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## Special Committee on Cooperatives

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EVIDENCE

**Tuesday, July 10, 2012**

**Chair**

**Mr. Blake Richards**



## Special Committee on Cooperatives

Tuesday, July 10, 2012

• (0900)

[English]

**The Chair (Mr. Blake Richards (Wild Rose, CPC)):** I will call the meeting to order.

As you can see, we have a fairly full schedule in front of us here today. I've asked the officials from the three departments here—Agriculture, Industry, and Finance—to be with us for the first hour. Then, of course, as you can see, for the rest of the day we have a good cross-section of witnesses from different parts of the industry, and obviously a good cross-section of witnesses who have been suggested to us by both government members and opposition members. I think we have a good starting point for the committee here today.

We have the officials here from Agriculture, Finance, and Industry to start the first hour. Before we start with their testimony, I will just read to members from O'Brien and Bosc, as a reminder about what questions the officials will deal with. This is from page 1068:

Particular attention is paid to the questioning of public servants. The obligation of a witness to answer all questions put by the committee must be balanced against the role that public servants play in providing confidential advice to their Ministers. The role of the public servant has traditionally been viewed in relation to the implementation and administration of government policy, rather than the determination of what that policy should be. Consequently, public servants have been excused from commenting on the policy decisions made by the government. In addition, committees ordinarily accept the reasons that a public servant gives for declining to answer a specific question or series of questions which involve the giving of a legal opinion, which may be perceived as a conflict with the witness' responsibility to the Minister, which are outside of their own area of responsibility, or which might affect business transactions.

I just read that as advice to members.

We have with us today Claude Carrière from Agriculture, John Connell from Industry, and Jeremy Rudin from Finance.

I believe, Mr. Carrière, you are going to provide the opening statement on behalf of all three, and then we'll open it up for questions from members.

Mr. Carrière, the floor is yours for ten minutes.

**Mr. Claude Carrière (Associate Deputy Minister, Agriculture and Agri-Food Canada):** Mr. Chair, with me is Jeremy Rudin, assistant deputy minister of the financial services branch from Finance Canada, and John Connell, associate assistant deputy minister of strategic policy at Industry Canada.

My colleagues are here with me today as the responsibility for cooperatives is shared among the three departments. I welcome this opportunity to address this committee and contribute to your

discussions on this vital sector of our economy. Before I do so, I would like to place the issue in the wider context of our department's contribution to the government's overall deficit reduction strategy as part of economic action plan for 2012.

As we all know, the government is moving to a smaller footprint and is asking departments to focus on their core mandates. Much of what our department does is of direct benefit to rural Canada. Our core stakeholder groups remain agricultural producers and processors. This is the end of a cycle in which programs were automatically renewed and the start of an ongoing objectives-based evaluation process, a process in which certain initiatives will also be gradually eliminated.

The programs of the rural and cooperative secretariat have achieved their objectives, and like many of the programs in other departments, they have not been renewed. There is no question that the rural and cooperatives secretariat has laid solid groundwork for communities to more effectively interact and take advantage of opportunities that exist to advance their interests. That said, we believe that virtually every department of government has a responsibility for rural development, particularly economic development. Every department needs to ensure that its programs and policies reflect the unique circumstances of rural Canadians. In other words, they should be viewed through what has been called the rural lens. In that spirit, we are committed to working with other government departments to ensure rural concerns are integral to policy and programming decisions.

To facilitate that, we will have a small but focused policy coordination and research group, the role of which will be to leverage the resources and influence the decisions of other government departments. This dedicated group will be able to draw resources from across the department and will assist in integrating the work of Agriculture and Agri-Food Canada in its portfolio agencies in the interests of rural Canadians.

• (0905)

[Translation]

Of course, cooperatives will continue to play a critical role in this new approach. I am sure members around this table are fully aware of the important contribution that cooperatives make to Canada's economy, providing goods, services and jobs for Canadians from small communities to large cities.

The co-op sector continues to show that it can be a competitive—and profitable—business structure in today's economy, responding to the needs and drivers of the markets in the communities it serves. Canadian farmers can count on a very strong network of agricultural cooperatives that provide them with good production cost control, market access, and skills and expertise transfer.

There are a number of ways that the government has shown its support cooperatives over the years. One example is the Canadian Agricultural Loans Act, a financial loan guarantee program that gives cooperatives easier access to credit. Under CALA, agricultural cooperatives can access loans of up to \$3 million to process, distribute or market farm products. Agriculture and Agri-Food Canada and portfolio organizations continue to provide a wide variety of programs for agricultural cooperatives.

This also gives me a chance to talk about AgPal. AgPal is a new web-based discovery tool developed by AAFC to help producers and others in the agriculture and agri-business sector find the federal, provincial and territorial programs and services that specifically apply to them. Agricultural cooperatives can use this tool to find a wide variety of programs.

There are programs such as the agriculture education program and agri-opportunities available to existing and start-up cooperatives that reflect the sectors in which they are operating, the needs of the people who are running the cooperatives, and the needs of the people who are accessing cooperatives' services.

All of this information is made available through the Guide of Government Programs Available to Cooperatives, a copy of which has been provided to thousands of cooperatives across Canada. The guide is also available on the web.

The provinces and territories also play an important role in developing innovative ways to capitalize cooperatives and cooperative development.

The government is pleased to be supporting the International Year of the Cooperatives, declared by the United Nations for 2012. We are working with the Canadian Cooperatives Association and the Conseil canadien de la coopération et de la mutualité to promote this international year and make it a success, including the international summit in October in Quebec. As part of our commitment, AAFC will work with the sector to prepare a final report to the United Nations on 2012 in Canada.

In summary, while our department sharpens its focus on its core mandate, the needs and potential of rural Canada and the cooperative sector will continue to inform our policies and programs, both at AAFC and across government.

Thank you once again for the opportunity to be part of this discussion.

Thank you, Mr. Chair.

[English]

**The Chair:** Great. Thank you. You stayed well within your time as well.

We'll move to our questioning now.

Madame LeBlanc, you have five minutes.

[Translation]

**Ms. Hélène LeBlanc (LaSalle—Émard, NDP):** Thank you.

My question is for Mr. Connell.

Do you think the cooperative model is an important vector in Canada's economic development?

• (0910)

**Mr. John Connell (Associate Assistant Deputy Minister, Strategic Policy Sector, Department of Industry):** Yes, of course. It is very important.

[English]

I think there are different models for entities to contribute to the economic growth and prosperity of Canada, and cooperatives are one of those. Others would include for-profit enterprises, non-profits, and cooperatives themselves, and for all of those we have governing legislation to ensure the framework that's in place is appropriate to the needs of the entity concerned.

I think in many communities across Canada co-ops are playing an important role. They're found in all sectors. I think in terms of proportionality, it's significant that there are some 9,000 or so cooperatives in Canada. That would compare, though, proportionally, to about 1.1 million small businesses. I think in many cases you have small businesses and co-ops that are beside one another in the same communities, serving the same interests, the same clients in some cases, but they are following completely different business models to do so, one with a membership-based approach, the other with a typical business model approach.

[Translation]

**Ms. Hélène LeBlanc:** Actually, there is a cooperative model and a model more particularly for business. From the perspective of the industry in general, what do cooperatives contribute to the communities in all regions of the country?

**Mr. John Connell:** That is a question for the cooperatives

[English]

themselves and the particular needs that are in the communities.

As I said earlier, I think a variety of particular interests are served by co-ops. They are found in all sectors, so they range from agriculture to financial services to retail workers' co-ops. I think in some cases in isolated communities they play a key role. Communities in which people associate with one another much more readily form co-ops to meet their particular needs.

So I think they play an absolutely key role in certain circumstances, and I think those circumstances are driven by the members themselves who form the co-op. It's people coming together and determining that their needs are best met through this particular model as opposed to some of the others that exist.

[Translation]

**Ms. Hélène LeBlanc:** In your opinion, this really is an essential part of our economy, through its principles as well, because it really must meet the needs of the communities that other types of businesses or other models will not necessarily meet. Is that correct?

[English]

**Mr. John Connell:** Yes.

[Translation]

**Ms. Hélène LeBlanc:** I would like to talk about the role of the Department of Industry. We see that the cooperatives have changed a lot over the years. They came about at a time when, in Canada, more people lived in rural areas than in urban ones. We know all about this evolution. In fact, the cooperative movement and the cooperatives have evolved to include other business lines beyond agriculture.

But how does the Department of Industry see its support for all the cooperatives? Actually, how do you see this role that involves supporting cooperatives that go beyond agriculture? In your opinion, how could the Department of Industry support the cooperatives? You said it was a very important, if not essential, economic model for the Canadian economy.

[English]

**The Chair:** Sorry, it will have to be a very brief response.

**Mr. John Connell:** Industry Canada has a key role, really, in ensuring that there's economic growth and innovation throughout the country in respect of all business models, so I think we have particular programming that would be available for businesses and cooperatives alike. It includes such programs as the Canada small business financing program and the Canada business program for obtaining business information. The Business Development Bank of Canada within our portfolio is a keen supporter of co-ops as well.

● (0915)

**The Chair:** Madame LeBlanc, your time is up.

We now move to Mr. Lemieux.

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Thank you very much, Mr. Chair.

First I would like to thank you for being here to basically get our committee started. I must say that, just from our initial meetings, I think all MPs are very interested in informing themselves on cooperatives—their presence in Canada, their strength in Canada, the successes they have encountered, and some of the challenges—so I think it's good that we are taking this opportunity to meet.

I will also say that the summer is bit of a funny time to meet, but what's nice about it is that we don't have all of our other parliamentary duties conflicting with what work we're trying to accomplish as a committee. It allows us to focus on the matter at hand, which is definitely a plus.

Certainly in my riding of Glengarry—Prescott—Russell there's a good number of cooperatives. It is a very rural riding. It's right beside Ottawa, between Ottawa and the Quebec border. From the work I've been doing with cooperatives in my riding, my sense is that cooperatives are healthy. They're robust. They have a good, strong presence within the riding. They contribute economically to the riding.

I wanted to get a feeling from you, Mr. Carrière, and perhaps the other witnesses, on co-ops in Canada. When we look at a cross-Canada snapshot, would your assessment be that they are on good,

solid footing, that they do contribute to the Canadian economy, that...?

How would you define their strategic role within Canada, and then, how are they actually fulfilling that role on the ground?

**Mr. Claude Carrière:** As has been said by you and Monsieur Lemieux and by Madame LeBlanc, I think cooperatives are quite an important feature in Canada.

There are more than 9,000 co-ops. There are approximately 800 in the agricultural area. Generally, they have about 18 million members, so a lot of us are members of cooperatives in various fields. They are in agriculture, as I mentioned, but also in health, financial services, child care, housing, insurance, and a great number of areas. They employ about 155,000 people. They have more than \$250 billion in assets.

Growth in employment has been tracking the economy. They are present in the north. In some provinces they are significant employers, if not some of the largest employers. They allow members to reduce their risks or reduce costs, or they provide certain benefits to their memberships. As Mr. Connell has said, there are a number of other models of economic development, but cooperatives is one that has been valuable in rural areas.

As you said, Monsieur Lemieux, cooperatives are doing quite well. They have grown and are successful in their chosen fields.

**Mr. Pierre Lemieux:** Right.

The Library of Parliament, of course, has provided us with some information. I'm looking at revenues for the top 50 non-financial cooperatives in Canada. I see, for example, in 2005, they're in around the \$19 billion mark; 2010, five years later, they're up at \$25 billion. That's good growth. That's impressive. I'm looking at assets as well. I see, for example, significant asset growth over those five years.

If I go from the pan-Canadian view back into my riding, I have St-Albert Cheese, which is a farmer-owned co-op. It makes the best cheese in the world, I might say. Their success has been growing. They have increased their distribution. They are going farther abroad from St-Albert to sell their cheese. Sales have gone up. They're doing much better than they were five or six years ago.

I think what you're saying is that when you look across the spectrum in Canada, you're seeing the same type of picture.

**The Chair:** You have about 30 seconds to respond.

**Mr. Claude Carrière:** Well, my answer is quite simple. Yes, we agree that cooperatives in agriculture have been doing well. This is our core area. More generally, we've seen that cooperatives are successful.

I understand there's a study recently from the Quebec government that indicates that cooperatives are more successful than other models. They last longer. After five years there are a greater percentage of cooperatives still in operation than small businesses, regularly. We feel that the cooperatives sector has been successful and is successful today.

● (0920)

**The Chair:** Thank you. Your time is up.

Monsieur Bélanger, you're up next for five minutes.

[Translation]

**Hon. Mauril Bélanger (Ottawa—Vanier, Lib.):** Thank you, Mr. Chair.

I have a few questions to ask quickly, to start.

Mr. Rudin, thank you for being here.

[English]

Can you tell us when we could expect regulations to flow from the decision of two years ago to allow for co-op banks? There are regulations pending. Can we have a sense of when that might be coming forward?

**Mr. Jeremy Rudin (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance):** Yes, indeed. Budget 2010 introduced the notion of federal credit unions, which are cooperatives. The legislation has been passed by Parliament. The step that's necessary, as you mentioned, is regulation. I'm happy to report that on July 6 these regulations were prepublished for comment. The comment period is 30 days.

**Hon. Mauril Bélanger:** Last week.

**Mr. Jeremy Rudin:** Indeed. So the comment period is 30 days, and then we'll look over the comments and plan to move expeditiously to bring forward the final version.

**Hon. Mauril Bélanger:** Thank you.

[Translation]

Could you tell me if your respective ministers will meet regularly with representatives of the cooperatives and national associations?

**Mr. Claude Carrière:** I cannot tell you, Mr. Bélanger.

**Hon. Mauril Bélanger:** You do not know or you cannot tell me?

**Mr. Claude Carrière:** I don't know. If I knew, I could tell you.

**Hon. Mauril Bélanger:** I can tell you that, in your case, the answer is no. The people have been trying to meet for four years now, but they have still not managed to.

What about the Minister of Finance?

**Mr. Jeremy Rudin:** For the moment, at least, there are not an enormous number of cooperatives in the financial sector that are under federal jurisdiction. Having said that, the minister is interested in this, of course.

**Hon. Mauril Bélanger:** What about the Minister of Industry?

**Mr. John Connell:** The answer is the same.

**Hon. Mauril Bélanger:** I looked at the guide published by the government that basically talks about programs accessible to cooperatives. But there were none involving the Department of Finance.

That brings me to this question: Are there any policies in your respective departments that specifically address cooperatives? If so, would it be possible to provide an example to all the committee members?

**Mr. Claude Carrière:** For the moment, there are no programs meant specifically for cooperatives. But the cooperatives have access to programs, particularly under the Canadian Agricultural Loans Act.

**Hon. Mauril Bélanger:** I understand that. But there are no policies intended specifically for cooperatives?

**Mr. Claude Carrière:** Let me continue. In fact, the cooperatives have access to a larger margin of credit than other agricultural producers.

**Hon. Mauril Bélanger:** Once again, we can say that there aren't any policies guiding all of that.

**Mr. Claude Carrière:** Not specifically, no.

**Hon. Mauril Bélanger:** And what about the departments of Industry and Finance?

[English]

**Mr. John Connell:** The sole exception is the Canada Cooperatives Act itself, and the legislation and framework that is there. We'll maintain that legislation but no programs per se for co-ops.

**Hon. Mauril Bélanger:** Okay.

We already know for Finance.

[Translation]

But according to you, Mr. Carrière, it is a competitive and profitable commercial structure. All parties and all governments combined, is it a government policy to support the sectors that are deemed to be commercially competitive and profitable in other areas, such as small business, for example? Are the programs intended for small business?

[English]

**Mr. John Connell:** Yes, there are. I think we are driven by assessments of where there are marketplace gaps. So when you say, "Do we support profitable enterprises?", we'll carry out assessments and analyses pointing to areas where businesses may face weaknesses or there are structural gaps that prevent them from achieving their full potential. So in respect of small business policy, we find that there are financing gaps. In some cases you get entrepreneurs at early stages of their business development that can't get access to the financing they need to grow and prosper.

**Hon. Mauril Bélanger:** So ipso facto, if indeed we do that for areas where we have identified gaps in the small business sector, would it be plausible to believe that the government would also consider doing so for co-ops where there may be gaps, such as in the initial financing or other areas?

I'm sure we'll find out through the presentations today.

● (0925)

**Mr. John Connell:** Yes. The sole comment I would make in response to that is that we do have programs for which co-ops are eligible. For example under the CSBF pre-program we've lent about \$9 million to co-ops since 2004.

**Hon. Mauril Bélanger:** Not designed for co-ops—

**The Chair:** I'm sorry the time has expired.

We'll now move to Ms. Gallant.

**Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC):** Thank you, Mr. Chairman.

All of my questions will be through you to the witnesses.

I'd like to start at the beginning, insofar as the financial aspects of cooperatives are concerned. Would you start by comparing and contrasting banks versus credit unions and co-ops?

I hear the word "credit union" and "co-op" interchanged, so could you also briefly outline the legislation that governs each?

**Mr. Jeremy Rudin:** I'd be glad to.

A credit union or a caisse populaire is a cooperative financial institution. It is owned and governed by its members, and it provides a range of financial services.

A typical credit union provides a subset of the financial services that a large bank would, so deposit and savings accounts, loans to consumers, mortgages, personal loans. A number of them are active in commercial lending or in agricultural lending as well, but it varies. All of the existing credit unions and caisses populaires that directly serve the public are incorporated under provincial statutes and regulated by provincial bodies.

That said, as we were just discussing, two years ago we created a legislative framework for cooperative financial institutions to be established under the federal jurisdiction and to be able then to be active across the country—for example, to have branches in more than one province.

**Mrs. Cheryl Gallant:** Okay.

What are the differences in the financial instruments that each has to offer? Are there certain instruments that credit unions are not allowed to provide?

**Mr. Jeremy Rudin:** Again, for existing credit unions that are governed under provincial regulation, I wouldn't be able to tell you, although there are representatives from the credit union system here, what restrictions they face. In the federal scheme, the business powers of a federal credit union will be the same as the business powers of a bank. It's the organization's structure and the governance that vary.

**Mrs. Cheryl Gallant:** With respect to safety and a person's savings, or the stability of the loan itself, what are the differences? Is an individual's money more safe in a credit union or in a bank?

**Mr. Jeremy Rudin:** All of the deposit-taking institutions in Canada, whether they're federally or provincially regulated, participate in deposit insurance schemes. In the case of banks and other federally regulated deposit-taking institutions, it's the Government of Canada that is the ultimate guarantor. In the case of the provincial schemes, they're organized in a variety of ways.

There are also limits on the amount of insured deposits that each individual can have, and they vary among the federal and various provincial schemes.

**Mrs. Cheryl Gallant:** Okay.

Now, with the different regulations—you mentioned some credit unions are federal, some are provincial—at what point...or is there a

point at which the provincially legislated and regulated credit unions would have to come under federal legislation?

**Mr. Jeremy Rudin:** Just to clarify something I said, we have created a legislative framework for federal credit unions. There is as yet no federal credit union. We have yet to bring into force all of the regulations that are required. As I mentioned just last week, they were prepublished for comment.

This legislation will allow a credit union to establish from the get-go under the federal scheme. That's probably not the most likely way in which we'll see the first federal credit unions.

The other thing that is anticipated is that a provincially incorporated and regulated credit union could opt to continue into the federal sphere. In that case, they would need the consent of their home province, to begin with, and then approval from the Superintendent of Financial Institutions. So it's an option; it's by no means an obligation.

● (0930)

**Mrs. Cheryl Gallant:** Now, we notice substantially lower service fees for the different borrowing...or even chequing. The fees associated with your daily and monthly banking are substantially less than with banks.

Can you explain to the public why it would be that credit unions would be able to afford to give such lower fees when really they don't enjoy the economy of scale that a bank would?

**Mr. Jeremy Rudin:** I haven't made a study of the differences in fees across credit unions and banks. There may be people in the room who will have done so.

I would say two things. First of all, every financial institution has a different business model. Some of them emphasize different things—customer service, convenience, a range of products, etc.

The other thing I would point out is that in the federal sphere for banks, there is an obligation or an agreement, depending on how you look at it, to provide low-fee accounts. Each bank has an offering for a bank account that has low fees, that is quite low-cost. It's part of the federal regime to ensure that this option is available for consumers. By no means do all of them choose the low-cost option, but it's always available.

**The Chair:** Thank you. Time has expired for Ms. Gallant.

Madame Brosseau, you're next.

[Translation]

**Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP):** Thank you very much.

I have a few questions for Mr. Carrière.

The cooperative development initiative is the only federal government program for cooperatives. It has made it possible to support more than 300 new cooperative businesses since it was created in 2003. In a number of remote regions, the CDI is the only funding for cooperative start-ups.

Knowing that, why has this program been cut? In addition, what other concrete actions will the federal government take to renew its support of the cooperative movement and to make more room for Canadian cooperatives?

**Mr. Claude Carrière:** The program you are talking about was created in 2003. It has contributed to the development of expertise that encouraged the development of cooperatives. That expertise still exists today, and we believe that government support is no longer needed because the cooperatives include a dynamic model and perform excellently.

You also spoke about the rural nature of these communities. I mentioned earlier that the government thinks that all departments are responsible for ensuring that their policies and programs take into account the realities of rural communities, their opportunities and their unique challenges. Those departments must also ensure that their programs are applied in that respect.

**Ms. Ruth Ellen Brosseau:** My constituency is rural. Just about every day, I can see that cooperatives play a very important role in the region. They are revitalizing the region every day.

In the wake of the budget cuts imposed on the secretariat, we are learning that only two people will be working with the cooperatives from now on. How do you intend to maintain the quality of the services offered? Have you done any studies to find out what impact these cuts will have? Did you have a consultation or do a preliminary study?

**Mr. Claude Carrière:** We reduced the role of the Rural and Cooperatives Secretariat to bring its role back to what it was previously, which was research and policy coordination with the provinces and other departments. We did that with the goal of working with those departments and ensuring that they explore the various avenues with the rural regions and the cooperatives.

The main function of the secretariat when it comes to cooperatives will be to maintain the database on cooperatives, which has existed now for several decades. That is one need of the cooperatives sector. It assures us that this sector will continue to be healthy.

• (0935)

**Ms. Ruth Ellen Brosseau:** The government says it wants to create jobs and stimulate innovation. In this case, can you explain why the government is cutting a tried and true program, a program that costs only \$4 million a year? Does that call into question the government's support of the International Year of the Cooperatives, which Canada publicly supported when the UN resolution was adopted in 2009?

**Mr. Claude Carrière:** Canada continues to support the cooperatives movement in its initiatives and in the context of the International Year of the Cooperatives and the Quebec International Summit of Cooperatives. The government, and the department, will continue to work with the community to ensure that the cooperatives movement will continue to be healthy now and in the future.

**Ms. Ruth Ellen Brosseau:** Can you please explain what concrete role the federal government is going to play in the next few years, if it no longer provides funding after these changes? What do you anticipate will happen in the next few years, given these cuts? Do you think they will have an impact? They will surely have an impact.

**Mr. Claude Carrière:** We think that cooperatives will continue to have access to the range of existing programs. We have worked with the cooperatives movement and with the federal, provincial and territorial departments to ensure that we provide the cooperatives with information on hundreds of existing programs, which they have access to.

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

[English]

**The Chair:** Thank you. Your time has expired.

We move now to Monsieur Gourde.

[Translation]

**Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC):** Thank you, Mr. Chair.

I'd like to thank the witnesses for being here this morning.

There are over 9,000 cooperatives in Canada with 18 million members. We know that, historically, it began very modestly in the early 1900s. Each community had specific people, needs and services. There were a lot of agricultural and financial groups, in particular. In Quebec, insurance cooperatives, including Promutuel, also really played an important role in our country.

There is a marked trend for cooperatives to be in small communities, but also in much larger ones, too. They competed with some services that the cities offered. If we will recall a bit of history, we know that the banks were located mainly in the cities and large communities. They did not necessarily go and provide services to small communities, like the one where the Mouvement Desjardins began, which provided more of a local service.

Then, 25 or 30 years ago, we noted the trend of cooperatives to group into federations to provide services for one another. They needed expertise and buildings to manage themselves and audit one another. In 25 years, we have also seen a lot of mergers. Previously, we often saw two cooperatives merge. Today, 10, 12, 15 and sometimes as many as 20 cooperatives merge to provide services.

Do you think that trend will continue? Or will it stop? What challenges might it present for cooperatives? People are generally proud to be members of a cooperative, to have an active share. But when they become larger, this feeling of belonging from members may be lost. We are starting to feel it in the community. Members are finding that their cooperative is becoming so large, but so far from what the basic initiative was.

**Mr. Claude Carrière:** Thank you.



I do not claim to have particular knowledge in that area. I must say, though, that I have seen the same thing that you are describing. As far as I know, there haven't been any studies to support what I am going to say, but I think, as you do, that the cooperatives are facing competitive pressures, in Canada and abroad, in the various areas in which they operate. To deal with the external pressures, they group together to be better able to provide their members with services at a better price.

● (0940)

**Mr. Jacques Gourde:** So you are saying that those groups help with respect to competitiveness, but it is important to think about overall competitiveness. We know that the Mouvement Desjardins is very strong in the financial sector in Canada and Quebec. But how can it situate itself or orient itself against globalization? We know that the banks are very important globally. The Mouvement Desjardins is a big player in Canada. But to what extent can the Mouvement Desjardins be compared with the large international banks?

**Mr. Jeremy Rudin:** To come back to your initial remarks, I would say you are quite right about the financial sector and the trend towards credit union mergers. In Quebec, the mergers are more or less done. But we are seeing more and more of them in other provinces, and credit unions are becoming bigger and bigger. As you said, that raises the question of whether members' sense of ownership has diminished as a result. That is indeed a drawback.

However, most credit unions see the benefits as outweighing the drawbacks. Those benefits include economies of scale and especially risk diversification so they can invest not just in a single community or city, but also in areas throughout the province, for instance. It was that shift that prompted some credit unions to call on the federal government to create a federal credit union framework, so they can continue down that road.

That being said, a credit union's ability to take advantage of foreign markets may be somewhat limited, because of its structure. We do not think every financial institution absolutely has to be massive. There is enough room in the country for large and small institutions alike. I think you will always see that split in the size of these institutions, despite the current trend towards mergers.

[English]

**The Chair:** Thank you very much.

We move now to Mr. Harris.

**Mr. Dan Harris (Scarborough Southwest, NDP):** Thank you, Mr. Chair.

Thank you again, all of you, for being here.

Mr. Carrière, during one of your statements you mentioned that cooperative businesses tend to last longer than traditional businesses do. Could you perhaps elaborate on that? From what we've heard, cooperative business models at about five years out last twice as long as traditional businesses do. Is that correct?

**Mr. Claude Carrière:** I think we might have read the same thing. I just read that this morning. My understanding is that there is a study by the Government of Quebec. So probably it would be valid only in the province of Quebec, but yes, looking at one year out, five

years out, and maybe ten years out, cooperatives have a higher survival rate than comparable small businesses do.

**Mr. Dan Harris:** Do you know why that is?

**Mr. Claude Carrière:** No, sir. I only read that summary. I don't know what the basis for the study is, but it confirms what I think all of us believe about cooperatives, which is that the sector is doing quite well.

**Mr. Dan Harris:** It could be an area of study for us to look at in the scheme we're looking at right now.

You also mentioned the international summit that is going to be taking place in October. As I understand it, there are some government funds going to support that. How much is the government putting into that summit?

● (0945)

**Mr. Claude Carrière:** I don't know. I know that we as a department cooperate and collaborate with the group that is organizing that. We have worked with them on websites and promotions and the like. There may be other assistance, but I'm not aware of that.

**Mr. Dan Harris:** This is of course going to be an international summit that regroups cooperatives from all across the world. As you said, the local sector is doing well, and I think we think we could all potentially benefit from having those international co-ops here and having the opportunity to go speak with them and meet with them.

Do you think it might be valuable for this committee to go to that summit and meet with the international cooperatives to get a sense of what the best practices around the world are?

