscal and monetary policies for strengthening Canadian cooperatives as well as for protecting the jobs they create; (c) exploring the issue of capitalization of cooperatives, its causes, effects and potential solutions; (d) exploring whether the *Canada Cooperatives Act* of 1998 requires updating; (e) identifying what tools the government can use to provide greater support and a greater role to Canadian cooperatives; and that the committee consist of twelve members which shall include seven members from the government party, four members from the Official Opposition and one member from the Liberal Party, provided that the Chair is from the government party; that in addition to the Chair, there be one Vice-Chair from each of the opposition parties; that the committee have all of the powers of a Standing Committee as provided in the Standing Orders, as well as the power to travel, accompanied by the necessary staff, inside and outside of Canada, subject to the usual authorization from the House; that the members to serve on the said committee be appointed by the Whip of each party depositing with the Clerk of the House a list of his or her party's members of the committee no later than June 8, 2012; that the quorum of the special committee be seven members for any proceedings, provided that at least a member of the opposition and of the government party be present; that membership substitutions be permitted to be made from time to time, if required, in the manner provided for in Standing Order 114(2); and that the Committee report its recommendations to this House no later than November 30, 2012.

The Special Committee on Cooperatives met in Ottawa on July 10 and from July 24 to 27, hearing from a total of 46 organizations. The Committee also received more than 60 written documents from the co-operative sector stakeholders. This report provides a summary of that evidence and contains recommendations to the Government of Canada. The report's structure is based on the motion adopted by the House of Commons, and the recommendations to the Government of Canada are presented in the report's conclusion

1 Co-operatives Secretariat, *Canada in support of an international year of co-operatives*, News Release, December 3, 2009. http://www.coop.gc.ca/COOP/display-afficher.do?id=1259863762940&lang=eng

(Chapter V); the report's four other chapters provide background to those recommendations. Chapter I describes the strategic role of co-operatives in the Canadian economy. Chapter II examines the fiscal and monetary issues respecting co-operatives in Canada, while the issue of access to funding for co-operatives is addressed in Chapter III. Chapter IV discusses certain legal issues associated with Canadian co-operatives.

CHAPTER I — STRATEGIC ROLE OF CO-OPERATIVES IN THE CANADIAN ECONOMY

A. Co-operatives: Definitions and Principles

Co-operatives and credit unions are driven by both economic and social concerns[2] and differ from individual businesses and corporations in the following three ways: [3]

- their main objectives are to meet the needs of their members rather than to maximize profits;
- control over co-operatives is exercised democratically by their members, who have equal power (one member, one vote), not based on the number of shares held in the business;
- the profits of co-operatives are redistributed to their members on the basis of how much they use the co-op, not the amount of capital they have invested.

Co-operatives around the world operate in accordance with the seven basic principles of the co-operative movement, which are:

1) voluntary and open membership,

2) democratic member control and equal voting rights,

3) member economic participation to the capital of their co-operative,

4) autonomy and independence to preserve the democratic power,

5) education, training and information on the nature and the advantages of the co-operative,

2 Canadian Co-operative Association, *How are co-operatives different?* http://www.coopscanada.coop/en/about_co-operative/How-are-Co-operatives-Different-

3 Ibid.

6) cooperation among co-operatives locally, nationally and internationally,

7) concern for the sustainable development of the community.[4]

The principles cited above are universal in that they generally apply to the co-operative movement as a whole. One witness offered an interesting microeconomic perspective on these principles that illustrated the difference between the co-operative model and the corporate model with respect to the redistribution of profits and corporate governance:

> In our case, the cooperative pays its members for their work, namely, the processing of milk that comes from farms and is delivered to the cooperative.
>
> When the cooperative has served all its customers, it shares the surplus earnings based on the work done on the farm and the volume of milk produced. An investor-owned business will remunerate the capital. Regardless of the industry, whether you are a financier or an investor, the company will pay back the capital that you invested in it. That is an important difference.
>
> What is more, our cooperative's board of directors is made up of 15 members. In order to be a member of the board, a person must be a dairy farmer who is a member of the cooperative. This ensures that the members are able to control the fate of the cooperative based on their needs, namely the processing of their milk, in order to obtain capital gain.[5]

B. National Organizations

The Canadian Co-operative Association and the Conseil canadien de la coopération et de la mutualité are the two main associations representing co-operatives in Canada. The Canadian Co-operative Association represents co-operatives operating in anglophone regions, while the Conseil canadien de la coopération et de la mutualité represents those in francophone areas. The mission of both associations is to promote the co-operative model, support the development of co-operatives and represent co-operatives to government.

A number of federal government departments and agencies play a role with regard to co-operatives:

- **Agriculture and Agri-Food Canada**

The Rural and Co-operatives Secretariat was established in 1987 and reports to Agriculture and Agri-Food Canada. It advises the government on policies affecting co-operatives, coordinates the implementation of such policies and encourages use of the co-

4 Conseil canadien de la coopération et de la mutualité, *Principes coopératifs* [in French only: http://www.cccm.coop/site.asp?page=element&nIDElement=2642]; Frank Lowery referred to these seven cooperative principles at the meeting of Tuesday, July 10, 2012.

5 Serge Riendeau, President, Board of Directors, Agropur, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

operative model for the social and economic development of Canada's communities. The Secretariat also provides a link between the co-op sector and the many federal departments and agencies with which they interact.

- **Industry Canada**

Industry Canada is responsible for developing federal legislation for the incorporation of federal bodies corporate other than financial institutions. The Department is responsible for the *Canada Cooperatives Act*.[6]

Corporations Canada, which is part of Industry Canada, is responsible for administering the Act and for co-operative incorporation.

- **Finance Canada**

Finance Canada is responsible for federal legislation relating to financial institutions under federal jurisdiction. This includes the *Cooperative Credit Associations Act*,[7] under which credit co-operatives may be incorporated, and the *Insurance Companies Act*,[8] under which mutual insurance companies, among others, may be incorporated. The Department is also responsible for the *Bank Act*[9], which will allow the formation of credit unions once the necessary regulations are adopted and implemented by the government.

- **Office of the Superintendent of Financial Institutions**

The Office of the Superintendent of Financial Institutions oversees financial institutions under federal jurisdiction and ensures that they comply with the acts governing them. In that capacity, it administers the *Cooperative Credit Associations Act*, the *Insurance Companies Act* and the *Bank Act*, and is responsible for incorporating federal credit co-operatives and mutual insurance companies.

C. Strategic Roles of Co-operatives in the Canadian Economy

1. An Economic Force

Co-operatives play an important role in many sectors of Canada's economy. Although traditionally prominent players in the agricultural and financial sectors (credit unions and *caisses populaires*), they have also been involved for some time in a number of other sectors, such as retail, housing, child care, telecommunications, funeral services

6 *Canada Cooperatives Act*, S.C. 1998, c. 1.

7 *Cooperative Credit Associations Act*, S.C. 1991, c. 48.

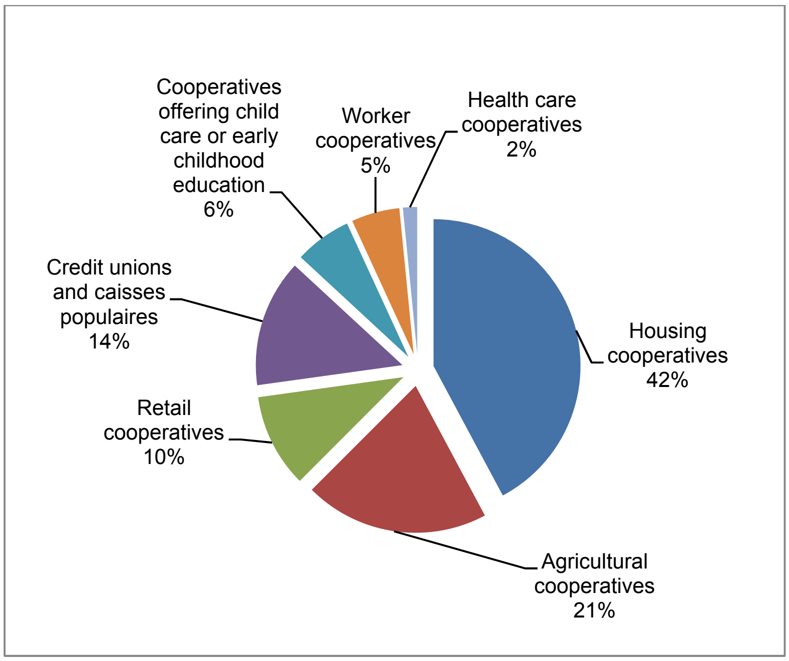
8 *Insurance Companies Act*, S.C. 1991, c. 47.

9 *Bank Act*, S.C. 1991, c. 46.

and, in the past few years, health, and arts and culture. More recently, they have entered new areas such as renewable energy and fair trade.[10]

Canada's 8,500 co-operatives and credit unions have more than 17 million members. Figure 1 provides a breakdown of the number of co-operatives by area of activity. Housing co-operatives form the largest category (42% of the total number), followed by agricultural (21% of the total) and retail co-operatives (10%). Some 150,000 people work for Canada's co-operatives, which own total assets of approximately $330 billion.[11]

Figure 1 — Co-operatives in Canada by Area of Activity



Source: Canadian Co-operative Association, *The Power of Co-operation: Co-operatives and Credit Unions in Canada*, Ottawa.

One way to assess the impact of co-operatives is to ask the hypothetical question: what would the consequences be if co-operatives (or any equivalent form of organization) did not exist? According to the Centre for the Study of CO-OPs of the University of Saskatchewan, the implications of that absence for the economic and social development of the Prairies would be significant, including:

10 Canadian Co-operative Association, *Co-operatives Helping Fuel a Green Economy: A report on Canada's renewable energy sector*, Ottawa, 2011; Canadian Co-operative Association, *New futures: Innovative uses of the co-op model*, Ottawa, 2009.

11 The information in this paragraph is drawn from: Canadian Co-operative Association, *The Power of Co-operation: Co-operatives and Credit Unions in Canada*, Ottawa.

- more unstable incomes for farmers and uncertain access to high-quality agricultural inputs at competitive prices;
- less independence and opportunity for Aboriginal people;
- less consumer choice, less retail competition and more uncertain access to goods and services;
- more uncertain access to housing at affordable prices.[12]

Co-operatives play a similar important role in many regions and communities across the country. For example, more than 1,100 Canadian communities have no financial services apart from those provided by a credit union or *caisse populaire*.[13] In addition, co-operatives in rural and outlying areas often succeed where other forms of business fail or are absent. Co-operatives are thus an essential economic driver for many communities in Canada:

> We especially wish to emphasize the fact that cooperatives and mutuals fuel job creation, innovation, financial stability and access to community-based services. Cooperatives and financial cooperatives often operate in sectors and communities that are underserved by traditional businesses.[14]

> I don't have any problem with making the same things available to other companies, but we just happen to know that cooperatives are the ones that will survive in these rural communities where others won't.[15]

Many Canadian northern communities rely on the services of co-operatives to supply them with goods and services of all kinds. The Arctic co-operative system has demonstrated uncommon resilience:

> The co-op system in the Arctic is a model of community economic development. These co-ops, while small in comparison to businesses in other parts of Canada, are major economic engines in the communities of the north. The early years were very difficult and development of the local co-ops was very slow and the network struggled to survive. But consistent with the experience of co-ops in other parts of Canada, the survival rate for co-ops in the Arctic is exceptional. If we look at the 26 co-ops that signed the incorporation documents of Arctic Co-operatives in 1972, 40 years ago, 77% of those co-ops continue in business today.[16]

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12 Brief of the Centre for the Study of Co-operatives, August 7, 2012.

13 Denyse Guy, Executive Director, Canadian Co-operative Association, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

14 Bernard Brun, Director, Government Relations, Desjardins Group, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

15 Bill Dobson, Director, United Farmers of Alberta, *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

16 Andy Morrisson, Chief Executive Officer, Arctic Co-operatives Limited, *Evidence*, Meeting No. 6, 1st Session, 41st Parliament, Ottawa, July 26, 2012.

Co-operatives thus play an essential role in the economic development of many Aboriginal communities. The co-operative model was adopted in several communities because it is consistent with the traditional life of Aboriginal people.[17] Co-operatives occupy a strategic position particularly in the marketing of Aboriginal crafts, thus enabling this sector to better absorb economic ups and downs:

> Unfortunately, art marketing is something that when the economy goes up the market goes up, and when the economy goes down we see the market going down. But because cooperatives have been there, we have been able to provide that stability in the market. If we weren't there, we don't know that the industry would be in the position it's in today. It is experiencing difficult times because of the economic conditions, but it continues. Would it have continued if there was not stability?[18]

In addition, as a force for economic development, co-operatives are a strategic asset for official language minority communities in Canada:

> Cooperatives were born of the desire of a group of individuals to fulfill a collective need, and who pooled their skills and resources to that end. In so doing, they acquired means and expertise to which they would not otherwise have had access. In Canada, this practice was historically one of the cornerstones on which French-language communities, including those constituting official language minorities, were built.[19]

> We suspect that 15 to 20 cooperatives operate in French in Nova Scotia. Eleven of that number are established in the Acadian region of Cheticamp.[20]

2. An Alternative Force for Economic Development

Co-operatives have often emerged in response to the imperative of meeting a community need, whether economic, social or cultural. Consequently, many co-operatives have flourished in tough economic times, when meeting such needs was a matter of particular urgency. This is illustrated by the following excerpts from testimony.

> On Prince Edward Island, the beginning of the cooperative movement can be traced to 1864 and the Farmers' Bank in Rustico. The bank was started by the poorest of the poor, the Acadian farmers of South Rustico, people who had too little land, too little money, and very little education, but ended up running what was probably the first people's bank in North America, a precursor to today's credit union.[21]

> Like most credit unions, we were started by a small group of people who wanted to help themselves. In 1943, 15 electric company employees formed a credit union where they could save their money and, most importantly, get access to loans when they needed

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17 Ibid.

18 Ibid.

19 Brigitte Gagné, Executive Director, Conseil canadien de la coopération et de la mutualité, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

20 Brief to the Committee of the Conseil Coopératif Acadien de la Nouvelle-Écosse, dated July 26, 2012.

21 Dave Whiting, Executive Director, Prince Edward Island Co-operative Council, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

> them. In those days, there was no safety net when it came to unemployment insurance, social assistance, or medical care.[22]

The strategic role of co-operatives is therefore to obtain goods and services and to meet the needs of a given region's population in sectors where contributions by governments and private corporations are lacking. This is particularly the case in areas of activity where the government deems that private initiative is the best way to supply the goods and services demanded by the population but where conventional private businesses are not engaged because they foresee no commercial profitability. In these circumstances, co-operatives may be viewed as an alternative force for economic development. The case of gas co-ops in Alberta, which today manage more than 100,000 km of gas pipelines, is a striking example of a situation in which the co-operative movement has created wealth in an area of activity where private businesses were not involved because of the low profit potential of available projects.

