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Chair

Mr. Massimo Pacetti

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● (0910)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning to everybody.

Bonjour. Merci d'être venu ici.

Je remercie les deux personnes qui ont aidé le comité a organiser l'évènement, Claude Duprés et Claude Lafleur. Je ne sais pas si le sujet est sur la table, parce qu'il y avait beaucoup de travail. Alors merci d'avoir organiser cela, je sais que ce n'était pas une tâche facile.

J'ai ici l'ordre du jour, les groupes parleront pendant 40-45 minutes.

I will leave it to your discretion. I don't want to interrupt your presentations, so I'll leave it up to you. When you're about ready, we will go to the members. Then we will see how much time we have left, and I'll try to give equal time to all the members, if that's fair.

I just have one piece of business for members. We have a budget for the hearing today to be approved. Everybody has it on their desks. Is that okay?

Mr. Monte Solberg (Medicine Hat, CPC): Yes, we're in agreement. Fine.

The Chair: Okay. I shall give the floor to Mr. Lord.

Mr. Jean-Yves Lord (Director General, Canadian Cooperative Association): Thank you, Mr. Chair.

First and foremost, ladies and gentlemen, members of the Standing Committee on Finance, please allow me to thank you for this opportunity to speak about an issue that is a primary concern for all agricultural cooperatives.

As you will see in the upcoming presentation, agricultural cooperatives in Canada are currently facing significant challenges, and must overcome constraints that call upon the intervention of our federal government.

Following introductions, we will take time to be specific about our requests and driving motives, as well as the benefits they would bring to Canadian society.

I am Jean-Yves Lord, the executive director of the Canadian Cooperative Association. The CCA represents more than 10,000 cooperatives involved in their communities in every area of daily life: banking, finance, insurance, health, funerals, retail trade, food, and agriculture. We were here last week, as well as the credit union sector.

These cooperative businesses have combined assets of $168 billion. They employ more than 150,000 people, and benefit from the support of over 100,000 volunteers. These cooperatives contribute to the growth of their communities thanks to donations, sponsorships, and education grants to the tune of approximately $60 million per year. This is the number we have for 2001.

The main goal of the CCA is to promote the cooperative formula in Canada and throughout the world. A cooperative movement with more than 10 million members is intrinsic to Canadian culture.

If I may, I would like to introduce Monsieur Michel Rouleau. Michel is with the Conseil Canadien des Cooperation, and our two national organizations represent all cooperatives in Canada. We jointly enjoy a significant partnership with the federal government on a number of projects through the excellent collaboration we enjoy with the cooperative secretariat.

I leave it to Michel to move into the introductions.

[*Translation*]

Mr. Michel Rouleau (Vice-President, Conseil canadien de la Coopération): Thank you, Mr. Chairman. I want to thank you, on behalf of the Conseil canadien de la coopération, for meeting with us this morning so that we may help you gain a better understanding of the cooperative movement in Canada, and address this project which is mainly concerned with agricultural issues.

First, the Conseil canadien de la coopération is a Canada-wide organization in existence since 1946. It is comprised of eight provincial organizations. Amongst the provincial francophone councils in Canada, three groups come from the three Atlantic provinces. The others are from Quebec, Ontario, Manitoba, Saskatchewan and Alberta.

The francophone cooperative movement in Canada involves a large number of people. We have 8 million francophone members and 3,400 cooperatives with consolidated assets of over $100 billion. The large economic sectors are better known; there is the financial sector and the agricultural sector. However, the cooperative movement is much more present within the new economy, the service sector, notably housing, funeral services, home support, and others.

The Conseil canadien de la Coopération's role is to promote the cooperative formula in francophone regions throughout Canada, through its provincial groups. There is good cooperation at the national level and with the Canadian government. We have shared projects, issues and challenges with the CCA. We also play an important role internationally with the International Cooperative Alliance.

It must be said that the cooperative formula offers strong growth potential. On the francophone side, there has been an increase of about 200 cooperatives in 2003. There is good sectoral diversification, in the manufacturing and client services sectors. New investments are being made mainly in the agricultural field.

It should be noted that cooperatives have been very active in the regions: 75% of cooperatives are in rural or semi-urban regions. The survival rate for cooperatives is over 65%, double that of private organizations.

At his request, the Prime Minister met with the Conseil canadien de la coopération in the middle of May to take a look at our work. He was obviously very open to the project analysis which has been presented to you this morning, as well as to several other matters dealing with social economics, the cooperative development initiative, youth, and more. I would therefore like to say that the Conseil canadien de la coopération supports the project which is being presented to you this morning.

Thank you.

● (0915)

[*English*]

The Chair: Mr. Richard.

[*Translation*]

Mr. Denis Richard (President, Coopérative fédérée de Québec): Thank you.

My name is Denis Richard and I am President of the Coopérative fédérée de Québec. I will start by giving you a brief presentation on our company and explain to you why our request with respect to tax measures will be useful to the Coopérative fédérée de Québec.

As you will see in the document handed out to you, the Coopérative fédérée de Québec was founded in 1922. It is a federation comprised of 99 regional, mainly agricultural cooperatives located in Quebec, New Brunswick and Ontario. These cooperatives are owned by 62,000 agricultural producers with total sales of $4.6 billion.

The Coopérative fédérée and its affiliated cooperatives generate 13,000 jobs in Canada. These jobs are distributed throughout several regions of Canada, from New Brunswick to Alberta. Our main activities revolve around farm procurement. So, we sell seed, fertilizer, and crop protection products. We also supply farmers with animal feed.

The Coopérative fédérée is a member of various large American groups, in order to ensure that we can supply our producers. We also work in the hardware field. In several regions, the Coopérative fédérée de Québec and affiliated cooperatives own hardware stores. We are also involved in the oil sector.

We are asking today for tax measures which would demonstrate the federal government's support for a company such as the Coopérative fédérée, which has to compete with multinational companies in these markets. Globalization has increased the gap between the size of our businesses and that of our competitors. They therefore have public capitalization opportunities placing them in a situation where they are rapidly outpacing companies such as ours, that are limited to member capitalization.

As the Coopérative fédérée is a company owned by agricultural producers and because the demutualization of the company would jeopardize the wealth accumulated by our producers over the years, up until now we have always resisted demutualization, the conversion into a company with common shares, as a way of accessing capital. If the government of Canada would help us, as is done throughout the world by other governments, agricultural cooperatives could remain in Canadian hands and foreign interests would not take control of them. Canada would come up on top.

Why are we asking for tax measures? Because tax measures force people to invest venture capital in a company. In Quebec, as Mr. Rouleau mentioned briefly earlier on, there is a program to help cooperative members and employees invest in cooperatives. Oftentimes, because their money has been invested, staff and cooperative members work to ensure that their investment is not at risk. So, from the perspective of regional development, such measures create a much more significant impact than measures created for people who do not feel they have a vested interest.

During the presentations, some cooperatives will give you more concrete examples of how the cooperative investment plan works in Quebec. We therefore ask for your support to improve the plan at the federal level.

Thank you, Mr. Chairman.

● (0920)

The Chair: Thank you.

Ms. Nielsen.

[*English*]

Ms. Fern Nielsen (Administrator, Saskatchewan Wheat Pool): Thank you, Mr. Chairman.

Good morning, guests and committee members.

The Saskatchewan Wheat Pool is a unique cooperative, in that we are a publicly traded cooperative that is controlled by the farmer members. I will very quickly try to give you the scenario of the Saskatchewan Wheat Pool prior to conversion, at conversion, and since conversion.

Prior to conversion, the Saskatchewan Wheat Pool was affected by large economic forces playing on their business environment. There was the introduction of the free trade agreement, which allowed larger and bigger private companies to come into Canada and establish inland grain terminals. There was the GATT agreement, which allowed for the elimination of Crow export and domestic subsidies. There was the consolidation of the railway operations, and the change of the WGTA to the Canadian Transportation Act, which allowed the railways to offer incentives to 50- and 100-car loading spots. That alone sounded the death knell for the country elevators. We had already been to meetings at which notices had been given by the railways that they would be closing branch lines.

Financially, in 1995 the operations were on solid ground. We had consolidated sales of $3.9 billion, net earnings of $32 million, and long-term debt of $81 million. In 1996, prior to conversion, we had member equity at $443 million, of which $138 million was allocated to retained earnings, and $305 million was held in member share capital, in which every dollar of member equity equated to one share. A member was allowed to apply for the redemption of his or her shares if that member had exited from the farming industry, turned 65, or had passed away. The total amount owing to that member was payable over five years.

The annual drawdown on the cashflow for the cooperative for the purpose of redemption of those member shares prior to conversion in the five years preceding and including 1995 ranged from $20 million to a high of $44 million. Further to and adding to the dilemma was the aging population of the farmers who were members. Hence, there was a crossroad for the Saskatchewan Wheat Pool and its board of directors.

Project Horizon, after we went to our publicly traded cooperative, budgeted $370 million to build 22 inland terminals. It addressed the position of the Saskatchewan Wheat Pool going into a future facing a much larger, intensely competitive, and deregulated business environment.

I say it was attacked at the crossroads because in my mind, if we had been able to utilize that equity of $305 million to address a potential debt of $370 million at the time, perhaps we could have retained ownership in the membership's hands. But like all co-ops, the equity owned by members is considered debt.