**Mr. Claude Carrière:** I am not an advisor to the committee on what it feels would be useful. I believe the summit itself will be quite interesting and will cover a number of areas on cooperatives. I believe that Canadians have expertise both to share and to learn about.

**Mr. Dan Harris:** Thank you.

This question might be split between you and Mr. Rudin. During the opening statement, you mentioned the guaranteed loans for farms. We're having an issue now with funding ending for residential co-ops. There are some pilot projects with credit unions, but they are having difficulty lending and extending mortgages and seeking the financing for long-term financing in order to be able to do renovations and repairs on buildings, as well as continuing to offer some low-income subsidized housing.

Perhaps either or both of you could give an impression about what kinds of changes you think might be needed in order to facilitate residential cooperatives getting the kind of financing they need down the road.

**Mr. Jeremy Rudin:** I'm afraid this isn't an area that I'm very familiar with. The federal government's involvement in this is through the Canada Mortgage and Housing Corporation, and the responsible minister is the Minister of Human Resources and Skills Development.

We can undertake to seek that information and provide it to the committee.

**Mr. Dan Harris:** From what we understand, there is a pilot project going on in which some cooperatives are working with, say, Alterna credit and savings and trying to lend and extend an existing mortgage.

Of course, cooperatives expect, as would any individual or business, that if they are going to break an existing mortgage there will be a penalty and fees to pay. However, for a cooperative unit that has about 90 units of housing and is looking at lending and extending, CMHC is expecting them to pay a \$140,000 penalty to break that existing mortgage. For a small cooperative, that is a huge amount. Does that not seem excessive?

**Mr. Jeremy Rudin:** Again, all I can do is undertake to look into the matter and to either report back to the committee or have the responsible officials report back to the committee.

**Mr. Dan Harris:** We'd appreciate that.

**The Chair:** You have ten seconds.

**Mr. Dan Harris:** Ten seconds?

I will just thank you all for being here.

**The Chair:** Thank you.

We'll move now to Mr. Preston.

**Mr. Joe Preston (Elgin—Middlesex—London, CPC):** Thank you.

Thank you all for being here today.

Before I get to questions, I just want to touch quickly on the conference coming up in October. This committee will have prepared its report by then, and the government response to that report will still be owed to us. I think the conference can be a great place where those types of conversations can take place, as to what's been suggested by this committee and what could be suggested in the government's response.

What are your thoughts on that?

**Mr. Claude Carrière:** As I said earlier in my response, I think the conference will cover some very interesting subjects in the area of cooperatives in a range of fields, and it will probably be a very interesting place where we will both learn things and share things.

**Mr. Joe Preston:** Absolutely.

My riding is mostly rural, although my experiences with cooperatives within the riding probably don't touch very much that is rural. My businesses bank with a local credit union. Libro is very successful in southern Ontario and does very many community projects, and they are a very successful cooperative credit union. We keep celebrating 100th or 110th anniversaries of our mutual credit unions, our mutual insurance companies, so they've been around for a long time.

I've been involved in my business...even inside the businesses I own some franchises that use cooperatives within them, from a purchasing point of view. The owners get together and of course reduce costs by cooperatively purchasing...or purchasing advertising. My experience with cooperatives is a bit different from what most people across Canada think. When they hear the word "coopera-

tives", they think of agriculture, they think of rural Canada, and it's been a very successful model there also.

You suggested earlier that the programs that are available to businesses in Canada are available to cooperative businesses. Rather than create a niche that's only about cooperatives, can you tell us about some of the successes that have happened with cooperative businesses taking advantage...? I think, Mr. Connell, you mentioned a couple of cooperative businesses that are treated in our economic development agencies, or through Industry Canada, or through others, and they've been very successful by taking advantage of other government programs.

● (0950)

**Mr. John Connell:** I think the program I mentioned was the Canada small business financing program. This is offered in partnership with the banks, co-ops, other lending institutions, and it's a guarantee program. We don't have reporting from co-ops themselves. We've gone through and looked at anyone with the word "cooperative" and found out there was about \$9 million loaned since 2004. We're now changing our data system so that we will have reporting from co-ops themselves.

I think the other relevant point about the program is that there are over 500 financial co-ops under the program that are in fact lenders, so they're lending out under the program, whether it be to businesses or co-ops. What's critical I think is that the co-op be operated for profit, that it not be a non-profit. So to be eligible for the program we need to see a revenue flow showing that it's being operated on an ongoing basis; that's the case for the vast majority of co-ops in any event.

**Mr. Joe Preston:** This is available to all businesses. Any business can go there, but a cooperative can also take advantage of these programs.

**Mr. John Connell:** It's for small businesses up to a certain asset size or revenue base. I'm not familiar with the figures off the top of my head.

**Mr. Joe Preston:** I know of many small businessmen who wish they weren't not-for-profit, and they attempt to take advantage of most of these things too.

Mr. Carrière, you mentioned this morning the incredible sustainable success rate of cooperatives—I just read it over the weekend, and it's the first time I saw it—more than double, it seems, the regular start-up of a small business. What do you think the cause of that is? Is it just the fact that it's a group effort, it's a cooperative effort, rather than one entrepreneur? I've met many successful entrepreneurs in life who have been terrible businessmen, because they're all about one thing rather than their total business. Does a cooperative give you that type of thought process, where there's more than one brain perhaps attached to the business?

**Mr. Claude Carrière:** Well, it may in part be because they have a ready market. Their members and the communities in which they live might give them a boost that other small businesses perhaps don't have. There are business services and cooperative business services available now from the federations of cooperatives, so they perhaps have a better support network than other similarly sized small businesses that are not cooperatives.

As Mr. Harris was saying, it may be an area that is worth studying further. It has impressive statistics.

**The Chair:** For our last round of this panel, Mr. Marston.

I think you only have about three minutes.

**Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP):** I'll have to fit it in. Thank you, Mr. Chair—I appreciate it.

Thank you, gentlemen, for being here.

I serve on the finance committee. During the pre-budget hearings, we had a pre-budget report given to us by a number of organizations: the Canadian Co-operative Association, the Credit Union Central of Canada, the Desjardins Group, The Co-operators. They had all come together with a report.

Mr. Carrière, was that report considered during the run-up to this particular change?

• (0955)

**Mr. Claude Carrière:** I'm not sure I'm aware of that report.

**Mr. Wayne Marston:** Mr. Connell, would you be aware of it?

**Mr. John Connell:** No.

**Mr. Wayne Marston:** You're not aware of it. Okay.

Well, that makes this line of questioning a little tougher, then.

I'll give you a little bit of background of what was there. They proposed a federal cooperative investment plan, a cooperative development plan co-funded by the federal government and the cooperative sector. There were a number of points they were making.

Mr. Preston, in his questioning, was very clear that we've had a major success in this area, better success than what we're seeing among some of the entrepreneurs out there in the business community. I think mentoring is a factor, Mr. Preston.

So we have a successful model. We have people within that group saying to us, "Here are some other ways we can advance it and make it better." It just strikes me as strange that we're cutting back, with cuts to the rural and cooperatives secretariat and the programs of the cooperative initiative.

I guess it takes me to a place where I have to ask bluntly if this has just been an exercise to meet the austerity cuts of this government.

**Mr. Claude Carrière:** Mr. Chairman, as I said in my earlier remarks, the Department of Agriculture and Agri-Food, like other departments, was charged at looking at a reduced footprint and at programs that either were not performing or ones that had met their objectives. In the case of the programs you're talking about, they had met their objectives. The secretariat has been successful. That was part of the proposal to reduce our expenditures. The program administration elements—

**Mr. Wayne Marston:** I accept your explanation, sir, but I just have another point to take it a bit further, though. We had, in effect, very well operated programs that were successful. Did this department have any plans for changing them prior to being asked to look at them in this fashion?

It strikes me as common sense that if you have something successful, you should sustain it, grow it, keep it going, especially if we have the number of businesses failing that we do in the country.

**The Chair:** It will have to be a very, very brief response.

**Mr. Claude Carrière:** Mr. Chairman, I can only repeat what I've said. When a program has achieved its objectives, it's no longer necessary.

**The Chair:** Thank you. The time has expired and we've reached the conclusion of this panel.

I'll thank our three witnesses, Mr. Carrière, Mr. Connell, and Mr. Rudin, for your excellent testimony. We appreciate your being here to give us some good background from a government perspective. Thank you very much.

I'll just suspend the meeting for a couple of minutes so that we can have time to change panels. Thank you.

**Hon. Mauril Bélanger:** Chair, just before the witnesses leave, could we have a copy of the statement that Monsieur Carrière made at the start of the meeting?

**The Chair:** There has not been a statement—

**An hon. member:** [*Inaudible—Editor*]

**The Chair:** But not to be distributed to the committee.

**Hon. Mauril Bélanger:** Have we received one?

**The Chair:** No, the committee has not received one.

**Hon. Mauril Bélanger:** Could we have a copy of that statement, Monsieur Carrière?

**Mr. Claude Carrière:** Yes.

**Hon. Mauril Bélanger:** Merci.

**The Chair:** Great. Thank you.

• (0955)

(Pause)

• (1000)

**The Chair:** I will call the meeting back to order. I'll recognize Mr. Bélanger in one second.

First I'd like to indicate that, Mr. Bélanger, you asked for a copy of the presentation and we'll make sure that it is translated and distributed to the committee.

I now recognize you on a point of order.

• (1005)

**Hon. Mauril Bélanger:** Thank you, Mr. Chairman.

Very quickly, I would hope that in the preparation of future meetings you would consult somewhat with the vice-chairs of the committee, the two of us, in terms of the structure and who is to be invited. That's just a wish.

Second, I wanted to know, Mr. Chairman...you have received some correspondence as chair of the committee, which you've decided not to distribute. I was wondering if that is a policy that you intend to continue to apply or if you are willing to consider changing that so that members can get copies of the correspondence you have received as chair of the committee.

**The Chair:** Thank you.

Obviously that is always at the will of the committee. If someone would like to make a motion to that effect, we can consider that here.

I would suggest that be left, of course. We do have some time at the end of the day for committee business, and I would ask that we leave that for that time. We do have witnesses here and I would like to—

**Hon. Mauril Bélanger:** The thing is, Mr. Chairman, that one of these letters was sent from one of our witnesses now appearing and I would have wanted to be able to refer to that. But because you decided not to distribute it, I'm in a bit of a quandary here. So I want to know if that is a policy of yours, and based on what?

**The Chair:** A letter that has been sent to me is certainly a letter that has been sent to me. If you have received a letter or a copy of a letter, you are obviously able to do as you wish.

I will recognize other members in a second.

On a point of order, Mr. Marston.

**Mr. Wayne Marston:** Being new to the committee I don't want to be barging in on this, but I'm on the finance committee and the correspondence that comes to the finance committee is shared with the whole committee.

I'm a little surprised that this has.... Has this been the past practice of this committee, that certain things are edited out without the other members even seeing them?

**The Chair:** Again, I think we are getting into an area here that should be kept to committee business. We do have time at the end of the meeting for that, and I would ask that members keep that in mind.

**An hon. member:** But we have the witnesses here, Mr. Chairman.

**The Chair:** Understood, and that's why I would like to make sure that we have an opportunity for the witnesses to share their testimony with us. If there is something that they would like to discuss with the committee, the time will be theirs to do that. I would ask members that we allow them that opportunity and save matters of this type for committee business, which we do have time for at the end of the day. So I will ask that to be done.

We will move to our panel now. We do have three individuals here. Our first individual will be Denyse Guy from the Canadian Co-operative Association. Then we'll have the Canadian Bankers Association, and Credit Union Central of Canada.

We do have two individuals who we expect at some point. Mr. Laframboise will join us as well, but we do currently have Mr. Fitzpatrick. I will allow each organization ten minutes for their opening remarks, and then we'll move to questioning.

I will call first upon Ms. Guy.

**Ms. Denyse Guy (Executive Director, Canadian Co-operative Association):** Thank you, Mr. Chair and committee members. My name is Denyse Guy, and I am the executive director of the Canadian Co-operative Association, which is referred to as CCA.

I wish to begin by thanking you for inviting CCA to participate in these historic committee hearings into the cooperative sector. It is

fitting that these hearings are taking place in 2012, as this year has been declared the International Year of Cooperatives by the United Nations General Assembly.

The UN has asked all member states to take measures that will create a supportive environment for the development of cooperatives. The committee overseeing Canada's participation in the International Year of Cooperatives, which includes leaders of the Canadian cooperative sector, as well as the executive director with the federal government's rural and cooperatives secretariat, has established three goals for 2012: the first is to increase public awareness of cooperatives and the economic and social contribution of the cooperative business model; the second is to support the growth and sustainability of cooperatives; and the third is to create legacy initiatives that will live beyond December 31, 2012.

The Canadian Co-operative Association is a national organization representing cooperatives and credit unions in Canada. These hearings will hopefully provide an answer to the question of why the co-op sector needs a strong partnership with the federal government.

As you know, there are 9,000 cooperatives in Canada, representing 18 million members and over 150,000 jobs. The cooperative sector is well entrenched in our Canadian landscape and touches every corner of our country. Cooperatives can be found in different regions and different sectors in Canada.

I want to share with you some well-established cooperatives across this country who are members of CCA and who are not represented here today.

Arctic Co-operatives Limited—and you may have seen them on the CTV morning news in the last two days—is a service federation that is owned and controlled by 31 community-based cooperative business enterprises located in Nunavut and Northwest Territories. Arctic Co-operatives coordinates resources, consolidates purchasing power, and provides operational and technical support to the community-based cooperatives that provide food retail stores, gas bars, hotels, and arts and crafts marketing.

Federated Co-operatives Limited is a multi-faceted organization. It is owned by approximately 235 retail cooperatives located throughout western Canada. These co-ops are the member owners. Federated Co-op provides central wholesaling, manufacturing, marketing, and administrative services to its member owners, in the form of feed plants, food stores, petroleum operations, and a refining facility.

Co-op Atlantic is the second largest regional cooperative wholesaler in Canada and the largest co-op in Atlantic Canada. Based in Moncton, New Brunswick, Co-op Atlantic is owned by more than 100 cooperatively owned businesses. Co-op Atlantic provides food, agriculture, energy, social housing, and real estate services to organizations and businesses in more than 150 communities.

These are the large, established cooperatives, and when we talk about cooperatives there are all different sizes and shapes. If you look in your ridings, we see many co-op forms, from agriculture to housing, day care to groceries, health services to water supply, to radio stations and manufacturing. The list is long. The possibilities are endless. They are already working in your backyards.

With regard to innovation, it happens in cooperative models every day. Not only are co-ops working in your ridings and helping your constituents, they are developing innovative ways and meeting unmet needs for your communities and the citizens you represent. The cooperative model of ownership is flexible, resilient, responsive, and adaptable enough to respond to the concerns of local communities.

One example of this innovation is Aashiana day care, in Ajax. This co-op provides day care to members who are new Canadians, and it allows women to achieve economies of scale through purchasing food in bulk, sharing administrative and marketing costs, and accessing professional development.

HealthConnex, which is in Truro, Nova Scotia, is changing the focus of doctor–patient relationships from sickness care to actual health care. Through various web-based services, HealthConnex is providing doctors with more time to concentrate on wellness and keeping people healthy.

Modo, the car co-op in Vancouver, which is the largest in Canada, is now 15 years old. It's a not-for-profit car sharing cooperative, which was incorporated in 1997 to foster car sharing and raise awareness about the benefits of sharing cars over individual ownership.

These are just some examples of innovation. Cooperatives are economic engines of the Canadian economy, and we heard that previously in our three other talks.

Cooperatives have a unique governance model, but they are also businesses. As businesses, they provide needed services to their members and to all Canadians. They employ Canadians: 150,000 jobs. They contribute to job creation. There are at least 2,000 communities with at least one credit union or caisses populaires, and more than 1,100 communities in which a financial cooperative is the only financial service provider.

●(1010)

Cooperatives make money. They have \$330 billion in assets. They pay taxes. The Income Tax Act does not favour cooperatives over other types of corporations. Whether you are a wheat pool, a dairy co-op, a retail co-op or a co-op wholesaler—all pay income tax at the same rates and with the same rules.

Cooperatives foster and create innovation—I have shared with you lots of different types of models. Cooperatives share good governance. They are democratically controlled enterprises designed to meet the economic and social needs of their members.

Cooperatives are non-partisan. Cooperatives are a proven tool for mutual self-help, allowing people to work together towards common goals. Members are from all political parties.

Co-ops are a unique form of enterprise. They have been an economic force for over 100 years. They built Canada. They have been instrumental in building communities from coast to coast to coast. A cooperative is a business—a business with a difference. They are community-based and values-driven enterprises that care not only about the bottom line but also about the needs of their members and the quality of life in their communities. A cooperative is jointly owned by the members who use its services. All members

of co-ops are equal decision-makers in the enterprise, using a democratic system of one member, one vote. These are values we cherish as Canadians.

In turn, all members share the benefits of cooperation based on how much they use the cooperative service.

The development process for a co-op is not an easy one, believe you me. I have been involved with it for years. There is no single co-op development guide that will answer all questions. Unfortunately, available federal business services are not meeting the needs of the sector. Yes, we have a book and lots of services, but it's not meeting the needs of the sector.

The cooperative model as a way of doing business is not readily recognized within the government's language on business. However, the survival rate of co-ops is higher than that of traditional businesses—we heard that previously. Two studies done in Quebec and studies done in B.C. and Alberta have given the statistics for the survival rate of cooperatives.

Our sector is not looking for handouts or special treatment. Our sector simply wants to access what other Canadian businesses already have available to them. At the same time, understand that our business model is unique.

Cooperatives have positive relationships with the government. The cooperative landscape has recently changed, and so has our way of thinking. As part of the deficit reduction action plan rolled out in Budget 2012, Agriculture and Agri-Food Canada reduced spending by 10%. We all know this. It has cut the CDI program and downsized Canada's role in the cooperatives secretariat.

The cooperatives sector understands why these cuts were needed and supports the government's efforts to balance the budget. These cuts do not signify an end to the cooperative sector's relationship with the federal government but rather an opportunity for a new direction.

So what are the difficulties for cooperatives trying to obtain federal financing? Because of its unique ownership, a cooperative is distinct from other small and medium-sized businesses. When we compare the two models, we see where the difficulties present themselves for co-ops when trying to access current federal funding and programs available to SMEs. Newly developing co-ops don't have access to equity or established business track records, and as a result they tend to fall through the cracks. This is also partly due to the fact that people managing the mainstream business support programs have limited knowledge and understanding of co-ops and how they operate.

Access to financing for cooperative enterprises has been an age-old problem. So much so that many cooperatives have given up trying to work with the federal government. Some of the main issues that impede cooperatives from accessing federal funding and programs are a lack of understanding among government staff as to what a co-op is. Most don't see it as a serious business model. In its language, current federal programming refers to corporations, partnerships, sole proprietorships, and not-for-profits, but rarely cooperatives.

There is a lack of understanding of ownership. A cooperative is an enterprise owned by the members who use its services, purchase its goods, transform its products, or who are employed there. The inability of co-op members to provide personal guarantees is seen as lacking in security. Co-op applications don't fit easily in the boxes of government programs, which are mainly designed for private businesses. If you don't fit the box, you don't qualify.

A new home is needed at Industry Canada. Agriculture and Agri-food Canada has historically been the federal department responsible for cooperatives. The cooperative sector would like to see Industry Canada as the federal department responsible for cooperatives. The diversity of the cooperative sector aligns much better with Industry Canada compared to its current home at Agriculture.

The partnership between Agriculture Canada and Canada's cooperative sector has been a good one, but the sector goes far beyond agriculture and farming. Cooperatives operate and employ many different industries, such as retail, manufacturing, financial services, insurance, housing, health care, social services, natural services, utilities, energy and water, transportation, professional technical services, and cultural and tourism sectors.

• (1015)

A partnership between Industry Canada and the cooperatives sector is a natural fit. The cooperative model can help not only Industry Canada but all federal departments, agencies, and crown corporations to implement their policies. We suggest applying a cooperative lens to policies and/or programs to see how cooperatives can be better used within the government.

**The Chair:** Ms. Guy, your time has expired. I will give you about 15 or 20 seconds just to wrap up, very briefly.

**Ms. Denyse Guy:** I have six main, key areas: secure a partnership with the cooperatives sector and Industry Canada; transfer data and statistics on cooperatives that have been collected by the rural and cooperatives secretariat; re-establish a permanent federal government interdepartmental cooperatives committee; the fourth is that government programs be accessible and support the development of co-ops; the fifth, to revamp the Canadian corporate act to support the principles and values of co-ops; and the sixth is that the sector is moving towards a \$40 million national cooperative development fund and we would like you to be a partner in that fund.

Thank you.

**The Chair:** Thank you very much.

We will move now to the Canadian Bankers Association.

Mr. Wrobel.

**Mr. Marion Wrobel (Vice-President, Policy and Operations, Canadian Bankers Association):** Thank you very much.

Good morning. I would like to thank the committee for this opportunity to provide the banking industry's perspective on the status of cooperatives in Canada.

For the purposes of my appearance today, I'm going to focus my remarks on financial cooperatives.

The Canadian Bankers Association represents 54 banks operating in Canada, banks that are well managed and well capitalized and that

operate in a competitive market with strong, prudential oversight. A strong and healthy financial system is the cornerstone of a strong economy, and the CBA believes that credit unions are an integral part of a strong and competitive financial system.

Just to be clear, when I speak of credit unions, I'm also referring to caisses populaires, whether in Quebec or outside of Quebec.

A strong and healthy financial sector helps businesses grow and thrive and helps Canadians buy homes and save for education and retirement. Canadian consumers and businesses enjoy a wide range of affordable and accessible financial products and services, such as chequing and savings accounts, insurance, investments, commercial financing, and mortgages. Competition to provide these financial services is fierce. Not only do banks compete aggressively against each other to provide these financial products and services; they compete against a wide range of providers, including credit unions. These institutions offer products and services similar to those of banks.

For instance, when it comes to chequing and savings accounts, Canada has one of the most accessible financial systems in the world, with 99% of Canadians having an account with a financial institution. Banks alone offer more than 100 accounts packages in the marketplace. Youth, students, and seniors, as well as not-for-profit organizations can access discounted or free accounts. Indeed, 30% of Canadians pay no service fees at all for their banking, and credit unions also offer their own accounts packages to Canadians.

Canadians are well aware of the role of credit unions and of the level of competition and choice in financial services in Canada, and 92% of Canadians agree that there is good choice in financial services for consumers. In fact, credit unions account for 15% of deposits, 12% of residential mortgage originations, and 19% of lending to small and medium-sized enterprises across the country.

I would like to comment on the substantial evolution that we are observing among Canada's credit unions. In order to continue to provide a high level of competition and choice for Canadian consumers and businesses, there has been significant restructuring in the credit union movement. Credit unions, and correspondingly the credit union centrals that serve them, are amalgamating to support expansion in the marketplace and to take advantage of economies of scale.

Credit unions are increasingly moving away from the traditional one-branch or two-branch model. Across the credit union system, while the actual number of credit unions has declined, the size of the branch networks has increased. In Canada, there is one credit union that has nearly 100 branches, three that have between 50 and 75 branches, 12 with between 20 and 50 branches, and 28 that have between 10 and 20 branches. The size of some of these branch networks is comparable to that of small and medium-sized banks.

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

In order to provide liquidity management, payments processing, and other support services to these growing credit unions, credit union centrals in various provinces are amalgamating as well. The credit union centrals of British Columbia and Ontario merged into Central One Credit Union in 2008, while credit union centrals in P.E. I., New Brunswick, and Nova Scotia joined together to form Atlantic Central in 2011. Discussions have taken place for additional consolidation at the central level. I would like to note that these centrals are federally regulated, even as the credit unions themselves are provincially regulated.

I would now like to turn to the federal government's initiative to permit the creation of federal credit unions.

As credit unions continue to evolve in order to provide further competition and choice in the financial marketplace across provincial boundaries, it is important that there be an appropriate supervisory and regulatory framework that supports growth while ensuring safety and soundness for individual credit unions and for the national financial system as a whole.

•(1020)

It is for this reason that the CBA strongly supports the federal government's efforts to establish a legal framework for credit unions to be incorporated and regulated at the federal level if they so choose.

The draft regulatory framework, which is currently the subject of ongoing consultations, subjects federal credit unions to the same prudential capital and liquidity standards and business and investment powers that banks are subject to. At the same time, it provides an opportunity for credit unions to broaden choices for consumers by improving services to existing members and by attracting new members across provincial borders.

While provincial credit unions can incorporate a banking subsidiary or establish a retail association, these options are cumbersome and do not effectively take advantage of economies of scale. The federal credit union legislation provides a more straightforward, simple, and seamless vehicle to operate across provincial borders. It is the view of the CBA that the addition of a federal option provides a tremendous amount of flexibility to the

way in which credit unions operate and are supervised and regulated in Canada.

Credit unions can continue to operate under a provincial regulatory regime, but doing so means they will continue to be limited to the province of incorporation. For those credit unions that wish to grow larger by serving members in more than one province, the federal framework offers a good option.

It is important that there be no overlaps or gaps in the regulatory framework for credit unions. For instance, provincial regulators have raised some concerns about some credit unions taking advantage of gaps in provincial legislation and regulation to solicit cross-border deposits. This can ultimately lead to confusion about the nature of and responsibility over these institutions as well as about the nature of deposit guarantee. The federal framework, on the hand, provides a simple, clear, unambiguous means to reach out to members across the country.

Federal credit union legislation is an appropriate model to address the statutory and regulatory gaps. Credit unions incorporated under the federal model will benefit from oversight by the Office of the Superintendent of Financial Institutions and the Canada Deposit Insurance Corporation deposit insurance, while Canadian consumers and businesses will benefit from greater financial choice and competition.

In short, the federal credit union regime goes a long way to creating an appropriate, efficient, and effective regulatory regime for a modern credit union movement in Canada.

Thank you very much. I look forward to your questions.

•(1025)

**The Chair:** Thank you, Mr. Wrobel.

We move now to Credit Union Central of Canada.

Mr. Fitzpatrick will be making the presentation.

**Mr. Stephen Fitzpatrick (Vice-President, Corporate Services and Chief Financial Officer, Credit Union Central of Canada):** Thank you, Mr. Chair and committee members, for inviting us to be part of this very important study into the current opportunities and challenges facing the cooperative sector in Canada.

My name is Stephen Fitzpatrick. I'm the vice-president of corporate services and chief financial officer at Credit Union Central of Canada. As such, I'll be speaking from the perspective of credit unions, full-service financial institutions that are cooperatively owned by their individual and commercial members.

I will touch on a couple of the topics my colleague discussed, but as you may expect, we may have a slightly different perspective on some of those matters.

I was to have been accompanied by Monsieur Denis Laframboise, who's the president and CEO of Ottawa-based Your Credit Union. However, he had to deal with a personal matter this morning. He may be here a little later, but we will carry on.

I'd like to start by just providing you some contextual information about credit unions. The Canadian credit union system is a vital competitor in the financial services industry. Credit Union Central of Canada, known as Canadian Central, is the national trade association for its member organizations, which are the centrals, and through them 363 Canadian credit unions.

Canada's credit unions operate a branch network with more than 1,700 locations. These branches serve more than five million members and employ almost 26,000 people across Canada. Almost one-quarter of credit union locations serve small communities where the credit union is the only financial services provider.

As member-owned financial cooperatives, service continues to be our number one motivation. That commitment to service is gaining recognition. For the seventh consecutive year, Canadians ranked credit unions first in overall customer service excellence among all financial institutions, surpassing all the Canadian banks in Synovate Canada's 2011 best banking awards. Credit unions also took sole honours in the categories of "values my business" and "branch service excellence". In addition, credit unions tied for first place among Canadian FIs in the categories of "financial planning and advice" and "telephone banking excellence".

I'd now like to highlight for you some of the current trends in the Canadian credit union system. First of all, credit unions continue to be strong performers. Even through the economic crisis, Canada's credit union system has performed extremely well. Canadian credit unions ended 2011 with assets that were 10.1% higher than in 2010, reaching \$140.2 billion, while generating record profitability. For comparison, this asset size, \$140 billion, is roughly comparable to that of the National Bank of Canada.