> Over the past 50 years a spiderweb of low-pressure natural gas pipelines has been constructed throughout all inhabited parts of the province. Just about any Albertan has the ability to have natural gas piped directly into his or her home. Indeed, it is almost considered to be a right by Albertans.
>
> The reason Albertans enjoy this privilege is that 50 years ago this year a group of farmers south of Calgary got together around a kitchen table and decided to build the very first gas co-op. They were tired of natural gas companies saying it was uneconomical to build a pipeline to a farmer's house.[23]

The Co-operators Group, which now manages $42.9 billion in assets, was also founded to meet a community need that conventional private companies did not satisfy:

> Just as many cooperatives spring from unfulfilled social and economic needs, The Co-operators was formed by a group of farmers who sought insurance protection that the private capital market would not provide. Despite our humble beginnings, we are an excellent example of how the cooperative model is a thriving form of enterprise.[24]

3. A Stabilizing Force

One of the main benefits of the co-operative model is its resilience to economic changes. In a recent study, the International Labour Organization noted that co-operatives around the world have shown a high degree of resilience to the recent financial crisis.[25] Similarly, a study by the International Monetary Fund (IMF) states that credit co-operatives

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22 Nigel Mohammed, Director, Business and Community Financial Centre, Assiniboine Credit Union, *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

23 Peter Harty, Director, Federation of Alberta Gas Co-ops Ltd., *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

24 Frank Lowery, Senior Vice-President, Senior Counsel and Secretary, The Co-operators Group, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

25 Johnston Birchall and Lou Hammond Ketilson, *Resilience of the Cooperative Business Model in Times of Crisis*, International Labour Organization, 2009.

are more stable than commercial banks, as reflected by their less volatile returns.[26] The IMF study is interesting in that it was completed in January 2007, before the global financial crisis struck. Many witnesses told the Committee that the global financial crisis had proven beyond a doubt that credit co-operatives show greater financial stability internationally, as explained by the Desjardins Group and Co-op Atlantic:

> Cooperatives also enjoy greater stability because of their structure. They have a more loyal following and deeper roots in the community, but they have more trouble accessing capital quickly because they cannot issue shares. Therefore, they often maintain an extra cushion.[27]
>
> (...) one cannot overlook the fact that during the recent market financial crisis, cooperative shares did not lose any value, since they are owned locally by the people who use their products and services and have a long-term commitment to ensuring the success of the business endeavours.[28]

The higher survival rate of co-operatives relative to conventional private businesses attests to the inherent resilience and stability of the co-operative sector. A study published by Quebec's Department of Economic Development, Innovation and Export Trade in 2008 stated that the survival rate of co-operatives was higher than those of other forms of business. The survival rates of co-operative enterprises (excluding those in the housing sector) were 74.9% after 3 years, 62.0% after 5 years and 44.3% after 10 years. Survival rates for co-operative enterprises were higher than those of Quebec businesses as a whole, which were 48.2% after 3 years, 35.0% after 5 years and 19.5% after 10 years.[29] In Alberta, the survival rate of co-operatives after three years is 82% compared to 48% for other forms of business.[30]

Many witnesses explained to the Committee that the very nature of co-operatives, that is to say the fact that they have roots in the community, a multi-criteria approach and long-term vision, are the reasons for that resiliency and greater stability. This was summed up by the Conseil canadien de la coopération et de la mutualité and the Conseil québécois de la coopération et de la mutualité:

> First of all, they are rooted in the community. Second, they answer the direct needs of the community. Third, they're democratic, in the sense that it takes so much time to have a

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26 Heiko Hesse and Martin Cihak, *Cooperatives Banks and Financial Stability*, International Monetary Fund, January 2007.

27 Bernard Brun, Director, Government Relations, Desjardins Group, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

28 Bryan Inglis, Vice-President, Agriculture Division, Co-op Atlantic, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012

29 Quebec, Department of Economic Development, Innovation and Export Trade, *Taux de survie des coopératives au Québec, 2008*. See page 13.

30 Richard Stringham and Celia Lee, *Co-op Survival Rates in Alberta*, BC-Alberta Social Economy Research Alliance, August 2011.

consensus among the people who want to start the cooperative that, when it's done, it[‘s] not like a shooting star. These are, I think, the three major reasons why they last longer.[31]

Coops also typically distribute their profits among their member-owners based on the size of their transactions, in other words, their transactional relationship, rather than the number of shares they hold. These differences make coops stronger: in periods of market fluctuation when the situation is not quite so rosy, coop members have a level of patience that shareholders subject to what we call quarterly tyranny do not. Every three months, shareholders can read about the company's performance in the paper and check whether share prices have gone up or down, and capital levels respond in kind(…). coops are much more stable(…).[32]

4. A Force That Increases Market Efficiency: Competitiveness and Competition

Since they pool individual resources, co-operatives make it possible to share knowledge and increase competitiveness. This pooling of resources is also the basis of a countervailing power that can be exercised against large organizations in a given market resulting in more competitive prices and service.

Enhanced competitiveness can take various forms, including the supply of innovative goods and services. Those innovative goods and services can ultimately become the standard in a given market and increase the competitiveness of all players in that market. In the health care sector, the experience of the Health Connex co-operative in Nova Scotia illustrates the ability of co-operatives to provide innovative solutions through cooperation. The success of this kind of co-operative sector initiative could one day make this model indispensable, thus ultimately benefiting the Canadian population as a whole:

HealthConnex — Connecting People for Health Cooperative is our business name — is a cooperative owned by cooperatives and credit unions in Nova Scotia. We're owned by the people of Nova Scotia, and we are, as I indicated in my presentation, Canada's first and only online health care clinic. We have created the technology, the functionality, the capacity, the ability for doctors and their patients to connect via the web — so our consumers, our subscribers, our patients in Nova Scotia, who are members of our clinic.[33]

In addition to their potential impact on an industry's competitiveness, co-operatives can improve the efficiency of markets through their effect on prices and markets for a given product. Two basic conditions must be met for a market to be considered efficient: first, the price must be determined by competitive forces and, second, there must be enough market outlets at that competitive price for corporate producers to sell their products. However, large oligopolies in certain markets can at times result in artificially

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31 Brigitte Gagné, Executive Director, Conseil canadien de la coopération et de la mutualité, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

32 Hélène Simard, Chief Executive Officer, Conseil québécois de la coopération et de la mutualité, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

33 Dianne Kelderman, President and Chief Executive Officer, Nova Scotia Co-operative Council, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

high (or low) prices and/or extremely limited market outlets. Co-operatives may thus represent a countervailing power against large organizations and help establish a competitive relationship. This competitive balance will be characterized by more competitive prices and services and an increase in the number of market outlets. Consequently, the presence of co-operatives in a given market may at times be interpreted as a response to pre-existing deficiencies in that market. Their presence enhances the market's efficiency, ultimately benefiting the community as a whole. Several witnesses referred to this strategic role of co-operatives in markets. The following excerpts from the brief submitted by the Institut de recherche et d'éducation pour les coopératives et les mutuelles of the Université de Sherbrooke and from the testimony of Credit Union Central of Canada.

> It is also important to note the market watchdog role that cooperatives and mutual organizations play. For example, the presence of funeral cooperatives in Quebec for nearly three decades has had and continues to have a regulating effect by lowering the price of funerals in Quebec by 50%. So, despite the competition and the presence of many traditional private companies, this economic sector, which was not optimizing the utilization of rare resources for the benefit of all, was transformed by the presence of cooperatives (currently about 20% of the market). These cooperatives ensure that all citizens have access to services at better prices. Similar dynamics are seen in the areas of housing, insurance, ambulance services and others. Tangible results have been achieved in a dynamic market through co-operation.[34]

> Credit unions, and cooperatives for that matter, were formed in the beginning because there were gaps in the market. Local communities felt they weren't getting the service they needed.[35]

It should be noted that the pooling of resources and the exercise of a countervailing power making markets more competitive are not necessarily specific to the co-operative movement. Other types of organizations can produce similar results. However, those organizations are often based on co-operative principles:

> The way our organization is structured, with some co-op concepts, has ended up saving farmers hundreds of millions of dollars on the input side.[36]

D. Financial Health of Co-operatives in Canada

1. Canadian Annual Survey of Non-Financial Co-operatives

Having described the strategic importance of the co-operative movement for the Canadian economy in the previous section, we now examine some data on the current

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34 Cited from the brief of the Institut de recherche et d'éducation pour les coopératives et les mutuelles of the Université de Sherbrooke (IRECUS), August 7, 2012.

35 Stephen Fitzpatrick, Vice-President, Corporate Services and Chief Financial Officer, Credit Union Central of Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012

36 Bob Friesen, Farmers of North America, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

financial health of co-operatives in Canada. The Canadian Annual Survey of Non-Financial Co-operatives provides an overview of this issue. The survey describes the top 50 non-financial co-operatives in Canada by revenue. In 2010, the top 50 co-operatives had 38,700 employees and generated $24.8 billion in revenue. They represented 4.8 million members and managed assets of $10.9 billion.[37] Their average ratio of total debt to equity was 0.90.[38]

The top 50 non-financial co-operatives consisted of 26 wholesale and retail businesses, 23 farming businesses and one service co-operative. The agricultural co-operatives posted the highest revenues ($12.8 billion), representing more than 51% of the total revenues of the co-operatives surveyed. The wholesale and retail co-operatives had revenues of $12 billion and accounted for 95% of all members. Mountain Equipment Co-op, a retail co-operative, has the largest number of members (3.4 million).[39]

Figure 2 shows the increase in total revenues for the top 50 non-financial co-operatives in Canada. Except during the 2008-2009 recession, revenues steadily increased between 2004 and 2010, as was the case for total assets, as shown in Figure 3. The data in Figure 3 show that co-operatives have managed to increase their assets while consolidating their financial position in recent years. Their debt-to-equity ratio declined from 2004 to 2010 (see Figure 3), indicating that the rise in assets resulted, above all, from an increase in equity, not an increase in indebtedness. Several witnesses referred to the good overall financial health of the Canadian co-operative sector:

> We are strong and we are stable.
>
> One out of every five cooperative enterprises fails. One out of three private sector businesses fails.
>
> (...)
>
> Cooperatives grew by 1.8% last year in Nova Scotia, despite the economic crisis. Our membership grew by 2%. Our top ten cooperatives paid a patronage dividend equal to 11% return on investment. I would suggest that's a good place to put your money.[40]

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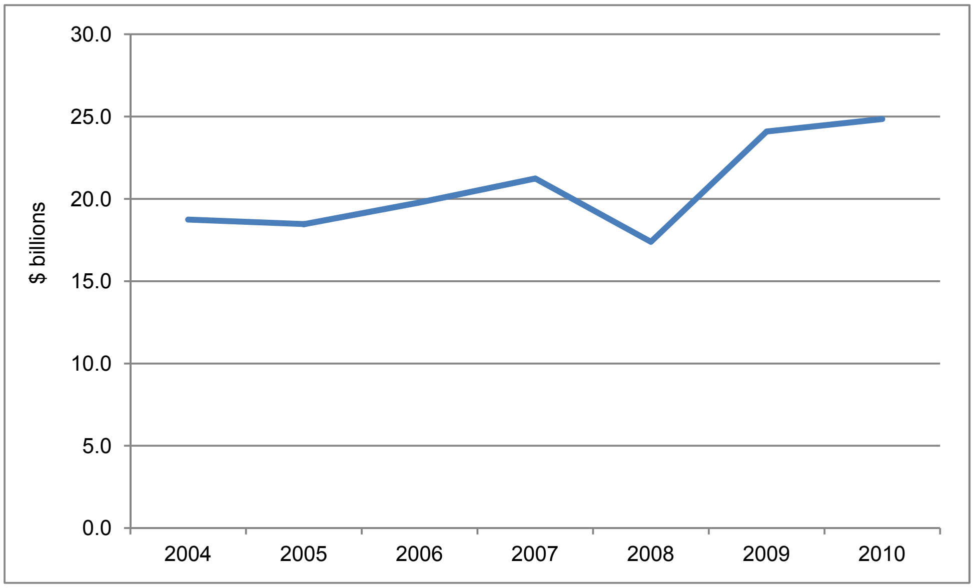
37 Rural and Co-operatives Secretariat, Statistics Unit, *2010 Top 50 Non-Financial Co-operatives in Canada* http://www.coop.gc.ca/COOP/display-afficher.do?id=1324051838611&lang=eng.

38 As will be seen below, most of a cooperative's equity consists of social capital (capital invested by members) and accumulated profits. The lower the debt-to-equity ratio, the stronger an enterprise's financial health usually is.

39 Rural and Co-operatives Secretariat, Statistics Unit, *2010 Top 50 Non-Financial Co-operatives in Canada* http://www.coop.gc.ca/COOP/display-afficher.do?id=1324051838611&lang=eng.

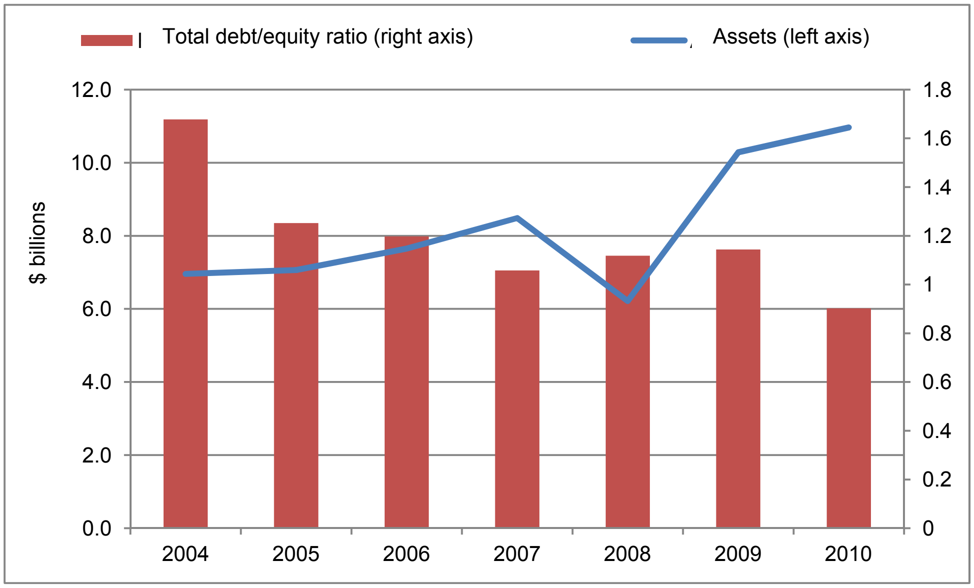
40 Dianne Kelderman, President and Chief Executive Officer, Nova Scotia Co-operative Council, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

Figure 2 — Revenues of the Top 50 Non-financial Co-operatives in Canada



Source: Figure prepared by the Library of Parliament using data obtained from the Rural and Co-operatives Secretariat, *Top 50 Non-Financial Co-operatives in Canada*, Annual Reports http://www.coop.gc.ca/COOP/display-afficher.do?id=1233009297681&lang=eng.