More recently, as you all are aware, we've had two financial restructures since 2000, which is the year I became a director. We've had a substantial change in governance, and after two years of drought we were dangerously close to a CCAA. We have sold off many subsidiary companies to pay down debt or cut the losses, and we are now back to a core business of handling grain and selling associated farm supplies.

Today's agricultural economy in Canada is in the most challenged position it has ever been in history, bar none. At a recent Canadian Wheat Board meeting I attended, they told us that 79% of the world's wheat supply is managed in the hands of five big multinational corporations.

Our Canadian cattle packing and processing industry is largely managed by two multinational giants, Cargill and Tyson Foods. As primary producers, we are continuing to have the choker chain put on us. Government is spending more in supporting the agricultural industry, and our farm incomes are dropping.

At a recent national farm income symposium, I heard over and over again from farmers that we must get close to the marketplace. Ladies and gentlemen, I tell you the only tool left for us to do that is a cooperative. If producers cannot position themselves to finance new or enlarged existing co-ops of any significance, we will always be a low-cost provider to big private business.

● (0925)

In addition to the recommendations that you will hear this morning I ask you to also consider the following points. First, in the start-up of new cooperatives provide tax regulations that permit the cooperative and its members to capture capital losses without having to form a limited partnership to accommodate such.

We started seven hog barns through Saskatchewan Wheat Pool in a subsidiary company called Heartland Pork. They each had the desire to form as a cooperative, but because the members and the cooperative could not utilize or recapture the capital losses they started as limited partnerships, not one of them at the end of their start-up period converted to a cooperative, sadly.

When allocating member equity, consider the provision of a tax regulation that when a cooperative is engaged in a capital expansion phase that same tax advantage is provided to the retained earnings as is allocated to member share capital. It would give the cooperator easier access to additional capital from the members' equity. We need to consider the tax tools for members to reinvest their equity in the cooperative if that is their choice or to their tax advantage.

Most importantly, ladies and gentlemen, those accounting principles must change that recognize and believe that member equity is considered a debt. It is not. Can you imagine this happening in Esso, whereby the retained earnings were designated as debt? In no other business, bar none, is equity ever considered a debt except in a cooperative. It is always an asset, which permits a business a leverage basis on which to borrow. That is one of the main reasons why I think Saskatchewan ownership could possibly have remained in the hands of its members. Equity in every other business is ownership. Co-ops are owned by the members, signified by the presence of equity. If any one of us personally goes to the bank, the first consideration is how much equity we have in our businesses.

Think about it. It might be argued that members' equity is a contingent liability, but so it is in every corporation. A liquidation of a shareholder in that corporation because of a greater percentage of ownership puts that corporation at an even greater risk than the cooperative.

Lastly, consider the possiblity of turning equity into paper similar to GIC investments with a fixed rate of interest. The owners at least of that co-op would be paper holders, which is much better than the creditors.

Ladies and gentlemen, I wish you all the very best in looking at the problem of capitalization in cooperatives. I can hardly wait for it to happen.

Thank you very much.

The Chair: Thank you.

The next presenter I have is Mr. Elliott.

Mr. Dave Elliott (Treasurer, United Farmers of Alberta): Good morning, ladies and gentlemen.

I am Dave Elliott, and I am representing the United Farmers of Alberta Co-operative Limited, better known as UFA.

With over 112,000 members, UFA is one of Canada's oldest and largest agricultural organizations. Formed in 1909, UFA operates 34 farm supply stores and over 120 petroleum outlets, mostly in Alberta. Since those early days in 1909 UFA has grown with its customers by responding to their needs. UFA's mission is to be a dynamic and profitable co-op dedicated to providing a network of people, product, and facilities focused on servicing the rural customer for the purpose of benefiting and strengthening the agricultural community.

The principles and visions that directed our founding members some 100 years ago continue to provide a basis for our growth and success today. UFA is proud to support the community we serve. Through sponsoring 4-H clubs and sports teams, as well as providing scholarships to western Canadian youth, UFA plays a supportive role in helping to develop the communities we serve. UFA's contribution to community investment exceeds $1 million annually.

Our sales for 2004 will exceed $1 billion. Over the past 10 years UFA has declared over $175 million in patronage dividends. Payments to members over that same time period have approached $130 million. These funds go back into the communities we serve.

Despite this success, UFA is at a crossroads. We have been able to build a well-respected cooperative within the boundaries of Alberta, but the reality is that improvements in our Alberta business alone will not create the scale or size needed that is necessary to develop a stronger organization that can withstand ever-increasing competitive pressures as well as deal with the uncertainties inherent in agriculture.

Growth helps us to achieve the following increased efficiencies. Increased size provides opportunity to reduce costs, as we can better leverage our size in dealing with suppliers and our fixed costs are spread over a larger network. Size also provides a measure of protection against competitors who want to expand into our markets. Every market we have a presence in is one less market that a competitor can use to gain a foothold. Third, growth provides an atmosphere that helps us retain top-quality staff by providing a robust work environment.

Of course this growth must be financed, and unlike most of our competitors, we, as a cooperative, do not have the option of going to the public market to raise capital. Available sources are limited to internally generated funds, traditional bank financing, and our members. A significant portion of our internal cashflow gets reinvested back into rural Alberta through our annual patronage dividend. Traditional financial institutions do not have a good grasp of cooperative concepts and philosophies. This, combined with lenders' trepidation right now in lending to agricultural-based companies, limits our ability to rely on bank financing.

This leaves members to contribute the lion's share of capital, and in UFA's case they have. At the end of 2003 approximately 65% of our total capital requirements were contributed by our members either through the retention of their patronage dividend within UFA or through our member loan program. However, it is critical that these members believe that the capital they have in the co-op will benefit them either directly or provide a sound financial base for the co-op to build upon to ensure its viability for future generations. If members are not convinced of this they will withdraw their equity. Given the current state of agriculture, UFA sees, first-hand, members questioning the risk of their UFA investment versus their anticipated returns. This is leading more and more members to withdraw their equity from UFA. We must find a way to encourage members to retain this capital or find ways to replace member capital once it is withdrawn.

The issue of limited capitalization alternatives forces cooperatives to develop strategies knowing that they may not be able to implement them quickly enough in an ever-changing business environment. Having a number of different sources of capital increases the chance of successful and timely implementation of strategies so as to meet our challenges head on.

Ladies and gentlemen, I believe it is critical to investigate any and all opportunities that may be available to assist co-ops to compete and help them capitalize on their past success. Rural Canada relies heavily on co-op concepts and principles, and a strong co-op network translates into a vibrant rural economy. Too often UFA is the last business left standing in rural Alberta. We must ensure that co-ops have the capital in place to continue to serve these rural communities.

● (0930)

Members of the Standing Committee on Finance, thank you for your time and consideration.

The Chair: Thank you.

The next group I have is Mr. Harvie John from Co-op Atlantic.

Mr. Harvie John (CEO, Co-op Atlantic): Thank you, Mr. Chair.

Good morning. I would like to thank the members of this committee for the opportunity to speak to you today.

Co-op Atlantic is a regional cooperative organization that provides a wide range of goods and services to our members in the four Atlantic provinces and les Îles-de-la-Madeleine, Quebec. We began as an agricultural organization in 1927 as the Maritime Livestock Board, then Maritime Co-operative Services, and in 1978 we changed our name to Co-op Atlantic/Coop Atlantique to more accurately reflect the many communities we serve.

Included in our membership are a number of producer cooperatives engaged in the production of dairy products, eggs, poultry, and beef, also a network of farm supply cooperatives providing a wide range of agricultural products such as livestock feeds, crop supplies, petroleum, and other farm implements to the farmers of Atlantic Canada.

Co-op Atlantic and its members also have feed mills in each of the Atlantic provinces and are involved in partnerships for primary production of hogs and broilers. We feel a certain degree of uniqueness in working with our farm-based members, since we also have an additional connection with the agricultural communities through our co-op food stores. This uniqueness is demonstrated by our recently developed agrifood strategy that focuses entirely on locally produced and co-op partnered food products. In other words, our integrated cooperative system helps to grow, buy, and then provide a competitive market for Atlantic-produced food products. It is a true reciprocal partnership that helps to integrate agricultural production into our food merchandising strategies.

More importantly, this strategy helps to create, generate, and retain wealth within our Atlantic Canadian communities. For example, our co-op agrifood strategy includes the formation of Atlantic Beef Products Inc., which represents a cooperative partnership with 186 beef farmers and Co-op Atlantic. Together we have been successful in constructing a new beef slaughter facility along with the support of the Province of Prince Edward Island. The beef produced by this facility will support our branded Atlantic tender beef program that is provided to our food co-ops. This competitively priced product contributes to the economic success of our farm supply co-ops, beef producers, grain producers, feed mills, processing plant, and meat distribution centre, all of which are viable economic entities in the communities in which they are based.

The sustainability of agricultural community-based organizations is extremely important to all of us in Atlantic Canada. The overall capitalization needs of our cooperatives come from traditional banks, credit unions, and members. Today, however, we face two major challenges in the capitalization of our cooperatives.

Our first major challenge is banking support on financial requirements needed for continuing operations and capital expenditure funding. Our agricultural cooperatives are in a unique market with unique financing needs. Seasonal requirements, planning, harvest affected by weather, swings in commodity pricing for some farm inputs, and financing needed for farmers to get through the growing season for both crops and animals requires a comprehensive understanding of trade, accounts receivable, and inventories used as security on operating lines of credit. We find that conventional banks and credit unions approach their agricultural portfolio using traditional methods of credit assessment, resulting in lower credit availability, high costs, and limited long-term capital needed for future growth. Many years ago, some of our co-ops were able to use a government-supported small-business development bond to help in their capitalization requirements. A reintroduction of this type of concept, or some variation of it, would be of great assistance to us as we upgrade our facilities and services to meet the changing needs of the marketplace.