Our cooperative model is a key reason for our solid financial performance. Direct accountability to our members, each of whom has an equal say in our operations, means that credit unions are prudent lenders and naturally inclined towards productive investment in our local communities. This strong financial performance has resulted in continued growth in membership. Today more than 5.2 million Canadians belong to a credit union. Our membership growth has slightly outpaced population growth. Despite competition from the large banks and other financial services providers, credit union membership has grown at an average annual rate of 1.2% over the last 10 years. During that same period, Canada's population grew at an annual rate of 1%.

Consolidation in the credit union system is a continuing trend. For decades, some credit unions have responded to increased complexity, to compliance costs, and to changing demographics through consolidation. Mergers between neighbouring like-minded credit unions offer effective solutions to meet the competitive challenges of our rapidly changing financial services industry, while at the same time permitting growth and diversification opportunities in a larger market.

Many small and medium-sized credit unions, and lately larger credit unions, continue to join forces to reduce overhead costs, afford new technology, and offer a broader range of better products. As a result, between 1992 and 2011 the number of credit unions has decreased by 726, declining at an average rate of about 36 credit unions per year.

While mergers have reduced the total number of credit unions, the network of branches, combined with the range of electronic banking services available to members, remains strong. As an example, over the last 20 years the number of ATMs in the system has increased by approximately 50%.

● (1030)

Overall, credit union mergers have contributed to our vibrancy, and they've strengthened our commitment to local and community banking. The result is a combination of locally owned small, medium, and large credit unions that reflect the individuality and character of the communities they serve.

I'd like to talk about the federal credit union option just briefly. The consolidation and growth of the system has implications for the traditional geographical scope of credit unions. For instance, in British Columbia, the three largest credit unions hold 61.5% of the assets in that province. Similarly, in Alberta, the largest credit union holds 59.6%, and in Newfoundland and Labrador, the largest holds 52%. For these credit unions the greatest potential for growth and expansion is beyond the borders of their province of incorporation. For this reason, among others, Canadian Central welcomed the federal credit union legislation that was adopted as part of Budget 2010. We were pleased to hear last week that draft regulations have been released for comment, and we look forward to the coming into force of this legislation that will enable credit unions to choose a new option to address growth opportunities and enhance service to their members.

As we manage growth and the growing expectations of our members in the communities we serve, credit unions do face marketplace and regulatory challenges where the federal government has a role. There are two in particular I would like to draw to the committee's attention today.



First is in relation to small business. Credit unions appreciate the role we play within a strong regulatory framework to protect the savings and security of Canadians. However, we share the concerns of many members of Parliament that regulations are being applied in the same manner for financial institutions with 2,000 employees as they are for those with a dozen or fewer, the result being relatively high compliance costs for credit unions. In their recent final report, the government's red tape reduction commission emphasized that a "one size fits all" approach to regulation tends to disproportionately burden smaller businesses like credit unions.

We urge the federal government to follow through on its commitment in Budget 2011 to require regulators to examine current and future regulation through a small business lens to ensure that new and existing rules do not adversely affect credit unions while creating unintended advantages for larger financial institutions.

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

It is also unique in that unlike Export Development Canada and the Business Development Bank of Canada, FCC is not subject to a regular parliamentary mandate review. Canadian Central recommends that the government undertake a public review of the Farm Credit Canada Act to ensure that FCC continues to play a relevant role in a competitive marketplace. We also recommend that the government consider amending FCC's legislation and operating principles to bring them into closer alignment with those of the Business Development Bank and Export Development Canada. Specifically, this would mean that the legislation governing FCC would be subject to a regular parliamentary review, and second, that this legislation would be amended to require FCC to operate in a manner that complements rather than competes with the activities of private sector lenders.

Mr. Chair, Canadian Central wishes to thank this committee and your colleagues for undertaking this important and timely study. Across Canada this year, credit unions are taking part in celebrations to mark the 2012 International Year of Cooperatives. This is an ideal time to reflect upon the vital role that cooperatives have played in building our country and upon how together we can continue to promote and grow cooperatives and credit unions as democratic, responsive, and successful businesses.

I thank you very much for the opportunity to provide some thoughts to you today. We're here to take any questions.

Thank you.

• (1035)

**The Chair:** Thank you very much to all three of you for your opening remarks.

We will move to our first round of questioning now, beginning with Madame LeBlanc.

[Translation]

**Ms. Hélène LeBlanc:** Thank you.

I want to thank all the witnesses.

Ms. Guy, I hope that the documents you sent to the chair will be provided to all committee members.

I was especially interested in your presentation. You had some very intriguing suggestions for the federal government. You said that the programs for small and medium-sized businesses, which previous witnesses had praised, did not meet the needs of cooperatives. Could you elaborate on that?

[English]

**Ms. Denyse Guy:** Thank you very much for the question. I will make sure that you all get the briefs.

One of the challenges in the application forms for various programs that are government sponsored is that they're more easily accessible for business corporations or sole proprietorships or partnerships. Often there isn't a little box for a cooperative. It's as simple as that. Then they ask, who are the key investors? It's often very difficult to list perhaps 250 members, if it's that size of a cooperative. So that's an issue.

One area we've been focusing on is the services available through the Community Futures Development Corporations, as an example. You should be able to walk into a CFDC across the country and be able to get information on cooperatives. There are initiatives across this country concerning partnerships with local CFDCs, but there should be a Canadian initiative for a level playing field for accessing information about how to incorporate a cooperative and what the steps are in cooperative development. Those are just two examples.

[Translation]

**Ms. Hélène LeBlanc:** I was fortunate enough to attend the credit union conference in Montreal at the end of June. I see credit unions as a vital part of our economy, promoting a very specific set of values and principles.

You said you would like to see Industry Canada provide services to credit unions. How do you think we can recognize cooperatives as entities that are distinct from corporations while continuing to promote cooperative principles?

[English]

**Ms. Denyse Guy:** I think the first place is education and creating more awareness about the cooperative model because there are differences in how we're regulated at a provincial or national level. There's a lack of awareness in and around that. There's also a lack of awareness in the governance structure and in our principles and values, as you've mentioned, which are international principles from the International Co-operative Alliance. Those are key principles. No matter what type of cooperative and where you are in the world, you support these principles.

● (1040)

[Translation]

**Ms. Hélène LeBlanc:** Let's turn to the 2012 budget. Would you say that, when it comes to credit unions, the current government is willing to invest money, promote cooperative principles, provide services to this sector and view it as an important part of the economy?

[English]

**Ms. Denyse Guy:** I would hope so. We're certainly going to be giving a submission on the 2013 budget. We did a budget submission for 2012. We had our three legacy wishes. Obviously, we did not get support for those, but we're hoping to strengthen our partnership with the government. We are hoping....

This is a very special year for the cooperatives sector. We're looking at a stronger relationship with Industry Canada. We're repositioning ourselves within the government.

[Translation]

**Ms. Hélène LeBlanc:** Have you had any meetings with Industry Canada officials that indicate the current government is willing to work with credit unions?

[English]

**Ms. Denyse Guy:** We had initial meetings early in June, which were very positive, so yes.

[Translation]

**Ms. Hélène LeBlanc:** A major international gathering is set to take place in Quebec City this fall. Do you think it would be useful for the committee members to attend, in order to meet with people and learn more about the international credit union movement, before preparing their report?

[English]

**The Chair:** Your time has expired. I will allow a very brief response.

**Ms. Denyse Guy:** Yes, I think it would be a wonderful opportunity for committee members to attend the summit. Also, there's a pre-summit to which leading economists from around the world are coming. I think it would be a wonderful opportunity.

**The Chair:** Thank you very much.

We move now to Mr. Lemieux.

**Mr. Pierre Lemieux:** Thank you, Mr. Chair.

Thank you for your testimony. I thought it was excellent. There was a lot to learn there. There were a lot of positive comments from each of you about cooperatives—that they're resilient, that they're

strong, adaptable. Madam Guy mentioned that their assets earn about \$330 billion, and talked about their survival rates. Mr. Wrobel talked about the substantial evolution that we're experiencing amongst co-ops. The size of the average credit union's balance sheet has tripled over the last decade. Mr. Fitzpatrick talked about the increase of assets, 10% in 2011, generating record profitability. These are all strong indicators that the co-op presence in Canada is not only solid but it's improving.

The first question I'd like to ask is about the survival rate. The study done in Quebec showed that after about ten years, the survival rate of a co-op is about twice that of a business. Madam Guy mentioned that there were similar-type studies done in other provinces as well.

I mean, that's quite a remarkable statistic, a survival rate twice that of business, so I wanted to ask what you think would contribute to that. I'll ask Mr. Fitzpatrick, just because credit unions I'm sure, as we heard from the department, are in the business of lending money, probably to some other co-ops.

I'm wondering if you, from your experience, might be able to comment on what it is that gives co-ops this inherent strength and survivability, particularly in difficult economic times.

**Mr. Stephen Fitzpatrick:** From a lender's perspective as opposed to a co-op perspective, I think a lot of it relates to the same factors that make credit unions successful. They are locally owned. They are responsive to the members of their communities. They reflect the character of those communities. There is a willingness within the community to keep those businesses going because they reflect so much of what the community is. They are important to the fabric. If it's a fisheries cooperative in a fishing village in Nova Scotia or Prince Edward Island, it's a vital component of the local economy.

From a lender's point of view, we do a lot to support, let's say in the fishing context, both the individual fishers as well as the cooperatives that they may be a part of. We've worked with them through the low times to get them back to when the times were better.

● (1045)

**Mr. Pierre Lemieux:** Just while I have you speaking about credit unions, perhaps you could elaborate, then, with regard to this initiative to put in place federal regulations for a credit union-type structure. Your notes would indicate that you support that. Do you feel that's a good initiative by the government? Do you feel the government has a good understanding, then, of the credit union presence on the ground right now provincially, but also where they would like to go nationally?

**Mr. Stephen Fitzpatrick:** First of all, we do think it's a positive initiative. There are credit unions that are bursting at the seams in their local market, so having the opportunity to move into markets where they aren't as well represented now is an opportunity.

As far as the level of understanding, I think elements in the legislation reflect the character of credit unions. We just received the draft regulations last week, as you know, and there is a 30-day comment period on that. We'll be reviewing those. We think it's a positive first step. There's one credit union that has indicated that it will at least actively look at it, at going federal. We know there are others who are looking at it.

There's a lot to take into account, because it is a different regulatory regime with different requirements and different business lines. There are a lot of factors to take into account. But yes, we do look at it as a positive step.

**Mr. Pierre Lemieux:** For example, when I think of Desjardins, they are based in Quebec but they are also operating in Ontario. Are you able to elaborate on how perhaps they've structured themselves to allow them to do that, to operate in two different provinces?

**Mr. Stephen Fitzpatrick:** I think they've sold their Ontario branches now to Meridian Credit Union—

**Mr. Pierre Lemieux:** Oh, okay.

**Mr. Stephen Fitzpatrick:** —so they aren't....

Honestly, I'm not sure. I know that when they came in they purchased the branches of another credit union. I think for that arm they were operating under the Ontario rules, so they were really operating in two different regimes.

**Mr. Pierre Lemieux:** So basically they had two separate —

**The Chair:** Sorry, the time has expired. Could we have just a yes or no response then on that? It was a yes to that last question?

**Mr. Pierre Lemieux:** I was just asking if they were therefore operating under two different sorts of credit union structures to comply with each of the provincial regulations of two provinces.

**Mr. Stephen Fitzpatrick:** Yes, they were.

**The Chair:** Thank you. Your time has expired.

We move now to Mr. Bélanger.

**Hon. Mauril Bélanger:** On that, I believe Desjardins also operates caisses populaires in Ontario. It would be interesting to find out how that's structured. I believe Caisses populaires de l'Ontario operates as an entity and is affiliated. It would be useful, Mr. Chairman, to make sure that at some time among our witnesses Desjardins be included, as well as the Conseil canadien de la coopération et de la mutualité, which is the francophone *pendant* of Madam Guy. I believe you've received a request to that effect, and I think it would be very important that we include them as well.

Madam Guy, I'm asking not for a response now but for you to do some homework, if I may be so bold. I know it's summer, but I would love to get a detailed paper on the six items you identified. Or to put it differently, what are the needs or the gaps, as one of our previous witnesses, the gentleman representing Industry Canada, mentioned? Where there are gaps, the government might want to create some capacity to help fill them, especially in the case of environment or initiatives such as co-ops, which are very positive. What are the things that are not being addressed, or on which co-ops come up short because of administrative matters and so forth? We can then look at those in detail and perhaps they could be included in the committee's report.

Mr. Fitzpatrick, I want to make sure I understand. When you say credit unions have assets of \$140 billion, that's just the credit unions. It doesn't include Desjardins, correct?

**Mr. Stephen Fitzpatrick:** That's correct.

**Hon. Mauril Bélanger:** Because they have about the same amount or even more.

We've heard comments that there are \$350 billion of assets out there, but surely to God that's not the money that's available to co-ops. That's the money, or a good chunk of it, the co-ops are holding, which belongs to their clients. Is that correct? We need to understand the difference here, because when I asked the minister in the House what the government had done since announcing its intentions in January 2012, he responded by saying they got \$350 billion of capital and therefore they don't need our help. So I want to make sure that I understand what the nature of that capital is. Is it basically members' assets or members' own personal assets?

• (1050)

**Mr. Stephen Fitzpatrick:** In our case, the \$140 billion in assets would be largely loans to members.

**Hon. Mauril Bélanger:** But it doesn't belong to you or to the co-ops. It belongs to the members?

**Mr. Stephen Fitzpatrick:** Yes, for member-owned institutions, the assets are owned by the members.

**Hon. Mauril Bélanger:** I want to explore very briefly the insured mortgage purchase program that was instituted by the government, which made available \$125 billion. Over two years, \$69 billion was taken up. Does anyone have a sense of how much was taken up by the banks and how much may have been taken up by the credit unions? Does anybody have those numbers?

**Mr. Marion Wrobel:** The vast majority would have been taken up by the banks, but we do understand that some degree of that was taken up by the credit unions through Central 1, which is the Central for Ontario and British Columbia.

**Hon. Mauril Bélanger:** Could you elaborate a bit on that, Mr. Fitzpatrick? How did that work?

**Mr. Stephen Fitzpatrick:** There are two entities in the credit union system: Central 1, as Mr. Wrobel referred to, and Concentra, which is based in Saskatchewan. They're both federally regulated, and they have both participated in the mortgage lending programs.

**Hon. Mauril Bélanger:** Do you have a sense of to what extent that was?

**Mr. Stephen Fitzpatrick:** I don't have the total number.

**Hon. Mauril Bélanger:** If it's possible to attain that, could you send it to the clerk so that it could be distributed to the members of the committee?

I've been told—and I've had it pretty well confirmed—that the banks paid bonuses last year to their staff and the executives of \$9.2 billion. Is that figure accurate, Mr. Wrobel?

**Mr. Marion Wrobel:** I don't know the number.

**Hon. Mauril Bélanger:** Well, for the top five banks, it's \$8.87 billion, and that doesn't include the national, though I expect—

**Mr. Marion Wrobel:** I would simply point out that within the context of banking, bonuses are part of the compensation system for a wide range of employees. When we talk about bonuses, they're not just for very senior executives. They're for all rank and file....

**Hon. Mauril Bélanger:** But \$9.2 billion were paid in bonuses over and above the salaries. Is that correct?

**Mr. Marion Wrobel:** That could very well be.

**Hon. Mauril Bélanger:** Do you have a similar figure, Mr. Fitzpatrick, for the credit union movement, showing how much it may have paid in bonuses to its executives and staff?

**Mr. Stephen Fitzpatrick:** It's less.

**Voices:** Oh, oh!

**Mr. Stephen Fitzpatrick:** I'm sorry, I don't mean to be flippant.

No, we don't collect that kind of information.

**Hon. Mauril Bélanger:** You don't? Wouldn't the members want to know?

**Mr. Stephen Fitzpatrick:** Within individual credit unions, they would have that information. But at a national level, we don't collect compensation totals on individual credit unions. We leave that to them.

**The Chair:** Mr. Wrobel, I'll let you make a quick comment.

**Mr. Marion Wrobel:** Can I just make a comment on the nature of bonuses?

**Hon. Mauril Bélanger:** It's my time.

**The Chair:** No, your time has expired. I was just going to allow him one last chance to make a comment, but your time has expired.

**Mr. Marion Wrobel:** The whole nature of a bonus within this context is to make part of the compensation dependent upon performance. It's a way of encouraging employees, whether executives or rank and file, to work better and achieve their objectives. It's not like a Christmas bonus; it is something designed to incent them to be good employees. That's the context within which you should look at it.

**The Chair:** Thank you. Time has expired for that round of questioning.

We move to the second round and begin with Monsieur Gourde.  
[Translation]

**Mr. Jacques Gourde:** Thank you, Mr. Chair.

I want to thank the witnesses for being here this morning.

Right now, what challenges do Canada's credit unions face nationally speaking? Then I would like to know what those challenges are at the international level. We all know that there are big groups, that our credit unions joined forces to improve their service offerings to members. But I am sure they've still got some challenges on their hands. Could you tell us a bit about that?

**Mr. Stephen Fitzpatrick:** Forgive me, but is the English interpretation available?

**Mr. Jacques Gourde:** There is a problem with the interpretation, Mr. Chair.

[English]

**The Chair:** Did you miss the translation of that? I'm sorry.

You should have translation there. I believe you'll want to have it on channel 1.

● (1055)

[Translation]

**Mr. Jacques Gourde:** In that case, I will repeat my question.

[English]

**The Chair:** Monsieur Gourde, I'll give you extra time at the end of your time to allow you to pose that question again.

[Translation]

**Mr. Jacques Gourde:** Thank you.

Canada's credit unions have joined forces. They face challenges both nationally and internationally. Could you describe those challenges, in terms of competition, the services they want to offer members, and their ability to compete with the banks?

[English]

**Mr. Stephen Fitzpatrick:** I would say that the challenges credit unions face include that we're in a competitive marketplace, competing with banks every day. We do not have an international focus at credit unions. We are in the domestic market, competing in small towns and large cities across Canada with the banks, with a lot of the same products and services. Among services and products that we do not offer are investment banking types of product or derivatives, and we don't do very much in the arena of foreign exchange. We do a little trading, but we don't have large, active trading desks, as the banks have.

We're competing largely for lending and deposit business in local communities. At the same time, we have to compete on the technology front, so we have to be, and are, as advanced as the banks when it comes to payment vehicles, such as your chip debit or credit card, for example.

The challenge for us is that because we're smaller, we have to work together. An individual credit union competing with a large bank has, from a technology point of view, a difficult challenge. We tend to try to do things as a collective so that we can introduce and implement things more efficiently. In essence, we're competing with the banks every day, but more on the bread and butter issues for Canadians; we're not involved in the arenas of international finance or investment banking—those sorts of activities.

Does that address your question?

[Translation]

**Mr. Jacques Gourde:** Yes, that answers my question.

Why do you think credit unions are so popular in Canada? Is it the involvement of their members, the fact that they offer local service, or is it just that they stay quite competitive?

[English]

**Mr. Stephen Fitzpatrick:** First of all, we provide a high level of service. I mentioned at the very beginning that consistently in surveys, for seven years running, credit unions have ranked at the top of financial services in terms of offering service.

That's the most effective way for us to compete. We offer many of the same products and services, as I said earlier.

The key to success for us is keeping that service level up. Credit unions, and cooperatives for that matter, were formed in the beginning because there were gaps in the market. Local communities felt they weren't getting the service they needed. With regard to the aspect of local membership, even a large credit union with 100 branches is still operating within a community. Whether that community is a town, a city, or in some cases across a province, they are still reflecting the character of the community they're operating in. That local ownership makes a big difference in the way they carry out their activities in the marketplace.

As far as competing, I think because you reflect the community you're in, you appreciate the dynamics of the economy you're in and support it in that way. I think for credit unions the strength comes from that local knowledge and presence.

• (1100)

[Translation]

**Mr. Jacques Gourde:** I have one last question, as I'm almost out of time. Could you tell us how much Canada's credit union market share is expected to grow over the next five years, perhaps using the previous five years as a guide? What kind of growth are we talking about? Roughly 1% or 2% per year?

[English]

**Mr. Stephen Fitzpatrick:** That's very hard to say. As we said, last year we grew 10%. We don't tend to do that type of system projection to think how quickly we'll grow, because it does very much vary from one community to another. If we gain a greater presence in, say, the Toronto market, where we are not as strong today, then that growth could stay in the double digits. If not, it would likely be less than that.

**The Chair:** Thank you very much. Time has expired.

We move now to Mr. Marston.

**Mr. Wayne Marston:** Thank you, Mr. Chair.

If I remember correctly, your organizations, and perhaps you, presented at the pre-budget hearings. It's good to see you all again.

Mr. Wrobel, I want to give you a very quick chance to talk about the earned bonuses. What would the average salary be of the CEO of a bank? Just give me a quick number, not including bonuses, just salary. Would it be \$500,000?

**Mr. Marion Wrobel:** In Canadian banking it's not much higher than that.

**Mr. Wayne Marston:** Okay. Well, let's say it's \$400,000. On top of that...when you get into the bonus area, you get into the area of millions.

**Mr. Marion Wrobel:** Compared to banks in other jurisdictions, Canadians tend to be very modestly paid. There are standards that have been pointed out by the financial stability—

**Mr. Wayne Marston:** I understand all that, sir. My question was fairly simple. It is in the millions when they get into the bonuses, compared to the rest of the banking community.

**Mr. Marion Wrobel:** Senior executives in large institutions tend to be well paid.

**Mr. Wayne Marston:** Thank you.

We've heard this morning from witnesses, and even from government members, about the success of cooperatives.

Ms. Guy, I appreciate the recommendation in your remarks, talking about the summit in Quebec in October. Being a temporary member of this committee, filling in for Mr. Allen, who is taking advantage of me, I believe that parliamentary committees need to take full advantage of their sources and significant opportunities like this one.

One of the issues for me on some of the legislation, Bill C-38, for example, which came before the finance committee, is that we felt we didn't have the opportunity to do our due diligence, the due diligence that Canadians expect. I hope the committee will take advantage of that opportunity.

You made some recommendations in reports. In fact, both of your organizations, combined with some others, made some recommendations in the pre-budget hearings. It looks to me like the government didn't really take advantage of that advice. What's your view of that?

**Ms. Denyse Guy:** Three recommendations were in the budget bill. One was a tax credit similar to what's happening in Quebec for cooperatives. The second was support for the capital fund, and the third was the renewal of the cooperative development initiative.

We know that the cooperative development initiative got cut. I may say that it was a very successful program in many ways. What I'm hearing a lot is that the large, established cooperatives don't need support. But the focus of this particular initiative was on small, emerging cooperatives. If you look at the last program, which started in November 2009 and will continue to March 2013, it was a \$16 million program that created 181 co-ops. It created 1,158 new jobs, and we estimated it cost about \$9,715 per job. So that's a pretty cheap way of creating employment in Canada. Certainly, in all parts of this country, that particular program was very successful.

I would say that of all of our three "asks", not one of them has been responded to at this point.

**Mr. Wayne Marston:** How significant do you think the cuts that went on at CDI and then to the rural and cooperatives secretariat will be to cooperatives out there?

**Ms. Denyse Guy:** The cooperative development initiative is very significant in infrastructure, not only in supporting emerging cooperatives but also in small amounts of money that went to all the francophone and anglophone provincial associations to provide staffing, in terms of expertise to be passed on, in terms of cooperative development.

So there is going to be a huge loss in infrastructure for co-op development at the grassroots. When we look at the studies, we see that one reason why there are successes in cooperative development is that there is this specialized co-op development strategy.

• (1105)

**Mr. Wayne Marston:** In your remarks you expressed the concern that there might have been a lack of understanding by government officials when they looked at this. Again, I would suggest that the summit would be an opportunity for people to gain a better understanding.

I'm really concerned, because when I asked previous witnesses if they were planning on making these cuts in due course, prior to the austerity measures the government started to put in to meet the goal of deficit reduction...and it's concerning because these—

**The Chair:** Your time has expired, Mr. Marston.

**Mr. Wayne Marston:** Well, I'm concerned my time has expired.

**Voices:** Oh, oh!

**Mr. Wayne Marston:** Thank you.

**The Chair:** We'll move now to Mr. Boughen.

**Mr. Ray Boughen (Palliser, CPC):** Thank you, Chair.

Welcome to the panel. I'll add my voice to those of other colleagues and thank you folks for appearing today on a warm, summery, blue sky, "I'd rather sit there than be in here" kind of environment. But we're glad you're here.

We've heard what's happened with your various operations and your institutions. My question to each of you is, what do you see in the future? We see economic upheaval. We look across the planet and we know we don't live on an island—what happens in Spain and in other parts of our planet affects all of us in one way or another. How do you look at that in terms of what's going to happen, probably—and maybe not, but certainly a change will occur in the financial institutions you represent. How will they deal with these changes on the horizon?

**Mr. Marion Wrobel:** One thing we saw coming out of the global financial crisis was that the Canadian banking system is very resilient. We asked ourselves what the reasons are for that.

We think that in Canada we have a combination of things. We have good policy, generally, with respect to banking. That's come in place over a number of years. We have good, prudent management and practices. We have institutions that are well capitalized. We have a pretty good regulatory regime, and the advantage here is that we have a single bank regulator, and that's important. We have strong supervision. I think with all of that combined we saw the strength of the Canadian banking system.

Now going forward, because there's this concern that we don't want this to happen again, we see this huge regulatory onslaught. We

have a number of new initiatives put in place since 2008–09. In magnitude, they are strong and they are coming in at a rapid pace. I think it's important to look at all of that and try to make sure that new regulatory initiatives actually achieve what they are meant to and they don't have negative and unintended consequences.

My colleague, Mr. Fitzpatrick, talked about compliance and the burden of compliance on small institutions. The Government of Canada wants to enhance competition in financial services. It wants to attract new entry, and often the entry of small institutions. We have to ask ourselves whether all these new regulatory initiatives are making it more difficult for new entrants to come into the market.

So we have to balance off that safety and soundness, which we should never ignore, as it's a really important part, but make sure we have a competitive financial system.

**Mr. Stephen Fitzpatrick:** I'll answer second, then, and continue the flow.

We would agree with some of the comments Mr. Wrobel has made on the regulatory burden. We think of it more in terms of things such as FINTRAC, for example, to which there are millions of filings every year. In 2010 there were more than 20 million filings. Only 500 of them were actually followed up on for action, and we don't know whether any of them materialized into anything.

Things such as that you have to question. We don't question the purpose; we question the effectiveness of that kind of approach, especially when.... I could use the example of Surrey Credit Union in Prince Edward Island. It has 10 or 12 employees and has the same requirement as VanCity in Vancouver or the Royal Bank of Canada when meeting those FINTRAC requirements. This has a disproportionate effect on the administrative costs in that credit union. As far as the burden we work under is concerned, that would be the challenge we face.

Perhaps this is an answer to an earlier question as well. We embrace the rules that are coming in concerning enforcing the safety and soundness of financial institutions in Canada. Mr. Wrobel is right that the Canadian banks did quite well and the Canadian credit unions did very well also. There were no failures as a result of the economic crisis in Canada. That speaks to both the regulators and the organizations that were regulated and the way we operated.

• (1110)

**The Chair:** Thank you. The time has expired on that round.

Madame Brosseau, you have the next round.

**Ms. Ruth Ellen Brosseau:** Thank you very much.

I think we all can agree that co-ops really help people: they lift people out of poverty; they promote gender equality. I haven't heard a bad thing about co-ops, so I don't really understand why we're cutting funding to them.

Has the Canadian Co-operative Association had a meeting with the Minister of Agriculture concerning the three recommendations that remain?

**Ms. Denyse Guy:** Do you mean with Mr. Ritz? No, we have yet to have that meeting.

**Ms. Ruth Ellen Brosseau:** Were efforts made to...? I guess efforts were made.

**Ms. Denyse Guy:** Certainly efforts were made.

**Ms. Ruth Ellen Brosseau:** Nobody from the office...?

**Ms. Denyse Guy:** We did have a meeting with a senior policy advisor.

**Ms. Ruth Ellen Brosseau:** How did that go?

**Ms. Denyse Guy:** It was a very positive meeting.

**Ms. Ruth Ellen Brosseau:** How do you see the future of cooperatives, for somebody who wanted to start up and build a cooperative in their community? How do you see that with these cuts?