Figure 3 — Assets and Total Debt/Equity Ratio of the Top 50 Non-financial Co-operatives in Canada



Source: Figure prepared by the Library of Parliament using data obtained from the Rural and Co-operatives Secretariat, *Top 50 Non-Financial Co-operatives in Canada*, Annual Reports http://www.coop.gc.ca/COOP/display-afficher.do?id=1233009297681&lang=eng.

2. Financial co-operatives

Table 1 shows the changes in various financial data of Canadian credit unions affiliated with Credit Union Central between the fourth quarter (Q4) of 2010 and Q4 2011.[41] It is important to note that the other major credit union federation in Canada, the Mouvement des caisses Desjardins (Mouvement Desjardins), is not affiliated with Credit Union Central. The Mouvement Desjardins' financial information is therefore not reflected in Table 1.

The assets of credit unions affiliated with Credit Union Central increased by 10.1% from the end of 2010 to the end of 2011. Deposits at credit unions rose 7.4%, while loans in circulation granted by those organizations increased by 9.9%. The number of locations remained relatively stable (-0.1%), but the number of credit unions declined by 4.7%. The number of members rose 1.5%.

41 Credit Union Central of Canada is the national trade association for the Canadian credit union system. Incorporated in 1953 by a special act of Parliament, and regulated under the *Cooperative Credit Associations Act* (Canada), the Central provides a national forum, a national voice and national services to support and expand the Canadian credit union system.

Table 1 — Changes in Various Financial Data of Credit Unions Affiliated with Credit Union Central (in millions of dollars)

	Q4 2010	Q4 2011	Change
Assets	$127,398	$140,219	**+10.1%**
Deposits	$114,983	$123,489	**+7.4%**
Loan	$105,260	$115,634	**+9.9%**
Number of credit unions	386	368	**-4.7%**
Number of locations	1,734	1,733	**-0.1%**
Number of members	5,056,373	5,132,362	**+1.5%**

Source: Table prepared by the Library of Parliament using data obtained from Credit Union Central of Canada, *System Results*, 4th Quarter 2011 http://infocentre.cucbc.com/_html/pdf/4Q11SystemResults.pdf.

Table 2 shows changes in various financial data of the Mouvement Desjardins between Q4 2010 and Q4 2011. Assets, deposits and loans grew by 6.0%, 7.4% and 6.5%, respectively. The number of caisses (locations) and the number of members declined respectively by 6.4% and 1.9%. The same trend in changes in the number of members and locations was observed between 2009 and 2010.

Table 2 – Changes in Various Financial Data of the Mouvement Desjardins between Q4 2010 and Q4 2011 (in millions of dollars)

	Q4 2010	Q4 2011	Change
Assets	$132,655	$140,665	**+6.0%**
Deposits	$111,021	$119,266	**+7.4%**
Loans	$110,380	$117,548	**+6.5%**
Total number of caisses (locations)	451	422	**-6.4%**
Number of members	5,723,000	5,617,000	**-1.9%**

Source: Table prepared by the Library of Parliament using data obtained from Credit Union Central of Canada, *System Results*, 4th Quarter 2011 http://infocentre.cucbc.com/_html/pdf/4Q11SystemResults.pdf and Desjardins Group, "Management's Discussion and Analysis of Desjardins Group", in *Annual Report 2011* http://www.desjardins.com/fr/a_propos/publications/rapports_financiers/rapport_annuel/ra2011-sec2-gestion.pdf.

These figures show solid growth in Canadian credit unions' assets, deposits and loans over the past two years, as well as consolidation among those institutions through acquisitions and mergers. This growth, together with workforce consolidation, is in fact part of a strong trend observed in the credit co-operatives sector in recent years. Several witnesses commented on these developments in the credit union sector in Canada. The following gives an overview of their testimonies.

> Credit unions continue to be strong performers. Even through the economic crisis, Canada's credit union system performed extremely well and our credit unions continue to be positioned as world class financial institutions (...). The strong financial performance has resulted in continued growth in membership. Consolidation in the credit union system is a continuing trend. For decades, some credit unions responded to increased complexity compliance costs, and changing demographic through consolidation.[42]

> Over the past decade, the size of the average credit union's balance sheet has tripled. Not only is the average credit union growing, but the largest credit unions make up a significant share of the credit union system in some provinces. In Alberta, the two largest credit unions make up 73% of the credit union assets in the province, and the largest institution accounts for 58% of assets. In British Columbia, Saskatchewan, and Ontario, the figures are 51%, 40%, and 37% respectively for the two largest institutions.[43]

CHAPTER II — FINANCIAL ISSUES RELATED TO CO-OPERATIVES IN CANADA

A. Government Intervention in the Co-operative Sector

1. Rural and Co-operatives Secretariat

The Rural and Co-operatives Secretariat (RCS), which is under the jurisdiction of Agriculture and Agri-Food Canada (AAFC), coordinates the co-operative development work of the Government of Canada. A number of witnesses acknowledged the good work that RCS has done since it was established, and AAFC representatives were in agreement about RCS's accomplishments:

> There is no question that the rural and cooperatives secretariat has laid solid groundwork for communities to more effectively interact and take advantage of opportunities that exist to advance their interests.[44]

However, many witnesses were afraid that the role of the RCS might become less important as a result of budget cuts, and some were concerned that staff cuts at RCS might result in fewer services being provided. Witnesses also feared it would be difficult to access statistics on co-operatives, data that are an invaluable source of information for the co-operative movement:

> The fact that all the secretariat's resources have been cut significantly has repercussions. In particular, the statistics we used to rely on in order to understand the big picture and the state of Canada's cooperative movement will virtually disappear.[45]

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42 Cited from the brief of SaskCentral submitted to the Committee, July 19, 2012.

43 Marion Wrobel, Vice-President, Policy and Operations, Canadian Bankers Association, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

44 Claude Carrière, Associate Deputy Minister, Agriculture and Agri-Food Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

45 Brigitte Gagné, Executive Director, Conseil canadien de la coopération et de la mutualité, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

Although RCS has been hit by budget cuts, AAFC representatives stated that RCS will continue to play an important role in the co-operative sector and gave reassurances that its database would be maintained:

> We reduced the role of the Rural and Cooperatives Secretariat to bring its role back to what it was previously, which was research and policy coordination with the provinces and other departments. We did that with the goal of working with those departments and ensuring that they explore the various avenues with the rural regions and the cooperatives. The main function of the secretariat when it comes to cooperatives will be to maintain the database on cooperatives, which has existed now for several decades. That is one need of the cooperatives sector. It assures us that this sector will continue to be healthy.[46]

As noted above, RCS is under AAFC's jurisdiction. Several witnesses, including the Coop fédérée, emphasized that it was now inappropriate for RCS to be under AAFC's aegis since co-operatives no longer have a solely rural or agricultural purpose:

> (…) historically, the Canadian government has put the department of agriculture in charge of cooperatives. One hundred years ago, the country's development actually went through the agri-food industry. The Fathers of Confederation felt that cooperatives were part of the agricultural industry. That was logical then. However, in 2012, issues related to energy cooperatives have little to do with the department of agriculture. The reality has changed along with the era.[47]

For that reason, many witnesses, including Tom Webb, Adjunct Professor, Saint Mary's University, and the Conseil canadien de la coopération et de la mutualité suggested that RCS be transferred to Industry Canada.

> I'm hoping we will see a refocusing, perhaps in the Department of Industry, which may have been in some ways a more appropriate home, but there needs to be a home somewhere for a focus on cooperatives in the federal government.[48]

> Transfer the statistical data compiled by the Rural and Co-operatives Secretariat to Industry Canada. [49]

46 Claude Carrière, Associate Deputy Minister, Agriculture and Agri-Food Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

47 Denis Richard, President, La Coop fédérée, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

48 Tom Webb, Adjunct Professor, Sobey School of Business, Master of Management in Co-operatives and Credit Unions, Saint Mary's University, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

49 Brigitte Gagné, Executive Director, Conseil canadien de la coopération et de la mutualité, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012

2. Programs

a. Co-operative Development Initiative

The Co-operative Development Initiative (CDI) is a program that the federal government established in 2003 to assist with developing a co-operative. The initiative is divided into three components: advisory services, research and knowledge development, and innovative co-operative projects.[50] CDI will expire in March 2013 following two five-year terms and will not be renewed.

A number of witnesses noted that the CDI program has proven to be a very useful tool over the years as it is one of the rare sources of funding to assist in starting up co-operatives. According to these witnesses, CDI has been a resounding success in the co-operative sector since its inception. This was particularly the case for Arctic co-operatives, as pointed out by Andy Morrison, Chief Executive Officer, Arctic Co-operatives Limited:

> So the efforts of the CDI program have enabled us to use our expertise to work with primarily aboriginal communities, which I think has been very beneficial.[51]

As a result of this success, witnesses were critical of the fact that the CDI program is not being renewed but said they understood that government programs are subject to periodic review. Those witnesses remained very much open to the idea of new government initiatives to support the co-operative sector. One AAFC representative put the non-renewal of CDI in context:

> The programs of the rural and cooperative secretariat have achieved their objectives, and like many of the programs in other departments, they have not been renewed. There is no question that the rural and cooperatives secretariat has laid solid groundwork for communities to more effectively interact and take advantage of opportunities that exist to advance their interests. That said, we believe that virtually every department of government has a responsibility for rural development, particularly economic development. Every department needs to ensure that its programs and policies reflect the unique circumstances of rural Canadians.[52]

b. Other Programs

CDI is no doubt the most widely known federal program in the co-operative sector. However, a broad range of programs intended for small and medium-sized enterprises is also available to co-operatives. The problem is that co-operatives are not always aware of the range of government initiatives available to them. Consequently, the federal, provincial and territorial departments have prepared a guide to inform co-operatives about accessible co-operative programs:

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50 Rural and Co-operatives Secretariat, *Co-operative Development Initiative 2009-2013*. http://www.coop.gc.ca/COOP/display-afficher.do?id=1232543849777&lang=eng.

51 Andy Morrison, Chief Executive Officer, Arctic Co-operatives Limited, *Evidence*, Meeting No. 6, 1st Session, 41st Parliament, Ottawa, July 26, 2012.

52 Claude Carrière, Associate Deputy Minister, Agriculture and Agri-Food Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

> We have realized that cooperatives did not know that they could register for several of these programs. We distributed a copy of our guide to all the cooperatives just so they would know that they are eligible for these programs.[53]

Some programs are intended for co-operatives based on their area of activity. The Canada Small Business Financing Program and the Canada Business Program provide assistance to small businesses,[54] and housing co-operatives have access to various funding programs through Canada Mortgage and Housing Corporation (CMHC).[55] Many programs are available to co-operatives in the agricultural sector, particularly the Loan Guarantee Program, under which agricultural co-operatives may obtain loans of up to $3 million:

> One example is the *Canadian Agricultural Loans Act*, a financial loan guarantee program that gives cooperatives easier access to credit. Under CALA, agricultural cooperatives can access loans of up to $3 million to process, distribute or market farm products.[56]

B. SPECIFIC ISSUES

1. Housing Co-operatives

Most housing co-operatives in Canada have been established to meet the need for affordable housing for low-income earners. In the 1970s, three federal programs promoted the development of housing co-operatives. Currently, many housing co-operatives receive Canadian government funding through the CMHC. CMHC, which reports to Parliament through the Minister of Human Resources and Skills Development, plays a major role in the mortgage credit sector.

Witnesses from housing co-operatives shared their concerns with the Committee regarding what they consider early repayment penalties assessed by CMHC for refinancing or loan consolidation purposes:

> Usually a private lender, if you wanted to break the first mortgage and refinance it, would charge you something like a penalty of three months interest. CMHC have taken the position that a co-op exiting its first mortgage will pay a penalty equal to the entire interest that would have been paid on the mortgage, even though the mortgage no longer exists.[57]

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53 Ibid.

54 John Connell, Associate Assistant Deputy Minister, Strategic Policy Sector, Department of Industry, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

55 Nicholas Gazzard, Executive Director, National Office, Co-operative Housing Federation of Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

56 Claude Carrière, Associate Deputy Minister, Agriculture and Agri-Food Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

57 Darren Kitchen, Director, Government Relations, Co-operative Housing Federation of British Columbia, *Evidence*, Meeting No. 6, 1st Session, 41st Parliament, Ottawa, July 26, 2012.

> I'm not suggesting that the co-op should not pay any penalty. Obviously, there's a transition cost for CMHC. It would take a while to do this. We're willing to contemplate a reasonable penalty. Mortgage holders in the private sector do this all the time, right? It's not a new idea. But we think that the full burden of the interest until the rollover to the next term is simply excessive, and it's a barrier to preserving affordable housing in Canada.[58]

In response to questions from the Committee concerning the early repayment penalties imposed by CMHC, the Corporation has issued a news release stating that a co-operative may refinance its mortgage with a private lender at the time of mortgage renewal with no penalty. However, where a mortgage contract is broken, a penalty is assessed based on the terms and conditions of the mortgage contract, the mortgage amount, the interest rate and the time remaining to mortgage maturity.[59] CMHC also notes that any mortgage restructuring may also entail costs:

> To provide the lowest interest rates possible, CMHC locks in its funding cost at the same time as it lends to project sponsors. As such, any restructuring of the mortgage has the potential to cause a loss to CMHC since the Corporation cannot restructure the underlying debt.[60]

2. Taxation

a. Income Tax

Co-operatives are subject to the same taxation regime as any other corporations. The federal *Income Tax Act* provides for special measures to assist small businesses, such as accelerated capital depreciation and lower corporate tax rates. Those measures also extend to co-operatives.

Credit Union Central noted in a written brief to the Committee that banks suggest credit unions enjoy advantageous tax rules as a result of their co-operative structure.[61] In response to that assertion, Credit Union Central stated that co-operatives pay as much tax as other types of businesses. Other witnesses agreed, noting that co-operatives enjoy no special tax treatment and are subject to the same tax rules as other businesses:

> The *Income Tax Act* does not favour cooperatives over other types of corporations. Whether you are a wheat pool, a dairy co-op, a retail co-op or a co-op wholesaler — all pay income tax at the same rates and with the same rules.[62]

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58 Ibid.

59 Canada Mortgage and Housing Corporation, *Responses to Questions of the Special Committee on Cooperatives*, letter to the Special Committee on Cooperatives, dated August 3, 2012.