Our second challenge comes from our membership. We are now faced with the challenge of replacing share and loan capital paid to retiring members from existing or new members, or alternate sources of capital. Even with fewer farmers, our agricultural business will continue. We feel that it is so important to our region that we also want it to grow. As mentioned earlier, our co-op agrifood strategy reflects the importance of cooperatives in helping the farmers get involved in this growth, as well as providing opportunities for added-value activities.

To this end, we ask that you support the recommendations of our group, which would greatly enhance the abilities of our cooperatives to meet their capitalization challenges. This support in turn will enable us to remain as a viable alternative for our agricultural partners and for our Atlantic Canadian communities.

Thank you very much.

● (0935)

[*Translation*]

The Chair: The next presenter is Mr. Riendeau, from Agropur, Coopérative Agro-Alimentaire.

Mr. Serge Riendeau (President, Agropur, Coopérative Agro-Alimentaire): Thank you, Mr. Chairman, members.

It is a pleasure for me to speak on behalf of Agropur. Agropur is a cooperative which was founded in 1938. We have $1.9 billion in sales. We are owned by 4,000 producers including myself, the president, and I am a dairy producer. We have 3,000 employees working throughout Canada. Agropur owns 20 plants including two in British Columbia, one in Alberta, four in Ontario. The others are in Quebec. We distribute our products throughout Canada. You would certainly recognize our main brands: Natrel, Sealtest, Oka cheese, etc. We operate in all sectors, including in the fluid milk sector.

For those of you who know the dairy sector, you will know that it is an increasingly concentrated one. The concentration mainly has to do with distribution and processing. When we talk about capitalization and say that we want to compete with other processors, be they from here or elsewhere, without wanting to belabour the points my colleagues have made, I must point out that we don't necessarily have access to the same instruments to ensure our capitalization as others. Nor do we enjoy the same market advantages to ensure our capitalization.

I would like to add something to what was said regarding the measures we are asking for today. Once producer members have invested in their farm, we know that they don't have much money left over to invest in their processing plant. Sometimes we ask them to leave some capital, from the surplus which was given to them, in the cooperative. This type of measure would allow the capital to be much more patient, aside from leading to all the other advantages that were discussed earlier. The producers would see the inherent advantage, in that this would allow the capitalization of their cooperative which would have time to develop, and would ensure them certain advantages over time.

That is the message I wanted to convey to you.Thank you.

● (0940)

The Chair: Thank you.

The next speaker is Mr. Painchaud, of the Société coopérative agricole de l'Île-aux-Grues.

Mr. Simon Painchaud (President, Société coopérative agricole de l'Île-aux-Grues): Mr. Chairman, distinguished members of the Standing Committee on Finance, dear cooperative colleagues, it is a pleasure for me to present to you the smallest cooperative in the Coopérative fédérée de Québec's network.

La Société coopérative agricole de l'Île-aux-Grues is a good example of the effect of tax measures on cooperatives.

I will start with a bit of geography to situate us. L'Île-aux-Grues is approximately 60 kilometres east of Quebec City, in the middle of the St. Lawrence River. It was one of the first colonized areas of Quebec due to its large rush and hay-covered tidelands. Cattle could graze on these tidelands while the holders cleared plots of land granted by the seigneurs. Very early on, small scale and family-owned cheese dairies started operating on the island, for subsistence farming. For a long time, potatoes were the only exportable agricultural product on the island. Low potato prices encouraged farmers to turn to the dairy industry. Exporting milk from the island on a daily basis was out of the question. The island is only accessible from the south shore by ferry during the summertime, and by small plane in the winter.

The Société coopérative, the cheese dairy, was then created and founded, in 1976, with a view to making cheese out of milk on the island. The plant started operating in 1977. In the beginning, the cheese dairy only processed milk over the summer months. In 1987, dairy producers convinced the municipality to clear the snow from the road, and the plant was then in a position to operate 12 months a year. So, dairy production increased considerably, by about 225%, and the plant had to grow in size on different occasions in order to deal with the increase in production.

The change in 1995 required major investments to modernize facilities and to comply with Agriculture Canada's standards. More than a million dollars were invested between 1995 and 2000. These investments were made possible by the CIP and a local fundraising effort, because, it must be said, a cooperative cannot benefit from public share capital. So we are limited to using the instruments made available to us by the CIP.

We now have sales of over $2 million and 12 staff members. The cheese dairy's economic benefits are so significant for the island that we received financial support by way of an interest-free loan in 1995. It must be said that there are about 115 people who live on the island on a permanent basis.

In order to maximize the return on our investments, the cheese dairy undertook a major vocational change. We started to develop a line of traditional soft cheeses. Over a one and a half year period, the cheese dairy developed several soft cheeses and managed to find a niche in this specialized market in Quebec. There being very little leeway, the company had to take on enormous risks because of the lack of available expertise in Quebec. Our employees had to be very imaginative to resolve technical problems in order to make this initiative a success.

Today the cheese dairy markets the following products: mild cheddar; Île-aux-Grues brand old cheddar; a fine herbs cheese, the St-Antoine; curd cheese, and over the last three years, other soft cheeses, the Mi-Carême, and the renowned Riopelle de l'Îsle. Since July 2004, it has been possible to purchase a new semi-soft cheese, the Tomme de Grosse-Île, produced in association with Parks Canada. This cheese has made it possible for one new producer to work on the island. Given the fact that there were five producers, when you add one, that is a 20% increase. In other words, you'd be looking at a lot of producers on a Canada-wide scale.

The cheese dairy's main challenge is in marketing these products. We readily admit that mild cheddar, which is most of what we process on the island, is a convenience product. However, the cooperatives' future prosperity lies in diversifying our production. That is why we have started to age cheddar ourselves, to increase retail sales, and mostly, to develop and market value-added products.

● (0945)

We now distribute our products throughout Quebec; our sales have doubled in 10 years, and now stand at $2.3 million.

In 2003, we reinvested in our facilities so that we could increase our production of fancy cheeses. An extra $1.2 million was invested in this process. This time we were able to do this because of the provincial government measure allowing a deferral of income tax on capitalized dividends. This allowed us to keep the dividends for future investments. However, the five members had to guarantee part of the loan. If the federal government had a comparable measure in place, we probably could have avoided having to get guarantees from our agricultural producers, thereby jeopardizing their personal businesses.

We are planning to go beyond Quebec and probably outside of Canada as well, once we have a plan that meets the highest industry standards. However, the challenge now lies with our human resources. Three new positions have been created in the last two years. For us, the CIP is a measure that could increase our employees' salaries and complement the bonus system already in place. Here again, cooperatives cannot provide access to preferred capital other than through the CIP, while companies can do so by issuing shares.

This change in our cooperative in the last four years is the result of the work of about 12 employees: an agronomist responsible for creating and marketing new products, a plant manager and about ten cheese- maker helpers. This small team has been supported enthusiastically by the five members, who find this provides a unique outlet for their products.

These measures together—the CIP and the deferral of income tax on capitalized dividends, have a minor impact for governments, but would guarantee that the money produced by agricultural cooperatives, most of which are located in rural areas, will be invested in the regions so as to maintain existing jobs.

Mr. Chairman, I have brought in some proof of the existence of our products, and would like to offer you a variety of our cheeses. Thank you very much.

[*English*]

The Chair: Merci.

At the rate this meeting is going, I think we're all going to have to share.

The next presenter I have here is Mr. Peacock, from the Peace Country Tender Beef Co-op, in Alberta.

● (0950)

Mr. Neil Peacock (President, Peace Country Tender Beef Co-op; Alberta): Thank you, Mr. Chair, members of the finance committee, and fellow cooperatives. My name is Neil Peacock. I'm representing Peace Country Tender Beef Co-op. We are a new-generation co-op that started in May of this year. We have 616 members at this time.

The starting of our co-op is really in response to the BSE crises that has occurred in Canada as a result of the cow that was found not too far from my home. We intend to bring sustainability and local control to a major industry that is vital to Canada and that has been decimated by this circumstance. Our mission is to provide superior meat products to Canadian and world markets while ensuring long-term sustainability through careful attention to the environment, rural economy, consumer demands, and food safety. Our plant is going to be built in Dawson Creek, British Columbia, and it includes a number of highly innovative features designed to meet this mission.

We have environmental goals. They are sustainability and no negative impacts, and they will be achieved by our plant's size. We are going to be limited to 200 large animals per shift. There will be no intensive livestock operations, no large feedlots. The animals will be fed at the producer's farms. Animals that are delivered to the plant will be kept inside so that there won't be noise pollution for the surrounding area, and any manure or anything like that from the animals will not get into the environment.

The waste from the plant will be put into what is called a biodigester, to generate green electricity. That will help us get rid of the waste from the plant, but it's also going to help the communities that we locate in, because they will be able to bring their biowaste to the plant for processing. In our estimation, that will probably help to increase the life of their dumps by several years, increase the life of their landfills. And another product that comes out of that is a clean fertilizer that is void of any type of risk materials in that fertilizer and in potable water.