**Ms. Denyse Guy:** I think it's going to be a lot more difficult for cooperatives to get the right type of the services they need. It's a very specialized service, working to understanding the provincial acts plus working with the group dynamics of setting up a cooperative, and it takes time. One of the reasons cooperatives succeed is due to all the group development and its being based on the needs of the members. It doesn't happen overnight; it's a very specialized service. I've been doing it all of my life, so I can speak to this quite strongly.

One of the reasons why the co-op development initiative was created was to allow any citizen in Canada to have access to co-op development services, and that's not going to happen anymore. That's the reality: it's not going to happen anymore, so you're going to lose innovation at the grassroots level, because it's just going to be perhaps in certain areas that they may have stronger supports.

The reason the survival rate in Quebec is so strong is that there is and has been a strong partnership with the Government of Quebec. They understand the cooperative model in terms of economic development, so they support it through the CDR model, in terms of providing ongoing technical assistance; they have a whole process of capitalizing cooperatives at different levels, in terms of their capital needs; they support education and governance training for members and boards of directors.

If you take that model and can see it being replicated in different parts of the country, that's a success rate. That's why we have the positive study results that we have. Once you lose all of that infrastructure and specialized service, it's going to be hard.

**Ms. Ruth Ellen Brosseau:** What do you think is going to happen with, as you were saying, all the research that was done? What do you think will happen after these cuts? Will it disappear?

I guess it's hard to say what will happen to all the research.

**Ms. Denyse Guy:** We certainly want to be able to access that research. Taxpayers paid for it, and there's a lot of information that's really important for us as a sector that we still haven't been able to access. From my understanding, the co-op secretariat did a review of the federal act. We haven't seen it. There were regional consultations across the country that I participated in two years ago. We haven't seen the final report on that—which would be very useful for this committee to have access to as well. These were cross-country regional meetings.

That kind of information is very important. Another piece of information that's very important, which the rural and co-op secretariat has done, is annual statistics on the cooperative system in Canada. We're very concerned about what's going to happen with that kind of process, because it really is important to us.

• (1115)

**Ms. Ruth Ellen Brosseau:** As elected members, we're working in the summer. I think we're all happy to learn about cooperatives and their importance, because they touch our ridings; they touch everybody. So I find it kind of hard to believe that we're on this committee, we're working through the summer.... Are we doing due diligence by missing this international conference? Do you think it's...?

I find it hard to believe that we're doing a report and then we're missing out. We're submitting the report to Parliament without going to meet international key players at this meeting.

Can you comment on that? Do you think it's...?

**Ms. Denyse Guy:** I think it's really good to be doing this process in the summer. I think it's great to...even though it's a challenge for everybody. I thank everybody around the table for this, because I know how difficult it is. But I think it's a missed opportunity if we do not take advantage of what's happening.

We have the brightest resources in the cooperative sector internationally coming to Quebec to talk about the model, not only in terms of how the model is being utilized but also in terms of some of the challenges within the cooperative sector.

In specific areas, if you take health care cooperatives, Japan has 80% of its health care services provided by health care cooperatives. We need to learn that. We need to know how we can use that model in terms of one of the biggest crisis areas we have right now: health care, right? That's an example; there are various different models across the world that we could basically learn.

So yes, I think it would be a missed opportunity.

**The Chair:** Thank you. The time has expired.

We move now to Mr. Preston.

**Mr. Joe Preston:** Thank you very much.

Well, I'll go back too to where we were on that. I'm not looking for a missed opportunity; I'm expecting this committee to do its work, as we are here in the summer. We'll continue to talk to all the experts we can find. Ms. Guy and I have spoken a number of times on cooperatives. We'll just continue to do that. We'll put together a great report from this committee in time for that conference.

Anyone who would like to attend certainly can attend. I haven't seen shackles under the desks yet. I think they're all loose and free and able to do it. I think it's important that the government's response could then also come with information gathered from the conference. I think that's pretty important.

You talked about the cooperative and the way it works, with one member, one vote. We have the same thing. That works here at Parliament too.

I want to talk a little bit about the financial institutions.

First of all, I'll apologize at the beginning, Mr. Wrobel. I'm going to compare the Canadian banking association to the credit unions on a service level, and you're not going to win.

**Voices:** Oh, oh!

**Mr. Joe Preston:** I learned early in my life as a business entrepreneur, from a great mentor, that the second-best relationship I need to have—excluding the one I have with my wife—is with my lender, my financial institution, as a business person.

There are times when my wife has to have that same relationship, too.

**An hon. member:** But not your leader?

**Mr. Joe Preston:** It's somewhere in the ranking.

But it's true, and I have found... I mean, I'll toot the horn of credit unions again. My lender at my credit union is also the baseball coach and a member of the service club I'm a member of—those types of things. That's not saying it doesn't happen in the bank business, but thank you very much for pointing out that service is your motto. That's a really great way to go.

One of the documents here says that 19% of lending to small and medium-sized businesses comes through the credit union business. What would the size of credit union be as a percentage of banking in Canada? Is this 19% well above the average?

**Mr. Marion Wrobel:** I think it's probably somewhere in that range.

**Mr. Joe Preston:** I would guess that that's the case.

**Mr. Marion Wrobel:** Yes. Again, when I'm talking credit unions, I'm including caisses populaires in Quebec—

**Mr. Joe Preston:** Oh, absolutely caisses populaires.

So they're carrying a heavier load with the small and medium-sized enterprises in the country. Is that an easy thing to say, Mr. Fitzpatrick?

**Mr. Stephen Fitzpatrick:** Our market share in other lines of business is not as high as it is in supporting the small and medium enterprise sector. So it would be true to say that. Again—

**Mr. Joe Preston:** Well, that would increase the percentage within your organization while you have a higher percentage of small and medium enterprise loaning, but why would that be the case across the country, then, against all financial institutions? Are you taking more risk?

• (1120)

**Mr. Stephen Fitzpatrick:** No. The cooperative sector...

I guess it goes back to the roots of where financial cooperatives operate in the local communities. We support local business people in those communities. I've made reference a few times here today to different things that we have done in different communities to support local industries and local economies.

I think because we're in those communities, that contributes to a disproportionate share. We also have a number of institutions, one based here in Ottawa, that do microlending. They support people who have very little to start with. They get loans to start whatever very small business they want to start.

So it's those sorts of initiatives—

**Mr. Joe Preston:** It's a little non-conventional from time to time, too.

**Mr. Stephen Fitzpatrick:** Yes.

**Mr. Joe Preston:** Excellent. That's the strength. It's not about the forms; it's about the person. That tends to work fairly well.

Ms. Guy, you talked about working on your relationship with Industry Canada. I know you've had a few meetings with Industry Canada and you're working towards that too.

In your opening remarks—or in one of your responses to a question—you talked a bit about how sometimes it's about the form. It doesn't fit. The form won't fit cooperatives.

You've had those conversations. Do you feel you're making movement towards change?

**Ms. Denyse Guy:** I would say we haven't gone into those kinds of details. We're at the very high level in terms of looking at the potential for a new partnership. We haven't gone into any of those kinds of details at this point.

**Mr. Joe Preston:** You talked about the CFDC network across Canada and its relationship with cooperatives. My understanding is that there's a fairly good working relationship with the cooperatives network and the CFDC network across Canada.

**Ms. Denyse Guy:** I would say it's at an individual CFDC level, and there are lots of great partnerships happening. Certainly there are many board members, similar to what you said about credit unions, who are board members of CFDC. Those kinds of relationships are happening, but it's not an institutional relationship at a national level in terms of a partnership, and that's what we're looking for.

**Mr. Joe Preston:** That's what you're moving towards.

**Ms. Denyse Guy:** Yes. We're also looking for all staff at CFDCs to understand the cooperative enterprise and the way it's organized.

**Mr. Joe Preston:** Thank you very much.

**The Chair:** Thank you.

We'll move to our last round of questioning for this panel, and it will be Mr. Harris.

**Mr. Dan Harris:** Thank you.

To the witnesses, thank you for coming today.

Mr. Fitzpatrick, during your comments earlier you mentioned how the 2011 budget contained a recommendation for applying a small business lens. Is this actually happening yet? Has that recommendation come through? What's happening there?



**Mr. Stephen Fitzpatrick:** The committee on red tape—I'm not sure that's actually what it was called, but that's what we call it—made recommendations on ways to reduce the administrative burden for smaller businesses. It's really too soon at this stage to say that credit unions are being looked at through a small business lens. If that principle holds, then we expect we'll start to see that, or at least the door will be open for us to talk about it.

I know it's sometimes difficult to think of a financial institution as a small business, but some of them really are.

**Mr. Dan Harris:** You're hopeful, but as of yet it hasn't happened.

**Mr. Stephen Fitzpatrick:** The discussions have yet to begin.

**Mr. Dan Harris:** Mr. Wrobel, in your comments about salaries and bonuses, you mentioned how the bonuses are going to executives and the rank and file.

**Mr. Marion Wrobel:** Yes.

**Mr. Dan Harris:** What percentage goes to the rank and file versus the executives?

**Mr. Marion Wrobel:** That would be something that would be determined by the individual institutions. I don't have those numbers at all.

**Mr. Dan Harris:** More or less than 50%, would you say?

**Mr. Marion Wrobel:** To rank and file? Oh, it's probably more than 50%.

**Mr. Dan Harris:** Out of \$9.5 billion, roughly.

**Mr. Marion Wrobel:** Well, again, the way in which individual institutions compensate their employees is a decision they make. They want to ensure they can attract top talent. They want to make sure they incent their employees to perform well—

**Mr. Dan Harris:** I'm going to stop you there. When you say “incent employees”, I know people who've been working at Canada's largest banks for over 20 years and they are still making less than \$30,000. They haven't received a raise in a decade. It's not really incentivizing rank and file but the upper echelons. That's getting away from the committee purpose on cooperatives, but as it was talked about earlier, I wanted to bring that up.

The remaining questions will be for Madame Guy.

You were speaking earlier about the research that's been done and that you don't have access to it yet. What kinds of efforts have you made to get that research? Do you think it's going to be lost, or do you think you'll be able to gain access to it?

• (1125)

**Ms. Denyse Guy:** I think the rural and cooperatives secretariat is just finalizing how it's restructuring. We have a very good relationship with them, but we are concerned. The capacity within that department is completely devastated. It's going from I think 92 staff members down to six or eight, with three people being part of the cooperative secretariat. We are concerned.

We will confirm that they have been able to do internal restructuring. We now know who the staff are who are going to remain within the cooperative secretariat, so our next process is to discuss how we can have access to that information.

**Mr. Dan Harris:** I think that could make up one of our first recommendations: to make sure that this research isn't lost and is made available.

Now, Mr. Carrière, who was here earlier, stated that both CDI and the secretariat had fulfilled their mandates and weren't needed any more, and that this is why the service was being cut.

Mr. Marston asked him right at the end, so we didn't have an opportunity to follow up, whether these cuts were preplanned or only came about as a result of austerity measures. Monsieur Carrière didn't actually answer that question. I was hoping that perhaps the chair could be in touch and ask him to provide an answer on that question to the committee. I think it is really important to determine why those cuts were happening and whether they were preplanned and part of a process or simply done for austerity measures.

Ms. Guy, you disagree that they fulfilled their mandates. Would you elaborate more on that?

**Ms. Denyse Guy:** As a sector, we fully understand that we have to deal with our deficit. The government has some real, strong economic challenges. We understand that and we understand the job. But the reality, both in terms of the role of the cooperative secretariat and the program—the CDI—is that they were very instrumental in supporting the cooperative sector in Canada.

Obviously we are concerned by this. We are looking at other, new opportunities within the government. Within the sector, we are also looking at how we can restructure ourselves to perhaps provide some of the services that are lost. But again I want to reiterate that the fact that we do not have the funding for the cooperative development initiative will affect the emerging cooperatives.

We're not talking about the established co-ops; we are talking about the emerging cooperatives that are locally based, providing services and jobs and creating the services that are needed within not only rural communities but also urban communities. There's huge potential for cooperatives to develop services or programs for new Canadians and support social cohesion and immersion in the Canadian community, and that's a lost opportunity.

It's the same thing with first nations communities across the country. There are many examples of how the cooperative model has been used in developing and programming. That's also a lost opportunity.

The cooperative model established economic development across the country and will continue to do that, and will be continuing to do it world-wide. But we need to have a partnership with government, and that's what we're seeking.

**The Chair:** Thank you. I'm sorry, but time has expired.

And with that, our time has elapsed for this panel.

We have a point of order from Mr. Bélanger.

**Hon. Mauril Bélanger:** I have here a copy of the letter that was sent by the chairman of the CCA, and its translation. If I give it to the clerk, perhaps he could distribute it to the members this afternoon.

**The Chair:** As I said earlier, we can certainly discuss these matters in committee business.

What I will do now is suspend the meeting.

We have a point of order from Mr. Harris.

**Mr. Dan Harris:** I have a serious problem with simply shuttling that discussion off to committee business. It's already stated in the agenda that discussion of committee business is going to take place in camera.

As to what the chair is going to be doing with correspondence that's coming in, I think the public, and certainly anyone who might provide correspondence to the chair thinking it's going to be distributed to the committee, has a right to know what decision the chair has made in that respect.

• (1130)

**The Chair:** Well, certainly that is something we will discuss in committee business. As far as correspondence that has been received by individual members of committee is concerned, that's not—

**Ms. Hélène LeBlanc:** I just want to point out, if I may, Mr. Chair, that the correspondence that is sent to the chair is sent to the chair of the committee, and as the chair of the committee it is your responsibility and your duty to share that correspondence with all members of the committee.

**The Chair:** Mr. Lemieux has a response on that.

**Mr. Pierre Lemieux:** Thank you, Mr. Chair.

I am not the chair, but my experience has been, particularly on the agriculture committee, that there can be a considerable amount of correspondence that can flow back and forth between witnesses and the chair. It can be e-mail, it can be phone calls, it can be letters. If a witness asks for a particular letter to be distributed to committee, it is generally distributed to committee if it is received in bilingual format. If they send a presentation and ask that it be distributed to committee members and it has been submitted in bilingual format, it is normally distributed to committee members.

But if the chair just receives a letter from a witness and the witness does not ask for it to be submitted to committee members, then the chair, at least in my humble opinion, is not obligated to distribute it to committee members. Quite frankly, I don't think I should see every single piece of correspondence that flows in to the chair, when the person sending the correspondence has not asked for it to be distributed to committee members.

So maybe the chair later can tell us whether the witnesses asked for it to be distributed or whether they did not ask for it to be distributed. That's an important factor. But for my part, I don't want to see all your correspondence, Chair. I'd like to see correspondence that the witnesses have asked to be distributed to committee members. That's what I would like to see.

**The Chair:** Thank you.

Mr. Bélanger, go ahead on the same point.

**Hon. Mauril Bélanger:** I don't want to see the correspondence that is sent to Blake Richards—absolutely not—but I want to see the correspondence that is sent to Blake Richards, chair of this committee, especially when it's copied to the clerk. I would expect

that members would receive that, yes, after translation. If Mr. Lemieux does not want to read it, that's his prerogative, but I want to read it. I will make sure this afternoon that letter is distributed to the members of this committee, because that is our right, sir. You can't take it away from us.

**The Chair:** Thank you.

**Mr. Pierre Lemieux:** Chair, Mr. Bélanger has a copy of the letter. Did the sender of the letter ask for it to be distributed to committee members?

**Hon. Mauril Bélanger:** The sender of the letter has no objection to its being distributed, but ask the sender.

**Mr. Pierre Lemieux:** Through you, Chair, in the letter, did the sender ask for it to be distributed to committee members, yes or no?

**Hon. Mauril Bélanger:** I'm going to ask a question in response.

**Mr. Pierre Lemieux:** No, answer the question.

**Hon. Mauril Bélanger:** Did the chair ask the sender if it were to be distributed or not?

**The Chair:** Thank you. The answer is no.

We've had some back and forth. I'll allow Mr. Harris one last chance.

**Mr. Dan Harris:** I know there's been some back and forth, but Mr. Bélanger has asked to submit that letter to the committee and to have it distributed, which is any member's right. I believe that we should avail ourselves of that official process to get it in, rather than having Mr. Bélanger truck down somewhere to copy it and give it to us.

**The Chair:** I think we're getting into a lot of debate on a point here.

Mr. Marston, I'll allow that.

**Mr. Wayne Marston:** Mr. Chair, I ask this on a point of order. Thank you. I appreciate that.

The critical piece of this is whether this correspondence is germane to the testimony the witnesses were bringing forward to the committee. If it is, it certainly should have been distributed to the committee. If it's not, then fine. The very point Mr. Lemieux made is that there's going to be some correspondence that the committee doesn't necessarily need to see. If this is germane, I'm really shocked that we haven't received it.

**The Chair:** I thank all members for their interventions on this point. I believe this is a matter we will be able to discuss further in committee business. In the last few days, I have received letters from, I believe, about three organizations or groups. I have not had a chance to fully review those and determine the appropriate response. I certainly will do so in due course.

I believe we can also discuss this further in committee business. But if groups wish to have things distributed to committee, certainly if they're in both official languages, I don't see it as being an issue. We'll discuss that further in committee business later.

I will suspend the meeting until 12:45 p.m. Thank you.

• (1130)

(Pause)

• (1245)

**The Chair:** I'll call the meeting back to order.

We have with us this afternoon, for our first panel, from the Co-operative Housing Federation of Canada, Nicholas Gazzard, and from The Co-operators Group, Frank Lowery.

We also have, joining us by video conference, from the Ontario Mutual Insurance Association, John Taylor.

There was a bit of discussion as to who was going to go first. Which one of you will go first?

Mr. Gazzard, from the Co-operative Housing Federation of Canada, we will turn the floor over to you for 10 minutes for opening remarks.

• (1250)

**Mr. Nicholas Gazzard (Executive Director, National Office, Co-operative Housing Federation of Canada):** Good afternoon, everybody, first of all, and thank you for inviting us here.

I am the executive director of the Co-operative Housing Federation of Canada, and I also serve as the vice-president of the housing group of the International Co-operative Alliance.

I'd like to talk, to begin with, about cooperative housing and the roles that cooperatives have played in housing Canadians over the past generation. Then I'd like to also make a few remarks about cooperatives generally and their role in the Canadian economy and what I think might be a reasonable and practical role for the government going forward.

You should have in your documents something called *Co-operative Housing in Canada*. It will have, probably in a more logical order, most of what I'm about to say and more. I'm just going to confine my remarks to a brief overview.

Almost all of the housing cooperatives in Canada have been created on a non-profit, affordable rental model. They began in the early 1970s under three government programs as a response to increasing concern that the model for housing Canadians affordably using public funds, while well-intentioned to begin with, was not serving the purpose it was intended to serve. It was creating, instead of communities, ghettos and no-go areas, and the government felt—with some persuasion from our sector and others—that it was time to look at a different model.

Cooperatives were initially used to create affordable, mixed-income communities—fairly small, not the monolithic, 100% targeted communities that are typical of public housing projects and unfortunately typical of public housing blight.

Over the years there were three major federal programs. The first one was delivered in 1973. The last one was cancelled in 1992. They delivered more than 60,000 units of cooperative housing under those three programs.

In addition, there was a significant program in Ontario that ran for 10 years, lasting from 1986 to 1995, and there have been smaller but effective programs in Quebec and British Columbia. These are

unilateral programs, which have altogether delivered approximately 100,000 units of cooperative housing in this country.

By and large it has been very successful. Cooperatives are businesses, and in some cases these cooperative businesses have struggled, but by and large they've been very successful at doing two things: first, being sustainable businesses; second, housing Canadians affordably and building a sense of community, not merely within the co-ops themselves but in the communities in which those co-ops are situated. Typically, members of co-ops are not merely engaged civically in their own co-ops but are also engaged in the broader community; you'll find that many people coming from cooperative housing backgrounds have run for civic office, have held civic office, and have played very important roles of different kinds in our communities.

Unfortunately, cooperative housing right now is not well advantaged by the way governments spend money on housing. The federal government is out of the housing business. I am not back here today suggesting that it get directly back into the retailing of housing programs, but I do urge the government to continue to fund affordable housing development and to make sure that funding is sustainable and can be depended on by the provinces and territories. It is up to me and like-minded people to persuade the provinces and territories to spend some of that money on cooperative housing development, because our own members are anxious to see more.

That's essentially the model of co-op housing that has developed in this country, rather in contrast to some of the European models, which have favoured what we call the "equity" model of co-ops. I'm going to talk briefly about that. You have a one-pager that I prepared.

There is very little equity co-op housing in Canada. The job that an equity co-op model might do has been mostly done by condominiums. But there is now an increasing desire by a couple of provinces to look at equity co-ops as a way of delivering affordable home ownership programs. As probably no provinces are open to using federal transfers to develop affordable home ownership programs, they want to do that and are looking at the equity co-op model described in this piece—and I won't go into any detail with you—as a way of doing it.

We think it's a logical way to do it, because what we're looking at here is first-time home owners with no experience of home ownership. This is a way for them to work together to make sure they understand and learn the risks and responsibilities of home ownership. We are going to be working with a couple of the provinces to see how that is adaptable.

In the United Kingdom right now they are looking at what is called a "shared equity" model. House prices remain very high in large population centres in the U.K., as is the case in Vancouver, Toronto, Montreal, and Calgary, and I could keep going down the list.

• (1255)

The shared equity model is a way for people who can't raise enough capital through mortgages to become outright owners right away to access home ownership. Shared equity typically involves a partial ownership model, and then essentially renting the rest of your housing from a housing association with the option to increase your equity stake up to 100%.

We think that potentially has possibilities here as well, perhaps with the adaptation of what's called a multi-stakeholder co-op. It's not merely the members, in this case of a housing co-op, who are entitled to run for governance positions; it's perhaps people from the community with different kinds of skills to bring along, but always in a minority position so the actual members of the co-op who are receiving the benefits of membership are still in control.

That's what I want to say about housing cooperatives. I will say it's been a great success story. It's been a community builder. We would love to see more. We would love to see this committee recommend that there be more.

I want to turn briefly to a couple of the objectives of the committee itself. One of those is to identify the strategic role of cooperatives in our economy. You've probably heard this already today. I know CCA has been here. The fundamental difference is that we're talking about people-centred cooperations—people-centred rather than profit-centred.

I'm not here to call profit a dirty word; by no means am I doing that. If the focus is on the people who either supply or use the services, you're going to have an enormously adaptable model that helps to create jobs and sustainable growth, but in the concept of values. I think there's no better time than now for us to be looking at a corporate model that offers a values-driven alternative to some of the practices of the free market over recent years.

The subject of banks came up just before I began my remarks. I won't say that Canadian banks have been terribly bad. They haven't been terribly bad compared with the European ones. It's interesting to observe what's happened very recently in Britain with the interest-rate-fixing scandal at Barclays Bank. What's happening there is a flight of bank deposits into cooperative banking institutions.

I think more and more you're going to see people looking, not to displace the traditional free enterprise capitalist model—I think rumours of its death are being greatly exaggerated—but to finding alternative models that do focus on people and the things that matter, as I said, like jobs and like growth.

I don't expect the government to guarantee co-ops. I don't expect the government to guarantee co-op jobs. I do think there should be a level playing field for cooperatives in the Canadian economy.

That brings me to a remark I heard from Professor Watson, who was supposed to be here today but unfortunately is not. I would like to have met him. Essentially what he said was that cooperatives work and they don't need any additional or favourable support from government.

I remember Mr. Bélanger agreed with that, and I agree with Mr. Bélanger. They don't. But before we start getting into that, I think we need to determine exactly what a level playing field means.

If anybody is under the impression that there are significant breaks through the Canadian tax system and direct grant systems to private enterprises of all kinds, then we need to rethink it. I have a partial list of what is offered by way of breaks to tourism, to the auto industry—remember the bailouts—and to the oil and gas sectors.

Generally speaking, you can find—through the tax expenditure report of the Government of Canada, which the finance department released this year on January 9—the amount of money put out by way of so-called tax expenditures, essentially tax breaks that assist different parts of the economy according to what are considered to be the economic strategic interests of the country.

I'm not going to comment on whether those are real strategic interests. That's for others to decide. What I am saying, though, is that co-ops deserve a fair place at the table. If business is going to be assisted, then there's no reason that co-ops shouldn't be assisted as well. In particular I'd like to see some of the benefits provided by way of resources from Industry Canada also made available to cooperatives.

I would say this is an extremely good time for the Government of Canada to consider the creation of a centre for excellence in cooperative enterprise. It would be a remarkable and fitting legacy for the International Year of Cooperatives, 2012.

Thank you.

**The Chair:** Thank you very much, Mr. Gazzard.

I believe next we have The Co-operators Group.

Mr. Lowery, you have 10 minutes. The floor is yours.

**Mr. Frank Lowery (Senior Vice-President, Senior Counsel and Secretary, The Co-operators Group):** Thank you very much.

Good afternoon, Mr. Chairman and members of the House of Commons Special Committee on Cooperatives, and thank you for this opportunity.

My name is Frank Lowery. I am senior vice-president, general counsel, and secretary of The Co-operators Group Limited.

One in three Canadians is a member of a cooperative or a credit union, and over 10,000 Canadian cooperatives and credit unions employ in excess of 150,000 people and have combined assets of approximately \$167 billion.

The Co-operators Group is one of these cooperative organizations.

We are owned by 45 cooperatives, credit union centrals, federations of caisses populaires, representative farm organizations, and like-minded organizations, with a combined underlying membership of 4.5 million Canadians. As one of Canada's most prominent financial services organizations, we are proud to provide insurance and financial services to more than two million Canadians. We strive to be the insurer of choice for Canadian cooperatives and credit unions, but we serve all Canadians.

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

Inherent in our cooperative values is a commitment to the communities in which we operate through employment, philanthropy, community economic development, and cooperative development. For example, our co-op development fund provides grants to small, emerging co-ops throughout the country. We also support the cooperative development infrastructure in Canada. Last year alone we provided more than \$650,000 in fees and dues to various co-op associations across Canada. Our charitable foundation and associated non-profit provides support for sustainable and community-based development. We provide pro bono and in-kind services for cooperative development both in Canada and abroad.

We are also very proud this year that our CEO, Kathy Bardswick, is Canada's representative on the International Co-operative Alliance.

Let me talk about the role of cooperatives in Canada.

As cooperators, we know that cooperatives contribute to Canada's social fabric and the survival of communities because they are formed to meet common needs and are democratically run. The cooperative model is a form of business enterprise that is most adapted to accomplishing social and public policy objectives. That uniqueness of form has been most particularly recognized during the economic crisis of the last four years when public share and private capital corporations have been bailed out at public expense, while cooperatives generally have not. Public confidence in the financial sector and all of its related activities has been shaken, but as cooperatives, we have confidence in the ethical value base of cooperative enterprises that has never been stronger. Cooperatives, like all business enterprises, require a regulatory environment that is efficient and that does not deter investment or productivity, but they also need an environment that takes into account the uniqueness of the cooperative form.

I'm speaking specifically about the Canada Cooperatives Act. Today I would like to focus most of my remarks on the uniqueness of the cooperative form and the need for legislation that recognizes it. For cooperatives to better succeed—for there to be more and better cooperators in the future—the enabling cooperative statute needs to be modified. Without these changes, the many varieties of cooperatives in all sectors of the economy that will significantly contribute to Canada's future by providing good jobs and stability will be held back. The Canada Cooperatives Act must more appropriately recognize the unique nature of the cooperative form of enterprise.

Modernization of the Canada Cooperatives Act in 1998 drew upon the Canada Business Corporations Act for guidance. The CBCA is a statute governing share capital-based business organizations rather than membership-based or values-based organizations such as cooperatives, fraternal benefits societies, or mutuals.

As might be expected, provisions that make sense for publicly traded capital corporations do not necessarily make sense for member-based cooperative organizations.