60 Ibid.

61 Gary Rogers, *Who says co-ops don't pay tax?,* Credit Union Central of Canada, cited from a document sent to the Committee on August 2, 2012.

62 Denyse Guy, Executive Director, Canadian Co-operative Association, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

Some witnesses stated that co-operatives are taxed more than business corporations. In one study, the Mallette firm found that there is a significant disparity in the taxation of co-operatives and conventional businesses. The study shows that most co-operatives bear a greater tax burden than business corporations.

Some witnesses suggested that the Canadian tax system penalizes co-operatives because they are subject to "double taxation". However, large co-operatives have resources that enable them to structure their businesses so as to avoid double taxation. A report by Ernst and Young explains this form of double taxation in detail. In taxation matters, there is one tax issue that concerns private as opposed to public organizations. According to the United Farmers of Alberta, it is unclear to what class of business co-operatives belong:

> Co-ops are neither public nor private, by definition, and there are certain exemptions that take place. Really what we're talking about there is that certain parts of the tax act are applicable or exempt, and the waters are really quite murky. What we're really talking about there is simply calling it out as a distinct business model and taking out the ambiguity. Where that ambiguity exists today actually creates opportunities for us to misinterpret or be offside, totally unintentionally. The other thing it does, with that simple clarification in the act, if it were to take place, is actually raise the awareness and the relevance of the cooperative business model, right there in that one singular thing. That is without changing anything within what is contemplated by the tax act as it exists today. So it does remove ambiguities, and it creates clarity for us.[63]

b. Registered Retirement Savings Plans (RRSP)

Several witnesses noted that the Canada Revenue Agency's RRSP rules do not encourage investment in the co-operative sector. The so-called "10% rule" prevents the members of certain co-operatives from using their RRSPs as investment vehicles to recapitalize their co-operatives:

> The measures regarding self-directed RSPs in the 2011 budget have rendered co-op shares ineligible for RSPs for members who hold more than 10% of any class of shares issued by the cooperative. This has eliminated a pool of members' capital that used to be available to help capitalize their co-ops. Many worker co-ops have fewer than 10 members. Whereas it used to be perfectly fine to hold more than 10% of a class of shares in a co-op within an RSP, if under $25,000, it is no longer acceptable. If an individual is affected, there are very high penalty taxes — even higher than for deliberate fraud in some cases. We believe these provisions are putting jobs at risk. CWCF objected strongly last summer to the Ministry of Finance regarding these changes, as did CCA, CCCM, the Canadian Institute of Chartered Accountants, and the Canadian Bar Association. We implore the federal government to revoke these measures enacted in the 2011 federal budget.[64]

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63 Bob Nelson, President and Chief Executive Officer, United Farmers of Alberta, *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

64 Hazel Corcoran, Executive Director, Canadian Worker Co-operative Federation, *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

The members of certain co-operatives therefore feel an obligation to use their RRSPs to invest in business corporations, even though their first choice would be to invest in their co-operatives. This exacerbates the problem of co-operative capitalization. Some witnesses therefore requested that the 10% rule be repealed in the case of co-operatives.

Some provinces have put tax measures in place to support the co-operative sector. Quebec was often cited as an example of a province that provides an important support to its co-operative sector. Under the Régime d'investissement coopératif (RIC) in Quebec, members and employees of producer or worker co-operatives who invest in co-operatives receive a tax credit. Nova Scotia has created a similar support mechanism, which encourages the capitalization of co-operatives:

> We have a community investment tax credit where we can invest in community projects, cooperatives, and private business projects and get tax credits, a 35% provincial tax credit. It's RRSP-eligible.[65]

The Alberta Association of Co-operative Seed Cleaning Plants also suggested that the tax rules should be amended to facilitate investment in co-operatives:

> At our 2010 annual general meeting, we passed a resolution that the provincial board would lobby for refundable investment tax credits and RRSP investment status for agriculture investors who invest in co-ops. This would allow co-ops to raise the required capital to acquire depreciable assets. The existence of such a tax credit would give members and other agriculture investors benefits comparable to other Canadian investments.[66]

In short, to encourage investment in the co-operative sector, a number of witnesses proposed an amendment to the *Income Tax Act* to allow more than 10% of the shares of a co-operative to be held in the RRSP of a single individual. In addition, federal or provincial plans similar to Quebec's RIC could prove to be a useful tool in financing co-operatives. This is supported by the following excerpts from testimony:

> We would also look favourably upon the federal government's creation of a program based on the example of Quebec's Cooperative Investment Plan. Programs of that kind, which do not come at high cost to the government, favour the capitalization of cooperatives by encouraging members to be disciplined or patient, and to reinvest in their cooperatives.[67]

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65 Dianne Kelderman, President and Chief Executive Officer, Nova Scotia Co-operative Council, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

66 John McBain,Vice-President, Alberta Association of Co-operative Seed Cleaning Plants, *Evidence*, Meeting No. 6, 1st Session, 41st Parliament, Ottawa, July 26, 2012.

67 Lorraine Bédard, Corporate Secretary, Vice-President, Members Relations, Agropur, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

As a small workers' co-operative we feel we can no longer have use self-directed RRSPs to support our co-operative, because if two member left the co-operative our members would hold more than 10% of the shares issued by the co-operative. [68]

3. Competition from Farm Credit Canada in the Agricultural Loans Market

The issue of competition from Farm Credit Canada (FCC) was raised many times in the meetings and in the written briefs the credit unions sent to the Committee. FCC is a commercial Crown corporation (i.e. a for-profit entity) that offers financing solutions exclusively to businesses operating in the agricultural sector, which includes co-operatives in particular:

> Our sole focus is agriculture. We lend to agriculture in all sectors, in all geographic regions, and to all sizes of operations and business models. Our mandate is to ensure that the agriculture industry has ready access to capital to withstand the unique challenges and opportunities facing producers over the long term, through good times and challenging times.(…)
>
> Many of our customers are cooperatives, and they represent an important part of our lending program. The cooperatives we work with operate in most of the agricultural sectors, including crop inputs, beef, dairy, and agrifood.[69]

Unlike the Canada Business Development Bank (BDC) and Export Development Canada (EDC), whose financing operations complement those of private financial institutions, FCC competes directly with credit unions in the agricultural lending field. However, according to the credit unions, FCC's status as a Crown corporation gives it definite advantages in that area:

> Credit unions value the role of Farm Credit Canada, the role it plays as a committed partner that supports Canadian agriculture in good times and bad. However, the FCC is in an anomalous position relative to other crown financial institutions. It does not face a requirement to lend in the manner that complements the activities of private sector FIs, but instead it can aggressively compete head to head with credit unions while enjoying marked advantages that are related to its status as a crown corporation.[70]

One of the issues related to competition is FCC's ability to borrow at the Government of Canada's interest rate (which is the risk-free benchmark rate in financial markets), which other financial institutions cannot do. FCC admitted this fact but downplayed that analysis, pointing out that the rates it offers its clientele are comparable to those of other financial institutions:

> We borrow money through the consolidated revenue fund, and that's at a good price, for sure. But banks have a double-A rating, and they're able to access funds at an attractive

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68 Cited from the brief of EVERGREEN BUILDERS CO-OPERATIVE LTD, dated August 7, 2012.

69 Lyndon Carlson, Senior Vice-President, Marketing, Farm Credit Canada, *Evidence*, Meeting No. 6, 1st Session, 41st Parliament, Ottawa, July 26, 2012.

70 Stephen Fitzpatrick, Vice-President, Corporate Services and Chief Financial Officer, Credit Union Central of Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

> price as well. Plus, they have millions of dollars of deposits on hand. They pay very little interest, and they can use that to reinvest in their lending program.
>
> All that being said, every time we're making a price adjustment, where there's a competitor involved, we do not undercut the competition on price. We believe that by winning the business based on service and knowledge, we compete very fairly in the marketplace.[71]

According to a brief the Credit Union Central of Canada sent to the Committee, the advantages FCC enjoys as a result of its status as a Crown corporation are not limited to an enviable borrowing rate. FCC pays no income tax and is subject to minimum regulatory supervision.[72] Again according to Credit Union Central of Canada, FCC has captured nearly one-third of the agricultural loans market, twice the market share it held in 1993. Furthermore, FCC's returns on equity are appreciably higher than those of BDC, which raises the question whether this kind of performance is compatible with FCC's status as a Crown corporation with a clear public policy mandate.[73] Credit Union Central of Canada therefore asked that FCC be subject to regular parliamentary review of its mandate, as is the case with BDC and EDC, and that the government consider amending its operating principle:

> It is also unique in that unlike Export Development Canada and the Business Development Bank of Canada, FCC is not subject to a regular parliamentary mandate review. Canadian Central recommends that the government undertake a public review of the *Farm Credit Canada Act* to ensure that FCC continues to play a relevant role in a competitive marketplace. We also recommend that the government consider amending FCCs legislation and operating principles to bring them into closer alignment with those of the Business Development Bank and Export Development Canada.[74]

CHAPTER III — THE ISSUE OF CAPITALIZATION OF CO-OPERATIVES

A. Capitalization: Definition and Background

Capitalization may be defined most simply as the act of "raising money".[75] In the financial sector, capitalization can be defined as :

> The amounts and types of long-term financing used by a firm. Types of financing include common stock, preferred stock, retained earnings, and long-term debt. A firm with

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71 Lyndon Carlson, Senior Vice-President, Marketing, Farm Credit Canada, *Evidence*, Meeting No. 6, 1st Session, 41st Parliament, Ottawa, July 26, 2012.

72 Brief to the Committee submitted by Credit Union Central of Canada, dated August 7, 2012.

73 Ibid.

74 Stephen Fitzpatrick, Vice-President, Corporate Services and Chief Financial Officer, Credit Union Central of Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

75 See: http://www.larousse.com/en/dictionaries/french/capitaliser/12905.

> capitalization including little or no long-term debt is considered to be financed very conservatively.[76]

First of all, it should be noted that financial capital is not scarce as such; access to capital by one business does not result in a scarcity of capital for other businesses. In that sense, the amount of financial capital available is unlimited. What makes access to capital difficult for a given business is in fact the risk of default, or rather the way in which this risk is perceived by financial institutions and investors. If default occurs, the financial institution concerned may not recover its money and will have to incur a loss on its loan:

> At the end of the day, it's easy to give money away. It's really, really hard to get it back. No financial institution wants to realize on security.[77]

The risk assessment of a given business endeavour by a financial institution is based on three main factors: capacity to repay, collateral security and the quality of managers:

> The role of any lender is to assess the risk associated with a financing request, taking into account the strength of the cooperative's management and governance, the capacity to repay, as well as the adequacy of collateral security.[78]

Consequently, the level of risk explains why financial capital is often perceived as "scarce". The greater the perceived risk of default, the more difficult it is to access financial capital. In the case of loans, this increased risk often results in higher interest rates. If the perceived risk is very high for a particular business, then access to financial capital for this business will be very difficult, perhaps impossible. This relationship between risk assessment and access to capital is valid for every type of business, both co-operative and non-co-operative:

> The fundamentals of lending and credit risk are really no different for a co-op and a non-co-op.[79]

This background information is important in addressing the issue of capitalization of co-operatives. Any examination of the causes of reduced access to capital must focus on factors that might be at the root of the perception of higher risk in the case of co-operative enterprises. Witnesses commented at length on these factors, which may be classified as institutional (i.e., stemming from a lack of understanding by institutions of the nature of the co-operative business model) or structural (i.e., related to the very structure of co-operatives). As shown below, the institutional factor is a stumbling block for all types of co-operatives, whereas the structural factor is mainly an obstacle for start-up co-operatives.

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76 David L. Scott, Wall Street Words: An A to Z Guide to Investment Terms for Today's Investor, Houghton Mifflin Company, 2003.

77 John Lahey, President and Chief Executive Officer, Alterna Savings, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

78 Nigel Mohammed, Director, Business and Community Financial Centre, Assiniboine Credit Union, *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

79 Ibid.

B. Institutional Obstacle: Lack of Knowledge of the Co-operative Business Model

One factor that witnesses frequently cited at Committee meetings to explain why access to financial capital may be tougher for co-operatives is public and private institutions' lack of knowledge of the co-operative business model. Witnesses indicated that this lack of knowledge has a direct impact on financial institutions' risk assessment of any given project in the co-operative sector and thus on access to financing:

> There seems to be such ambiguity about the decision-making process and how decisions are made within co-ops that traditional banks or lenders, and even some statutory government boards, such as the BDC, because of their unfamiliarity with the decision-making process, may feel that there is more risk attached to it.[80]

Some witnesses stated that federal institutions' lack of knowledge of the co-operative system has a direct impact on access to government funding:

> Some of the main issues that impede cooperatives from accessing federal funding and programs are a lack of understanding among government staff as to what a co-op is. Most don't see it as a serious business model. In its language, current federal programming refers to corporations, partnerships, sole proprietorships, and not-for-profits, but rarely cooperatives.[81]

> Many of our people in government departments have no idea what a cooperative is or how it works or how it could be a successful business model. That's part of the challenge.[82]

Witnesses felt that this criticism also applies to private institutions and that their lack of knowledge of the co-operative business model constitutes a barrier to financing for all types of co-operatives, large and small. For example, Michael Barrett, who is the chief operations officer of a co-operative with assets of $230 million and virtually no debt, told the Committee that this problem also affected his co-operative:

> The opposite side of that is that the banks don't understand cooperatives and don't understand what it means to have members investing in them, and therefore they are very reticent, suspicious, and reluctant to do what I would say is a normal business loan case. So we have a bit of an issue with that.[83]

Some witnesses went into greater detail about financial institutions' lack of understanding of the co-operative business model. They explained that much of the

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80 Ibid.