The economic goals of sustainability are increased producer incomes and support of the local rural economy. The way the structure is set up currently with the three large packing plants and the large feedlots in southern Alberta, it's a drain on all of the small economies of the region. It's devastating and it's killing our towns. Cooperatives are the way to revitalize the rural communities.

We're going to have value-added processing in our facility. We're going to have quality and specialty products, and we're going to avoid the commodity markets. We will have higher-level staffing. We will be training our people to be tradespeople: not disassemblers of animals, but actual butchers, meat cutters, sausage makers, those types of things.

We plan on owning or franchising butcher shops throughout Canada. There will be local employment. When we peak out on both shifts in the first plant, we will be employing 120 people in the plant. Consumer demand and food safety goals will be attained through superior animal husbandry practices, adhering to strict protocols, with assistance and training available to the producers so that they may track and meet those commitments. We'll have pasture-to-plate tracking. We will have feeding regimens that do not allow the feeding of any animal protein or animal matter—which is currently available in feeds—or any medications that have animal matter or animal proteins in the medications that can be administered to the animals.

The plant will be individually packaging each animal. This means that each animal will be individually cut and wrapped, and the trim for the animal will be individually ground and individually packaged. After each animal is processed, the equipment will be disinfected and then the processing of the next animal will begin.

We will be testing 100% for the use of hormones. The use of hormones will be banned in the plant and in animals bound for the plant. For any animals found to contain hormones, the packages will be labelled as such so that consumers can make their own choices about what type of food they choose to purchase. We also plan on testing our animals for BSE. We also plan on taking liver samples and brain samples from the animals and keeping them on file at the packing plant as well for the shelf life of the animal.

We have absolutely no intention of relying on the United States for any of our markets. The cooperative has developed markets in Canada for both prime and trim cuts. Also, we have opportunities to export to Europe. Basically, our export opportunity is three times what our plant capacity is, so there is ample opportunity to export Canadian beef if we do things properly with the beef.

● (0955)

By some estimates, up to 30% of the Canadian family farms that have traditionally relied on beef sales as a primary source of income may cease operating in the next six months. As you know, an election in Alberta just finished. The common joke in Alberta was "I'm going to vote for that 'Farm for Sale' guy. He's got the most signs out."

While these may be replaced temporarily by corporate farms, the larger operations offer little long-term viability due to their excessive drain on the environment, the likelihood of contamination and disease, and an inability to compete in the commodity market against similar operations in South America that benefit from a year-round growing season.

We have difficulty in getting investment really because of three reasons. One is that there is no money left in the producers' bank accounts. They can't afford significant investments. Our investment shares are only $60, and they're having difficulty coming up with that. The other reason is that banks do not view agriculture investment as a good investment at this time, so there is difficulty there. And for the private investor, with the way cooperatives are set up, your share price is always stagnant. Ours is $60, so it will be $60 forever. There is no growth in shares, and the high tax on dividends really discourages private investment.

That's basically, in a nutshell, where we are.

Thank you.

The Chair: Thank you.

Mr. Borg, from the Alberta Value Chain Cooperative.

Mr. Doug Borg (Project Coordinator, Alberta Value Chain Cooperative Ltd): Thank you, Mr. Chairman.

Committee members, my name is Doug Borg. I'm with the Alberta Value Chain Co-op. Our co-op has been in the making for nearly three years now. It was begun by bison producers who experienced a tremendous fall in bison prices. Three and a half years ago, the borders to the States were closed on a technicality, and they remain closed to bison today.

Our goal is to build a federally and EU-approved facility for our membership, which will slaughter and facilitate the marketing of livestock, whether that be bison, cattle, elk, deer, or horses. We will target niche markets in Canada and abroad with a quality assurance and tracing program that is being demanded by a growing number of consumers today.

Our co-op will not hold inventory. We will not buy animals from producers. What we will do is bring producers into the value-added marketplace as far as they wish to travel. We believe farmers need to extend themselves farther into the marketplace in order to have an expectation of profit.

The expectation of profit is critical if we are to have farm succession. When we hold producer meetings—and we've held meetings across the province of Alberta—we look out on a sea of grey. Most of the people are over 50 years old. There are no young people staying in agriculture. We have to turn around that expectation of profit.

Our co-op is now 110 members and growing. Our slaughter plant, which will be located at Fort Assiniboine, which is in the geographical centre of Alberta, will process 100 animals per day and will employ 40 people in full-time positions at an estimated cost of $4.5 million.

We have been given extremely good support by our local government, Woodlands County. They have helped us develop our business and financial plans, and continue to help with other developmental strategies. Woodlands County is experiencing the loss of family farms, and is committed to community sustainability and rural development. The Farm Credit Corporation also likes our financial plan and has stated that they will finance 75% of the capital required to build our plant.

But even with the support from Farm Credit and Woodlands County, we are having a tremendous challenge in capitalization. In Alberta, farmers have had many continuous disaster years, with at least three years of drought before BSE. We are cash poor, and in many cases have extended our equities to the limit in order to continue to operate our farms.

Farmers know they have to do something for themselves, and we want to do something for ourselves. We do not want handouts. We need long-term capitalization plans for agricultural co-ops. We need incentives for investment such as those that are being presented today. One of our largest challenges is getting that bridging capital to get started, simply because the farmers are that cash-strapped.

There is a very positive thing, I think, that has come out of BSE and the U.S. border closure. It has given us, as livestock producers, the realization and the determination to develop Canadian-owned processing plants and new markets so that we shape our future ourselves.

Thank you, ladies and gentlemen.

● (1000)

[*Translation*]

The Chair: Mr. Dagenais, from AgriEst, Centre agricole Coop.

Mr. Éric Dagenais (Director General, AgriEst, Centre Agricole Coop): Mr. Chairman, committee members, our cooperative, AgriEst, is located in eastern Ontario. The dairy, poultry and grain producers of Prescott-Russell started up the cooperative again in 2001, first because they no longer had access to agricultural inputs at competitive prices, and also because they were dealing with a critical shortage of professional services.

AgriEst now has about 100 members and 21 employees. It serves its community by providing animal feed products, inputs for crops and hardware products for farms. In addition to handling grain purchases for its members, AgriEst is closely involved in a number of farm organizations and in its community by funding a number of social projects. Its sales have gone from $11.5 million in 2002 to $13.1 million in 2004, and we are very proud of this.

AgriEst operates in two strategic locations to provide good service for its members. The first facility is in Saint-Isidore-de-Prescott and the second in Saint-Albert. Our main activities in these two locations are to supply dairy and poultry feed products and services, fertilizers, seeds and crop protection products, hardware products, oil and finally to buy back and sell grain from our members and customers.

However, in order to continue our economic and social development, we need capital urgently. We must invest significant amounts of money in projects, such as repairs to our grain centre and our mills, so that we can always guarantee the safety of the feed for animals. These investments are crucial if we are to provide better service to our members, but particularly if we are to continue to drive our local and regional economy. These investments would enable us to remain regional leaders.

You must know that we are limited to the capital offered by banks, which amounts to pure financing. The fact that this is the only type of capital available has a negative impact on the cooperatives' financial ratios, such as the debt-to-equity ratio, a common way of illustrating the financial well-being of any type of company, whether a cooperative or a private company.

It would therefore be most desirable that cooperatives enjoy tax treatment in keeping with their nature and their structure. The introduction of the various measures proposed today would ensure the development and durability of our agricultural cooperative which has always played a crucial role in the development of our region.

Thank you very much.

[*English*]

The Chair: Mr. Lord, you're going to have a presentation for how long? I just need a rough idea.

Mr. Jean-Yves Lord: Remember how short I was last week; I'm really cutting it down now.

The Chair: No, it's fine; it's just because I'm wanting to calculate how much time I'm going to give the members. We'll split for five or ten minutes?

Mr. Jean-Yves Lord: I have a one minute bridge-over and then we're right into the detail.

The Chair: Okay, that's fine.

Mr. Jean-Yves Lord: As you can see, ladies and gentlemen, the economic and social contribution or commitment of Canadian agricultural cooperatives does not vary by size. The cooperative distinctiveness is the unique ability to contribute to stable and sustainable communities throughout Canada.

Cooperatives are important players in the agrifood business. There are 1,300 agricultural cooperatives in Canada. They employ 36,000 people, and generate $19 billion per year in revenue, which is but a potential of what they can contribute to the community.

Cooperatives make it possible for farmers to meet their needs and to get involved in value-added activities. They are a channel for reinvestment in their own communities. Cooperatives have deep roots and are a reliable presence in communities across Canada. And finally, cooperatives are a means for farmers to exert local control.

What we're looking at here is a formula of hope for the future. Around the world, and especially in Europe, the role of agricultural cooperatives is explicitly acknowledged as a preferred means to reach a number of social and economic objectives in modern societies. And I quote here: they are “the perfect example of the type of business that can simultaneously pursue entrepreneurial and social objectives, within the context of complementarity”.

In the next few moments, you will hear the details of the two measures that are being proposed. Keep those in consideration.

● (1005)

[*Translation*]

Mr. Pierre Gauvreau (CEO, Coopérative fédérée de Québec): Mr. Chair, bearing in mind your question, I will turn directly to section 6 of our brief which can be found on page 13 of the French text and page 12 of the English text. I should also point out to you that, in sections 4 and 5, my colleagues who are here with me today have provided you with an overview of the cooperative difference and their capitalization challenges.