In this vein, there are really three issues that I want to bring to your attention with respect to the Canada Cooperatives Act. The first is carrying on business on a cooperative basis. Subsection 18(2) of the act allows an interested person to make an application to the court if the person believes the cooperative is not organized, operated, or carrying on business on a cooperative basis. "Cooperative basis" is defined in section 7 of the act and is basically consistent with the statement on cooperative identity maintained by the ICA, which guides all cooperative organizations.

Section 329 of the act gives a court in the area in which the cooperative has its registered office the ability to have a very wide investigation and gives it a wide range of remedies. Paragraph 313 (1)(a) of the act then gives a court the power to order the liquidation and dissolution of the cooperative if the court is of the view that the cooperative no longer carries on business on a cooperative basis.

Think carefully about what that means. It means that a person, including a person who might not like cooperatives or who might have any number of motives to wind up a cooperative, has the ability to access a remedy to dissolve the co-op without going to the membership and without really accessing the democratic process within the cooperative, which is the whole essence of a cooperative. When that person applies, they apply to a judge, who normally would have had little exposure to co-ops or to cooperative law and who will likely, in rendering a decision and making a judgment, bring to bear public share company principles and precedents.

• (1300)

Without going into any more detail on this specific issue, this is a very draconian remedy, and though to the best of my knowledge it has not yet been utilized by anyone, it is a disincentive to many large organizations not yet under the Canada Cooperatives Act to use this act. So the bigger you become, the less likely you would want to use the Canada Cooperatives Act.

To correct this, it is our respectful view that the determination as to whether or not a cooperative continues to operate on a cooperative basis should be made by a panel of experts appointed by the CCA and CCCM, rather than a court, which normally applies public share capital company law. In addition, the test should be modified such that a cooperative needs to "substantively" operate on a cooperative basis. Sanctions, if it doesn't meet this test, should begin with giving the cooperative a period of time, something like six months, to rectify its failings with respect to this test.

The second issue really relates to the broader act itself. Because it was drafted based on a statute designed for stock companies and not membership-based entities, it has sections within it that might make sense for a publicly traded share capital company that are not truly democratic, given that differential votes are attached to different classes of shares or that minority shareholders have no rights, but it does not necessarily make sense for a democratically controlled cooperative enterprise.

There is a large body of law around the so-called oppression remedy that exists in public corporations to protect minority shareholders, but no such body of law exists for cooperatives. One really wonders why or how such a provision made it into a cooperative act, but it did. We think this needs to be reviewed and, if doing so is considered appropriate, removed.

The dissent right, as it is known in public company law, is also a concept that makes great sense in public share capital corporations that have minority shareholders who have no real influence, but in cooperatives it is an article of faith that votes are tied to membership and not to capital. First-tier co-ops, by definition, must have one member to one vote.

Finally, in corporations that are really capital vehicles, where the owners of capital have a disproportionate share and where occasionally one owner wants to take out another owner, the compulsory acquisition rules also make sense—the majority of a minority, and so on—but in cooperatives this does not necessarily make sense.

Cooperative entities are inherently, and by definition, democratic institutions.

In a democracy, while people have a right to disagree, the majority ultimately decides, and the minority needs to follow the common decision. I heard that earlier this morning: it's one person, one vote. We do not, for example, have the right to dissent with respect to how our taxes are spent, or with respect to other public policy decisions that are made on our behalf by people who are popularly elected. Cooperatives are autonomous groups of people who are brought together for a common purpose and who participate with respect to that common purpose in a democratic way—just as it is in our own democracy.

In a truly democratic organization or society, once the majority has chosen the path that is to be followed, all of the members of that cooperative or society follow. They may disagree with it, but inherent in democratic theory is the right of the popularly elected to set public policy. If in time they don't do this, they will likely be defeated and someone else will be elected. But that is the sanction, not an oppression or dissent right.

The last part is actually not in the act but is a suggestion we would make. This concept should be considered and, once properly drafted, should be included.

In the last year or so there has been a lot of discussion regarding demutualization measures for property and casualty insurance companies in Canada. There are currently no rules governing the demutualization of property and casualty insurance companies in Canada, but it is the expressed intention of the government to issue such regulations for public consultation some time this summer.

About 10 years ago there was a wave of demutualizations that occurred in the life insurance sector. The government of the day developed regulations to govern those demutualizations. We all know how that worked out.

When a company demutualizes, what really happens—and this is my view, since I have been around and have worked for mutual companies—is that the company is converted into a stock company

with shares that ultimately find their way onto public markets. There are winners and losers, and those who have tended to win are a small minority of policyholders, board members, senior managers, brokers, and professional consultants who receive windfall benefits. This was less so in the life sector due to the comparatively larger group of participating policyholders but will be much more evident in the P and C sector if the government adopts rules similar to those for life company demutualization.

The mutual, the cooperative, and the fraternal benefit forms of business do not really benefit from this. In addition, all of the ordinary Canadians who have contributed over time to the wealth and surplus of these companies do not benefit. Only those who are current or relatively recent participating policyholders benefit, even if they didn't really create the vast majority of the wealth and surplus.

The windfalls generated by this type of activity ensure that mutuals, cooperatives, and fraternal benefit organizations as a group will never get to a size that can compete with the private sector capital companies. Though many generations contributed to create the surplus and to support the democratic form of enterprise, there are always a few who are happy to take it and get rid of the democratic form.

This should actually provide an advantage for other member-based organizations in a world where consolidations appear to be essential to retain competitiveness, but in fact quite the opposite is true.

● (1305)

For a company like The Co-operators, if we wanted to keep a mutual in the mutual sector, under regulations similar to those for life company demutualization, we would basically have to have it demutualized, take away all of the benefits of membership, and effectively purchase it as an asset. That means that those with access to large amounts of capital are the ones who our system permits—

**The Chair:** I'm sorry to interrupt, Mr. Lowery, but your time has actually expired. I will give you about 15 seconds if you want to just summarize any last comments you want to make.

**Mr. Frank Lowery:** Okay, sure.

The last comment I was addressing, and I'll just throw this in for the record, is that there's a thing in the U.K. called the Butterfills amendment, which allowed cooperative and mutual organizations to come together without compelling demutualization. I think this is something the committee should consider.

Thank you.

● (1310)

**The Chair:** Thank you very much, and I appreciate your being short with your wrap-up.

Now we do have joining us by video conference as well Mr. John Taylor, the president of the Ontario Mutual Insurance Association.

Mr. Taylor, can you hear us all right?

**Mr. John Taylor (President, Ontario Mutual Insurance Association):** Yes, I can hear you very well. I hope you can hear me.

**The Chair:** Absolutely. We certainly can. The floor is now yours for 10 minutes for your opening remarks.

**Mr. John Taylor:** My opening remarks won't take 10 minutes, but I would like to thank the committee for the invitation to speak.

I am the president of the Ontario Mutual Insurance Association. We are composed of 44 property and casualty mutual insurers incorporated in Ontario. Each of our companies is in excess of 100 years old, the oldest being over 150 years old. The genesis of mutual companies in Ontario, and for the most part in other parts of Canada as well, was the lack of availability of insurance in rural areas of Ontario during the 1830s, 1840s, and 1850s, up until well into the 19th century. Groups of farmers came together and pledged to support each other in the event of a loss, and basically the mutual insurance industry was born out of that.

We're very proud to continue that tradition today. In contrast to some of the mutuals that Mr. Lowery referred to, each of our member companies is a 100% participating company. By that I mean that if you purchase a policy from a mutual insurer in our association, you are a voting member of the mutual and you exercise the full democratic rights of any other policyholder. We do not have a split ownership structure.

Overall we believe that mutual ownership as a structure is extremely important to a diverse financial services sector. We recognize that there need to be different forms of ownership, and we do have concerns about potential demutualizations basically pushing the insurance sector into being either fully publicly traded, and in many cases foreign controlled, or held as private equity. We believe that companies that provide an alternative form of ownership are important.

Right now in Canada, there really aren't any issues concerning the availability of insurance to policyholders. That being said, things have a habit of changing, and it may well be that down the road, due to global conditions, you could see a lack of availability of coverage. In that case, locally owned and controlled mutuals certainly would provide a very viable alternative.

I think that some of the greater threats to smaller companies like our own.... Here I guess I should be clear that we are a fairly small part of the overall P and C sector—although in Ontario, overall, we do rank more or less in the top ten in direct written premium. The largest member of our association writes about \$80 million in premium and our smallest member writes only half a million dollars in premium. By being part of an association we're able to support a wide range or scope of these 44 different companies.

We work closely with our provincial regulator. We do have issues concerning the prevalence of regulatory initiatives springing from global circumstances, which can have an adverse effect on smaller entities. We believe there needs to be strong regulation, but we also believe that all regulation, including the need for capital requirements for insurers, needs to take into account special circumstances that may go with smaller-scale entities such as our own.

Overall we support the idea of mutual and cooperative types of ownership, and we think it's an important part of the Canadian economy. We think where we are today is in large part due to the people who were willing to take on the burdens of ownership when others weren't willing to come forward.

That concludes my opening remarks.

Thank you.

**The Chair:** Thank you very much, Mr. Taylor.

We'll now move to our opening round of questioning.

Mr. Harris, for five minutes.

**Mr. Dan Harris:** Thank you, and thank you to all of you for coming down today.

Mr. Gazzard, in your presentation you spoke about a lot of different things. After reading your pamphlet, *Co-operative Housing in Canada*, I'm just going to repeat part of one paragraph:

Nearly all housing co-ops receive assistance for low-income members through government housing programs. Low-income households pay reduced charges for their housing, according to their income. Other households pay housing charges based on the actual costs of operating the co-op.

I'll let members continue to read that if they like.

So there are government programs that have been in existence for a number of years. Are those coming to an end? What kind of funding do you guys see continuing down the road?

• (1315)

**Mr. Nicholas Gazzard:** Yes, they are coming to an end. Most of these programs were commitments of 35 to 50 years. The 50-year commitments are the older ones.

The concern we have is that there was no plan in sight, no clear thinking at the public policy level on what's to be done, if anything, to continue to make sure these housing providers can offer reduced occupancy charges, reduced housing charges, to low-income households. The problem is exacerbated by the fact that so many of the low-income households and housing cooperatives are not households that are capable of readily improving their income situations, because they're typically fixed income. They might be seniors, frail elderly, disabled.

Unfortunately, the silence that's coming from government right now on a policy around succession planning for this is introducing an enormous amount of anxiety into these households, where previously security of tenure was a paramount principle of this form of housing.

We are strongly urging government—the federal government but also the provincial governments—to join together with us to see if we can formulate a policy that makes sense financially for the government but also makes sense financially for low-income families.

What's likely to happen, if nothing is forthcoming, is that obviously the affordability will disappear. Low-income households will be forced to spend a great deal of their income, probably the majority of it, on shelter before anything else. That's going to result either in economic eviction or people who are simply unable to pay and co-ops that are unwilling to be cold-hearted enough to put these people out on the streets.

What we're looking at is a real threat to the viability not just of the units that are occupied by low-income people but also the cooperative corporations themselves. So we're very concerned.

**Mr. Dan Harris:** In essence, without those government funds, co-ops don't have the funds themselves to absorb those additional costs.

**Mr. Nicholas Gazzard:** There's not a single answer to that, although a single answer is continuously provided by CMHC. CMHC basically says.... It makes the blanket statement that it thinks cooperatives will be okay. What it's not taking into consideration is the fact that although co-ops will no longer be paying a first mortgage, in all likelihood they will have to refinance. Their buildings are old. They were built modestly to begin with. They'll need rejuvenation for them to house a new generation of cooperative members.

That's going to require financing. It's not money that the co-ops have been able to save. They saved some money for capital injection, but not enough.

That's the big tension, if you like, between, on the one hand, allowing your income to go down because you're housing low-income members affordably without subsidies and, on the other hand, still trying to make sure you reserve the capital asset. It's an uncertain business at best, and it's no way to run a housing policy.

**Mr. Dan Harris:** You actually segued into my next question, which was about CMHC. There are some pilot projects right now where the cooperatives are working with the credit unions to try to lend and extend. From what I understand, they're facing huge penalties to break those pre-existing mortgages. Whereas most other mortgages might face penalties of 1%, 2%, or 3%, from what I understand, co-ops are looking at potentially 8% or 9% to break those mortgages. Could you comment on that?

**Mr. Nicholas Gazzard:** Yes, I can. You're right. We are looking already at the idea of refinancing before the actual government programs and mortgages come to an end, but we are facing a hurdle. Most of the co-ops we're looking at are actually financed through the direct lending program of the Government of Canada, through CMHC. Those are for fixed terms. They're closed terms. Any mortgage holder in the room will know what a closed mortgage term is. That's what applies to these housing co-ops.

The problem is that when they want to get out of these loans to refinance them and rebundle them with additional debt, what they're being told is that all of the interest that will be due to the remainder of the term—even if there are four years left on the term—is due and payable, which is, of course, completely unsustainable and completely unreasonable.

We're not saying that CMHC shouldn't be entitled to some penalty for its pains, but if you're telling me that CMHC can't take.... It talks about obligations on the other side, to bond holders through the crown borrowing facility. If you're telling me that CMHC can't find a way to get the return it needs to get—which is below 2% right now—for the remainder of that term through reinvesting, then I'm going to say you're not being serious.

There are ways CMHC could manage its money, manage its financing, and manage the program where it would not need to lose that kind of.... It's saying it will have to keep paying the bond holders, therefore it has to keep charging the full interest. We're saying find another way to pay the bond holders. If you get \$1 million back on a prepayment, fantastic.

• (1320)

**The Chair:** Mr. Gazzard, we're well over time. Are you done with your response? Thank you.

We'll now move to Mr. Butt for five minutes.

**Mr. Brad Butt (Mississauga—Streetsville, CPC):** Thank you very much, Mr. Chair, and thank you, witnesses, for being here.

The first question I will ask is to Mr. Taylor and Mr. Lowery, just for some clarification around what is the difference between the way The Co-operators insurance operates and mutual insurance.... Are there just name differences, or are there actually different structural ways that your two entities operate within the confines of being considered cooperatives?

Mr. Taylor, do you want to start? Then Mr. Lowery can jump in, and I will be going to Mr. Gazzard after that.

**Mr. John Taylor:** Yes, mutuals are a differentiated form of cooperative. I think the simplest way to explain it is essentially that mutuals are owned directly by their purchasing policyholders, whereas cooperatives have a different structure to a certain degree. I think there are very many parallels in practice. Co-operators, however, as an insurer certainly have a different ownership structure than would a mutual company. For mutual companies, the incorporation articles derive out of provincial legislation in Ontario. Basically, mutuality is a very simple ownership structure. It's one policy, one vote, and ownership resides with the policyholders.

**Mr. Brad Butt:** Okay.

Mr. Lowery.

**Mr. Frank Lowery:** I'll just add a little bit to that.

In terms of the even playing field, on a federal level, under the Insurance Companies Act, you cannot incorporate a cooperative insurance company. In 1992, when the acts were revised, I was on the joint committee on behalf of cooperatives, with the IBC, the Department of Finance, the Department of Justice, and OSFI, and at that time I raised the issue as to why cooperative incorporations were not allowed under the act. I was told you're just the same as mutuals. It goes back to your question. It's not true. They're two different forms of organization. In a cooperative, a cooperative organization basically rests on the fundamental principles that were established many years ago, and I referred to it earlier—you can Google it under ICA, the "Statement on the Co-operative Identity". There are seven core principles, and there's a bunch of other stuff around it; there's a long statement around it, but basically that's the value foundation for cooperatives.

Cooperatives came out of the industrial revolution, really, and they were a method for working people to actually ensure that they could eat wholesome food that wasn't sold by the factory owners. That's how Rochdale started. Rochdale couldn't even get a place to have a store because the factory owners owned it. I'm not condemning all of us who have capital—I have capital—but there was a time and a place when working people basically couldn't get decent food, decent wages, decent anything, and the cooperative movement was instrumental in changing that.

**Mr. Brad Butt:** Thank you for that clarification, gentlemen. I appreciate it.



My next questions will be for the Co-operative Housing Federation of Canada, given that housing was my professional background before I got elected to this place. I'm a fan of cooperative housing, even though I came from the private sector. I think there's an important role for cooperative housing.

I just want you to clarify something, Mr. Gazzard. You talk about 35- and 50-year agreements with some of these co-ops. Is it not true that the original idea around cooperative housing is that the subsidy that came from government more or less was the mortgage payment on the property, and that once the mortgage was paid off in 50 or 35 years, depending on what agreement it was signed under, really the cooperative, the members of the co-op, in essence, would get full title to the property mortgage free. They could then make a determination as to how they were going to operate the co-op in the future, including using the fact that they no longer had a mortgage payment and perhaps were in better financial shape as a co-op then when they had a mortgage payment, and therefore they were able to continue to provide some subsidy for people for their housing charges. Of course, in the co-op sector we don't refer to it as rent; we refer to it as a housing charge for the members. So you could have a mix of incomes continuing to live in those cooperatives.

Is it not correct that this was the original concept behind this program?

• (1325)

**Mr. Nicholas Gazzard:** That's a multi-part question. I'll do my best within my time.

First, the subsidies that were provided did not cover the full mortgage payment. In the first program, the section 61 program, the only break the co-ops got was an 8% mortgage, which in those days was a break, of course—this was 1973. They received no direct subsidy from the federal government. In some cases there was an overlaying of a provincial subsidy for low-income households but nothing from the federal government.

The second program was called the 2% program. That provided the subsidy, which was the difference between the actual mortgage payment at the market rate of interest and what it would be at 2%. So there was a significant subsidy divided into low-income subsidy and operating subsidy.

In the third program, there was no low-income subsidy from the federal government but an operating subsidy to assist paying the mortgage.

A lot of officials have said this is always the intention. I've gone back through the cabinet documents. I've gone back through every document I can find, every agreement, every section in the National Housing Act, and nothing explicitly says that the way these programs are supposed to work is that they will be on their own and they'll be okay. The answer as to whether they'll be on their own and okay is not, as I said before, even a universal answer. There are co-ops now that are out of their agreements that are continuing to provide reduced housing charges to low-income members. The problem with that is it's not universal. It's not sustainable, necessarily, either, because those are co-ops that have not run into significant reconstruction or redevelopment challenges yet.

An extreme example of where it definitely won't work is—

**The Chair:** Sorry to interrupt again. We've gone well over time. I'll give you a couple of quick seconds to wrap up your final thoughts on it.

**Mr. Nicholas Gazzard:** In the case of co-ops developed under the urban native programs, they absolutely will not work without government help.

**The Chair:** Thank you very much.

We now move to Mr. Bélanger for five minutes.

**Hon. Mauril Bélanger:** Thank you.

Thank you, gentlemen, for the information, but I'm going to be looking for more.

First, perhaps to our research analysts.... Mr. Gazzard has tried to explain rather briefly the history of cooperative housing in different sections and so forth. Would it be possible to have a short paper giving us a better sense, a more detailed sense, of what that is, so that the information we're getting fits into a framework? Not all of us have all of that background, so I'm asking if that would be possible from the analysts.

You mentioned something about a tax expenditure report in January. Do you know what amount is given?

**Mr. Nicholas Gazzard:** I was hoping to look before I came in, but I didn't. It came out on January 9, 2012. It details tax expenditures for the prior year. I don't have it.

**Hon. Mauril Bélanger:** Do you have a sense of whether we're talking about millions or billions or hundreds of billions? I know it's billions. It used to be close to \$100 billion, if I recall. I'm just wondering if it's gone up or down.

**Mr. Nicholas Gazzard:** I don't know the exact figure, so I wouldn't want to be quoted on the record here.

**Hon. Mauril Bélanger:** You don't. All right.

**Mr. Nicholas Gazzard:** We can find out.

**Hon. Mauril Bélanger:** I'm sure everyone can find out.

On the matter of the renewal of mortgages and this difficulty of having to deal with closed mortgages, my information from CMHC is that they are open to that structure where you'd go to an outside provider of a mortgage and they would still maintain the payments, the subsidy, but that would have to happen at the time of renewal. Once you've signed a closed mortgage...they could—I suspect you're right—but for that to happen they need to be told, and they're not being told. In the absence of a directive from the government, their hands are a bit tied. They have to respect that they have a closed mortgage and therefore have to deal with that.

I just want to make sure that we're aware that indeed the pilot project Mr. Harris has mentioned a couple of times could work as long as it's caught at the time of renewal of mortgage. Are we in agreement there?

**Mr. Nicholas Gazzard:** That's correct.

**Hon. Mauril Bélanger:** All right. Thank you.

For The Co-operators, is it possible, sir, to have a copy of your notes sent to the clerk so that we can get them? I tried to follow all of the.... I need to reread it.

**An hon. member:** Several times.

**Some hon. members:** Oh, oh!

**Hon. Mauril Bélanger:** Yes.

Have these proposals been suggested to the government before? If so, in what format and when?

**Mr. Frank Lowery:** Well, I actually did provide a copy earlier today to the clerk, or I gave it through the CCA, so you will get a copy of the material.

I'll speak a little slower now. I have done that a couple of times and I was able to do it in 10 minutes, but obviously it's very hard to meet that timeline, so I was trying to get it in.

In terms of the proposals, the Canada Cooperatives Act, in its current incarnation, is really new—relatively new. It was 1998, which is, what, 13 or 14 years ago? I joined The Co-operators in 1996. I rose in the ranks in the legal area, and I wasn't in charge, really, probably until about 1994 or 1995. You were just sort of starting yourself. I really didn't know much about cooperative law. At that time, when it came in, I wasn't really that involved. Over time, I've had the opportunity to be involved with it, and you start to see some of the problems with it.

The specific issues around modification—there hasn't been a review I participated in where we've made those suggestions. Where we have actually made a suggestion is on the Butterfills stuff. We have provided information with respect to the demutualization proposals for P and C insurers.

● (1330)

**Hon. Mauril Bélanger:** I have a minute left only.

**Mr. Frank Lowery:** Sorry.

**Hon. Mauril Bélanger:** I'm aware that your CEO sent a letter to the chair of this committee. Do you know if the CEO has any objections to that letter being shared with the members of the committee?

**Mr. Frank Lowery:** I think I'd be a little stronger than that. The Co-operators is a very transparent organization. If we send a letter to the chair of a committee and to the clerk, we intend it to be shared with the committee. I think she will stand behind those comments.

**Hon. Mauril Bélanger:** In the notes you sent, is there more information on the Butterfills amendment?

**Mr. Frank Lowery:** Yes. There is actually a longer reference. I wasn't able to rattle on, but I'd be happy to provide you with further information on that.

**Hon. Mauril Bélanger:** Please do.

Finally, Mr. Gazzard, is there material, a document, on equity co-ops that one could read to help us understand that?

**Mr. Nicholas Gazzard:** No, there isn't. There is no generic document. There have been many proposals going out, most notably in Alberta, and there are some equity co-ops there, but those are

proposals around specific projects. What we want to do is develop something that builds on the one-pager that I did for this meeting—mine, too, I guess.

**The Chair:** All right. Thank you very much.

We will now move to the second round. We will open that round with Ms. Gallant.

**Mrs. Cheryl Gallant:** Thank you, Mr. Chairman.

All the questions will be through you to our witnesses. Thank you very much.

My colleague asked about the difference between the mutual companies compared to the cooperatives. With regard to the cooperatives and the entities involved in the mutual company, I am wondering whether there has ever been a situation where a claim was not able to be paid because the insurer did not have the assets to pay it.

**Mr. Frank Lowery:** I'm not sure I can answer that question specifically. To the best of my knowledge, there has not been.

Mr. Taylor can comment on this, but my understanding of the Ontario mutuals is that they are probably the best capitalized of most insurance companies. They have a dollar of capital for every dollar of premium, and as you know, the statutory requirement is one to three.

I would suspect that a company might go out of business—and I can't talk about the history—but generally we are like any other insurance company. We are required to be reserved like any other insurance company, and like any other insurance company, I suppose there is a possibility of failure. But to the best of my knowledge, in my history that has not happened.

Mr. Taylor might be able to comment on that.

**Mr. John Taylor:** There has never been an insolvency that has left any policyholder short of claims or unearned premiums among the Ontario mutuals.

We actually have a unique guarantee fund that's been established in Ontario. The capital of the mutuals collectively stand behind the insolvency of any one mutual, so each mutual does not stand on its own, from an insolvency standpoint. We essentially guarantee solvency as a group, and that is through the Fire Mutual Guarantee Fund, which was established in the mid-seventies.

**Mrs. Cheryl Gallant:** In terms of rating the liabilities you are covering, is there a rating agency? How are the risks assessed? I'm not talking about within your company. How are they assessed from the outside to legitimize the risk value?

**Mr. Frank Lowery:** I'll speak for The Co-operators first.

We're an insurance company like any other insurance company, so we're subject to all of the same rules and prudential regulation as others are subject to. As you likely know, for federally regulated insurance companies, we have requirements with respect to actuarial assessment of our liabilities. We have requirements with respect to peer-to-peer reviews that are done; that means someone outside does a review of our actuarial liabilities. We also have a pretty stringent system of DCAT testing.

As a federally regulated insurance company, we're like any other insurance company. We're assessed in exactly the same manner. We don't have some special break whereby we can assess risks differently. We assess exactly the same as others do in the marketplace.

• (1335)

**Mrs. Cheryl Gallant:** Would the same go for the mutuals?

**Mr. John Taylor:** Yes. We're provincially examined, through FSCO. We have a financial examination committee that reports to FSCO directly, and essentially our risk assessment, our solvency assessment, is done based on the standards that have been in place over the years.

We don't require independent actuarial assessment necessarily, but we do publish audited statements and have full examination.

**Mrs. Cheryl Gallant:** In terms of investment instruments, how is the reporting done to rating agencies so they can determine the legitimacy or value of an investment instrument?

**Mr. Frank Lowery:** Are you speaking about purchasing shares in us or are you speaking about the investments we hold?

**Mrs. Cheryl Gallant:** I mean the investments that you hold, specifically going back to the situation that did not necessarily involve The Co-operators or the mutuals. We had the asset-based corporate paper issue in which the ratings agencies did not give the proper ratings to these risk vehicles; in fact, they were believed to be no-risk vehicles by many.

So we know what the banks or the investment companies are required to do. What is the process for The Co-operators and the mutuals? Do they use the same ratings agencies, or is there a different reporting agency to which you're responsible?

**Mr. Frank Lowery:** In the case of The Co-operators, our structure as a cooperative—because it's at the holding company level—doesn't relate to the prudential regulations. So we're subject to the same prudential regulation as any other insurance company, on exactly the same basis, with no difference.

With respect to rating agencies, I'm sure you know how the process works. The rating agency comes in and meets with senior management, the CFO and that sort of thing. They go over the books and the financial statements of the company, and they get disclosure from management, including with respect to any investments they make. Federally regulated insurance companies are required to have a prudent investment policy, so we have to manage our funds as a prudent person would. That's all regulated and observed by OSFI. All of that is provided to the rating agencies, and then they go off and work their wonders, I suppose.

I think the issue of rating agencies and whether or not they should be regulated is a separate question.

**The Chair:** Thank you very much, Ms. Gallant. Your time has expired.

Mr. Marston, the floor is yours for five minutes.

**Mr. Wayne Marston:** Thank you, Mr. Chair.

Mr. Lowery, I was listening to your testimony back and forth with our Liberal friend here, and you were talking about the letter your

organization sent. Do you feel that you and your organization have been censored?

**Mr. Frank Lowery:** I don't really want to get into the politics of the current Parliament.

**Mr. Wayne Marston:** I wasn't asking you to get into the politics. I asked for your genuine—

**Mr. Frank Lowery:** We sent it in. I've expressed my view as to what should happen with it. I think it's at the discretion of the chair to deal with it.

**Mr. Wayne Marston:** Thank you.

Mr. Gazzard, the NDP has expressed grave concerns here regarding the impact of the Conservatives' austerity cuts on the cooperative sector, including the \$4 million taken out of the CDI. Of course, we've heard as well about how with the cuts to staffing at the rural and cooperatives secretariat, they've gone from 100 to 15.