81 Denyse Guy, Executive Director, Canadian Co-operative Association, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

82 Tom Webb, Adjunct Professor, Sobey School of Business, Master of Management in Co-operatives and Credit Unions, Saint Mary's University, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

83 Michael Barrett, Chief Operations Officer, Gay Lea Foods Cooperative Ltd., *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

problem stems from the fact that those institutions do not understand the co-operative ownership structure. In particular, financial institutions tend to treat members' investment in their co-operative as a debt owed by co-operatives because it may be returned to a member when he or she ultimately leaves the co-operative:

> The issue we constantly have is the differentiation between members' investment. Banks will see that as debt, and it's not debt; it is equity, because it is generational capital that doesn't leave the cooperative. When they calculate how much money they will loan you, it is always based upon members' investments being debt.[84]

Many witnesses told the Committee that credit unions are more likely to understand the co-operative ownership model. Financial co-operatives explained that they can arrange syndicated or aggregated loans in order to meet the larger needs of their members. One witness noted that the assistance of credit unions had been critically important to his co-operative:

> Certainly we've had tremendous help from our credit union system in general. We certainly would not be in business today if it wasn't for the support of our credit unions on P.E.I. They've done a tremendous job keeping us in business. To be perfectly honest with you, with the margins that we've made and the difficulties that the industry in general has had over the last three or four years, if we were dealing with a regular bank, our 57 years would probably have ended within the last few years.[85]

Given their size, however, individual credit unions are not always potential lenders in all situations, as in the case of the Gay Lea Foods situation cited below:

> (...) we had to go to the bank to borrow that, with great difficulty and by putting a greater number of my assets up as a lien, which no other organization would have been forced to do. But because they didn't understand the model, I had to put up a lot of my assets as security for that loan. I am glad to say that we paid that loan off in four and a half years, to make sure the banks didn't get as much interest as they deserved.[86]

It is also difficult to estimate accurately the extent to which this greater understanding of the co-operative business model has an impact on risk assessment:

> One thing I can say is that they would understand the cooperative principles and the governance principles. I don't know how that weighs in their factors in looking at risk and a possible default on a loan, but they would understand it.[87]

One witness, however, stated that the lack of knowledge of the co-operative system and the resulting difficulty in obtaining financing was a criticism that applied to some credit

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84 Ibid.

85 Jeff Malloy, Chief Executive Officer and General Manager, Acadian Fishermen's Co-operative Association Ltd, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

86 Michael Barrett, Chief Operations Officer, Gay Lea Foods Cooperative Ltd., *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012

87 Jodie Stark, Vice-President, Legal and Corporate Affairs, Concentra Financial Services Association, *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

unions as well. That witness did, however, single out and praise Farm Credit Canada's work with agricultural co-operatives:

> It's mostly the financial side and the capitalization side of the funding of co-ops. And it is in the credit unions as well as on the traditional banking side. To give Farm Credit their due, Farm Credit is probably one of the stronger ones. Certainly in Atlantic Canada, in my experience, they've been very good at recognizing cooperative lending, and they understand it. I think it's fair to say that Farm Credit probably has been very good if you fit into their agricultural model. If you're into housing cooperatives or into consumer cooperatives, then of course Farm Credit doesn't lend to them, so there is a gap there.[88]

C. Structural Barriers to Obtaining Financial Capital: Start-up Co-operatives

1. Venture Capital: Introduction and Background

As one witness pointed out, a key feature of financial capital is its ability, when well managed, to grow, thus creating added value:

> We had an initial capital injection from various levels of government in 1986, and we have grown that. Initially, it was $10.2 million in capital; to the end of 2011, we have provided financing of more than $525 million to cooperatives across the Arctic since 1986.[89]

That value added, in the form of self-generated funds, will eventually enable an enterprise to become less reliant on outside capital and thus to reduce its risk profile. However, the essential ingredient in this process of growing financial capital is "seed capital". It is important to note here that the seed capital market (also called the venture capital market) is a highly specialized segment of the financial markets. As one witness noted, given the inherent risks of the venture capital market, the process of allocating seed financing is not for the fainthearted. In fact, according to the witness, regulators do not always take a favourable view of a conventional financial institution that engages extensively in this specialized market because of the risk profile associated with it.[90] As a result, traditional financial institutions are generally reluctant to grant venture capital, although this does not mean they are completely absent from this market. Some credit unions stated that their institutions do allocate funding to venture capital financing:

> In terms of spinoff, Desjardins Group offers businesses venture capital.[91]

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88 Bryan Inglis, Vice-President, Agriculture Division, Co-op Atlantic, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

89 Andy Morrison, Chief Executive Officer, Arctic Co-operatives Limited, *Evidence*, Meeting No. 6, 1st Session, 41st Parliament, Ottawa, July 26, 2012.

90 John Lahey, President and Chief Executive Officer, Alterna Savings, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

91 Bernard Brun, Director, Government Relations, Desjardins Group, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

> We also provide microcredit for business start-ups that would otherwise not qualify for conventional financing.[92]

In general, however, the allocation of venture capital in the financial markets is mainly the prerogative of specialized players in that field, both private and public (the Business Development Bank of Canada, for example, is a player in the Canadian venture capital market). The modus operandi of those players (sometimes called angel investors) is often to become significant shareholders in a start-up business by acquiring a portion of its share capital. Thus, if the start-up is successful, the angel investors' reward (i.e. their return on invested capital) could be considerable. The potentially attractive rate of return on invested capital makes the involvement of angel investors possible since it offsets the very high risks associated with this type of investment.

2. Raising Venture Capital for Co-operatives

As noted in the last section, a lack of knowledge of the co-operative ownership model may affect financial institutions' risk assessment of co-operatives, thus tightening access to credit for the latter. For large co-operatives, as the example of Gay Lea Foods illustrates, the impact of this lack of knowledge on risk assessment can be offset by providing more collateral to financial institutions. That is not an option for start-up co-operatives, thus making the problem of access to capital even more acute for them:

> That's why I think you're seeing that cooperatives that are older and traditional and have been around for a while are quite strong. It's the young ones that have the problems. The young ones are having trouble trying to find capitalization to get going and/or getting enough money up ahead to be able to grow their business.[93]

Obtaining seed capital is in fact a major challenge for all types of businesses, not just co-operatives, but it is an even greater problem for co-operatives as a result of certain specific characteristics of the co-operative ownership model. First of all, it is generally not possible for an outside investor to inject seed capital into a co-operative by acquiring and owning its share capital. The impossibility of both attaining the kind of capital growth that would occur in a conventional private business and realizing substantial capital gains by selling shares on the market makes co-operatives unattractive to angel investors:

> The fact that cooperatives are owned by their members and that their shares cannot be traded, as with private corporations, is a critical issue in capitalizing coops. The cooperative business model with its "one member, one vote" principle promotes the ownership and control of cooperative businesses. Members, rather than outside investors, hold coop shares. Coops also typically distribute their profits among their

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92 Nigel Mohammed, Director, Business and Community Financial Centre, Assiniboine Credit Union, *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

93 Bryan Inglis, Vice-President, Agriculture Division, Co-op Atlantic, *Evidence*, Meeting No. 4, 1st Session, 41st Parliament, Ottawa, July 24, 2012.

member-owners based on the size of their transactions, in other words, their transactional relationship, rather than the number of shares they hold.[94]

Investing seed capital in a co-operative by holding its preferred shares or debt could be an alternative. However, this approach may place an excessive interest rate burden on a start-up co-operative as a result of its very high-risk profile, unless it can find a way to provide collateral. As noted above, however, a start-up co-operative typically has very few assets to pledge as security and must therefore rely on contributions from founding members. As those members may be numerous, and all hold an equal ownership share in the co-operative, it is difficult for them to put up a large percentage of their tangible property as collateral in order to start up a business in which they are very much minority partners. A splitting of assets pledged as collateral is an option, but that approach is not always possible. This kind of problem does not arise to the same degree for conventional private businesses, in which ownership is concentrated in the hands of a single individual or entity.

Several witnesses touched on one or more aspects of the capitalization of start-up co-operatives addressed in this section. These aspects can be summed up by the following two excerpts from testimony:

> Small cooperatives, of course, have the challenge of acquiring a small amount of financing in the beginning, because they can't always use their equity or property as a traditional business would.[95]
>
> In seeking capitalization, emerging cooperatives have two barriers that conventional corporations do not face. First, the democratic structure of one member, one vote, and the limited returns on capital mitigate against the usual sources of venture capital, which require high returns and significant control of the enterprise. Second, because co-op par value shares do not generate capital gains, members do not receive the same tax incentive from the government to reinvest in their enterprises.(…)
>
> From the straight getting of a loan, the process is somewhat the same when the institution looks at the financials. One of the differences comes down to the fact that they're actually collective entrepreneurships, but bankers and credit union managers as well — indeed, this happens in the credit union system as well —are used to dealing with one individual who will put a personal guarantee and sign off their house to take that risk. They are not used to dealing with a collective group of 5 or 10 people, with a start-up.[96]

94 Hélène Simard, Chief Executive Officer, Conseil québécois de la coopération et de la mutualité, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

95 Bernard Brun, Director, Government Relations, Desjardins Group, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

96 Peter Hough, Financial Officer, Canadian Worker Co-operative Federation, *Evidence*, Meeting No. 7, 1st Session, 41st Parliament, Ottawa, July 27, 2012.

CHAPTER IV —REGULATIONS AND OTHER ISSUES CONCERNING CO-OPERATIVES IN CANADA

A number of legal issues were raised in Committee meetings as well as in written briefs. The sections below provide an overview of these issues.

A. Federal credit unions and recommendation of the Red Tape Reduction Commission

Several credit union representatives praised the Government of Canada's initiative to legislate the creation of federal credit unions. The main advantage for credit unions to be incorporated under federal law is that they can be active in several provinces outside their home province,[97] which helps the credit unions achieve their business goals and improve services to members.[98] However, these witnesses urged federal authorities to tailor the regulations accompanying the new legislation to the structure and size of co-operatives:

> Our hope is that the federal government will continue to honour the governance structure of these credit unions, and ensure that the rules respect the co-operative principles that laid the groundwork for the creation of these credit unions. If credit unions are simply considered and treated as "banks", then the stability and resilience of the credit union structure may be lost, along with the co-operative values and social responsibility they represent.[99]

Many witnesses from the credit union sector echoed the report of the Red Tape Reduction Commission, which noted that a one-size-fits-all approach to regulation tends to impose an undue burden on smaller businesses like credit unions.[100] The Commission's recommendation (No. 13) on reducing red tape to which these witnesses refer is presented below:

> Government should move quickly to fulfill its Budget 2011 commitment to implement a small business lens. While constructing, consideration should be given to requiring that regulators make publicly available the results of having applied the small business lens to new or amended regulations.[101]

Credit unions have therefore requested that the principle set out in this recommendation be met when the regulations on credit unions are made. Credit unions

97 John Lahey, President and Chief Executive Officer, Alterna Savings, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

98 Rob Malli, Financial Officer, Vancity Credit Union, *Evidence*, Meeting No. 6, 1st Session, 41st Parliament, Ottawa, July 26, 2012.

99 Excerpt from the brief submitted to the Committee, dated by *Concentra Financial Services Association*, *Evidence*, July 27, 2012.

100 Stephen Fitzpatrick, Vice-President, Corporate Services and Chief Financial Officer, Credit Union Central of Canada**,** *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

101 Red Tape Reduction Commission, *Cutting Red Tape…Freeing Business to Grow, Recommendations Report*, 2012 http://www.coupezlapaperasse.gc.ca/heard-entendu/rr/rr-eng.pdf.

have indicated that they do not expect preferential treatment; they simply expect that a small business lens be used by financial authorities rather than a uniform approach:

> We're not looking for special rules; we're simply looking for the small-business lens that was promised in the Red Tape Reduction Commission.[102]

Witnesses also provided concrete examples of regulations that impose or may impose an excessive burden if they do not take into account the structure and size of credit unions. These examples relate particularly to the new law mentioned previously, the requirements of the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), accounting rules, regulations concerning the release of financial prospectuses, the requirements of the Canada Deposit Insurance Corporation (CDIC) and the Office of the Superintendent of Financial Institutions Canada (OSFI). The Credit Union Central of Canada painted a clear picture of the situation faced by small credit unions:

> I could use the example of Surrey Credit Union(...). It has 10 or 12 employees and has the same requirement as VanCity in Vancouver or the Royal Bank of Canada when meeting those FINTRAC requirements. This has a disproportionate effect on the administrative costs in that credit union. As far as the burden we work under is concerned, that would be the challenge we face.[103]

B. Demutualization

Mutual companies are founded by individuals who band together to protect themselves against certain risks. In exchange for this protection, members pay a premium. A mutual company therefore belongs to its policyholders.[104]

Over the last decade, there has been a trend toward demutualization in the life insurance sector.[105] Demutualization is the process by which a mutual company is converted into a stock company. According to Desjardins Group, four situations can lead to demutualization:[106]

- a precarious financial situation;
- poor planning in the administration of the capital that is necessary to the growth and survivability of the mutual company or co-operative;

102 John Lahey, President and Chief Executive Officer, Alterna Savings, *Evidence*, Meeting No. 5, 1st Session, 41st Parliament, Ottawa, July 25, 2012.

103 Stephen Fitzpatrick, Vice-President, Corporate Services and Chief Financial Officer, Credit Union Central of Canada, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

104 Desjardins, Position Paper by Desjardins Group, Consultation on a Demutualization Framework for Federal Property & Casualty Insurance Companies, submitted to the Department of Finance Canada, July 2011.

105 Frank Lowery, Senior Vice-President, Senior Counsel and Secretary, The Co-operators Group, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

106 Desjardins, Position Paper by Desjardins Group, Consultation on a Demutualization Framework for Federal Property & Casualty Insurance Companies, submitted to the Department of Finance Canada, July 2011.

- disengagement by the members;
- pressure from management or external advisors who are seeking significant financial benefits from the demutualization.

Some witnesses expressed concern at this wave of demutualization. Some indicated that they were opposed to demutualization while others do not object to it on the condition it is properly regulated by government authorities. Without a legislative and regulatory framework, witnesses were troubled that collective wealth accumulated over generations might be squandered by a small number of individuals. The following excerpt of testimony expresses these concerns:

> There are winners and losers, and those who have tended to win are a small minority of policyholders, board members, senior managers, brokers, and professional consultants who receive windfall benefits.(…) all of the ordinary Canadians who have contributed over time to the wealth and surplus of these companies do not benefit.[107]

The Desjardins Group and the Vancity Credit Union believe demutualization must be regulated in order to preserve the collective wealth. In Quebec, demutualization is governed by regulations. However, this is not the case everywhere and in some jurisdictions the reserves accumulated by mutual companies are not protected. In these circumstances, demutualizations multiply:

> For example, Quebec legislation, for one, recognizes the collective and inalienable nature of the reserves built up within a cooperative, thereby ensuring the longevity of the organizations as well as intergenerational equity. In many countries where the reserves are not sufficiently protected, we have seen waves of demutualization in which the current members have often been able to seize the reserves that had been built up by previous generations.[108]

CHAPTER V — CONCLUSION AND RECOMMENDATIONS

In light of the meetings of the Committee and after reviewing the briefs submitted, the Committee appreciates how important co-operatives are to Canadians. It makes the following recommendations that will both enhance the status of co-operatives and protect the jobs they create.

Strategic Role of Co-operatives in Our Economy

Recommendation: That the Government of Canada highlight the strategic role that co-operatives play in our economy by educating government employees in all departments, especially those in regional

107 Frank Lowery, Senior Vice-President, Senior Counsel and Secretary, The Co-operators Group, *Evidence*, Meeting No. 3, 1st Session, 41st Parliament, Ottawa, July 10, 2012.

108 Brief to the Committee of Desjardins Group, *Cooperatives in Canada: A Little-Known but Highly Effective Economic Model*, dated July 17, 2012.

development offices, and the general public on the nature and benefits of the co-operative business model.