Ladies and gentlemen, members of the Standing Committee on Finance, what we want is a little support to facilitate the capitalization of agricultural cooperatives. The type of assistance we request, which would serve as recognition from Canadian society as a whole for the fundamental role played by agricultural cooperatives, would take the form of two measures: a tax deferral for dividends farmers choose to keep invested in their cooperatives, as well as the implementation of a cooperative investment plan that would encourage members and workers to invest in their cooperatives. To make this possible, the tax course is the preferred method, as set out in the recommendations contained in the Ernst & Young study.

In short, the measure dealing with tax deferral means that the dividend, in the form of a preferred share received by a member of a cooperative, would not be immediately taxed. Taxation would occur at a later date when the cooperative would buy back the said dividend or when the member would dispose of it.

As for the cooperative investment plan, this means that a tax deduction would be granted to members and employees who invest in their cooperative's preferred shares. This tax advantage granted to members and employees would represent the necessary incentive to interest investors since cooperative shares never increase in value. We wish to remind you that these two measures have been in existence in Quebec since 1985 in the case of the CIP, and since 2002 in the case of the tax deferral.

When Jean Charest's Liberal government was elected in 2003, the fiscal measures aimed at businesses, including two measures specific to cooperatives, were the subject of a complete review. These two cooperative measures were the only ones that survived this taxation clean-up, and Minister Séguin affirmed that they weren't very costly and were very efficient in promoting regional development. The cost to the Quebec government is $15 million per year, for CIP $11 million and $4 million for tax deferral. These sums include those allocated to worker cooperatives.

[*English*]

If an equivalent program were implemented in Canada for the exclusive benefit of agricultural cooperatives, we believe it would cost the Canadian government somewhere between $18 million and $20 million per year. Through this leverage effect, and its complementarity with other financing sources, these sums would enable agricultural cooperatives to invest several hundred million dollars in the country's regional economy.

We therefore invite you to follow up on these recommendations and, more specifically, on those dealing with the issue of tax deferral for dividends for farmers who choose to maintain their dividends in their cooperative, and on the implementation of a cooperative investment plan encouraging farmers and employees to invest in their cooperative.

[*Translation*]

With these measures, the federal government could reach a certain number of priority objectives, among these, making a solid contribution to the well-being of rural communities in Canada, and acknowledging the importance of family farms as the driving force behind Canada's agriculture and agrifood business.

Ladies and gentlemen, members of the Standing Committee on Finance, we wish to thank you for your attention and invite you to ask any questions you may deem pertinent, thus allowing us to thoroughly explain our request and allowing you to understand its significance and end results. Thank you.

[*English*]

The Chair: Merci.

We're going to get to the members, because we apparently have to be out of here by 11 o'clock. We're going to try to start with seven minutes in the first round, and then we'll see.

Mr. Pallister, and then I have Monsieur Loubier.

● (1010)

Mr. Brian Pallister (Portage—Lisgar, CPC): Thank you, Mr. Chairman.

As a committee, we've listened to dozens of presentations over the last number of weeks. I find your presentations today to be among the most effective, most compelling, and most persuasive. I admit a bias, as I grew up on a farm southwest of Portage la Prairie and was the lead milker. I will never forget the experience of going on Saturday mornings to town to the co-op creamery with a can of cream, which I had helped create, and taking that cheque to the co-op store to buy our groceries, and giving them our co-op number. And I find it easy to remember at the end of the year the importance of that patronage dividend.

For me, the co-op is inextricably linked to my memories as a young man growing up in rural Manitoba. The co-op was the sponsor of my first ball team. The co-op board picnic was the social event of the summer months. And my father was one of the instigators of starting a co-op trucking organization; because our farm families couldn't afford to buy big trucks, we went together to get a trucking co-op set up.

So I begin with this bias; I admit it. But I also understand that, today, co-ops in my part of the country have evolved. They are new, competitive enterprises in small communities, which some of you may be familiar with. In Carman and larger communities, such as Portage la Prairie and Winkler, the co-ops are vibrant parts of our small-business community; they employ people and they are loyal to our local people.

It seems to me that what you're asking for is a level playing field. It seems to me that in a country where we give very, very large corporations tax loopholes and the right to take money to tax havens offshore and not pay their tax here, but in fact to lever against their Canadian assets to deprive Canadians of the resources they should have, we should most certainly be looking at doing something for the people who have been loyal to this country all their lives.

As the revenue critic for the official opposition, I am pleased to tell you we are very supportive of what you're suggesting. What you're asking for is patience; you're asking for patient capital, that's what you're asking for.

When you say the cost is $10 million to $12 million to the federal treasury per year, that's not entirely true, because the cost is simply a deferred cost. That money will come back to the federal treasury. I submit to you that it will come back multiplied. If the success of the co-ops in our part of the country is any indication, that money will multiply and it will come back to the federal treasury in due course —resoundingly so.

The benefit of patient capital to our economy as a whole, in terms of job creation, enterprise, the multiplier effect in our communities, is phenomenal. You can demonstrate that through the performance of your members over many, many years. What puzzles me is why this hasn't happened before.

I guess I'd ask you this. I have spent a lot of time working with farm families on retirement planning. I have found that many of my clients have had great difficulty, for example, contributing to RRSPs over the years. The rules tend not to work to the advantage of small farmers or medium-sized farmers. I have found over the years that the share values of retained earnings in.... Well, I shouldn't choose UGG as an example, specifically, but with farm enterprises, the money left has been an important part of farmer retirement planning and succession planning. I see this as an important element.

What you're proposing—patient capital, and retained earnings being reinvested without tax penalty—is an important part of assisting farm families and rural people in preparing for their own transition, and helping keep farm enterprises, small businesses, in the family and going as sustainable enterprises.

Would someone like to comment on that aspect? I see that as a tremendous advantage. To give that additional opportunity to farm families, which is inherent in what you're proposing, I would submit is an important benefit to our country as a whole. Does someone want to comment on that?

● (1015)

[*Translation*]

Mr. Pierre Gauvreau: Mr. Chairman, I would like to answer that question.

[*English*]

Thank you very much for your comments.

We understand that you understand very well the cooperative mechanics as well as the cooperative philosophy.

One of the purposes for the deferral of tax on patronage dividends paid in shares is exactly in the line of thinking you are putting forward. If a member receives patronage dividends and has already paid the taxes on them when he receives them and has shares, the moment he retires he wants the total amount to come back to him, because it is tax-free. If the tax has been deferred, he will probably insist on gradual retirement of his shares, and therefore it will provide a counterpart to an RRSP.

Mr. Brian Pallister: And it will impose less of a burden on the state in other categories, correct?

Mr. Pierre Gauvreau: It is exactly in that line of thinking we put forward this proposal.

Mr. Brian Pallister: As a specific follow-up, to Mr. Peacock, congratulations on your hard work with respect to your co-op.

Are you finding the CAIS cash deposit requirement the government has designed into the CAIS program difficult? I am assuming it is not a great assist to you for your members. The demands on their cash flow are great enough without requiring a deposit into the program. Is this having any impact on your ability to generate capital for your own co-op?

Mr. Neil Peacock: Actually, it is and it isn't. It is hindering some people from contributing, but also it is allowing others to contribute with the payouts that have been made.

Probably the single greatest hindrance is the agriculture department's 40% loan guarantee. It should be a 100% loan guarantee.

You know banks want three bucks for every buck you have, don't they? So that is probably the biggest hindrance.

[*Translation*]

The Chair: Thank you.

Mr. Loubier.

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Thank you, Mr. Chairman.

Thank you for your presentations and welcome to the Finance Committee.

Mr. Painchaud, I know that the chair usually shares everything he gets with his vice-chair, but let's just say that instead of sharing one cheese wheel, I'd rather have my very own. So I'll see you later and give you my coordinates, or I'll go to Île-aux-Grues. I've already been, as a matter of fact. I remembered that in the early 1980s, I walked around your island with Jean-Paul Riopelle, whom I had the good fortune to meet. So when you present your Riopelle de l'Isle cheese, a flood of memories comes back to me, making it all the more imperative that you give me a Riopelle de l'Îsle.

That said, I'm fully convinced that what you're asking us for this morning is worthwhile. Whether it's a small, medium or large co-op, this is a universal measure that is going to help all types of co-ops of all sizes in all industries. What's always impressed and attracted me about co-ops is the longevity and the heritage that is... I was going to say eternal, but you have to be careful. Just the same, contrary to what we've seen in the past 15 years in particular, whereas many companies have been bought up by foreign interests, a co-op can never be bought. If only for that reason alone, I think that the growth of co-ops has to be encouraged.

It's also eminently democratic. I look at your members: there are thousands of them, and they are people who are participating in the growth of communities. Earlier, Mr. Painchaud, you said you had 12 employees, which constitutes 10 p. 100 of the population of the island. If you applied that to Montreal, that would be 250,000 people. There aren't a lot of companies that employ that many people. But people forget that two jobs on Île-aux-Grues or in a small Alberta community, like Mr. Peacock said before, is an extraordinary and significant contribution to the life and growth of rural communities.

I do have some questions for you. I believe it was Mr. Gauvreau who referred earlier to an estimated cost of $20 million. Could you say a bit more about that? We've been presented with a lot of numbers since April, and I'd like you to tell us...

● (1020)

Mr. Pierre Gauvreau: There are two parts to the cost. First, tax deferral, as was said before, is a deferred cost. So we're trying to predict the current value of deferred tax. We're trying to be realistic, so as not to present you with things that could later turn out to be false.