Can you explain to the committee what you would see as the impact on your sector, as well as perhaps on the Canadian economy?

**Mr. Nicholas Gazzard:** Well, I suppose I could have an opinion about the impact of that on the Canadian economy, but the actual impact on our sector would be pretty much nil.

As far as the effect on the Canadian economy is concerned, I return to the remark I made toward the end of my presentation, that if we view cooperatives as a vehicle for jobs and growth, then we need to consider massive amounts of money put on the table by levels of government to be investments rather than corporate handouts.

• (1340)

**Mr. Wayne Marston:** The other side obviously felt my first commentary to Mr. Lowery was political. It wasn't. It's a matter that, from this perspective, a committee is required to fundamentally work with due diligence and to take into account the expression of all witnesses and their organizations. We think that's been impeded. The other side has the right to disagree with that.

We have a sector here that employs 150,000 people, with 100,000 volunteers acting on their boards.

One comment I'd like to hear is on the upcoming international cooperative meeting in October. We've been recommending to the committee that they attend, and that it would offer significant information for this committee to consider before they do a report.

Do you think that would be beneficial to the outcome of the report?

That's for either of you or both of you, actually.

**Mr. Nicholas Gazzard:** I'd have to say yes. I think there will be a tremendous amount for all of us to learn at the Quebec summit. There will be speakers from all over Canada and all around the world on different aspects.

I find, doing the international work that I do, that having an international perspective and looking at international good practices is tremendously valuable, and I think the committee would find it extremely useful, too.

**Mr. Wayne Marston:** We're saying basically the same thing that you just did, and expressing some disappointment, so I am interested to hear that.

I'm going to end my questions there, because my time must be very close to up.

**The Chair:** You have time for a response.

**Mr. Wayne Marston:** Oh, have I?

Go ahead, please.

**Mr. Frank Lowery:** I think cooperatives, mutuals, credit unions, and fraternal benefits—all these organizations—are not well understood by people generally. Because there's sort of a low level of understanding of these organizations, we've definitely expressed our view that more study should be done on this than just today's hearing. Not that we don't like the fact that we were allowed to come to the hearing, but we definitely think that more time should be allowed.

The other issue, to the earlier question, is that cooperatives have historically been non-partisan, so you will find people from every political persuasion who are members of cooperatives. In fact, many of the original founders are members of cooperatives. At The Co-operators we have a political involvement policy that really came about because one of our former agents ran for the Progressive Conservatives many years ago in Ontario.

So they're non-partisan. It's really more in that context—I know I speak for myself, and I suspect that I speak for my fellow speakers—that we came here. We really want to talk about a form of enterprise, a democratic form of enterprise, that deserves broader recognition and about why it's valuable. Really, that's our point. Yes, we would agree on more study, and we think there would be a benefit from the Quebec summit.

**Mr. Wayne Marston:** Along the same lines of adding information for the benefit of this committee, we had witnesses who talked about the fact that they felt that some of the people involved from the government side didn't understand this. I'm not talking about members here; I'm talking about workers. It's along the lines of what you were saying. They didn't really understand it, and it would be of true benefit if they were there as well.

Thank you, Mr. Chair.

**The Chair:** Thank you very much.

This has come up a couple of times. It is regarding a letter. I believe The Co-operators sent it. I have received a few letters. As I indicated earlier, I haven't had a chance to review those letters yet. They came in very recently. I hear from The Co-operators that they certainly wish to have their letter distributed. If that request has been made, which they certainly have done verbally, and if I have it from the organization in both official languages, I will forward it to the committee. I just want to make that clear, because as I said, I haven't had a chance to review, but I do hear from this organization that they wish to have that. As long as I have it in both official languages, I would be happy to follow that standard practice.

We'll now move to Mr. Boughen, for five minutes.

**Mr. Ray Boughen:** Thank you, Mr. Chair. Let me add my voice of welcome to the two panel members we have with us this afternoon.

I just have a couple of short questions. First of all, I noticed that in your handout from the CHF of Canada, the voice of Canada's housing cooperatives...I don't see Saskatchewan or Alberta listed. I see Ottawa, Toronto, Vancouver, Manitoba, and Nova Scotia. What happened to the prairie provinces? Did they miss the cut on submitting for print?

**Mr. Nicholas Gazzard:** They're still there, as far as I know.

That merely lists where we have offices. We have members across the country, including in all the prairie provinces, but we don't have offices.... We have an office in Manitoba. Alberta has its own regional federation. In fact, it has two small regional federations. We work with them. Saskatchewan has a sort of fledgling local association, but really, any direct services that are needed by co-ops from a federation are supplied by us. So what you're seeing is where we have offices, not where we have members.

● (1345)

**Mr. Ray Boughen:** Mr. Lowery, what impact will the downturn in the restructuring of the whole co-op organization have on your business? Do you see it as a very threatening turn of events or as something you can deal with?

**Mr. Frank Lowery:** Do you mean the economic crisis from 2008 to date?

**Mr. Ray Boughen:** Yes.

**Mr. Frank Lowery:** Of course, like any other insurance company, our group is made up of a large P and C organization, a smaller life company, and a number of other financial services enterprises. As you will know, with continuing low interest rates, most life products that were sold were sold on assumptions of higher yield. So you invest in long-term products basically to back up your obligations. Of course, what is happening is that with a persistent low interest rate, and possibly even lower interest rates, those assumptions are wrong. What that means is that you effectively have to put in more money and take money out of the bottom line and put it in the reserves. We actually are fortunate that we're not a large company.

If you look at companies like Manulife and Sun Life, which are actually stopping writing particular products at all, they're doing it for exactly that reason. It's a very trying market, and we have challenges. So yes, it will be challenging for us, just as it is for other insurance companies. We don't have a foreign parent, so we don't have access to foreign capital. But it will be challenging for us.

**Mr. Ray Boughen:** Good. Thank you.

Thanks, Chair.

**The Chair:** I still have just over two minutes remaining. Is there anyone on that side who would like to finish the round?

Mr. Butt, I'll turn the floor over to you.

**Mr. Brad Butt:** I want to get some more clarification on how the cooperative housing sector is operating and what their role is. I believe it was in 1993, under the Chrétien government, that the federal government decided it was getting out of the housing business, essentially, so that's something we inherited, obviously, as a government when we came to power. Essentially, there are operating agreements between the federal government where we fund dollars, but basically the provinces are administering a lot of the housing.

You talked about some ways of getting more cooperative housing developed and built potentially down the road, and that could be very much a laudable goal. I think it's around a billion dollars a year or something that we're transferring to the provinces for housing. We're giving them the flexibility. Do you see that as a positive or a negative? Is there a role for the federal government, beyond the funding that we're providing, in working with the provinces to find the best ways to ensure that this money is flowing and flowing effectively? Was that decision in 1993, which is essentially that you send money to the provinces and you let each province do their own thing, a good decision?

**Mr. Nicholas Gazzard:** I think the 1993 decision was inevitable, good or bad. It was very clear post-1982 that the provinces were going to insist on cooperative housing programs, just like health, as being a provincial jurisdiction. It would be a self-serving and easy thing for me to say that I think you should go back into direct delivery and have a top-down approach, but I actually don't think that. I do think, however, and we've made this point often before, that the federal government needs to keep making sure it has accountability for housing dollars spent, and that they're spent in a way that matches spending to outcomes. The outcome we're looking at here is the reduction in housing needs in Canada.

We did actually get a mention of that in last year's federal budget and in the announcement of the continuation of the funding to 2014. It is harder for us because there are 13 different provincial and territorial doors to knock on, not to mention the 47 municipalities in Ontario that are responsible for housing, but I can understand how housing policy needs to be formulated on the basis of more localized housing need.

**The Chair:** Sorry, but time has run out. Thank you, Mr. Butt.

I now move to Madame LeBlanc.

[Translation]

**Ms. Hélène LeBlanc:** Thank you very much.

I want to thank all the witnesses here today.

[English]

I was very interested in your presentation, Mr. Lowery. I would like you to tell us how, in your opinion, the cooperative model helps create quality jobs and sustainable communities in Canada, from your experience.

• (1350)

**Mr. Frank Lowery:** The cooperative form is a form of enterprise, so it's not housing, it's not insurance, it's not...whatever else. It's a form of enterprise. The nature of the form of enterprise is that it's democratically organized. Basically, in a worker co-op, for example, the workers are actually the owners, and they all collaborate on

doing something. Cooperatives have historically arisen in places where there's a need—for example, a social need. That's why oftentimes in Canada you'll see a lot of the co-ops were in rural areas, because a lot of the major institutions at that time were not prepared to provide support in those areas, so they were basically locally controlled.

I always compare it to a barn-building. To me, a co-op is like that. If someone's barn burns down and everyone in the community agrees that they will go and re-establish that barn...that's really the essence of a co-op. It's an autonomous group of people who get together for a common purpose, and it tends to be social.

I was reading an article, actually, on the plane about social trust, and it's interesting. I never thought of this concept before, but the nature of co-ops is such that they basically embed within themselves social trust. If you think about it yourself, which institutions do you really feel close to? Oftentimes, it's your day care; it's your local credit union. It's something that's very close to you in the community that you actually control. That's why cooperatives create long-term sustainable jobs in local communities.

When the banks shut their branches in western Canada, it was the credit unions that basically picked those up and said, look, we will do this business because it's in the local community. It's also why the risks have been less risky for them, because they're close to the risks, they understand the risks, and they understand the underlying obligations that are being put against the risk. That's why generally in the U.S. the only examples of organizations in the credit union movement that went for bailouts were ones that had become very large credit unions that started to emulate the banks. But among those who stayed true to the roots, there were no failures, no bailouts.

[Translation]

**Ms. Hélène LeBlanc:** That's very interesting because you're bringing the discussion into another arena, which leads me to my next question. Do you think the credit union system could take hold in other sectors of the economy, besides those where it is already happening? I am wondering about industry and other kinds of companies. Do you see the credit union system moving forward in that direction?

[English]

**Mr. Frank Lowery:** Yes, I can, and I would say it's already evident. If you look at renewable energy, there's a big windmill in Toronto that's actually a small co-op called TREC, Toronto Renewable Energy Co-op. Co-operators, out of our development fund, gave them \$10,000 or \$15,000 for the original business plan.

There are other areas of society, like health care clinics, for example. You heard earlier from the CCA. In countries in Europe you can have up to 80% involvement. One of The Co-operators' members is something called the Regina Community Clinic. This is a small clinic that was started to basically provide some self-help, and it's doing very well. They've now formed a national federation in Canada for health care clinics.

I think as we move down the road.... Health care takes 50¢ of every tax dollar, they say. That's unsustainable over time. We have to look at alternative structures. I think cooperative structures are the types of structures that will help bring that need together with the ability of people to work together for a solution.

[Translation]

**Ms. Hélène LeBlanc:** You're confirming the fact that credit unions follow an innovative model and offer innovative solutions in response to Canadian challenges.

**Mr. Frank Lowery:** Yes.

**Ms. Hélène LeBlanc:** Let's turn to the international side. This question is for all the witnesses.

A summit is going to be held in Quebec City. Do you think it would be premature for us to write our report without having heard the international speakers and without knowing the international view of credit unions? We could submit our report after the summit, one that is comprehensive and takes into account the international perspective.

I would like to hear from all of our witnesses on that.

[English]

**The Chair:** We have only about 15 seconds remaining. That's not enough time. All of you would like to answer, but.... Sorry.

[Translation]

**Mr. Nicholas Gazzard:** I agree with you 100%.

**Ms. Hélène LeBlanc:** Thank you.

[English]

**The Chair:** I know you asked all witnesses. Would any of the others like to make a comment on that? Be very brief, though.

**Mr. Frank Lowery:** I agree with your comments. The only other comment and observation I'd make is that for us in The Co-operators, time is a long thing. There will be another committee. There will be another time. We will do our best to present what we can to this committee, and we hope it goes forward. We would wish you would not present your work before the summit, but if you do, we will still be there and we will still be giving the same message notwithstanding that.

I agree with you generally. I would prefer you did, but if you don't, we'll still be here.

•(1355)

**The Chair:** Mr. Taylor, I would allow you just a very brief response as well, if you'd like.

**Mr. John Taylor:** I think there are some very exciting things internationally in the cooperative and grassroots movement that the committee would benefit from hearing.

**The Chair:** Thank you to each of you.

We now have Mr. Lemieux for five minutes.

**Mr. Pierre Lemieux:** Thanks very much, Chair.

Mr. Butt's on fire with the housing issue, so I'm going to split my time.

I'd like to just make some opening comments regarding the October congress involving international co-ops and Canadian co-ops. If this committee has its five days of committee hearings, we'll have heard from close to probably 60 co-ops from across Canada in different provinces, from coast to coast to coast. Certainly what we've heard today has been extremely encouraging, just how robust co-ops are, how diversified they are, how present they are in rural communities, that they are financially stable. Their assets are increasing. Their memberships are increasing. In fact, we had a witness this morning tell us that for credit unions it's outpacing the growth of the population. The balance sheet has tripled in the past ten years. These are fabulous messages, particularly in these challenging economic times.

Another thing we heard from witnesses is not well known. In fact, I think one of the aims of this committee is to be informed on these matters but also to broadcast them to Canadians. The advantage of this report coming out before the congress is that it can be brought to the congress. In other words, look at all the witnesses the committee has heard from; look at what the committee heard in terms of the strengths and economic challenges they're overcoming; look at the recommendations the committee made. I think it's nice that the committee has actually finalized its report and can bring it to the congress and present a finished report to the congress.

My hope is that every member here on this committee will go. We don't have to be on the committee to go. We should be going to this congress. It's not that far away. We should be encouraging our colleagues to go as well. In terms of a professional education, there's a wonderful opportunity here that no one should miss. I just say we don't need to go and.... Actually, I think we should go in that capacity. If we start organizing meetings right beside a congress, I'm not sure.... Is that competing? What's going on?

Anyway, I wanted to make those points, Chair. I'll now turn it over to Mr. Butt.

**Mr. Brad Butt:** Thank you very much, Mr. Chair.

I'll go back a little bit more to some of the good things cooperative housing is doing and the success story that it is right across the country.

I have two federal cooperatives in my riding, and I've visited both of them. I've met with the boards and I've spoken to many of the members. They're very proud of these homes. They're very proud of these complexes that many of them have lived in. The complexes are coming close to their 35-year end, and some of them have lived there the entire 35 years, which is incredible.

One of the things I'm curious to know is whether the Co-operative Housing Federation has looked at...I know the non-profit housing sector to some degree tried to do it, and I don't know how successful it was. Maybe The Co-operators or the other insurance and mortgage-related guys would be interested in this. Have you looked at trying to pool assets? Have you looked at establishing a capital revolving fund so that if you do have a cooperative that needs quite a significant amount of capital improvement work—if it has to replace windows and the roof and bricks and balconies and other things, if it's an apartment building—co-ops across the country could kind of pool resources to work together in the cooperative spirit, rather than thinking that either the federal government or the provincial government, or in the case of Ontario, where housing has actually been downloaded to the local municipalities in a lot of cases, would be stuck with the bill? Have you looked at the assets you have there?

There have to be hundreds of millions of dollars of real estate assets that the cooperative community will in essence own when these mortgages are paid off. Have you looked at creating something like that so that you can make cooperative housing sustainable for another 50 years or longer?

**Mr. Nicholas Gazzard:** You kind of had me at the first sentence, actually. Yes, absolutely, very much so. We would like to see if we can change the scale of our sector.

If you look at some of the non-profit housing providers with multiple portfolios in different places, they're looking at some very dynamic business models going forward.

What we're faced with in Canada, however, typically is a housing cooperative that has about 50 units on a single site. Probably the site is largely, although not always, built out, and it's very difficult to leverage that asset.

We want to convince our members of the benefits of doing exactly what you suggest, combining in large groups. I even actually put a proposal before our federation, which is called a blue sky proposal. What if there is only one cooperative in Ottawa, instead of 40? Could we still preserve the sense of community but at the same time leverage enormous benefits of scale, and the asset value you talked about? Instead of pooling reserves individually at the project level, you'd pool them together.

This is a model that's been copied and that's been put into place in Melbourne. It's another good example of an international best practice that you might hear about.

But yes, definitely, it's something we are interested in. I think the smaller private non-profits are faced with exactly the same issues that you describe.

• (1400)

**The Chair:** Thank you very much.

We now move to Madame Brosseau for five minutes.

**Ms. Ruth Ellen Brosseau:** Thank you.

I just want to add to the comments of my colleague, Mr. Lemieux, that we are going to be going to the cooperatives in Quebec. We're really looking forward to it, and I think we are very lucky to have this opportunity to learn more about cooperatives. We're really looking forward to doing it more internationally, on an international

level, to find out what works better in other countries when it comes to health care and how we can improve our health care system, and be more efficient and fiscally responsible, too. We are looking forward to that.

I just have one question for Mr. Lowery. Of the 9,000 cooperatives in Canada, only 70% are registered federally. Is that right?

Okay. What kinds of problems...is there a lot of red tape when it comes to registering a cooperative federally? Is it very complicated?

**Mr. Frank Lowery:** No. Registering a cooperative is basically like registering a company. The federal government keeps a registry.

The only problem with the cooperative registry federally is that even if you look at the registry, there are many co-ops on there that no longer exist. It's not really generally kept up to date, but it's no different from registering a company on the same basis.

**Ms. Ruth Ellen Brosseau:** So the access to programs is fairly easy. I've recently downloaded the—

**Mr. Frank Lowery:** Could I respond to that?

**Ms. Ruth Ellen Brosseau:** Yes.

**Mr. Frank Lowery:** That's a separate issue, and it's back to Mr. Lemieux's opening comments. I would agree with him. Obviously I wouldn't be here talking about co-ops in a positive way if I didn't think they were robust and institutions that we should be promoting.

But I would say—and I agree with his comments, so he's heard all these positive things about co-ops—that there are three things that I don't think you mentioned, which are relevant in the context of why I'm here and why I think other people are here. One is that the level of awareness is very low. We've heard that from everyone. That needs to be raised.

The second is that we believe in an even playing field. I've illustrated one example in the insurance industry, that under the Insurance Companies Act you cannot incorporate a cooperative insurance company. In fact, I don't think you can do it provincially either. So we need an even playing field.

I think that's what the rural and cooperatives secretariat did, incidentally. I think they addressed both those issues.

The last one is that I think you, as government policy-makers, people who are involved in the process and who have been elected to Ottawa, need to think innovatively sometimes as to how you solve some of the problems you have, and some of the public policy challenges you have, particularly in the health care and energy sectors. I think these are things you have to address. You have to ask yourself—put aside the issue of whether you give money to them—whether the cooperative form of enterprise is one that's actually worth promoting. I happen to think it is.

**Ms. Ruth Ellen Brosseau:** Do you have any more comments or closing remarks, Mr. Gazzard?

**Mr. Nicholas Gazzard:** Again, I would echo those remarks. There is room for all kinds of different models of enterprise. There are the traditional ones we know—small and large businesses. But it has become apparent to me, with the amount of interest in cooperatives around the table here today, together with the desire to know a lot more than the body of knowledge seems to be, that there is a great deal of understanding yet to be had about how cooperatives can complement existing business models and can in fact show an ethical alternative, in many cases.

I'll go back to my earlier remark. I'm not the sort of person who attacks capitalism for the sake of it, but certainly we've seen some horrible behaviour, especially in the financial industry over the past five or six years, that seems to be going on. And I think cooperatives do show....

You can have large enterprises as well. Look at Mondragon cooperative in Spain. I don't know if you know about the federation's bank, or Mondragon, but it is huge.

You can have a local day care. It's a very adaptable model that has an ethical basis. It supplies jobs and can create growth. And actually, small cooperative start-ups have a much better success rate for continuing over five years than normal small business start-ups do. So there's a lot to be learned. There's a lot to be gained.

• (1405)

**Ms. Ruth Ellen Brosseau:** Do I have any more time?

**Mr. Frank Lowery:** Can I just add one little thing to that comment?

Certainly when I'm speaking about cooperatives, I'm speaking about other democratic organizations as well, such as mutuals, fraternal benefits, and reciprocal exchanges. It's really elemental democratic ownership by the people who are being served by them. That's what I'm speaking of.

**Ms. Ruth Ellen Brosseau:** Would you like to add anything else, Mr. Taylor?

**Mr. John Taylor:** Just building on Mr. Lowery's last point, when you look at where cooperatives and mutuals and reciprocals come from, they are essentially individuals showing initiative but acting as a group when there is really no profit motive. There is no one in the profit sector willing to deal with many of the issues individuals are facing. I don't think we should lose sight of that fundamental cultural value that drives all of the organizations that are appearing before your committee.

**The Chair:** Next on the list we have Ms. Gallant, for five minutes.

**Mrs. Cheryl Gallant:** I have a question that pertains to federally regulated cooperatives. In our previous session, it was mentioned that we should be looking at cooperatives through a smaller lens rather than just treating the federally regulated cooperatives as other federal institutions. There were a couple of oblique references. I'm wondering, from your standpoint, especially with respect to insurance and mutuals, if you see it to be the case that, being federally regulated and a much smaller entity, it isn't, as a consequence, a level playing field.

**Mr. Frank Lowery:** I'm not sure that this specific issue applies to The Co-operators. We're an entity that has about \$10 billion in

assets. We have about \$3 billion in annual revenue. We're a relatively large institution. Our cooperative is not a regulated financial entity for the purposes of federal legislation. Our insurance companies are.

Having said that, what happens is that when the regulators come to look at our insurance company, they look at things in cooperatives to make sure that we're not doing "bad things". I'll give you an example. I was listening to Mr. Butt's comments with great interest. There is a principle, which is cooperation among cooperatives. But you need to keep in mind that in an organization like ours, which has federally regulated financial institutions, where most of the money is, we have to run it in a prudent way. We cannot, for example, say that we like co-op housing, so we're going to invest \$100 million in co-op housing with a .5% return.

**A voice:** You can't say that?

**Mr. Frank Lowery:** No, we can't. I might say it personally, but as an organization we cannot. So we are subject to exactly the same prudential standards.

Having said that, we do actually do things to support the cooperative sector. Co-operative Housing is a member of The Co-operators. We do actually have a branded insurance policy with them through to their members. So we do things to support them, but they are all in the context of business and all in the context of the normal prudential regulation.

**Mr. Nicholas Gazzard:** Could I add a remark to that, Mr. Chair, very quickly?

**The Chair:** Yes, I'll allow that, and then we'll only have a few minutes remaining, and I'll go to Mr. Preston.

**Mr. Nicholas Gazzard:** To give you a little perspective, Ms. Gallant, no housing co-ops, for example, are federally incorporated. We're all incorporated under provincial legislation. An enormous number of the cooperative enterprises in the country are incorporated provincially because they don't do extra-provincial business.

**The Chair:** Thank you very much.

We have about three and a half minutes remaining in our time allotted for this panel.

I have Mr. Preston on the list, so I'll give you that three and a half minutes.

**Mr. Joe Preston:** I'll rush, then.

First of all, thank you. This is about learning, as you mentioned, Mr. Lowery, and that's truly what it is. If we thought we knew it all, we wouldn't have to have this committee in the first place. We don't know it all. We are trying to gather all the information we can.

Awareness is something that Madam Guy mentioned this morning too. One of her first priorities was getting the awareness out there. We have 9,000 cooperative enterprises across Canada, and there are many numbers of members in each of those co-ops. Those people don't need to be taught the secret we're all learning about how well cooperatives work or how well it happens.

How do we get the message to the rest of Canada? How do we tell them about how good cooperatives are, and why aren't they looking at them as part of either a business transaction or a way of living?



●(1410)

**Mr. Frank Lowery:** I don't have the silver bullet. I will say that on the provincial level, in Ontario, even though we're a federally regulated institution, we're very active in the communities. That includes the head office of our life company in Regina. Basically, we're out there trying to be in the community.

In Ontario we were advocating for the creation, interestingly, of a cooperative secretariat modelled on the federal cooperative secretariat, the reason being the success of the federal cooperative secretariat in bringing a level of awareness, within government particularly, of co-ops and their nature.

I think over a period of three years I met, with the CCA or with On Co-op—their version in Ontario—something like 35 to 50 MPPs, and maybe one or two of them had any idea of what a co-op was. Most of our time was spent bringing awareness.

The co-op secretariat, in my view, was a great institution in the federal government. I know it's going to continue to exist in a lower form. But it's that type of thing—just bringing awareness.

In Ontario, there are these enterprise centres. If you went to an enterprise centre in Ontario and asked about the formation of business, they would never tell you there's a cooperative form. They'd tell you about a stock company. They'd tell you about sole proprietorship. They'd tell you about a partnership. But they would not tell you about a cooperative. Now, they do.

It's that type of thing. It's the little nicks, the little changes, getting people who face the public in places to actually talk about co-ops. We're making some strides, though not as many as we would like.

**Mr. Joe Preston:** Very quickly, you mentioned in your opening, and I wrote it down—if I've written it down incorrectly, tell me—that you think you contribute something in the neighbourhood of \$650,000 in fees to different, if you will, organizations you belong to that are cooperatively based.

I would guess that would be the same.... Would you contribute to cooperatively based organizations? Are you members of them and that's why these fees would be...?

**Mr. Nicholas Gazzard:** It's a much lesser extent. We don't have a \$10 billion balance sheet. But we do provide assistance to different projects. We tend to keep our money within the housing sector.

On the issue of promotion, I don't have a silver bullet either, but this year has certainly helped. Having an international year has helped, and having this committee helps.

**Mr. Joe Preston:** Sure. It gets us talking about it, one way or the other.

Going back to associations and things that happen, I mean, the government isn't always a silver bullet either. I've learned through my time here that we seldom carry the silver bullet. The bullet is out there with the group that knows the situation best.

Mr. Lowery, you've been great today in being able to share that with us, and Mr. Gazzard, the same thing. It's sharing what you do best with the passion that your group has.

Mr. Taylor, I had a hundred questions for you about small mutuals, but I think my time is gone.

**The Chair:** You have about five seconds.

**Mr. Joe Preston:** Oh, let's see. Small questions about mutuals. That won't work.

**The Chair:** All right. Given that, I do want to thank all three of our witnesses.

Again, we've had some great witnesses today, and this panel is certainly no exception. We appreciate your expertise and your information being provided to the committee.

**Hon. Mauril Bélanger:** Mr. Chair, will Mr. Taylor send us his notes as well?

**The Chair:** Mr. Taylor, did you hear that request?

**Mr. John Taylor:** No, I'm sorry.

Mr. Bélanger has asked whether you would be willing to share your notes with the committee.

**Mr. John Taylor:** Yes. They're handwritten.

Would you like a direct copy or a transcription?

**The Chair:** They are, of course, available in the blues, but if you'd like to send in your notes to the committee, we would certainly be....

**Mr. John Taylor:** Shall I do that to the clerk?

**The Chair:** Yes. Thank you very much.

I'm now going to suspend the meeting until 2:30.

●(1410)

\_\_\_\_\_ (Pause) \_\_\_\_\_

●(1425)

**The Chair:** I'll call the meeting back to order. I'll ask members to take their chairs.

We have with us here, for our final panel of the day, two members: one from the Farmers of North America, Mr. Bob Friesen; and from Gay Lea Foods Cooperative Limited, Mr. Michael Barrett.

Which one of you would like to go first for opening remarks?

Mr. Barrett, the floor is now yours for up to 10 minutes for your opening statement.

●(1430)

**Mr. Michael Barrett (Chief Operations Officer, Gay Lea Foods Cooperative Ltd.):** Thank you very much. I appreciate the opportunity to be able to come forward.

Gay Lea Foods' story is going to be a little different, I think, from that of some of the other associations that have come forward. I'm not representing an association; I am representing a singular co-op, but a co-op that lives by the same principles and the same values that certainly Frank Lowery was espousing.

Just to put it into context—and I have provided this, so I'm not going to read it to you, I'm only going to touch on some salient points—Gay Lea is Canada's second largest co-op. It's the largest co-op in Ontario. It was the eighth largest non-financial cooperative in 2010. We have 1,200 dairy farms across Canada, 3,300 members, and our members not only consist of dairy farmers but employees as well.