Outline a series of economic, fiscal, and monetary policies for strengthening Canadian co-operatives as well as for protecting the jobs they create

Recommendation: That Canada Mortgage and Housing Corporation support housing co-operatives by continuing to provide reasonable mortgage and refinancing services.

Recommendation: That the Government of Canada explore the feasibility and cost of allowing Canadians flexibility to invest RRSP funds in co-operatives.

Recommendation: That the Government of Canada work closely with regional economic development agencies to highlight the importance of co-operatives to Canadian economic development so that they can promote the co-operative business model along with other business models, and to ensure their officers have a clear understanding of how co-operatives are supported through existing federal programs and can promote such programs to co-operatives and entrepreneurs.

Exploring the issue of capitalization of co-operatives, its causes, effects and potential solutions

Recommendation: That the Government of Canada review the issue of capitalization of co-operatives, including its causes, effects, and potential solutions.

Exploring whether the *Canada Cooperatives Act* of 1998 requires updating

Recommendation: That the Government of Canada, in consultation with provinces, territories, and the co-operative sector, review the *Canada Cooperatives Act* to determine whether updates are advisable.

Identifying what tools the Government can use to provide greater support and a greater role to Canadian co-operatives

Recommendation: That the Government of Canada study the possibility of consolidating the responsibility for co-operatives under a suitable department, such as Industry Canada.

Recommendation: That the Government of Canada continue to reduce the red tape burden for co-operatives and businesses.

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Agriculture and Agri-Food Canada	2012/07/10	3
Claude Carrière, Associate Deputy Minister		
Canadian Bankers Association		
Marion Wrobel, Vice-President Policy and Operations		
Canadian Co-operative Association		
Denyse Guy, Executive Director		
Co-operative Housing Federation of Canada		
Nicholas Gazzard, Executive Director National Office		
Co-operators Group		
Frank Lowery, Senior Vice-President Senior Counsel and Secretary		
Credit Union Central of Canada		
Stephen Fitzpatrick, Vice-President Corporate Services and Chief Financial Officer		
Department of Finance		
Jeremy Rudin, Assistant Deputy Minister Financial Sector Policy Branch		
Department of Industry		
John Connell, Associate Assistant Deputy Minister Strategic Policy Sector		
Farmers of North America		
Bob Friesen, Vice-President, Government Affairs Chief Executive Officer, Farmers of North America Strategic Agriculture Institute		
Gay Lea Foods Cooperative Ltd.		
Michael Barrett, Chief Operations Officer		
Ontario Mutual Insurance Association		
John Taylor, President		
Acadian Fishermen's Co-operative Association Ltd.	2012/07/24	4
Jeff Malloy, Chief Executive Officer and General Manager		
Co-op Atlantic		
Bryan Inglis, Vice-President Agriculture Division		

Organizations and Individuals	Date	Meeting
Nova Scotia Co-operative Council	2012/07/24	4
Dianne Kelderman, President and Chief Executive Officer		
Prince Edward Island Co-operative Council		
Dave Whiting, Executive Director		
Saint Mary's University		
J. Tom Webb, Adjunct Professor Sobey School of Business, Master of Management in Co-operatives and Credit Unions		
SNB Wood Co-operative Ltd		
Pamela Folkins, General Manager		
Christina Keating, Supervisor Accounting and Purchasing		
Ag Energy Co-operative Ltd.	2012/07/25	5
Rose Marie Gage, Chief Executive Officer		
William Ravensbergen, Chairman Board of Directors		
Agropur cooperative		
Lorraine Bédard, Corporate Secretary Vice-President, Members Relations		
Serge Riendeau, President Board of Directors		
Alterna Savings		
John Lahey, President and Chief Executive Officer		
Conseil canadien de la coopération et de la mutualité		
Brigitte Gagné, Executive Director		
Réjean Laflamme, Assistant General Manager President, Federation of Funeral Cooperatives of Québec		
Conseil québécois de la coopération et de la mutualité		
Hélène Simard, Chief Executive Officer		
Desjardins Group		
Bernard Brun, Director Government Relations		
Excellence in Manufacturing Consortium		
Alan Diggins, President and General Manager		
Fédération des coopératives de développement régional du Québec		
Francine Ferland, President		
La Coop fédérée		
Jean-François Harel, General Secretary		

Organizations and Individuals	Date	Meeting
Denis Richard, President	2012/07/25	5
Quality Deer Management Association		
Kip Adams, Director, Education and Outreach		
Alberta Association of Co-operative Seed Cleaning Plants	2012/07/26	6
John McBain, Vice-President		
Arctic Co-operatives Limited		
Andy Morrison, Chief Executive Officer		
Co-operative Housing Federation of British Columbia		
Darren Kitchen, Director, Government Relations		
Encorp Pacific (Canada)		
Neil Hastie, President and Chief Executive Officer		
Farm Credit Canada		
Lyndon Carlson, Senior Vice-President Marketing		
Michael Hoffort, Senior Vice-President Portfolio and Credit Risk		
Federated Co-operatives Limited		
Vic Huard, Vice-President, Corporate Affairs Home Office		
Glen Tully, President of the Board Home Office		
Kootenay Columbia Seniors Housing Co-operative		
Kenneth Hood, President		
Mountain Equipment Co-op		
Margie Parikh, Vice-Chair Board of Directors		
Shona McGlashan, Chief Governance Officer		
Vancity Credit Union		
Rob Malli, Chief Financial Officer		
Alberta Federation of Rural Electrification Associations (AFREA)	2012/07/27	7
Merv Rockel, President		
Dan Astner, Vice-President		
Assiniboine Credit Union		
Nigel Mohammed, Director Business and Community Financial Centre		

Organizations and Individuals	Date	Meeting
Dale Ward, Corporate Secretary Manitoba Central	2012/07/27	7
Canadian Worker Co-operative Federation		
Hazel Corcoran, Executive Director		
Peter Hough, Financial Officer		
Community Health Co-operative Federation Ltd.		
Tim Archer, Executive Director		
Patrick Lapointe, Member		
Concentra Financial Services Association		
Jodie Stark, Vice-President Legal and Corporate Affairs		
Federation of Alberta Gas Co-ops Ltd.		
Peter Harty, Director		
Kevin Crush, Manager Communications		
Manitoba Cooperative Association		
Vera Goussaert, Executive Director		
Mountain View Credit Union Limited		
Robert Marshall, President and Chief Executive Officer		
Red Hat Co-operative Ltd.		
Albert Cramer, Chairman Board of Directors		
Doyle Brandt, Director Board of Directors		
United Farmers of Alberta		
Bob Nelson, President and Chief Executive Officer		
Bill Dobson, Director		

APPENDIX B
LIST OF BRIEFS

Organizations and Individuals

Ag Energy Co-operative Ltd.

Agropur cooperative

Alpaca Livestock Producers and Cooperators Association

Battle River Agri-Ventures Co-op

British Columbia Co-operative Association

Canadian Community Economic Development Network

Canadian Worker Co-operative Federation

Catalpa Cooperative Inc.

Central Alberta Rural Electrification Association

Centre for the Study of Co-operatives

Chapman, Harold

Common Ground Co-operative Inc.

Communitas Group Ltd.

Concentra Financial Services Association

Confédération québécoise des coopératives d'habitation

Conseil canadien de la coopération et de la mutualité

Conseil Coopératif Acadien de la Nouvelle-Écosse

Conseil de développement économique de l'Alberta

Conseil québécois de la coopération et de la mutualité

Coopérative de développement régional-Acadie

Co-operative Housing Federation of Canada

Co-operators Group

CoopZone Developers' Network Co-operative

Credit Union Central of Canada

EnerGreen Builders Co-operative Ltd.

Fédération des coopératives de développement régional du Québec

Federation of Alberta Gas Co-ops Ltd.

Federation of Community Power Co-operatives of Ontario

Funeral Co-operative of Ottawa

Gay Lea Foods Cooperative Ltd.

Health Care Co-operatives Federation of Canada

Institut de recherche et d'éducation pour les coopératives et les mutuelles de l'université de Sherbrooke

La Coop fédérée

Lakeland Rural Electrification Association

Meridian Housing Cooperative

Newfoundland-Labrador Federation of Co-operatives

North Parkland Power Rural Electrification Association

Ontario Co-operative Association

SaskCentral

Shift Delivery Co-op

Slavin, Linda

South Alta Rural Electrification Association

Thurlestone Co-operative Inc.

Victoria Community Health Co-operative

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meeting Nos. 1-9) is tabled.

Respectfully submitted,

Blake Richards, M.P.

Chair

Building Co-operatives, Building Canada

Special Committee on Co-operatives – NDP Dissenting Report

Rationale for the NDP Report:

The NDP presents this dissenting report because, while we appreciate the work on detailing the testimonies during the committee hearings, the government recommendations fail to address the concerns of the co-operative sector following the Government`s decision to end the successful Co-operative Development Initiative (CDI) program and to largely dismantle the Co-operatives Secretariat. Furthermore, the Government recommendations fail to establish concrete measures that would confirm the role of the federal government as an active partner with co-operatives in the development of the sector, as well as recognizing the role of co-operatives in creating jobs in communities all across Canada and in building a thriving people-centered economy.

2012 has been designated by the United Nations to be the International year of Co-operatives (IYC). Rather than developing policy celebrating Canadian co-operatives, particularly in light of the IYC 2012, this year the present government has instead:

- Cancelled the Co-operative Development Initiative, a successful program that has helped create over 300 new co-operatives. Although the program was to last until 2013, the government abruptly cancelled all new projects in 2012 (even though funds had been allocated for this program).
- Reduced the role and functioning of the Rural and Co-operatives Secretariat in the Department of Agriculture and Agrifood from 100 staff to only 15 in the next fiscal year--of which only a handful of who will deal with co-operatives.
- Signalled it has no programs presently to help co-operatives and has no prospective of any in the future.
- Failed to incorporate any recommendations in this report that involve funding programs to help co-op development.

In response, New Democrats are now putting forward an alternative vision for supporting co-operatives in Canada.

Background

The NDP found the hearings on co-operatives to have been overall very useful and allowed the people of Canada to watch and read the testimonies of some 46 witnesses and received 60 written reports. However, we had hoped that the hearings could have been scheduled during the regular parliamentary sessions when they would have received more media attention, and that the final report could have been written and tabled after the International Summit on Co-operatives in Québec City in early October. Incorporating the input of co-operatives and co-operative spokespersons at the Summit could have served to enrich the final report.

That the Special Committee on Co-operatives of the House of Commons was held this year is not unconnected to the fact that 2012 has been declared by the United Nations to be the International Year of Co-operatives. Co-operatives in Canada are an amazing success story with over 9000 co-ops, some 18 million co-op members, 155,000 employees, and assets totalling above $330 billion. Co-operatives are active in many sectors of the economy including finance (insurance and credit unions), retail, housing, health care, agriculture, and food production. Co-operatives have contributed much in the past to Canada`s economy and can contribute more in the future.

The special committee heard testimonies of the success stories of co-operatives across Canada. These presented an important record of the achievements of the co-operative sector, detailing how co-operatives have many distinct and valuable features as part of a mixed economy.

- In economic uncertainty, they are resilient. In fact, a study conducted by the Quebec government in 2008 has shown co-operatives last twice as long on the average as traditional private enterprises.
- They keep jobs in Canada. They do not relocate jobs to foreign locations and this helps us to better weather economic downturns.
- They are training schools for economic management and democracy. Thousands of Canadians have got their start in business and in politics by being elected to a co-op board of administration as co-ops function by one member one vote.

Particularly in the difficult economic times that we are now going through, where in many regions of the country unemployment rates are still too high and many people are under employed**,** co-operatives can play an important role as local engines of economic growth and job creation**.**

As Bryan Inglis, Vice-President of the Agriculture Division of Co-op Atlantic, said during the hearings: “Due to these economic realities, we believe that co-operatives can play an important and strategic role. Given that co-operatives are enterprises that seek to meet member and community needs, which can be both economic and social, they're ideally positioned to meet the needs of both rural and urban communities. When conditions worsen, citizens look for opportunities to work together to come up with workable solutions. “[1]

This sentiment was echoed by John Lahey, CEO of Alterna Savings, who noted, "I think credit unions and co-operatives, because they don't have the drop-dead profit motive,

[1] Canada. Parliament. House of Commons. “Special Committee on Co-operatives.” In: *Evidence* (Tuesday, July 24th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700066&Language=E&Mode=1&Parl=41&Ses=1

are much better positioned to support social innovation and community economic development." [2]

Co-operatives also have an important role in building our democracy in an economic sense. As Dave Whiting, Executive Director of the Prince Edward Island Co-operative Council, notes: "In the modern sense of the word, a co-operative is a business or a service owned and operated by the people who buy its products or use its service. It is truly a democratic organization open to all. Each member has an equal say in how the organization is run." [3]

Jodie Stark, VP Legal and Corporate Affairs for Concentra Financial, notes that some of the more doubtful practices of contemporary high-finance are absent from the co-operative sector, adding stability: "Scandals continue to erupt, involving executives of large banks and investment firms, something that is unheard of in the credit union system."[4]

Many of the co-operatives which testified, from Federated Co-operatives Limited and VanCIty to the Desjardins Group and Coop féderée, are very successful business enterprises. New and emerging co-operatives, however, face distinct barriers.

Our recommendations

Recommendation 1

Establish a joint sector–government co-operative development fund for capitalization of new and emerging co-ops. This fund would be a loan fund capitalized by both the federal government and the co-op sector in equal parts.

Co-operatives do not have access to traditional share or venture capital investment. This is why we recommend that the government partner with the co-operative sector to address these issues. As Bernard Brun, Government Affairs Director of the Desjardins Groups, Canada's largest co-operative financial group, said, "We especially wish to emphasize the fact that co-operatives and mutuals fuel job creation, innovation, financial stability and access to community-based services. Co-operatives and financial co-operatives often operate in sectors and communities that are underserved by

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[2] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Wednesday, July 25th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700065&Language=E&Mode=1&Parl=41&Ses=1

[3] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Tuesday, July 24th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700066&Language=E&Mode=1&Parl=41&Ses=1

[4] [4] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Friday, July 27th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5702476&Language=E&Mode=1&Parl=41&Ses=1

traditional businesses. We do, however, face certain challenges and issues, the main ones having already been addressed by those who appeared before me. Generally speaking, access to capital and reserve protection for co-operatives are areas of concern that must be addressed through government assistance and an appropriate legislative and regulatory regime." [5]

The Ontario Co-operative Association notes in a brief submitted to committe, "Co-operatives face challenges when starting up because they cannot rely on investment capital and venture capital in the same way as businesses backed by investors. For that reason, they need the support of the federal government in order to leverage additional resources from members of the co operative, the overall co operative sector, the community and other levels of government."