On the other hand, in terms of the cooperative investment plan, that's a tax incentive, or a tax reduction. However, our argument is that if the advantages and tax measures work well and co-ops grow, governments will ultimately come out ahead, because the cost will be recovered through other tax revenues or taxes related to business growth and additional job creation. As a result, the cost is virtually neutral, in our opinion, in the long run.

Mr. Yvan Loubier: Given your experience in Quebec since 1985 —since 2002 under the modified plan—are you able to evaluate the effect those measures may have had in Quebec?

Mr. Pierre Gauvreau: We feel, to put a value on those tax measures, particularly tax deferral under the Cooperative Investment Plan, that this could generate one billion dollars' worth of investments in Quebec over 10 years. We measured the investments of major coops and the practice of the smaller ones, excluding specific projects that come up. We are continuing along those lines. Although the Cooperative Investment Plan was suspended for one year, the coops continued investing.

This year, the Cooperative Investment Plan is back. We are very happy to be able to say—my colleagues may not know it yet—that we bought back an outstanding $1.9 million under the Cooperative Investment Plan and issued 3 million dollars' worth on November 30, 2004. So it's a very progressive measure. The goal of the Coopérative fédérée was to build a capital base supported by the Cooperative Investment Plan that would increase our borrowing capacity, obviously. Even though it is short-term redeemable capital, after three years, or now, after five years, the stability of that capital and the regular growth in subscriptions as compared to previous years are such that it is considered to be a form of capitalization in terms of borrowing capacity, for all intents and purposes.

Mr. Yvan Loubier: Okay, fine.

I believe that Ms. Nielsen or Mr. John mentioned earlier that Mr. Martin, during the election campaign, made some commitment in relation to that system, which he thought was a good one. Could you tell me how he expressed that commitment and whether there's been any written correspondence between you and the Prime Minister on that issue?

Mr. Michel Rouleau: I'm the one who mentioned that. Mr. Martin had asked to meet with the Conseil de la coopération du Québec and the Conseil Canadien de la Coopération. I wear both hats at the same time. When we met with him, the Coopérative fédérée was there, and Agropur, as well as representatives of the board of directors of the Conseil de la coopération du Québec. Basically, Mr. Martin said that he would follow through on the request for a cooperative investment plan. Obviously, there were other issues. We talked about the overall plans of the whole coop movement. In terms of what we're dealing with here today, the cooperative investment plan, we did follow up in writing with Mr. Martin after he was elected. I think that what's happening today is the result of that. Mr. Martin said that he was in favour of the plan. He understood, as have all of you this morning, I think, the importance of the coop movement on the one hand, but also, on the other, the importance of capitalization.

I think it's important not to get things mixed up. When the current provincial government was elected, as Mr. Gauvreau explained earlier, there was a moratorium on the benefits of the cooperative investment plan as well as other levers. Only the cooperative investment plan was maintained. It should be pointed out that there may be other sources of capitalization. There are, for example, venture capital organizations. It's not another organization's venture capital, it is capital invested by producers and workers. So it is totally different, and there is no organization in a better position than the coop movement to do it. That is how Mr. Martin correctly understood the concept of venture capital...

● (1025)

The Chair: Thank you.

Mr. McKay.

[*English*]

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair, and thank you, witnesses.

It regrettably falls to me to ask some fairly pointed questions. Let me preface my remarks by saying that at one point we too were farmers and members of a cooperative.

I wonder if this was a finger-in-the-dike exercise. Mr. Peacock basically said his producers are broke; they have no money to invest in his venture; the banks don't like the risk—I think John said that—and the private sector is just not interested because there is no growth in shares.

I listened carefully to Ms. Nielsen from Saskatchewan Wheat Pool. Her main argument, as I understood it, was that it's really ridiculous to consider equity as debt; that it really should be flipped. Equity should be considered equity, if you will, in the same manner as either share-capital corporations or non-share-capital corporations.

I wonder whether in fact, if you do that, you have effectively destroyed the co-op movement, because then it becomes an investment like any other investment and is simply a matter of what the share is worth, what the return on equity is, what the return on investment is, and things of that nature.

You in effect also expose those new shareholders to postponing their rights in a bankruptcy. Equity shareholders then fall to the bottom of the pile, rather than having some secured status as in a debt position.

This is my first question. Does your idea effectively destroy the co-op movement as all of us would understand it to be?

The second question: how does this relate to Mr. Gauvreau's idea of essentially postponing dividends, the taxation consequence of a dividend recognition? As Mr. Pallister rightly points out, this is not a cancellation of the tax consequence; it's a postponement of the tax consequence.

I'd be interested in your idea of how this relates to the first idea: are you destroying the co-op movement with your idea by the change in the tax rules; second, how does it relate to Mr. Gauvreau's idea?

Ms. Fern Nielsen: Thank you very much for your question.

First, I too am a producer and not a chartered accountant, but from my own personal perspective, when I looked at the money that was required to build the inland terminals and the moneys they had in members' share capital, there wasn't a whole lot of difference, except that the $305 million was considered a debt to Saskatchewan Wheat Pool.

The thought I have given and would like committee members to explore is that when a cooperative is in an expansion mode, above a certain amount of money it could approach the members for permission to use a portion of the capital as equity leverage to procure funds. As with any loan, it would have to be amortized and paid back.

No, I don't think it will run in the face of postponing dividends, because it can be worked in together with the proposal before you today. It does not destroy the cooperative. The equity still accumulates. The members still own the business, and for all the business that it does, the cooperative, when it is in a position to pay equity, will pay equity back to those members. But they still will own the cooperative at the end of the day.

It's really hard for the bigger co-ops when they are expanding, in my mind, to ask for a large amount of cash unless you give up something. You either give up a portion of your equity or you give up control.

● (1030)

Hon. John McKay: But your essential idea is for the membership to defer their position in the co-op to a lender, and the question then becomes, if you do that and the loan is in default, essentially you've blown out your membership.

Ms. Fern Nielsen: That can happen in a traditional co-op anyway, sir, because if you recall, if you are from the west—I think you are—

Hon. John McKay: No, I'm not.

Ms. Fern Nielsen: Well, they used to have a farm implement dealer called CCIL, which had straight equity, and they too failed. When you have equity in a cooperative, it isn't a guarantee of success. It can fail on its own merits as well.

But no, I don't think my proposal is counter to what is being proposed. I think if the committee studies it, it can complement it.

Hon. John McKay: Okay.

Let me focus in my last few minutes on Mr. Gauvreau. You make the connection in your presentation that this will produce several hundred million dollars in the country's regional economy by the $18 million or $20 million that the dividend effectively cost the federal government—or it's a postponed recognition. It's not clear to me how you make that connection.

Why would a postponement of a dividend generate more revenue, more capitalization for your idea?

Mr. Pierre Gauvreau: If you increase the equity of the members in the cooperative, it increases its borrowing power. We have exposed this to the Quebec government and to the finance department officials, that if a cooperative is expanding and it can maintain a good relationship with its members by issuing patronage dividends in shares, you may affect the amount of dividend that will be paid in shares if the tax is deferred. If the total patronage dividend is taxable, you have to at least give your members enough money, cash, for the payment of taxes, and then the rest is reinvested.

So you increase the amount. If the tax is deferred you can in fact pay a total patronage dividend in shares, with no tax. The tax effect is deferred; therefore, you do not take money from the co-op to pay taxes, rather to increase your capacity to borrow.

Hon. John McKay: I understand the idea, but don't you then have to set up a reserve for that?

Mr. Pierre Gauvreau: Several projects can be made, and if you have financing.... Some projects you can finance with 20% capital, others with up to 40%, but you have a leverage effect that allows the cooperative to consider expansion, to consider new ventures. This is why we say that in time it could create, for a very small amount, several hundred million dollars of investment.

Hon. John McKay: Just from an accounting standpoint, so that I understand it, if there's a tax deferral, which is essentially what you're asking for, where is that tax deferral recognized? Is it recognized on the books of the co-op, or is it the liability of the unit holder?

Mr. Pierre Gauvreau: The way it works is that a patronage dividend is a tax deductible item for the cooperative. So whether it's paid in shares or in cash, it's a tax deductible amount. Then the tax deferment is the liability of the receiver of the patronage dividend. This is why we say if there is a tax deferral, whenever you pay a patronage dividend you can pay 100% of it in shares. The amount is then allocated to the member. And eventually, when we redeem the shares, the member will have to pay tax on it. That's when he collects his income. Or if he sells the farm and he sells those shares together, they're eliminated and therefore he has to pay the tax on them.

● (1035)

The Chair: If I can just interject, that means it's on the appreciation of the unit going up in the cooperative that you're going to tax the value.

Mr. Pierre Gauvreau: It's not the appreciation of the unit. It's just the fact that *x* amount of that year's income of the cooperative has been allocated to its members through patronage dividends, and it becomes their property. It doesn't change in value.

The Chair: But he only pays the tax once he redeems his unit. That's when the tax is triggered.

Mr. Pierre Gauvreau: Yes.

The Chair: Okay.

Hon. John McKay: It's triggered when...[*Inaudible—Editor*]...the co-op. That's his argument.

Mr. Pierre Gauvreau: One thing that should be remembered is that when we talk about these tax measures and we say the benefits represent hundreds of millions of dollars of investment, it's a combination, it's a complementary thing between the cooperative investment program and the tax deferral. If these things work together very well, it should create a tremendous expansion for co-ops.