Our members produce some 800 million litres of milk, which is about 30% of all the milk that's processed in Ontario. Our annual revenues this year will be over \$500 million. We are the fourth largest processor in Canada, based on volume. We certainly have many sites across southern Ontario.

We have 650 full-time and part-time employees. We are a major processor in a niche market. If you eat cottage cheese, sour cream, butter, or partake in the sins of aerosol whipped cream, it likely has been produced in my facilities across southern Ontario—there's just a good chance.

With all due respect, we produce the best cheese south of St. Albert.

**Voices:** Oh, oh!

**Mr. Michael Barrett:** In the past decade our cooperative has invested \$170 million in capital expansion. We are, except for one small capital lease, debt-free. This has been funded by our members and our members only.

Not only are we a good cooperative, but we are also a good employer. We have been in the top 100 employers in 2010-11 and the top employer for employees over 50 in 2011. In the GTA, from 2009-2011, we received excellence in governance awards. We were nominated for a grand prix for product innovators three years running, and we also won a Global Co-operator Award. Our values and principles are very important to us.

We are governed by the Co-operative Corporations Act. Like many other cooperatives, we have a full slate of farmer-member directors. We have a governance model that certainly is one member, one vote. Over the last five years we've invested hundreds of thousands of dollars in being able to develop training in governance models and leadership training, not only for our own cooperative, which has won awards in the cooperatives sector, but also we offer that through the other agricultural cooperatives.

One of the important elements of being in a cooperative is ensuring it's a good business, but also being able to understand how to have good governance and making sure you relate to your membership.

Gay Lea Foods puts 40% of its profits back to its members, so it goes back to our farmers. It goes back to be reinvested in capital goods, whether it's tractors or farms, or to ensure there's economic rural sustainability. It's very important for us in order to support the rural community.

Why do farmers belong to a dairy cooperative? Certainly it's the ability to own part of the processing sector. It's being able to have influence as a collective group, and also being able to share in the profitabilities of a vertically integrated industry. Also, one cannot own the industry, but 1,200 can own part of the industry. Just to put

it into perspective, our members have \$80 million invested in a cooperative that has about \$230 million of assets.

Cooperatives certainly are an element for change. If you look at what's happening with the challenges happening to global trade, certainly the supply management industry is under pressure from a global perspective. I'm not going to take all the time to talk about how a strong cooperative is a very strong, viable alternative to supply management, but if you look at three countries in particular.... New Zealand has always being touted as the goal and the model for change. New Zealand has a very strong national cooperative, supported by the federal government and legislation in order to make sure it is a viable entity. If you look also both in Denmark and Holland, the cooperatives are supported very strongly through legislation in order to ensure there's a viable dairy industry.

In countries where there is not strong legislation for the co-op movement—if you look at Australia, Germany, and Great Britain—the economics of dairy within those three countries are of farmers going bankrupt, lower milk costs, and higher costs of production. Britain, for example, has become a net dairy importer when it was a net dairy exporter.

● (1435)

The cooperative model does provide an alternative to differing economic trade models that have been suggested.

The greatest loser through all these changes that have taken place economically certainly has been the farmer. Why does the dairy sector need a cooperative? Certainly it is about being able to sustain itself. It's also being able to ensure it has economic resilience. Gay Lea and someone like Agropur have been a demonstration of that.

In the cooperative sector we don't ask for special treatment, just equality of opportunity. We ask not for favours but for fairness, and we look not for unqualified support but for qualified investment.

The cooperative sector needs the following, according to Gay Lea's perspective. We need recognition that the cooperative sector is a viable economic and social alternative. We need the same access to the same level of economic, legislative, and business support. We have to be able to recognize the role the cooperatives already play within society. We have to understand that the governance model and its values are critically important and that transparency is an important component, and there is a difference in being able to have that as a model.

We have the saying “the 98% rule”, which is that 98% of the information in the cooperatives should be shared. My salary and my bonus are transparent to my members, because they own the cooperative.

Also, there has to be a recognition that the cooperative sector is not only an economic model for domestic growth but also an economic model for international aid. I've spent a great deal of time overseas through Gay Lea's support of international development. I have walked the streets of Kathmandu, and I have seen the good intentions of many nations built into buildings that are closed; they are closed because they are not sustainable. What I see happening in third world countries and developing nations is that cooperatives go in and they create an infrastructure for sustainable economic development and they last. They don't last three years. They don't last 10 years. They last for a lifetime.

We built a school in Nepal for 300 children. Today it has 1,200 children. We built three classrooms. The community built another 12, a computer lab, a science lab, a well, and indoor washrooms. It's through the common goal of an economic model, the cooperative model, that makes this happen.

But not only does it occur in the international field, it also occurs in the rural field as well. Gay Lea Foods gives probably about \$350,000 to the development of cooperatives within Canada. We have been able to help support things like the development of local grocery stores where the only grocery store is being closed and the large retail organizations are not supporting the local grocery store. We have made donations and given governance support through the Ontario Co-operative Association in order to make sure that where a community has no grocery store for 80 kilometres, that community is self-sustained.

The cooperative model is a very important thing. Gay Lea is a model of how that works. We have been able to build our cooperative. We have been able to triple our sales. We have been able to quintuple our profitability, not based upon an economic handout but because of a model that works and is sustainable through our community.

Thank you.

**The Chair:** Thank you very much.

We now have Mr. Friesen. You also have 10 minutes for opening remarks.

**Mr. Bob Friesen (Farmers of North America):** Thank you very much, Mr. Chair, and thank you for the invitation to be here.

I'm here on behalf of Farmers of North America. I'll tell you a little bit more about that organization later on. Suffice it to say for the moment that it's an organization that has as its number one mandate improving farm profitability. To that end, in fact, I would like to thank the current government for some of the things they have already done that have provided our members with the tools to be more profitable. Of course, if I were to go into those, this discussion would be a lot longer.

I do want to take a bit of a different approach this afternoon when it comes to co-ops.

I believe the reason, possibly, that FNA was invited to this forum was that very often people say that we have co-op-like concepts in our organization. To that end, I'll explain a little bit about how we operate. My focus is also going to be very narrow, in that we deal primarily with farm inputs. Certainly farm inputs are very important.

The way our organization is structured, with some co-op concepts, has ended up saving farmers hundreds of millions of dollars on the input side. What I am going to do, of course, is express support for co-ops.

I want to talk a little bit about our own unique innovative organization. Then I would like to throw an idea on the table that I believe has the potential to free up a billion dollars for investment in agricultural projects, whether they are co-op agricultural projects or any other organizational projects that help to improve farm profitability.

Let me say, first of all, that among the whole gambit of co-ops, certainly our focus is more on the agriculture or farmer co-ops, and, as I said earlier, on the input side. Of course, we also know that there are very successful marketing co-ops, as my colleague from Gay Lea has just talked about. We know that we have had co-ops that weren't at all successful. They started out very successfully but suddenly lost their direction, and they are no longer in the hands of farmers. Then we have other input supply co-ops that have been very successful.

Suffice it to say that we believe that co-ops should not be supported for ideological reasons but rather for a very pragmatic and on-the-ground reason, which is that they need to help introduce competition. If a co-op or a farmer co-op doesn't help to introduce competition in the market, then we believe that it's there more for ideological reasons. We think that's simply the wrong approach. As I said earlier, there certainly are co-ops that have been very successful in doing it.

We do know that farmers need a leg up, given the consolidation in the downstream and upstream industries. One of our goals at FNA is to get farmers to the point where they can go to lower-cost, more profitable options because they can.

In a meeting I had with a fertilizing industry a few years ago, they basically said they were increasing prices because they could.

We would like, and have been successful in certain areas already, to continue to get farmers to the point, through our organization, where they are choosing the co-op or the other organizations or lower-cost and more profitable options because they can. I believe the co-op organization has this as a mandate, too. That would clearly aggregate farmer power and help to empower farmers in the marketplace.

Again, let me say, and I can't emphasize this enough, that whether we're talking about co-ops or whether we're talking about innovative organizations such as the FNA, it has to result in more competition in the marketplace. And the benefits of that added competition have to accrue back to farmers.

Now you may wonder why I emphasize the area of input for farmers so much. Farm Credit Canada, in their 2009 client survey, asked farmers what their top concerns were. The top three concerns for farmers in that year were, number one, input costs; number two, profitability; and number three, market prices.

It's interesting. I'm not a psychologist, but since input costs are their concern, and then profitability and then market prices, that tells me that they consider input costs to be a greater obstacle to profitability than market prices. That's why we're focusing so much on input cost. That's really the very reason that Farmers of North America started.

• (1440)

As I describe our organization, I'll let you pick up on where we may be similar to a co-op. We are not a co-op, but we certainly adopt some of the same concepts.

FNA is simply a farmers' business alliance. It's a membership-based organization of farmers that has as its mandate to improve farm profitability. We have around 10,000 farmer-members across Canada. We have members in every province except Newfoundland.

FNA, and I'll refer to it as FNA from here on in, does not retail any products. FNA develops relationships with input suppliers, negotiates lower prices for farmers, and then has the farmer deal directly with those input supply partners. We're a membership-based organization that creates a strong crosswalk between input suppliers and our farmer members.

Now, if there are input suppliers that aren't interested in dealing with FNA, we simply create our own suppliers. One of the things we haven't found nearly as evident in the upstream industry as in the downstream industry is the fact that everybody in the value chain believes they should partner together to make sure every part of the value chain can be profitable.

As I said, one of the things we've done is to develop relationships and partnerships with input suppliers. If they're not willing to do that, say in the fertilizer industry or the pesticide industry, we simply create our own input supply partner and operate it in the same way we would if we dealt with any other input supplier. FNA will negotiate a price for its farmers, and the farmer will deal directly with that input supplier.

Where it is similar to a co-op is that the benefits of the low prices accrue to the farmer-members. In some cases what we've done, to prevent the price transparency that will allow every farmer in Canada to benefit from reduced prices, is to accrue those benefits back in what we call "empower awards". Our farmer-members will receive a discount up front, as a member, and then any other benefits and savings accrue back to those members in what we call empower awards.

The difference between FNA and co-ops is that our members receive a discount on each specific product and program they're involved in. In other words, we don't average out what you would call profits and losses and then simply accrue benefits back. A farmer who uses fertilizer specifically would get all the savings available in fertilizer. It's not averaged out with any other savings in any other product.

The other difference between FNA and their organization is in governance. We have an advisory board, but we have a governance structure of one person. The reason we've kept the governance that simple is because we know we need to deal quickly.

I don't know how many of you have seen the Sharon Stone/Gene Hackman movie, *The Quick and the Dead*, but you will remember the tag line for that movie was, "In this town you're either one or the other." We know that if you're not where the need is in the time you need to be there, the need is gone. We have a very simple governance structure that makes decisions very quickly. A decision can be made today based on whatever input we get from an advisory board or from our members.

Having said that, and having described what we consider to be a very innovative organization, let me go to the suggestion I have. I know there has been a lot of talk about eliminating funding for certain organizations, etc. We believe there is a structure in place where, if we create an incentive for farmers to invest, we think farmers will invest a lot of their own money in the agricultural industry. I would propose this suggestion—and I have copies here in both English and French, which I'll give to the secretariat later on and it can be distributed.

In our current business risk management structure that we have in Agriculture, we have what we refer to as a top 15% tier—

• (1445)

**The Chair:** I'm sorry to interrupt. You have about 10 seconds.

I'll give you a little more leeway to wrap up.

**Mr. Bob Friesen:** Thank you.

I will finish on this. We have a 15% tier called AgriInvest. Currently there is over \$1 billion in AgriInvest, which consists of fund 1 and fund 2. Farmers can withdraw that money any time they want.

However, they have to withdraw out of fund 2 first, and that money is taxable. We know that farmers won't withdraw that money if they're in a taxable situation. We believe that's why there is over \$1 billion languishing in these funds. Farmers will typically wait for a year when they're not taxable to withdraw that money.

We're simply suggesting to create an incentive. If a farmer invests that money in a prior-approved project, whether it's a project that a co-op wants to initiate or another organization, then a farmer would have the taxes waived for that withdrawal. That would free up the \$1.3 billion currently in funds 1 and 2 and would be a tremendous stimulus for the agricultural industry across Canada.

Thank you very much.

**The Chair:** Thank you.

Now we'll move to our first round of questioning. First up we have Madam Brosseau.

**Ms. Ruth Ellen Brosseau:** Thank you very much for taking the time and having this presentation and interaction with us today. It's really important. I always find it very hard, because we hear the presentation for ten minutes and then we get our five minutes, and it's so hard to base our questions.... I find that we are just scratching the surface, because we have so much to learn. It's an important sector, so I'll get going on my questions.

Mr. Barrett, you talked about the dairy sector being threatened by a great deal of change when it comes to the end of supply management, or the potential end of supply management, in some trade agreements, and how successful the cooperatives are and how resilient they are. I think it's really tried and true because of their democratic process, how they are just built on really building a better community and life. It's not just profits; it's making a better place and environment for all.

I wonder if you could elaborate a little bit more on that, please.

• (1450)

**Mr. Michael Barrett:** Thank you.

Certainly for all the examples that I've given you...I've actually travelled to all those countries, and in fact have taken directors as part of our director development program. I have been to Europe, New Zealand, Australia, etc., and I've been able to spend literally weeks with government officials and have been able to examine the structures. We have primarily done that as a cooperative, in order to understand the nature of the beast, if and when—and I'm not advocating for the end of supply management by any stretch—supply management does come to an end, to understand what Gay Lea and the dairy sector will encounter and what is the best model.

Certainly it's been very clear that the nations that have been very successful in being able to develop what I would call a secondary dairy market, in the sense of life after supply management, have been the countries that have very strong cooperatives as the centrepiece of their dairy sector. Where there are multiple, weak, regionalized cooperatives, the country struggles in the transition. Certainly the ones that I have mentioned, New Zealand, Denmark, and Holland, have very strong cooperative sectors, which again, as I mentioned, are very much supported by government policy. The dairy sector has been able to make that transition and grow that dairy sector and has been able to ensure that they put a livelihood back into the dairy sector, whereas the countries that do not still struggle today, understanding that legislatively there is support but financially there is no support. So they have been able to do it independently. But the cooperatives, the strong, central cooperatives, are always the commonality in the successes.

**Ms. Ruth Ellen Brosseau:** Do you believe that the federal government does still have a role in cooperatives, in fostering and in education, and that when it comes to legislation it does have a role to play?

**Mr. Michael Barrett:** I believe it does have a role to play. Certainly I've been reading articles and magazines as well. I'm not asking you for any favours; I'm just asking for fairness and equity, so that we have the same.... I guess the quick answer is yes.

**Ms. Ruth Ellen Brosseau:** Mr. Friesen, would you also agree that the federal government does have an active role to play when it comes to cooperatives and legislation, and even when just thinking about our future? We know that cooperatives are very successful, they are resilient, and they build jobs and better communities. Would you agree that the federal government still has a role to play in working with cooperatives and embracing them?

**Mr. Bob Friesen:** Again, in my case, I'm very focused, but to the extent that a co-op gives farmers a leg up in being more cost-competitive...I believe they should facilitate or pave the way as much

as possible for co-ops and other organizations to empower farmers, yes.

**Ms. Ruth Ellen Brosseau:** Mr. Barrett, you said:

In the cooperative sector we don't ask for special treatment, just equality of opportunity. We ask not for favours but for fairness, and we look not for unqualified support but for qualified investment.

I agree with you. This being the International Year of Cooperatives, we are doing this great work. We are learning so much, and I'm actually quite happy to be here. I think the time is flying fast.

We do have the upcoming international cooperative meeting in Quebec. To do this report and submit it...don't you think it's a little bit sad in a way that we're not able to be exposed to what's happening on an international level, to see best practices and try to apply them here when it comes to maybe even agriculture, health care, and housing? Do you think it would be a good idea if we attend that?

**Mr. Michael Barrett:** I guess I would have somewhat of a different opinion, in the sense that I certainly support the concept of the Quebec summit. I'm going to be there for a week of my life. There is actually a pre-symposium in which all the dairy cooperatives across Canada are getting together for two days as well. So that's part of it, and I certainly see the value in that.

But I also see the value in not always waiting for a singular event. I think there's a need to visit all the cooperatives in your neighbourhood, the day care cooperatives, the agriculture cooperatives—regardless of the Quebec summit. I think there's a need to do this all the time, so that there's a greater knowledge of what cooperatives are and what they do. Attending is certainly positive, and I will be there as well.

• (1455)

**The Chair:** Thank you very much. Time has expired for that section.

We're moving to Mr. Hoback for five minutes.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, Chair.

Thank you, witnesses, for being here today. It's great to see you out in the middle of July, coming here to talk about your associations and your businesses and how they function, and giving us some insight on how they work.

I come from Prince Albert, Saskatchewan, and we have lots of cooperatives in the area. The Saskatchewan Wheat Pool used to be one of the cooperatives in Saskatchewan, so there's definitely a history of cooperatives and of how they worked, and worked very well, in our province for sure.

In my hometown of Canwood, the co-op is the mainstay, if you want to get eggs and milk and groceries and stuff like that. You can go to Canwood and go to the co-op and you know all that stuff is there, readily available, always fresh, always good. And it employs local people, so it's always positive too. Plus, they also have fuel and stuff like that.

I find interesting the business models you have both chosen to operate your associations.

Mr. Friesen, your model is a little different from that for an average cooperative. I have a couple of questions that come from the last witnesses we had before regarding demutualization in the insurance sector. I wish there had been a question on that, because one of the concerns I've heard about is with regard to cooperatives merging. You see one co-op merge with another co-op, and there is a loss of that independent or local flavour on the board.

Mr. Barrett, maybe I'll start with you on that. Your cooperative is province-wide, is it not? You have representation right across the province? How do you go about selecting your delegates, and who sits on your board?

**Mr. Michael Barrett:** Certainly it's a totally democratic process. We have the province divided into four zones. Each of the four zones elects 15 delegates, so we have 60 delegates. Each of the zones elects two directors, and there are two elected at large, so we have a board of 10 directors. It's geographically very much like the House of Commons. It's determined by population and the amount of milk that's produced in each county.

**Mr. Randy Hoback:** So it's pro-rated based on the volume of milk out of that county, for example?

**Mr. Michael Barrett:** It is, and on how many members are within each zone as well.

**Mr. Randy Hoback:** That makes sense.

Mr. Friesen, your business model is very different from that. You're not necessarily running as a cooperative. You're running more as, let's say, a private entity that's offering very cooperative-type services. Is that fair to say?

**Mr. Bob Friesen:** Yes, that's correct. You're right—we aren't like a co-op model in that we don't retail. For example, together with an input supply partner, we registered a generic pesticide and negotiated a price that was 50% of the price for the original product in the market. The savings from that go directly back to members. Those are not contingent on what the savings might have been on a fertilizer or an inoculant. Those savings specifically for that pesticide accrue back to the members.

**Mr. Randy Hoback:** Actually, FNA, for the benefit of my colleagues in the prairie provinces, just with the Roundup factor alone, has changed the landscape in Saskatchewan, if not all the prairies. On the price of Roundup, for example—and I know you're doing it with fertilizer now too—the concept you are using is very interesting. It shows two different concepts that actually can work. They're different, but they work, and that benefits the farmers at the end of the day.

Have you found, Mr. Barrett, that there have been any restrictions on your growth because you are a cooperative? Have you found any limitations? That's one of the things we heard from some of the mutual companies that wanted to demutualize. They were saying that system restricted their growth and they couldn't go to the next level. Do you see any of that in your situation?

**Mr. Michael Barrett:** Certainly one of the primary issues that we have is financing growth. As I said earlier, we've invested \$170 million, which has come primarily from my members. We have some very aggressive growth targets, and the element we have difficulty with is being able to have the cooperative sector and the credit union sector fund that. It's an issue for us. The opposite side of that is that

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

We are under the Ontario Co-operative Corporations Act. We've looked at being able to change ourselves to "Canadian" under the Canada Cooperatives Act. We've had some difficulties just in the sense that the business model, as illustrated by Frank Lowery, doesn't really represent us. It's the class of membership and the voting class of membership and membership shares that kind of disrupts the one member, one vote principle that we want to live by. So we have stayed under the Ontario Co-operative Corporations Act. That is limiting for us, because we see ourselves being able to grow.

•(1500)

**Mr. Randy Hoback:** It comes back to the business philosophy you operate under.

With your members, ease of access for membership, to become members of your board—

**The Chair:** Mr. Hoback, your time has expired, if you want to just quickly put your question.

**Mr. Randy Hoback:** Actually, why don't I stop right there?

Thank you for your time, gentlemen.

**The Chair:** All right. Thank you very much.

We will now move to Mr. Bélanger.

**Hon. Mauril Bélanger:** Thank you, Mr. Chairman.

Mr. Barrett, could you, either now or through some homework, give us some specific examples, and how they relate to the various acts or regulations, of where the playing field is uneven between businesses, especially with a share structure, versus co-ops?

**Mr. Michael Barrett:** I could certainly provide that for you. I could specifically point out the pieces in what I call the Canada Cooperatives Act and how it restricts us. I could certainly provide that to you.

**Hon. Mauril Bélanger:** Do you have any idea of when?

**Mr. Michael Barrett:** Well, I'm at a camp this week with my kids, but I could probably do it when I'm back in the office next week.

**Hon. Mauril Bélanger:** I'm not talking about tomorrow.

That would be great. If you could send it to the clerk, he will make sure that everybody gets it. Thank you.

Speaking of which, I wanted to ask the clerk or the chairman a question. At a number of co-ops I've been visiting they have asked me if they will be able to appear before the committee. I said that it may be doubtful. If they can't, they ask where they can send a submission and until when. I'm relaying the question to both of you gentlemen for an answer as to when. If co-ops in Canada want to send in some written material, until when can they do that?

**The Chair:** I would assume, given that this committee has set aside time to write its report, it would be prior to that. I suppose that we could discuss it further at committee business, if members chose. That would be my assumption at this point.

**Hon. Mauril Bélanger:** I'll bring that up at that time, then.

Mr. Friesen, I must admit, and I apologize for my ignorance, that I was not familiar with the FNA, so I'm going to ask some questions to understand.

Is there a share structure to FNA?

**Mr. Bob Friesen:** No, there's no share structure.

**Hon. Mauril Bélanger:** So who owns FNA?

**Mr. Bob Friesen:** It's owned by one person. It's owned by a farmer from Swift Current, Saskatchewan, who started it in 1998. He owns the structure.

As I mentioned earlier, FNA doesn't retail anything. Our revenue is the farmer membership money, and that money goes towards paying staff and agrologists and towards program development.

**Hon. Mauril Bélanger:** Does he make all the decisions?

**Mr. Bob Friesen:** He makes them together with the rest of his staff and the advisory board, yes.

**Hon. Mauril Bélanger:** You're the CEO.

**Mr. Bob Friesen:** No, I'm the VP.

**Hon. Mauril Bélanger:** The sheet we have in front of us reads that you are the VP of government affairs and the chief executive officer.

**Mr. Bob Friesen:** I'm CEO of Farmers of North America Strategic Agriculture Institute, which is an organization that does informational research for the farmers so that they can make better decisions.

**Hon. Mauril Bélanger:** Is that an organization owned by you?

**Mr. Bob Friesen:** No, that's part of the FNA.

**Hon. Mauril Bélanger:** Are there any other such organizations the FNA owns?

**Mr. Bob Friesen:** No. FNA Strategic Agriculture is an arm of FNA.

**Hon. Mauril Bélanger:** Are there other arms?

**Mr. Bob Friesen:** It's simply an organization that does informational research. Rather than developing programs and negotiating prices, this arm of FNA deals with informational research.

**Hon. Mauril Bélanger:** Are there other arms?

**Mr. Bob Friesen:** No.

**Hon. Mauril Bélanger:** Are co-ops members of FNA?

**Mr. Bob Friesen:** No, they're not members of FNA. We have talked to co-ops and have suggested that we could help them work together with our input suppliers.

**Hon. Mauril Bélanger:** Are they not accepted as members, or do they just not want to join?

**Mr. Bob Friesen:** The membership structure is farmer-members.

**Hon. Mauril Bélanger:** So there are no co-ops.

**Mr. Bob Friesen:** No.

**Hon. Mauril Bélanger:** Okay.

You say there are 10,000 members.

**Mr. Bob Friesen:** Yes.

**Hon. Mauril Bélanger:** Are they all in Canada?

**Mr. Bob Friesen:** Yes.

**Hon. Mauril Bélanger:** Does FNA operate outside of Canada?

• (1505)

**Mr. Bob Friesen:** No. When FNA was started, there was an organization in the U.S. that was interested in being part of the structure. I believe there were some that bought memberships. But Farmers of North America is a Canadian organization.

**Hon. Mauril Bélanger:** Does FNA own any of the input suppliers or have interests in them?

**Mr. Bob Friesen:** FNA itself does not, but the president of FNA has interests in some input supply partners. We have what we call AgraCity, which has been doing the fertilizer. They are the ones who brought the fertilizer in through Churchill, as you might recall. We also have a generic pesticide organization that is also an input supply partner, in which the president of FNA would also have an interest.

**The Chair:** Mr. Bélanger, your time has expired.

**Hon. Mauril Bélanger:** It has, has it?

**The Chair:** Yes.

We will now move to the second round of questioning, and I have on the list Mr. Boughen.

**Mr. Ray Boughen:** Thank you, Chair.

Thank you, gentlemen, for taking time to visit with us this afternoon.

First of all, Mr. Friesen, I have a question. I need some clarification on whether I heard correctly. Let me just say that it sounds very interesting. I heard you say there was a sum of money that's, for want of better words, now in trust, money that could be invested.

**Mr. Bob Friesen:** Yes. In the federal-provincial governments' safety net programs or business management programs there is a top tier that's called AgriInvest. Part of the definition of AgriInvest is to invest in projects to maximize future revenue.

Farmers can pull that money out any time they want. They can pull it out to buy a motor boat if they want. It's a NISA-like tier.

**Mr. Ray Boughen:** I understood you to say that when that money is pulled out it is taxable. Then I think I heard you say if it's reinvested, you're of the opinion that the people who reinvest it shouldn't pay tax on it.

I'm asking, because that's very much the position of realty as brought forward in Saskatchewan. If a business is sold, taxes are not paid on those dollars, on the revenue, if it's reinvested within 30 days in another business or another building or whatever in terms of a business investment. This sounds very much as though it could work with your organization as well.

**Mr. Bob Friesen:** This is farmers' money. There's also a precedent in the first-home ownership RRSP tax waiver. Instead of always going to the federal-provincial governments and asking for money for agriculture—and I know people are already wondering why there is \$1.3 billion sitting there not being used—we're saying not to force farmers to do it, but create an incentive so that if farmers pull out that money and invest it, say in something like a project that Gay Lea might have, to develop a market or a grain handling project or a farmer-owned fertilizer project...they are investing in something that will maximize future revenue. Then, of course, they will be taxed on that once it happens. We're saying, in the meantime, waive the taxes to create an incentive for farmers to pull it out and invest it, rather than having it sit there, because I know already that people are getting concerned that government money is flowing into an account almost like a black hole and it is sitting there.

A farmer's age also makes a difference. Older farmers might say they are going to keep the money in there because they need a nest egg, but I think young farmers are quite willing to stick their necks out and invest it, and they won't pull the money out if they're in a taxable year anyway. Who would do that if they had to pay 30% taxes on it?

**Mr. Ray Boughen:** Agreed.

I have a question for both of you gentlemen. We've heard a lot today about the downsizing of various parts of our agricultural section. What does that downsizing do for you? Does it do anything? Does it affect your operation? If there are fewer employees under the Department of Agriculture, will that upset your apple cart or will it go unnoticed? How does that affect you?

**Mr. Michael Barrett:** We have not partaken of the programs that Denyse Guy has referred to. Because we are an established cooperative, we don't really access that support. Where it does impact us, however—and I'll take my example of the grocery store—is that the cooperative sector is going to have to fill that void, so that means I am going to take funds from Gay Lea Foods and from my members to be able to fill that void. It's a little discouraging when we're looking at trying to reinvest, and it's part of our principle to be able to help other cooperatives. It doesn't impact our business, but it now means we have to reinvest our dollars out of our sector in helping other cooperatives when those loans and those opportunities and that funding and that advice are not there.