Witnesses often raised the difficulty of access to capitalization for new and emerging coops, indicating obtaining loans was challenging since financial institutions were not accustomed to their structure and functioning.

New Democrats propose the federal government partner with the co-op sector to create a co-operative development fund which would be a loan and not a grant fund for cross-Canada co-op capitalization. The creation of a new loan fund has been supported by many major co-operative organizations such as the two national co-op organizations, the Canadian Co-operative Association (CCA) and le Conseil canadien de la coopération et de la mutualité (CCCM)

The present federal government has already funded a social economy trust fund in Québec in 2006 which has supported many co-ops in that province.

Recommendation 2

Develop a co-operative investment plan modeled on the Quebec plan (the Régime d`investissment coopératif, which has existed since 1985) with a federal tax credit. This plan encourages members and employees to invest in their own co-ops (either producer or worker co-operatives).

This recommendation has been unanimously approved by several previous House of Commons Finance Committees. In its report "A Prosperous and Sustainable Future for Canada: Needed Federal Actions" tabled in December 2009, the Finance Committee recommended unanimously: "As well, the government should implement a co-operative investment plan that would include the creation of a tax credit for members or

[5] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Wednesday, July 25th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700065&Language=E&Mode=1&Parl=41&Ses=1

employees of agricultural and employee-owned co-operative businesses that invest in their co-operatives." [6]

Here we propose to build on the success of the program *Régime d`investissement coopératif* that has existed in Quebec since 1985 and which encourages investment in producer owned co-operatives such as agriculture, forestry and fishery as well as employee owned co-ops. A tax credit is given to co-op members and employees who invest in their own co-op. The average investment in the program is between $3000 and $4000. The plan delivers between $18 and $36 million per year in new investments. This plan has been supported for many years by the Canadian Federation of Agriculture. For the federal government, there is an opening here to encourage the participation of other provinces in the roll out of this plan. The Canadian Federation of Agriculture estimates the costs of a national plan would be $17-20 million per year in foregone taxes, and it would result in some $120 million of new investment. [7]

La Coop fédérée, the largest agrcicultural co-op in Canada, is also one of the consistent backers of this program being established at the federal level. [8]

Hélène Simard, CEO of the Conseil québecois de la coopération et de la mutualité, stated in her testimony that the CQCM believes that federal version of the RIC would return a net benefit to the government: "Our research shows that this would be an xtremely lucrative measure in terms of federal government revenues. So it would not be an expenditure, but an investment."[9]

Recommendation 3

Renew the Co-operative Development Initiative: ensure small grants to help new and emerging co-operatives, and provide small grants to provincial co-operative associations to support co-operative development in all provinces and territories.

Our third recommendation involves supporting the renewal of the Co-operative Development Initiative which was recently cancelled by the Government. The CDI has run from 2003 and was renewed and expanded in 2009. This program has helped to start over 300 new co-operatives and has helped support development programs in all

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[6] Canada. Parliament, House of Commons, Finance Committee, "A Prosperous and Sustainable Future for Canada: Needed Federal Actions", December 2009, 40th PARLIAMENT, 2nd SESSION. Available at http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=4304866&Language=E&Mode=1&Parl=40&Ses=2

[7] Canadian Federation of Agriculture, "Farmers Urge Government to Investment in Agriculture", http://www.cfa-fca.ca/media-centre/news-releases/2008/farmers-urge-government-invest-agriculture-economy

[8] Coop fédérée, Appendix of brief submitted to the Special Committee 2012 "Cost estimate for Canadian Co-operative Investment Plan"

[9] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Wednesday, July 25th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700065&Language=E&Mode=1&Parl=41&Ses=1

provinces in both English and French. Both the present government and civil servants have admitted in the course of these past hearings that this was a successful program. The end of this program will also put into peril the work of many provincial co-operative development programs across the country. In the last three years alone (2009-2012) of the CDI, the Advisory Services component of the CDI to have started "181 new co-ops (which) created an average of 6.4 jobs per co-op, resulting in a total of 1,158 new jobs. Using the total cost of Advisory Services over the three years, this amounts to a cost of approximately $4,500 per job." [10] This shows the cost effectiveness of this program in producing sustainable jobs.

Tom Webb, academic and specialist on the co-op sector at St. Mary's University in Halifax testified very favourably concerning the CDI: "We were seeing the start-up of lots of new co-ops through the CDI initiative. I think it was solid co-operative development and job creation."[11]

Cancelling a successful program which is a job creator and cost only $4 million a year makes no sense. It is not the time, as Bryan Inglis of Co-op Atlantic , said to `"take your foot off the gas pedal" and as MP Dan Harris continued, " It would seem that not only have we taken the foot off the gas pedal, but we've actually slammed on the brakes. This is the case of a successful program that's been bearing fruit. We believe that it should continue to be allowed to bear fruit and to grow new co-operatives." [12]

As Dianne Keldermann, CEO of the Nova Scotia Co-operative Council noted: "When is a good time for government to end programs? I'll tell you when is not a good time for government to end programs, and that is during an economically challenging time. I wouldn't say it's an economic crisis. But an economically challenging time is not a good time for the government to entrench, and it's particularly not a good time to disengage a sector that is really responding, is making moves, and is trying to be productive and be part of the solution. I would also suggest that it's not a good time to do it when you do it without consultation....." [13]

Not only has this been a successful program, it has improved since 2003 and the 2009 version built on the success of the earlier version. As Andy Morrison, CEO of Arctic Co-operatives Limited, explained, "The most recent version of the Co-op Development

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[10] Briefing Note on the Co-operative Development Initiative, Additional information requested by the Committee, Submitted to the Special Committee on Co-operatives By the Canadian Co-operative Association August 2012.

[11] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Tuesday, July 24th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700066&Language=E&Mode=1&Parl=41&Ses=1

[12] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Tuesday, July 24th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700066&Language=E&Mode=1&Parl=41&Ses=1

[13] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Tuesday, July 24th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700066&Language=E&Mode=1&Parl=41&Ses=1

initiative we thought was an improvement over the initial years of the program. We thought that just with ongoing tweaking and working with the co-operative system constant improvements could be made in the program. I'm not suggesting anything dramatic, but just through use you can improve things." [14]

Recommendation 4

Reverse changes to RRSP regulations, again allowing worker owners to hold more than 10% of the ownership shares worth under $25,000 of their co-operative.

Our fourth recommendation involves reversing changes which were made in the 2011 budget to RRSP regulations that directly affect many small co-operatives. In the 2011 budget, the Conservative government prohibited RRSPs being made up of 10% or more of the shares of a business, including co-operatives, and declared this to be a "prohibited investment". This change will particularly affect many small co-operatives of 10 or less employees or worker owners. It is yet another obstacle to capitalization.

The Canadian Worker Co-operative Federation has noted in its brief to this committee:

"Whereas it used to be perfectly fine to hold more than 10% of a class of shares in a co-op or other entity within an RRSP if under $25,000, it no longer is acceptable. If an individual is affected (which is possible even through no action of their own, if another member, or other members, redeem shares), there are very high penalty taxes, even higher than for deliberate fraud in some cases. We believe that these provisions are unreasonable, and further that they are putting jobs at risk. CWCF objected strongly last summer with the Ministry of Finance regarding these changes, as did CCA, CCCM, the Canadian Institute of Chartered Accountants and the Canadian Bar Association. We implore the federal Government to revoke these measures enacted in the 2011 federal Budget. " [15]

Recommendation 5

Affirming Canada's Commitment to Co-operatives by Strengthening the Government infrastructure to support the sector by:

a) transferring the Co-operatives Secretariat (part of the Rural and Co-operatives Secretariat) from Agriculture and Agri-food Canada to Industry Canada

b) establishing a Federal interdepartmental government committee to deliver advice and recommendations for co-operative support across sectors.

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[14] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Thursday, July 26th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5701755&Mode=1&Parl=41&Ses=1&Language=E

[15] Canadian Worker Co-operative Federation. *Submission to the Special Committee on Co-operatives*. Calgary: Corcoran, Hazel, August 2012.

c) ensuring necessary resources including adequate staffing such as is given to the Minister of State (Small Business and Tourism).

Our fifth recommendation involves supporting the transfer of the Co-operatives Secretariat to the Department of Industry. While, for historical reasons, the Co-operatives Secretariat, as part of the Rural and Co-operatives Secretariat, has been in the Department of Agriculture and Agrifood, times have changed. The diversity of the co-operative sector and its large presence in both urban and rural Canada and in sectors as diverse as finance (credit unions and insurance), retail, housing, and many other sectors as well as agriculture and agri-food make the case for a renewed and reinvigorated Co-operatives Secretariat to be moved to the Department of Industry. At the same time, we are asking the government to restore the very significant cuts to personnel at the Co-operatives Secretariat, which have reduced the personnel working on co-operatives to a skeleton staff, and accord the Co-operatives Secretariat the same kind of resources such as is given to the Small Business and Tourism.

Denis Richard, President of La coop féderée, and Rose Marie Gage, CEO of AG-Energy Co-operative, Ltd., agree:

“Transferring the Rural and Co-operatives Secretariat to Industry Canada could also be a positive initiative if it were supported by sufficient resources to ensure that it could fully perform its role. The department’s development policies must encourage, or at the very least not discourage, the co-operative movement and ensure that it becomes a priority for the department going forward.”[16]

“Move the co-op secretariat to Industry Canada or Service Canada to ensure wider representation for all co-operatives across all industries, while ensuring that all expertise is maintained or improved upon.”[17]

In the recommendations to the report on the service sector, ***The Goods on Services,*** from the Standing Committee on Industry, Science and Technology with James Rajotte, M.P. Chair in June 2008, the committee unanimously recommended the transfer of the Co-operatives Secretariat to the Department of Industry.

“The Committee also found that often overlooked in the services sector is the contributions made by the co-operative movement. Canada’s economy includes more than 9,000 co-operatives, with more than 170,000 employees and total assets of over $260 billion. Indeed, 13 million Canadians, or 40% of the population, are members of a co-operative. Canada’s co-operatives are found in many services sub-sectors such as

[16] Canada. Parliament. House of Commons. “Special Committee on Co-operatives.” In: *Evidence* (Wednesday, July 25th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700065&Language=E&Mode=1&Parl=41&Ses=1

[17] Canada. Parliament. House of Commons. “Special Committee on Co-operatives.” In: *Evidence* (Wednesday, July 25th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700065&Language=E&Mode=1&Parl=41&Ses=1

financial services, retail, housing, daycare, recreational facilities, electricity and water supply. Despite this diversity of business activities, the federal government provides oversight of co-operatives through its Co-operatives Secretariat, which has been organized within Agriculture Canada since it was established in 1987. The Committee questioned the placement of the Secretariat within Agriculture Canada, given the strong engagement of the movement in the services sector. Indeed, representatives of co-operatives were the first to question this organizational structure, as they believe that it does not accurately reflect the diversified nature of the co-operative movement. They suggested moving the Co-operatives Secretariat to Industry Canada. The Committee agrees. Although the Committee recognizes the historical dominance of agricultural co-operatives within the co-operatives movement in Canada, it believes that the Secretariat's placement within Agriculture Canada does not reflect the diversified character of co-operatives in Canada.

The Committee, therefore, recommends: That the Government of Canada move the responsibility for the Co-operatives Secretariat from Agriculture Canada to Industry Canada." [18]

Recommendation 6

Work with co-operative movement to identify barriers in Federal regulations, and address accessibility of federal programs to co-operatives.

a) **Identify key needs in different co-operative sectors, including but not limited to: retail, financial, agricultural, food processing, housing, and health co-operatives.**
b) **Assure education about co-operatives to all civil servants who administer programs which could be used by co-operatives.**

Finally we propose that all barriers to co-operatives accessing federal programs and services be lifted. It also means that educational programs are carried out to assure that all civil servants who potentially deal with co-operatives are aware of the particular needs of the sector.

There is still at least one program such as grants from the Status of Women which are not available for co-operatives[19]. The wider issue is that many federal departments and agencies do not understand the specific nature and needs of co-operatives in order to help co-operatives access existing programs.

Several financial co-operatives testified to the difficulties they have encountered concerning regulatory requirements.

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[18] Canada. Standing Committee on Industry, Science and Technology. *The Goods on Services*. Ottawa: Rajotte, James, June 2008.

[19] http://www.swc-cfc.gc.ca/fun-fin/cfp-adp/2012-1/guide-eng.html#_who_is_not

John Lahey, President and CEO of Alterna Savings, described the challenges his his institution has faced with requirements from the Canada Deposit Insurance Corporation:

"The new CDIC […] fast-tracks deposit arrangements, which are designed to allow CDIC to take quick control of an organization that's in trouble. They're quite substantial for a small organization like ours to put in. We have met their requirements — we used some chewing gum and baling wire to do it — and we're in full compliance, but it was a significant effort. We think it's a bit like trying to kill a fly with a sledgehammer. The requirements were really designed for a large organization."[20]

Rob Maili, Chief Financial Officer of VanCity (the largest credit union in Canada), describes a similar situation vis-à-vis the Office of the Superintendent of Financial Institutions Canada (OSFI):

"Recognition needs to be given to the fact that we are different. An appropriate OSFI-like framework needs to be created to preserve our capacity to deliver on community impact; we should not be forced into a regulatory landscape tailored to the banking industry."[21]

Co-operatives themselves can identify key barriers, and we recommend a collaborative approach with a variety of co-operative sectors to develop priority areas and recommendations for improvement.

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[20] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Wednesday, July 25th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700065&Language=E&Mode=1&Parl=41&Ses=1

[21] Canada. Parliament. House of Commons. "Special Committee on Co-operatives." In: *Evidence* (Thursday, July 26th, 2012). 41st Parliament, 1st session, 2011-2012. Available at: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5701755&Mode=1&Parl=41&Ses=1

<u>**Supplementary Report by the Liberal Party of Canada to the Special Committee on Co-operatives' Main Report**</u>

1-Putting the study in context with a brief history and highlights of the committee's calendar and the importance of the 2012 International Summit of Co-operatives (IYC)

Given the declaration by the United Nations of 2012 as the International Year of Co-operatives, the Liberal Party of Canada appointed in early May 2012, The Honourable Mauril Bélanger, Member of Parliament for Ottawa—Vanier, as Liberal Advocate for Co-operatives.

On Friday, May 18th Mr. Bélanger asked a question to the Minister responsible for co-operatives, the Honourable Gerry Ritz. Here is his question along with the minister's response.