Secondly, through the regulations that would be implemented with that, it would be self-controlling in the sense that it does not apply necessarily to every cooperative and at every level. Once you reach a certain level, you may not be eligible for certain things. Therefore, this is why I replied to the first question that in time it's even self-eliminating as a cost to the government.

The Chair: Thank you.

Mr. Comartin.

Mr. Joe Comartin (Windsor—Tecumseh, NDP): Thank you, Mr. Chair.

I thank you all for being here.

Like Mr. Pallister, I have to declare a bias. My father died when I was a year old, and but for the insurance that the caisse populaire had on our mortgage, we would have lost our farm. My mother, who raised eight of us at that point, I'm sure would have had a great difficulty keeping us together. At the same time, the farm products that we were producing were being handled quite effectively through the agriculture co-op that was in my small community.

Mr. Gauvreau, I want to go back, because I've been very actively involved in the credit union movement in Ontario for the last fifteen years. We were in a similar situation—I'm sure you're aware of this, Mr. Lord—of not having enough capital for the system, and we went the patronage shares approach. When my credit union did that—and I think this is true across the province—we did make the shares eligible to be registered for RSP purposes.

Recognizing the reality of the farm economy at this point, the agricultural economy and the low incomes that the farm community is able to produce, I don't think that will be all that helpful, but it might be a little helpful if these were eligible. So that's my first question: Have you asked? Have you had any discussions with the finance department about making these shares RSP-eligible?

My second question is along the same lines. Has this proposal been put forward to the Department of Finance? I always like knowing. I'm sure there's going to be resistance, given the past history over the.... I was going to take a shot at the Prime Minister, but I'll avoid that at this point. Given the finance department's general approach, I'm assuming there's a negative reaction. I'd like to know what it is and what their argument is against this, if you've in fact discussed it with them.

Thank you.

Mr. Pierre Gauvreau: Yes, it's been discussed with finance department officials. It's been discussed with Mr. Ralph Goodale himself in the past government before the election. I have here a note from a letter he wrote to our president following our April 29, 2004, meeting. I would like to just bring it out. The conclusion is:

> Please be assured that the issue of agricultural cooperative capitalization is being studied attentively and will be dealt with on a priority basis during the deliberation of the next budget.

There was no next budget, unfortunately, and this is why we're back here.

We have had a few sessions with officials at the finance department, in order for them to understand very well what we were asking for, to understand what types of regulations would govern such measures. We also had lengthy discussions on fiscal equity. We think we have brought to them sufficient answers for these measures to be put forward. Specifically, the item that you raised, the admissibility to RRSP has not been discussed, but it should be discussed. I agree with you.

First and foremost was for us to explain the nature of our requests, and also the fiscal equity of these requests, as well as the expected cost to the government. These are the subjects that were discussed with finance department officials. We understand that we've had—I'll be cautious on the word—a fairly favourable reception of our measures.

● (1040)

Mr. Joe Comartin: Do I still have time, Mr. Chair?

The Chair: Go ahead.

Mr. Joe Comartin: Generally, one of the experiences we had in the Ontario model with the credit unions was that we drew in a substantial amount of capital from non-traditional sources. That is, people joined because most of our credit unions now aren't bonds any more, they're geographically limited. We were able to draw a significant amount of capital into the system in Ontario because of these particular investment shares, or patronage shares, as we're calling them.

I have to say I don't think that's possible within these co-ops. Listening to you, I think you all have co-ops that have memberships that are limited to the people who are taking part. There's no hope here that you're going to draw in additional capital from the lawyer who lives in your area and who is looking for something, Mr. Peacock, especially if it's RRSP-advantaged. That kind of a person can't join your co-op.

[*Translation*]

Mr. Dagenais, I think it's the same thing for you: membership in your coop is limited.

[*English*]

I think I'm right on that.

Mr. Neil Peacock: Lawyers can. Anybody can join the co-op. In a new-generation co-op, there are really two components to it. You have the producer component, which is the commitment of the producer to provide the livestock to the co-op and the commitment of the co-op to take that livestock from the producer at a fair value and process that animal. But there is availability for, I believe, roughly up to 20% of the total value of the project for private investment like that.

The problem is that it's not an attractive investment because your share value doesn't grow and there's the heavy tax on the end on any dividends that are paid. From a tax break standpoint, for example, for every share that was purchased, if there were an ability to write off 100% or 125% of that on their taxes, then it would be really attractive to invest.

Mr. Joe Comartin: So this methodology you are proposing will provide that attractive feature.

Mr. Neil Peacock: Absolutely.

[*Translation*]

Mr. Joe Comartin: Mr. Dagenais, is it the same thing for you? Can one be a member of your coop without being a farmer?

Mr. Éric Dagenais: Where we are, in Ontario, farmers are the only members of our coop.

Mr. Pierre Gauvreau: [*Editor's Note: Inaudible*] can contribute, which actually adds to the capitalization of co-ops. In the case of agricultural co-ops as we know them in Quebec, we operate that way in order to preserve the cooperative nature. Trying to open it up to other sources of capital would break the cooperative connection and could alter the co-op. That is why it is limited to a certain number of people. That's why we say that the capitalization of co-ops is a unique problem requiring creative solutions to meet capitalization needs.

The Chair: Thank you.

[*English*]

Ms. Ambrose, Mr. Hubbard, Monsieur Côté, and Monsieur Paradis, and then we're done.

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, Mr. Chair. My question is for Neil Peacock specifically.

I have a new-generation packing plant that's just starting up in my riding of Edmonton—Spruce Grove. It's called Ranchers Choice. You might be familiar with it, with Stan Schellenberger and Ian McIntyre. I've been working with them. Their particular co-op packing plant is dealing strictly with over-thirty-month bulls and cows. I'm fully supportive of it, and I know it's an important solution not only to answer the BSE crisis we're dealing with in our area right now, but also as an opportunity to look at long-term solutions for value added in the beef industry.

I know you touched on this really quickly in your previous comment, in that in the new-generation co-op one of the avenues that you're offering is guaranteed market share for producers. I know one of the concerns you're dealing with—and I know Stan and Ian are dealing with it as well—is how you ensure the committed, guaranteed market share you are proposing to the producers, as well as the flexibility to sell their livestock at open auction.

How are you going to ensure that they have the opportunity to compete at auction, and how will you compete at auction with the larger packing plants? I wonder if you could just touch on that.

● (1045)

Mr. Neil Peacock: First of all, we will not be competing at auction with the large packing plants. That's the traditional system that's gotten the farmers into the predicament they're in today, because the packing plants control the auction, they control the feedlots, and they control the food distribution. They control it right up to the consumer counter. That's the real problem. The BSE problem is just the tip of the iceberg. It's the icing on the cake. It has nothing to do with the root causes.

We'll be setting our prices at the beginning of the year. The producer does not have to commit their entire herd. It's whatever they're comfortable with. The balance of that herd they can dispose of as they see fit. The only thing we're concerned about is the animals they commit to us. If they commit ten head or a hundred head, they have to supply them to us at the price we'll be outlaying to them, and we've already told them what our price is going to be.

Ms. Rona Ambrose: What kind of response have you had from producers with that measure?

Mr. Neil Peacock: They're very happy. It doesn't matter whether that producer sells in January or in December of that year, they'll get exactly the same amount of money. It means that one producer won't make $1,000 on an animal one month and another producer $200 on his animal the next month. It will be totally flattened out and levelled—a level playing field for everybody.

Ms. Rona Ambrose: I know that on this you need action now from the federal government. At Rancher's Choice, they're not necessarily looking for funding from the federal government. They're looking for some help perhaps along the lines of some regulatory and tax changes.

Perhaps you could talk about, specifically with regard to your type of new-generation co-op packing plant for the beef industry in Alberta, what the federal government could do immediately to assist you through tax measures or regulatory changes.

Mr. Neil Peacock: In terms of tax measures, as I said before, for the lawyers and so on who want to invest, give them a tax incentive so that they are willing to invest that money. Typically in a co-op, your rate of return isn't that great anyway on your dividends; it's low. As well, the share value doesn't grow. It remains at constant value. There has to be another thing to attract people to it, and a tax incentive of that type would do it.

Ms. Rona Ambrose: In terms of the type of shares you have, you said you have producer shares and then investment shares. How do you decide how much of each you have? Does it influence at all how you're able to attract investors or producers to your cooperative?

Mr. Neil Peacock: There is legislation outlining what you're allowed to do in terms of how much is producer share and how much is investment share.

Ms. Rona Ambrose: Does that legislation have any hindrance on where you're headed in terms of finding that you need more producer shares than you're able to attract?

Mr. Neil Peacock: No, not really. In terms of attracting producer shares, it's money: producers don't have any money. I know there was $400 million for the province of Alberta, but that went to the big boys. I know that from federal government, it was basically $1 billion. Out of that, for me personally, as a rancher, $1,400 trickled down to me. After I pay my ATCO bill, and my ATCO gas bill, there is not a whole lot left of that $1,400 at the end of the month.

There is just no money out there, on the producer end of it. That's what is restricting now.

In terms of help from the federal government, for the investment shares, tax breaks would be helpful, as would increasing the loan loss reserve from 40% to 100%. That would help make packing plants, everybody's, more attractive to banks when they apply for financing.

The Chair: Thank you.

Mr. Hubbard, Mr. Côté, and then Mr. Paradis.

Mr. Charles Hubbard (Miramichi, Lib.): Thank you, Mr. Chair.

Like Mr. Pallister, I've had a long connection with co-ops. I certainly am impressed today by the quality of the presentations and the wide background that our various presenters have. We have co-ops here that are in fact approaching almost a century of operation, and we have some very new ones that are coming to us.

In terms of what I guess is the basic request today, it seems so simple to me—but so complicated to others—that I'm almost mystified by why our finance department doesn't embrace this with open arms and try to run with it. *Maclean's* magazine recently had articles on rural Canada, and these are people from rural Canada. We're looking for investment, and we're looking for ways to make rural Canada be sustainable, for people to live there, to enjoy the life they have, to have an economy that will work.

Claude Duplain was with us this morning. Claude, of course, a former parliamentary secretary to the minister, is a strong advocate of what these groups are saying on page 12.

I also seem to be hearing that there may be other ways that we could encourage investment in these cooperatives. I hope the curveballs the finance department throws at us don't include why other types of cooperative organizations shouldn't fit into the same criteria. That's one fact we have to deal with, and the fact that they say small corporations that have started should maybe be involved as well. It's very difficult to convince some bureaucrats that this is a good system.

In all of the cases here, I guess we talk about membership, and we talk about the very great factor co-ops need for successful operation, and that's loyalty. Hopefully, all the groups here do have loyalty among their members. This is a very big factor in terms of how a co-op works.

We have to encourage, too, in terms of some of the new ones, Mr. Peacock, new changes made within the farm credit organization that may help out the food processing industries.

This morning I'd like to put it on the table—I know it seems very simple, and most people do understand this—that hopefully most co-ops operate with the concept that when they make a bit of money, they don't call it a profit, they call it a surplus. There are ways in which that surplus is decided on at the end of a so-called economic year.

For the record, Mr. Gauvreau, perhaps you could just indicate to us as a committee how your organization, or a basic organization in the co-op movement, would divide that surplus. We have a basic concept of one member, no matter how much the investment, having one vote at that annual meeting. And that's very significant in terms of the way co-ops operate.

Could you put on the record for the committee, Mr. Gauvreau, how most co-ops decide at their annual meeting what happens with that surplus? How does this money that we're talking about today relate to the surplus, and how is the fact that you could retain some of it so significant in terms of most of our minor and major co-ops?

● (1050)

Mr. Pierre Gauvreau: The way it works usually is that at the general annual meeting of the co-op, the board of directors will tender a proposal to the members for the allocation of the year's surplus. Generally speaking, the board will be somewhat conservative, and will try to keep some for the general reserve of the co-op. That means you pay tax on it. Then whatever you allocate to the members, as a patronage dividend, is returned. Depending on the financial conditions of a co-op, there may be more or less cash content in the patronage dividend.

In certain cases, where co-ops undertake projects, they will often try to increase to the maximum the amount of patronage dividend being paid in shares to the member, and also balance that with an increase in the general reserve. This is why, if we get the tax deferral on the patronage dividend paid in preferred shares, you wind up allocating to the member a maximum amount of patronage dividend, turning over the rest to the general reserve, paying tax on that amount being turned over, and increasing....

We did an exercise, which was forwarded to the finance department, that showed the impact of the increase in capitalization. It's probably in the appendix here.

The Chair: In your brief.

Mr. Pierre Gauvreau: Yes.

This is how it enhanced the capitalization of cooperatives, by having more flexibility.

Now, I will establish—

● (1055)

The Chair: Just quickly.

Mr. Charles Hubbard: I think the main point I would hope you would answer is how that reflects, in terms of the so-called payout, what happens to the farmer or to the member—the payout as opposed to the dividend that's declared.

[*Translation*]

Mr. Denis Richard: Unlike other equity companies in Canada, agricultural co-ops distribute their surplus not through shares in the co-op, but rather through the sales volume co-op members achieve through their participation in the co-op. As a producer, I may have a very small share in the co-op while my neighbour has a large share. But if I did a lot of business in the course of the year, the overpayments are redistributed according to my sales volume. Anyone who didn't do enough business during the year won't be included in the redistribution. That's a big difference compared to equity companies.

The Chair: Mr. Côté.

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you very much for your presentations. If there were any skeptics left in the room, following your presentations, you'd really have to be acting in bad faith not to support your recommendations.

Mr. Lord, you mention in your brief that these are extraordinary tools for regional development. The government has undertaken to encourage regional development. It's a good example of measures that would be simple to implement and would have direct effects. The whole Canadian co-op movement, in fact, agrees with your brief. The Minister of Finance has to take note of it. In order for that to happen, the committee is going to table a report with recommendations in the House of Commons, in the hope that the minister will take these tax measures into account in his next budget. I hope that the report will be unanimous. In order to help us prepare this report, you mentioned, Mr. Gauvreau and Mr. Rouleau, that you had some correspondence with the Prime Minister. If you could send that to the clerk of the committee for us to consult and to help us draw up our report, that would be highly appreciated. I would extend the same invitation to everyone here. If you've had any correspondence with the Prime Minister that is very supportive of your ideas, naturally, feel free to send it to us. We'd be delighted.

The Chair: Thank you, Mr. Côté.

Mr. Paradis, you have two minutes.

Hon. Denis Paradis (Brome—Missisquoi): Thank you, Mr. Chairman. I spoke in favour of this measure yesterday in the House. I also salute Claude Duplain, who has carried the ball on this for a long time.

Last year, I travelled around Quebec, including rural areas, to meet people prior to the preparation of last year's budget. In more or less all regions of Quebec, we were told that there was insufficient capitalization for small business and co-ops. I have a quick comment on that. Apparently this measure could bring several hundreds of millions of dollars in capitalization to the co-op world.

Could that help in terms of competitiveness, for example, in the processing of food products? Could the additional capitalization eventually lead to greater competition in that industry?

Mr. Pierre Gauvreau: Not only could that capitalization bring that about, it's essential, because we know that customers are placing increasingly complex demands on processing companies, particularly agrifood processing companies. They have to get into adding value to products. But that often requires significant additional equipment and expansion costing tens of millions of dollars, for example, to fill a fast food customer's orders across Canada.

The Chair: Thank you.

My question is for you, Mr. Gauvreau. In the conclusion of the English version of the appendix, it says the following:

[*English*]

In the conclusion it reads, “To this number, we must add worker cooperatives...”.

[*Translation*]

Is that because worker cooperatives aren't included?

A voice: That is right.

The Chair: Are you asking for that for worker cooperatives too, or not?

Mr. Pierre Gauvreau: We are asking for that for agricultural co-ops.

The Chair: Okay.

● (1100)

Mr. Pierre Gauvreau: We have no data for worker cooperatives in Canada. We have data for worker cooperatives in Quebec.

The Chair: Mr. Rouleau.

Mr. Michel Rouleau: With your permission, I would like to come back to that. We have not included worker cooperatives, but we know that the amount is modest compared to the agricultural sector, because there are about 200 worker cooperatives in all of Canada, and their sales volumes are much lower. Clearly, we have the equivalent in Quebec...

The Chair: Is the request for worker cooperatives the same?

Mr. Michel Rouleau: That is right.

The Chair: Do you have a conclusion?

Mr. Richard.

Mr. Denis Richard: I would just like to clarify something quickly. What we are saying is that the figures set out there have never included worker cooperatives. The comparisons found in the following appendix have to do with the advantages that have been conferred on agricultural co-ops in other countries. Had our comparisons extended to co-ops other than agricultural co-ops, some of the data might not have been accurate. It is just for agricultural co-ops.

The Chair: One of the questions was:

[*English*]

what will be the snowball effect?

[*Translation*]

How is that going to affect co-ops in other industries? That also needs to be taken into account.

I will give a little under two minutes to one of you for your conclusion.

Mr. Rouleau.

Mr. Michel Rouleau: Thank you, Mr. Chairman, and members of the committee.

Quickly, you have seen this morning what I call the great variety of agricultural co-ops. As a whole, the Canada-wide co-op movement is a key player throughout Canada, economically and socially. The capitalization measures we are seeking this morning are in some cases a matter of survival, but the main purpose is to enable co-ops to grow. If co-ops do not manage to grow, the clients in many parts of Quebec won't be served, because co-ops mainly serve very rural and semi-urban areas. So this is fundamental.

The 20 million dollars we are asking for, in relation to agriculture, is a modest sum for the Government of Canada. We want to have a stronger partnership with the Federal Government in the broad sense, as regards the cooperative model. This morning, in connection with the two measures we are asking for, we want the Government of Canada to better recognize the co-op movement. It is fundamental to the future of the movement. We are not asking the Government of Canada to invest in co-ops. Workers, producers and members are going to do that. They have confidence in their co-op. Can the Government of Canada provide an additional incentive for those people to invest? The first response is that it is the workers, producers and members who invest. That has to be kept in mind. We want the Government of Canada to show greater confidence. We want these two measures to become a reality in the next budget. The CCA and the CCC strongly support these measures.

Thank you for listening, for your support, and we look forward to the next budget.

The Chair: I would like to thank all of the witnesses for coming. Some have come a long way.

[*English*]

To the people from out west, thank you for coming. I've got to say that it was well organized.

[*Translation*]

It was well orchestrated. I was panicking a little bit, but as long as we stick to the schedule, I am quite happy.

Mr. Yvan Loubier: Mr. Chairman, I would like to officially table the Bloc Québécois report on the prebudget consultations that I gave you last week for archiving.

The Chair: Thank you.

The meeting is adjourned.

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