> *FROM HANSARD*
>
> CANADIAN CO-OPERATIVES
>
> Hon. Mauril Bélanger (Ottawa—Vanier, Lib.):
> Mr. Speaker, on January 12, 2012, to launch the International Year of Co-operatives, the Minister of Veterans Affairs said on behalf of the government that the International Year of Co-operatives is a perfect opportunity to raise public awareness about co-operatives and their ability to meet the needs of Canadians, and that the common goal was to help co-operatives gain recognition in order to ensure they have more support and more exposure.
> Can the government tell us what it has done since then to give Canadian co-operatives more support and more exposure?
>
> Hon. Gerry Ritz (Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, CPC):
> Mr. Speaker, with some 9,000 co-ops, 18 million members and some net worth of $350 billion or $360 billion, I think co-ops have a great foundation to continue this work on their own.

This response and the fact that the two national associations representing co-operatives have not been able to meet with the minister responsible for co-operatives in the last 4 years, convinced our Liberal advocate that something had to be done.

On May 30th 2012, Mr. Bélanger introduced a motion in the House of Commons on behalf of the Liberal Party of Canada proposing the creation of a Special Committee of the House to look into the situation of co-operatives in Canada and to report no later than November 30th. The motion carried unanimously.

The Liberal Party finds it unfortunate that the Conservative members of the committee have used their majority on the committee to require that the committee submit its report before the 2012 International Summit of Cooperatives takes place in Quebec City in early October; a meeting to which the committee members have all been invited. At the Summit, commissioned studies providing an update on the co-operative movement in Canada and around the world are to be released.

It would have been useful for the Committee to consult these studies before arriving at its conclusions.

Despite this unfortunate situation, the creation of the committee and the hearings that it has conducted have been beneficial. Members of Parliament learned about the diversity, the nature and the importance of our co-operatives, as well as their resilience --almost twice as many co-operatives as private start-ups survive after 5 years. In a world which is more and more concerned with growing income inequalities and the relocation of jobs, co-operatives are proving to be a substantial contributor of solutions.

2-Summary of some of the highlights heard in the context of the Special Committee on Co-operatives' study of the Status of Co-operatives in Canada.

A-Co-operatives are resilient and they respond to a need that other forms of businesses might not fill

Co-operatives face challenges when starting up because they cannot rely on investment capital and venture capital in the same way as businesses backed by investors.[1] This is supported by witness testimony and suggested in recent reports. This is the reason why co-operatives need the support of the federal government in order to leverage additional resources from members of the co-operative, the overall co-operative sector, the

[1] Canadian Cooperatives Association et al., "Co-Operatives: Building Blocks for an Innovative Economy," September 2011, http://www.coopscanada.coop/public_html/assets/firefly/files/files/CDI_Renewal_Proposal_FINAL_EN.pdf.

community and other levels of government.[2] Reports indicate that co-operatives offer economic stability and often offer better performance than other organisations or enterprises.[3] Furthermore, as previously mentioned, the survival rate of co-operatives is almost twice that of investor-owned companies (62% compared to 35% for investor-owned businesses after five years).[4] Once established, the co-operatives become self-sustaining and do not require ongoing support from the government.

The co-operative model enables projects where the private sector does not anticipate sufficient return on equity. In contrast to private sector businesses where the owners may be a mix of foreign and local investors, the vast majority of co-operatives are owned by community members. Locally owned co-operatives are committed to their communities and as a result are better suited to balance economic and social considerations.[5]

B-Lack of knowledge on co-operatives within federal institutions

There are two federal programs dedicated to co-operatives in Canada. One is the Co-operative Development Initiative (CDI) established in 2003, renewed in 2008 and its non-renewal has been announced by the government in this, the IYC. The other program is the Rural and Co-operative Secretariat which has been decimated, going from close to 100 employees to a mere 12.

The Liberal Party had hoped that the government would renew the CDI and signal to the sector that it will continue to be there to help, especially during the International Year of Co-operatives. As for the Rural and Co-operative Secretariat, we find it very unfortunate that the Conservative government decided to reduce it so drastically.

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[2] Canadian Cooperatives Association et al., "Co-Operatives: Building Blocks for an Innovative Economy," September 2011, http://www.coopscanada.coop/public_html/assets/firefly/files/files/CDI_Renewal_Proposal_FINAL_EN.pdf.

[3] Government of Canada, "Co-operatives: Solutions to 21st Century Challenges," Co-Operatives Secretariat, http://www.community-wealth.org/_pdfs/articles-publications/outside-us/report-co-operative.pdf.

[4] Government of Québec, *Taux de survie des coopératives au Québec*, Ministère de développement économique, innovation et exportation, 2008.

[5] Erin Hancock, "Sustaining Communities Through Co-Operation: How Co-Operatives and Community-Centred Development Can Help Achieve Self-Sufficiency," Paper delivered at the New Brunswick and Atlantic Studies Research and Development Centre Conference, 2008, http://dspace.hil.unb.ca:8080/bitstream/handle/1882/1076/Erin%20Hancock.pdf?sequence=1.

Government of Canada, "Co-operatives: Solutions to 21st Century Challenges," Co-Operatives Secretariat, http://www.community-wealth.org/_pdfs/articles-publications/outside-us/report-co-operative.pdf.

It has been repeated numerous times during the committee hearings that there is a lack of knowledge within government and within society of the co-operative business model. This lack of knowledge results in co-operatives having difficulty accessing financing from financial institutions and even from the federal government. In accessing financing from financial institutions the main obstacle seems to be the risk assessment resulting from the lack of knowledge of the co-operative business model, its structure and governance.

It should be noted that Budget 2012 recognized that many start-up companies have similar problems accessing financing through traditional methods. Specifically the budget stated that "Young knowledge-based firms often have difficulty in accessing capital from traditional financial institutions because they have few tangible assets beyond their ideas."[6] The budget provided a $400 million dollar fund to help them access capital.

This kind of active government support is just as important for the co-operative sector which faces the added challenge of not being able to sell shares on the stock market to raise early stage funding.

We will have recommendations addressing these issues.

C-Lack of awareness about co-operatives within the general public

In Canada, co-operatives employ in excess of 150,000 people; worldwide, they employ 100 Million which is more than all multinationals combined. Yet, according to an Abacus poll conducted for the Canadian Co-operative Association only 5% of Canadians were aware that 2012 is the International Year of Co-operatives. Indeed some representatives of co-operatives commented that at times even members of co-operatives themselves are not fully aware of what it is they are a member of. Clearly there is a need for more and better dissemination of information among and about co-operatives.

3- Key Recommendations from the Main Report supported by the Liberal Party

We do not have objections to the recommendations included in the main report; however most do not go far enough, or are too vague.

[6] Canada's 2012 Budget, p. 60 http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf

Recommendation 2C of the main report deals with the need for regional economic development agencies to do a better job vis-à-vis co-operatives. By itself the recommendation is laudable. Its implementation however would require maintaining or even increasing the budgets of these agencies. Instead some of their budgets have been dramatically reduced. We hope that the government will revisit this situation.

4-Capitalisation

As mentioned previously, many witnesses spoke on the issue of capitalization of co-operatives, especially start-ups.

Even if the CDI program never had the explicit objective to capitalize cooperatives, it assisted start-up co-operatives including providing funding to conduct market research as well as developing a business plan, which are often required steps for a fledgling business. In this sense, CDI can be seen as a program that gave "people that little boost to get started", as stated by Mr. Bill Dobson (Director, United Farmers of Alberta) at a meeting of the Special Committee.[7]

A program which seems to be quite successful is the Community Economic Development Investment Funds (CEDIFs) experience in Nova Scotia. CEDIFS, managed by the Nova Scotia Co-operative Council along with the province of Nova Scotia are a pool of capital, raised through the sale of shares that are invested in new or existing local businesses. This is an innovative way to support communities, create jobs and stimulate economic growth.

Recommendations on Capitalisation

The CDI program has been shown to be extremely successful in helping new co-operatives get off the ground, as well as providing value money and return on investment. Witness testimony has clearly demonstrated co-operatives to be job creators; often in communities where some services are nonexistent. Given this, and the fact that co-operatives contribute significantly to the Canadian economy through employment, taxes and community cohesion, the Liberal Party finds it unfortunate that the program was not renewed.

[7] Source: http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5702476&Language=F&Mode=1&Parl=41&Ses=1

We believe the Government of Canada should look at alternatives to the CDI program to better assist in the development of co-operatives.

R1-We recommend that the Government of Canada create a Canadian Co-operative Investment Plan (CCIP) modeled on Québec's *Régime d'investissement cooperatif* and as detailed in the brief submitted by *La Coopérative fédérée*..

R2-We recommend that the Government of Canada create a federal program similar to Nova Scotia's Community Economic Development Investment Funds (CEDIFs) and that this program be managed by Canadian Co-operative Association (CCA) and the Conseil canadien de la coopération et de la mutualité (CCCM) along with the Government of Canada.

R3-It has been mentioned by numerous witnesses that limits to investing RRSP funds in co-operatives was a problem following the changes made to the Income Tax Act in 2011 by the Government of Canada. Therefore, the Liberal Party recommends that the 2011 restrictions against self-directed RRSPs be relaxed for owners of co-operative shares. This will especially be beneficial to small co-operatives and worker's cooperatives.

R4-Many European countries have created programs and enacted legislations in support of co-operatives and their development. We recommend, as a starting point, that the Government of Canada study the programs and laws pertaining to co-operatives in four countries, Great Britain, France, Spain and Italy, and table the results of this study in Parliament before the end of 2013.

R5-We also recommend that the federal government work in collaboration with the co-operative sector in order to educate lenders so that reasonable solutions to the issue of capitalisation are found. Witness testimony has clearly demonstrated that lender's lack of knowledge of the cooperative business model often results in faulty risk assesments of projects generated by the co-operative sector.

5-Co-operative Housing

Housing co-operatives are much more than a simple place to live. Housing co-operatives are legal associations based on co-operative principles that are formed to provide members with permanent housing. In Canada, approximately a quarter of a million people live in housing co-operatives.

Co-operative housing is one area where the work of the committee is incomplete. The problem most frequently mentioned was the substantial penalties associated with the cancellation of a closed mortgage. It would have been useful to hear from and question representatives of the Canadian Mortgage and Housing Corporation (CMHC) or from

The Agency for Co-operative Housing, yet neither appeared as witnesses in front of the committee.

There are also larger issues looming. According to the Co-operative Housing Federation, by 2020, some 55,000 co-op households will no longer be covered by a CMHC operating agreement.

R6-We therefore recommend that a Co-op Housing Taskforce be established and mandated to take a detailed look at i) the current situation of co-operative housing and it's financing challenges, ii) the near future as mortgages and operating agreements mature and iii) ways of upgrading and increasing the co-operative housing stock.

6-Lack of knowledge of co-operatives and the co-operative model within federal institutions

Harold E. Chapman, in his 2012 book "Sharing My Life, Building the Co-operative Movement", eloquently persuades his reader of the danger in neglecting the 5th of the 7 principles of co-operatives. This principle, **"Education, training and information"**, he further elaborates as follows: "Co-operatives provide education and training for their members, elected representatives, managers and employees, so they can contribute effectively to the development and operations of their co-operatives. They also inform the general public of the nature and benefits of co-operation."[8]

This principle on the need to educate and inform applies to governments also and, as previously mentioned, there appears to be a lack of knowledge of co-operatives and the co-operative model within the institutions of the federal government which disadvantages co-operatives.

Access to funding from Canadian organizations that support business development is uneven. As demonstrated by the experience of both *La Cooperative de solidarité le Bercail* in Rimouski and la *Coopérative Méduse du Québec* and outlined in a brief from the *Conseil canadien de la cooperation et de la mutualité*, the general tendency is to reject funding for co-operatives and this is a major problem. This is a failure to see and acknowledge economic contribution of co-operatives to Canada's agricultural, financial and housing development. It reflects a lack of economic vision that is harmful. This tendency and the practice of federal organizations to exclude co-operatives from their various programs represent a repudiation of the co-operative approach.

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[8] Harold E. Chapman, Sharing My Life: Building the Co-Operative Movement, University of Saskatchewan, Centre for the Study of Co-operatives, 2012.

As highlighted in the committee's main report, witnesses felt that federal institutions' lack of knowledge of the co-operative system directly impacted access to government funding.

R7-Therefore, the Liberal Party recommends that the Government of Canada review its current federal programming language and mandate, to make sure they refer to co-operatives whenever warranted. We strongly believe that the co-operative sector should not be penalized by this lack of knowledge by federal institutions.

To remedy this situation, the Liberal Party recommends:

R8-Transferring the responsibility for co-operatives to Industry Canada.
R9-Strengthening the Rural and Co-operative Secretariat (RCS).
R10-Ensuring the ongoing collection, analyses and sharing of data on co-operatives.
R11-Creating an Inter-departmental Committee on Co-operatives including Industry Canada, Finance Canada, Agriculture and Agri-Food Canada, Natural Resources, Fisheries & Oceans, Indian Affairs and Northern Development, the Canada International Development Agency, Health Canada, Public Works and Government Services, Veteran Affairs, Human Resources and Skills Development, Statistics Canada, CMHC, BDC and all the regional economic development agencies.
R12-Creating an Advisory Committee reporting to the Minister responsible for Co-operatives.
R13-Adding a co-operative component to the Interchange Canada Program.
R14-Setting up a Network of Co-operative Champions in all relevant departments and agencies modeled on the Official Languages Champion's Network.

7-Official Languages

R15-Given the importance of co-operatives in the development and vitality of official language minority communities, the Liberal Party recommends that a "co-operative development" component be added to the next Roadmap for Canadian Linguistic Duality.

8-Mandatory Review

R16-As it is the case with the Bank Act, the Liberal Party recommends that the Co-operative Act be submitted to a mandatory legislative review every 10 years, starting with a review by 2015.

9- Business Succession Planning

As the baby boomers approach retirement over the next decade it is expected that a high percentage of business owners will retire and may have difficulty finding buyers. As mentioned by Ms. Francine Ferland from the *Fédération des coopératives de développement régional du Québec* during the committee hearings “business succession based on the co-operative approach encourages worker mobilization and the maintenance of local jobs. It also helps keep capital in our country and encourages community revitalization”.[9]

R17-We recommend that studies be undertaken by the Government of Canada in collaboration with the co-operative sector on the capacity and potential of the co-operative model to tackle the business succession challenges in order to help keep jobs in our communities**.**

10-IYC Legacy in Canada

During his testimony, Mr. Nicholas Gazzard, Executive Director of the Co-operative Housing Federation of Canada, made an excellent suggestion and we wish to add it has our final recommendation.

R18-As a fitting legacy for the International Year of the Co-operative, we recommend that the Government of Canada create a centre of excellence in co-operatives and co-operative enterprises.

11-Conclusion

The Liberal Party of Canada appreciates the important contribution of co-operatives to the development of communities and of our country and reaffirm its will to work in a positive manner with the co-operative community, the other federal political parties and Canada’s provincial and territorial partners.

[9] Source : http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5700065&Mode=1&Language=E