I spend a great deal of my time designing governance models for other cooperatives that are establishing themselves, but I do have this other job that I get paid for that talks about growing the sales of Gay Lea Foods.

• (1510)

**Mr. Bob Friesen:** My answer to that question would be that if budget cuts result in a more efficient regulatory system, then we applaud them. In fact, we wrote the Minister of Agriculture, Mr. Ritz, applauding him for eliminating the efficacy requirements at the CFIA for fertilizer. That's one of those areas where we think redundant regulation was eliminated, and we would certainly applaud that. Where budget cuts result in things like that, we think they're great.

**The Chair:** Thank you.

Your time has expired, Mr. Boughen.

We now move to Madame LeBlanc.

[Translation]

**Ms. Hélène LeBlanc:** Thank you.

I want to thank our witnesses.

Mr. Barrett, thank you for your presentation. I have a question I'd like to ask you. You mentioned Denmark and Holland, saying that the federal government in each of those countries was very supportive. Could you tell us more about that?

What's more, I believe the president of La Coop fédérée said in a speech that Denmark was also a model country as far as credit unions were concerned. Could you elaborate on that?

[English]

**Mr. Michael Barrett:** Thank you for the question.

Using Denmark as the example, and taking two steps back and coming quickly forward, certainly, as many of you may be aware, the milk quota system in Europe under the European Union has been dismantled. Therefore, in all countries, but even more so in Denmark because Denmark is very reliant on the dairy sector for a good portion of its GNP, certainly with the demise of the quota system there was an incredible loss of farmer equity—dairy farmer equity. So what the Danish government did is to change the corporate and cooperative legislation in order to be able to ensure that the co-ops would be able to have the same playing field, in the sense of the elements that were discouraging investment in Danish cooperatives. And being able to recognize the investment of the members as indeed equity on the balance sheet certainly helped the Danish cooperative Arla in particular in being able to grow its market, and to be able to export.

Now there is a system that goes along with that to support it, because they don't have the same supply managed system. But there was support for the farmers, in the sense of being able to transition from the lack of value they had in their quota, which was literally millions of euros, being able to recognize that, and giving them—I think it was, and don't quote me on it—a five- or six-year transition, to transition that loss of quota. So the government was actively involved in ensuring that the dairy sector just didn't disappear during that transition.

[Translation]

**Ms. Hélène LeBlanc:** You also mentioned that you often help credit unions in your spare time. I know you are governed by the Ontario Corporations Act. What role do you think the federal government should play, as far as service offerings go, to help new credit unions come up, to encourage them, or to raise the profile of credit unions?



[English]

**Mr. Michael Barrett:** There are two questions in that. First is the role of the federal government, and I think I probably could not put it as well as Denyse Guy did, the executive director of CCA, in the sense that in job creation economics is very important. So that governance model, that initial business investment and the development, is very important for new generation cooperatives to come forward, as Denyse spoke to. To me, that is a critical component of being able to provide that aid.

The second piece on being able to recognize what the cooperative is, or being able to understand what a cooperative is in the broader sector, is certainly in being able to have policies and programs that also support the development of cooperatives, and being able to look at it as an alternative model. I would certainly support, and I've seen it internationally, that cooperatives can serve a lot of social ills. Actually, I think it's a win-win, because I think there's a desire to be able to ensure that the government is not involved in spending dollars within the community. Cooperatives are the model that can have the community rally around the need to be able to provide the need.

● (1515)

[Translation]

**Ms. Hélène LeBlanc:** Thank you kindly.

We have a Canadian model, but you said there were things we could learn from other countries' models. And you aren't the first witness to say so. That is why, later on in our discussion, I would like to talk about the importance of addressing those other models in our committee report, to show what is happening internationally.

[English]

**The Chair:** Thank you. Your time has expired.

We move now to Ms. Gallant for five minutes.

**Mrs. Cheryl Gallant:** Thank you, Mr. Chairman, and through you to our witnesses. All my questions are directed to Mr. Barrett.

First of all, does Gay Lea buy its milk through the Ontario milk marketing board?

**Mr. Michael Barrett:** That's correct.

**Mrs. Cheryl Gallant:** Generally speaking, what is the relationship with the Ontario milk marketing board? Is it merely the vendor, or do you interface in different ways?

**Mr. Michael Barrett:** The way the milk marketing board works, and indeed, it's not just in Ontario but in all provinces, is that the first purchaser of the milk is the milk marketing board. In this case, it's the Dairy Farmers of Ontario. The way the market is set up, we own a certain industrial quota. Then there is quota-free milk, which means that you can take as much as you want. It's on demand. Our relationship with the DFO is that they are truly a vendor, in the sense that we purchase the milk. It comes in certain specifications and fat levels, etc., but they are the vendor. We purchase directly from the Dairy Farmers of Ontario.

**Mrs. Cheryl Gallant:** I often hear the complaint from dairy farmers that they're not allowed to market dairy products themselves. Is membership limited to its current level within Gay Lea?

**Mr. Michael Barrett:** No, Gay Lea is unique, in the sense that we're one of the few dairy cooperatives in Canada that still has open membership, and our membership continues to grow. There is a financial investment you have to make in Gay Lea's cooperative, but our membership is still open and is still growing.

**Mrs. Cheryl Gallant:** What would be the cost of membership?

**Mr. Michael Barrett:** It will depend on how much milk you produce, but it is three shares, which is \$51 per hectolitre. For an average farm with 600,000 litres, it is about \$30,000 you have to invest. To put that in context, though, the profits we share back with you over a five-year period pay for half of that. So you usually only have to put in about \$15,000 of your own money.

● (1520)

**Mrs. Cheryl Gallant:** Often what we're hearing, especially now, is that the older dairy farmers can't find somebody to buy the farm from them, so to speak, if they don't have a son or daughter successor. Then the young ones who have never lived in a dairy family and who want to buy quota find it totally unachievable. Is there any benefit to being a part of the Gay Lea co-op in terms of succession and finding somebody to take over the farm?

**Mr. Michael Barrett:** In a word, no. We provide training for our farmers as they develop succession plans, but it's primarily from father to daughter or from father to son or from grandfather to granddaughter. We provide training for that. But the DFO, the Dairy Farmers of Ontario, regulates how milk quota is transferred between farm and farm.

I've never heard of an issue in Ontario of individuals having difficulty selling the farm, because quota is a hot commodity, and quota, at least in the present system, will always be able to be sold. The issue becomes the affordability of that quota for the next generation and whether they can cashflow it.

**Mrs. Cheryl Gallant:** Right. And we have that farm credit for young farmers loan program. That should help. Nevertheless, the barn, the equipment, and the real estate are very substantial.

**Mr. Michael Barrett:** DFO does have a program they've implemented that's a young farmers program.

**Mrs. Cheryl Gallant:** Very good.

Will your membership benefit from the various foreign markets we've been opening up and will continue to open up over time?

**Mr. Michael Barrett:** Oh boy, that's a whole discussion on the whole supply management system. Based upon the current pricing models for domestic milk prices, it's not going to benefit dairy cooperatives in Canada at this point, because there aren't a lot of markets being opened up for dairy exports.

**Mrs. Cheryl Gallant:** So are all of your products, then, sold within Canada?

**Mr. Michael Barrett:** Certainly 99 and 44/100ths per cent is sold within Canada, yes.

**Mrs. Cheryl Gallant:** I've noticed on the list of products here that you don't have yoghurt. All these years I've seen Gay Lea on the grocery store shelves, but I didn't realize that you were a cooperative. You don't have yoghurt. I'm asking how difficult it is to diversify. What are the obstacles?

**Mr. Michael Barrett:** Well, we are actually a major yogourt producer today, but we co-pack it. The phenomenon of Greek yogourt—and it's public knowledge that Greek yogourt made by Danone is all made at my plant in Toronto. We invested considerable dollars of our members' money in order to diversify. We are not averse to risk. Certainly we love the phenomenon, and we're working seven days a week in order to produce it.

**Mrs. Cheryl Gallant:** So it's just access to capital, then, that is the limiting factor to diversification.

**Mr. Michael Barrett:** Right. That capital came directly from our members.

**Mrs. Cheryl Gallant:** How does your—

**The Chair:** Sorry, Ms. Gallant, the time has expired.

I now move to Mr. Harris.

**Mr. Dan Harris:** It's Mr. Marston.

**The Chair:** I had Mr. Harris on the list, but it will be Mr. Marston, then.

**Mr. Wayne Marston:** He's getting the last word, though.

Mr. Barrett and Mr. Friesen, I think we're going to agree on one thing: we're all pleased to hear how many MPs around this table support cooperatives. The commentary I've heard today—and it's been noted that sometimes we don't agree on things, but this seems to be one on which we're doing a pretty good job, at least on support for them.

I'm impressed with the travels you referred to, in which you were looking at best practices. I'm not going to beat this horse too badly, but to my mind that's precisely the reason this committee should attend the Quebec conference. I'll leave it there, because we have touched on it.

I see a thread running through the report you gave us, as well as in the testimony of other witnesses we heard today. It seems to be that even though there are, as we note, well over 100,000 people employed and 100,000 directors of cooperatives, Canadians know very little about them. I knew a little bit, because in my previous life at a labour council we had an organization called Labourhood, which was in non-profit housing a little bit.

I'm really interested in your views. Ms. Gallant started talking about it. In light of the push for free trade agreements with Europe—and now we have this Pacific thing happening—what do you think the implications are for supply management?

**Mr. Michael Barrett:** I believe that certainly with regard to supply management, put into a global perspective, there are a number of nations that see the opportunity to access Canadian markets for freer trade as a very important thing. Although we have 34 million to 35 million people, a lot of other nations look to the Canadian dairy price as liquid gold, as that opportunity.

What it does present us with, I think, depending on where the discussion goes, is that there will likely have to be a change to the current system. I'm an optimist. I also believe there can be compromise between the need to have freer trade globally and access to foreign markets and to ensure a livelihood for our rural communities. I'm an optimist who believes that in sitting down around a table like this, there can be compromises and a very successful solution.

**Mr. Wayne Marston:** I sure hope you're correct. Putting it in context, I come from Hamilton, with steel. Our plants there produce five million tonnes of steel a year, and the big ones are producing 110 million tonnes of steel. We've watched the near decimation of one plant in Hamilton as a result of that.

Again, in the context of the cooperative development initiative and of what I refer to as dramatic cuts to the rural cooperatives secretariat, we're very concerned about the impacts those have going forward. To put it in context, if we have an EU trade agreement, would we not need support like this all that much more in Canada in light of that?

● (1525)

**Mr. Michael Barrett:** I believe there's certainly very much a need within Canada for the development of cooperatives to fill the needs within communities. Health care was mentioned, but I also see it, for example, in funeral cooperatives. I'm helping the Somalian community right now to develop a funeral cooperative, because there is no business that truly serves them. That need is going to be there. Where are you going to get the resources from? Where are you going to get the ability and the expertise to do that? A governance model is important. That level of support is critical, or we're going to miss the opportunity to have communities be able to solve their problems.

**Mr. Wayne Marston:** I think you've hit on something very important.

Cooperatives started in the west. We all understand that. It was farmers who were in exactly the position that you're describing with the Somalian community, who had a need that the banks of the day, or other aspects of community investment, wouldn't address. I think it's critically important that we sustain this.

Do I have time left, Mr. Chair?

**The Chair:** You have 35 seconds.

**Mr. Wayne Marston:** Good one.

At the finance committee, in pre-budget hearings, we heard a lot of talk about the federal cooperative investment plan, CIP, which provides a tax credit for co-op members and employees who invest, and so on.

Do you have any comments on the use of CIP and the expansion of it?

**Mr. Michael Barrett:** Certainly Gay Lea is a big supporter of the program. Again, we didn't utilize it ourselves because we're kind of in that middle tier.

I saw great success with it in the model, both at the local Ontario level and at the federal level as well. I think the program is an important one.

**Mr. Wayne Marston:** The witnesses agreed with you, and I think —

**The Chair:** I'm sorry. Your time has now expired.

**Mr. Wayne Marston:** Thank you, Mr. Chair.

**The Chair:** I now have Mr. Lemieux.

**Mr. Pierre Lemieux:** Thank you very much, Chair.

Thank you, to both of you, for being here, and for this great discussion we're having.

Michael, on the Gay Lea side, I take it you're involved in processing throughout the various stages.

I'm not sure I quite understand the co-op aspect. Are all the processing and subprocessing companies or affiliates co-ops as well, or is it just Gay Lea at the top level that's a co-op and you might have different structures underneath it?

**Mr. Michael Barrett:** Gay Lea owns all of its own processing facilities. We take the milk from DFO and we process it through our six facilities.

**Mr. Pierre Lemieux:** So those six facilities are all part of the co-op. They're all considered to be an asset of the co-op.

**Mr. Michael Barrett:** Correct.

**Mr. Pierre Lemieux:** All right.

When it comes to farmers who are members of the co-op, is there a sort of link outside of it perhaps being considered an investment on their part? How would a dairy farmer benefit from being a member of the co-op? He's a farmer, as opposed to a member who is not a farmer being a member of that co-op.

**Mr. Michael Barrett:** Certainly there is a financial gain. You get a gain, obviously, with the milk—

**Mr. Pierre Lemieux:** Right. That's for all members, though. That's farmers and non-farmers.

**Mr. Michael Barrett:** That's for all members. I'm a member as well, and I get a dividend on the shares I own. It's a different dividend because I'm not a farmer.

But certainly they do get an opportunity to get information from the sector. Because the cooperative sector has transparency, they are involved and have influence in helping to determine what's going on at Dairy Farmers of Ontario, to influence the CDC. They're getting inside information. They're getting what's happening with the retailers. We're sharing that information, and we're educating them.

I would say our members have a much better understanding of the market in which they participate, and they understand that their market doesn't end at the farm gate.

**Mr. Pierre Lemieux:** Right. That is probably useful.

Of course, sometimes there is friction between the providers of a raw material, such as fluid milk, and processors. They need each other, and yet there can be friction points.

Do you find that relationship reduces friction points?

● (1530)

**Mr. Michael Barrett:** It certainly does reduce it, because it gives us the opportunity to hear directly from our farmer-members on what's important to them and what policies should be influenced.

Also, on the other side, many times we can operate in a vacuum, and some of our members can do that, but when they are sitting at the table being educated about what's going on in the marketplace, they have a much better understanding and appreciation that some of the things they're demanding on the farm don't necessarily work from a global perspective or in a retail sector.

**Mr. Pierre Lemieux:** Right. That cross-pollination of information would be important.

**Mr. Michael Barrett:** It's very, very positive.

**Mr. Pierre Lemieux:** I could see that.

Let me ask about the impact of different federal initiatives and programs. You're involved in processing. You're a co-op. Are you able to take advantage, for example, of the accelerated capitalization of new manufacturing equipment?

**Mr. Michael Barrett:** Yes.

**Mr. Pierre Lemieux:** So you'd be on equal footing with non-co-op industry?

**Mr. Michael Barrett:** Yes.

**Mr. Pierre Lemieux:** When it comes to lower corporate tax rates, do you benefit from that as a co-op?

**Mr. Michael Barrett:** Every time there is a reduction in the corporate tax rate, our members benefit from that.

**Mr. Pierre Lemieux:** Okay. That's good to know. So you have access to that as well.

**Mr. Michael Barrett:** Absolutely.

**Mr. Pierre Lemieux:** When it comes to economic development funds, I guess with Gay Lea we'd be talking at a larger level than just the local CFDC.

Let's talk about FedDev Ontario, or the other ones in other provinces. Does Gay Lea have access to those funds that could—

**Mr. Michael Barrett:** We do have access, but I would say our success rate in being able to access those funds is less than 1%. There is difficulty in understanding our model and our membership model, and we have not been very successful in being able to access those funds.

We do have a couple of applications in now, and that may change. But at this point, in the decade that I've been involved in being able to access those funds, I've only been successful once at the provincial and federal levels.

**Mr. Pierre Lemieux:** With respect to access to capital, this morning we had co-ops and credit unions in front of us, and they seemed to be quite healthy and quite robust. There seems to be a policy of co-ops helping co-ops. It may not be formal, but certainly there's an informal intent that co-ops help co-ops. You're saying that you might have challenges accessing capital through the big banks. Have you had success through the credit unions and the financial co-ops? They seem to be quite solid on the ground. Why wouldn't they support you if that were the case?

**Mr. Michael Barrett:** That's a very good question. For example, the last large capital investment we borrowed for was for building a new dryer in Guelph, Ontario. When no one else wanted to build it, the co-op stood forward and filled the need. That's my political announcement.

It was very difficult for the credit union sector to be able to loan us \$50 million in one sum. I could get a million dollars here and a couple of million there, but you can't pay a mortgage that way. So unfortunately, or fortunately, if our bank sees it that way, we had to go to the bank to borrow that, with great difficulty and by putting a greater number of my assets up as a lien, which no other organization would have been forced to do. But because they didn't understand the model, I had to put up a lot of my assets as security for that loan. I am glad to say that we paid that loan off in four and a half years, to make sure the banks didn't get as much interest as they deserved.

**Mr. Pierre Lemieux:** Is it because they don't understand—

**The Chair:** I'm sorry, but your time is long past expired.

We obviously have a very good panel here, because everybody seems to want to take some extra time.

I will now move to Mr. Harris.

**Mr. Dan Harris:** I'm always up for taking extra time.

I'm actually going to follow a slightly different vein. But I'll follow on what Mr. Lemieux was saying and on your comments, Mr. Barrett.

When you said that your success rate in reaching FedDev and other funds was less than 1%, you mentioned the lack of understanding. You also mentioned, going to the credit unions and banks, a lack of understanding.

Now, that to me would demonstrate that there seems to be a lack of understanding both in the private sector and even in the public sector. Is that the case?

**Mr. Michael Barrett:** I think it's one of the greatest opportunities for the cooperative sector to make better hay of the actual success of our model. I came from the multinational petrochemical industry 13 years ago. Today I am a cooperative evangelist, because I have seen the light. I have seen how the model works. Before I joined Gay Lea Foods, I didn't have a clue about what a cooperative was.

• (1535)

**Mr. Dan Harris:** It does seem to be a big issue. It's one we have already heard from witnesses time and time again today. I would suspect that as we move forward, we'll be hearing it again, which makes it, again, a surprise that CDI and the secretariat have been cut,

because these are groups that help to develop co-ops and also help to let our world know about them.

In one of your earlier comments, when you were talking about the potential of supply management in trade deals, you mentioned trying to establish more of a balance in trade deals to ensure that the farmers and everybody are taken care of. To an extent, I think that's what we talk about on this side of the table when we talk about the need for fairer trade and not just freer trade. We certainly need to trade with our partners, but we need to ensure that our own interests are being met. We can only hope that the government, in the negotiations with the European Union and the trans-Pacific partnership, really takes that to heart and makes sure that no stone is left unturned, so that we don't end up with unforeseen consequences that are going to be negative to our markets.

With respect to supply management, you mentioned Denmark, Holland, and New Zealand having strong roles and strong protections and support for co-ops. If something happens, and supply management goes away, do you see the government taking any of those types of steps to secure our market before it's thrown into upheaval?

**Mr. Michael Barrett:** My own hope, if we ever move to that route, is that cooperatives have strong representation at the table to help determine what the future of dairy farming will be in Canada. That would be my hope.

Governments that have not taken cooperatives into consideration when designing a future model...that is where the dairy sector certainly has difficulty. It would be my hope that cooperatives would be at the table. You can have retailers and you can have offshore organizations, but you really need to make sure that you have representation from your community sitting there.

**Mr. Dan Harris:** Gay Lea Foods is obviously much larger than most co-ops. You mentioned some of the statistics, and you seem to be doing very well.

What do you foresee over the next five or ten years to be your biggest challenge to continue to grow and to continue to be sustainable and provide that return for farmers?

**Mr. Michael Barrett:** That would be access to capital.

**Mr. Dan Harris:** It is simply access to capital?

Do you have any suggestions about how to improve that access to capital?

**Mr. Michael Barrett:** As was mentioned around the table and by earlier speakers, there is a need to be able to educate industry, banking, etc., on what a cooperative is. The issue we constantly have is the differentiation between members' investment. Banks will see that as debt, and it's not debt; it is equity, because it is generational capital that doesn't leave the cooperative. When they calculate how much money they will loan you, it is always based upon members' investments being debt. So there is a necessity to be able to educate on that differently. We've had members who have been members since 1958. There are grandfathers, fathers, and daughters. It's changing. That needs to change.

**Mr. Dan Harris:** That's the educational component. Do you see any regulatory or legal changes that might be needed?

**Mr. Michael Barrett:** Organizing on a Canadian basis would be a good thing for Gay Lea Foods, but until the regulations change in the sense of relationship to each share class having a vote versus one member, one vote, that's always going to be a restriction for us.

Frank Lowery mentioned that as an issue as well.

**Mr. Dan Harris:** Thank you very much.

**The Chair:** Your time has expired on that.

It's time for Mr. Preston, for five minutes.

**Mr. Joe Preston:** I thought it was me. Thank you.

Thank you for coming today.

First of all, I now know who to blame for aerosol whipped cream, or who to thank for aerosol whipped cream.

**Voices:** Oh, oh!

**Mr. Joe Preston:** We could have a whipped cream registry.

I'm reading some material here from the Canadian Co-operative Association. They're saying they have 9,000 co-ops Canada-wide and 18 million members. We discussed earlier that perhaps some of those 18 million members are members in more than one co-op, so it might not be 18 million, but with 34 million people in Canada and 18 million members, I would think awareness shouldn't be a problem. Do you want to comment on that?

• (1540)

**Mr. Michael Barrett:** Yes. We can't point the finger at government or everyone. I don't think the cooperative sector is as effective as it needs to be in order to make sure that it has its members create and understand the value as well, but that's an opportunity for us, and as was mentioned, 2012 certainly presents an opportunity for us to be able to do that.

**Mr. Joe Preston:** Sure. There is great awareness-building.

That was going to be my next step. I own a couple of franchise restaurants. I'm a member of a franchise organization that had some of the same troubles with approaching banks for capital. Collectively, as the association and as individual businesses, we had to educate the bankers on who we were, what we were, what was equity in our business, and what wasn't. The fact that the sign didn't say "Joe" out front but said somebody else still meant that I owned the business, and we spent some time doing that. We've been very successful. Each of the national banks now has a franchise program for use with most of the major franchise restaurants.

How long will it take for the cooperative sector to get together? Mr. Wrobel was here this morning and seemed to be quite aware of what was happening in the banking sector, although I took him to task on something else, but it doesn't sound as though they're unaware of your sector. It does sound as though they need to know what equity means in your sector and that type of thing. Am I correct there?

**Mr. Michael Barrett:** Yes, you certainly are correct, and certainly Denyse Guy, executive director of CCA, also was the executive director of the On Co-op, and she would be one of the first to say that the On Co-op used to meet very frequently with FISCO on the Ontario level. The sad part is that the individuals on the cooperative panel changed probably at least every six months or 12 months, and therefore you had to go through the education process. I dare say Denyse has probably educated at least 10 sets of individuals.

**Mr. Joe Preston:** I would say she has, because she has educated some MPs, so I'll give her credit for that too. I know it happens.

I can't take blame for those, and I won't take blame for those, but I will take blame when governments of any level don't understand the cooperative sector and are offering services to it much like the development agency, so you've hit a nerve there. We'll talk. We'll see what happens there.

I have just a couple of quick questions. If I get into something that's proprietary or too much off your balance book, let me know.

You said you give 40% of your profit back to your members. That's a pretty good number each year. I take it the other 60% goes back into your business.

**Mr. Michael Barrett:** Correct.

**Mr. Joe Preston:** So basically you're investment funding and paying off whatever you borrow. I think one of my colleagues asked you about this. I'm a dairy farmer and you're buying my milk, or DFO, I guess, in fact is buying my milk and then selling it to you. So I'm making money as a dairy farmer, but I'm also making money as a member of the cooperative. I have an ethanol plant in my riding, and many corn farmers are members. I think some days they think they make more money from the ethanol plant than they make on selling their corn. That may very well be the case.

In your case, where is that in the mix? Is the farmer's income in selling you milk, or is their income from being a member of your cooperative?

**Mr. Michael Barrett:** Certainly, the farmer's income is in selling the milk. That's for sure.

**Mr. Joe Preston:** But it's a pretty good piece, the money made on the dividend?

**Mr. Michael Barrett:** Yes, the money made on the dividend is certainly a very good return for the investment. I wish my RRSPs were making as much as my farmers are making on the patronage.

**Mr. Joe Preston:** You need to invest more in your own co-op, apparently.

**Mr. Michael Barrett:** I need to become a dairy farmer.

**Voices:** Oh, oh!

**Mr. Joe Preston:** See, you'll learn each industry as you go through it. You know how they're doing now.

Mr. Friesen, on your piece, you talked a bit about your suggestion of taking that top tier off AgriInvest or pot B or plan A, or whatever we call it, and making it tax free, provided it is going into something. Who are you suggesting makes the decision on which investments would be tax free and which ones wouldn't be?

**Mr. Bob Friesen:** I think the projects should be pre-approved by, say, the agriculture department, together with agricultural organizations.

**Mr. Joe Preston:** You're suggesting keeping it within Agriculture

**The Chair:** I'm sorry, Mr. Preston, but your time has unfortunately expired. We'll have to let you have another chance another time.

I have in this second round of questioning Mr. Butt for five minutes.

**Mr. Brad Butt:** Thank you very much. I've learned a lot. It's certainly not a sector, the agriculture sector anyway, that I have any great knowledge about, so I appreciate learning a lot more about how you operate.

Mr. Friesen, would it be fair to say that the way the NFA works, you're basically a bulk purchaser for farmers? Is that really how the system works? You go out and you negotiate buying x tonnes of fertilizer, which then your members would avail themselves of, at, I'm assuming, a better price than they would get if they were going to a supplier directly on their own to get it. Is that generally how the concept works?

• (1545)

**Mr. Bob Friesen:** Conceptually, that's how it works, but it doesn't technically work exactly like that because FNA, the farmer membership organization, is basically the tool that negotiates. FNA itself did not import fertilizer from Russia. That arrangement was made together with an input supply partner. So farmers' money was never put at risk with the ship of fertilizer coming over. The FNA organization does the negotiation, but then the financial transaction is done directly between the farmer and that input supplier.

We also have a whole host of preferred suppliers. If you go to Rona, you get an FNA discount. If you go to, say, NAPA, you get an FNA discount. We're also affiliated, or we have a partnership, with a generic pesticide input supply partner. They have registered some generic pesticides.

So conceptually, yes, but there are some intricate differences in how you describe it.

**Mr. Brad Butt:** Gay Lea has been telling us essentially that they pay a dividend back out to their members. Is that the same in your organization, or is it just on getting a better price for the input side of it? Does your organization work in a similar way? Are there dividends at the end of the day? Is there actual money flowing back to your members from the work you are doing?

**Mr. Bob Friesen:** Typically, the way it works is they get the discount upfront, immediately. In the case I used earlier, when that generic was introduced, our members got Aurora for \$10.75 an acre, when Horizon, the original pesticide, was selling for \$21 an acre. So they got the discount right upfront. Again, that was not related to the discount that a farmer who was using fertilizer would get. They're all specific.

There was a problem, however, and what we're now doing is we're going to an empower reward system, and I'll tell you why. What happened is the farmers with all the skin in the game were also creating discounts for farmers who had no skin in the game. So in the case of this \$10.75 for Aurora, we found out that over a period of 30 days, \$60 million in discounts happened in related projects, so farmers who weren't members also got the benefit of what was happening at FNA. We're being less price-transparent now. We are giving a certain amount of discount right upfront, so the farmer members know they're getting a discount, but then the rest of it accrues back in empower rewards. So it's a little less transparent. If you want the benefit of the discount, you have to become a member.

**Mr. Brad Butt:** My last question, for Mr. Barrett, will be about how Gay Lea operates.

When I walk into the grocery store, I can get Gay Lea or I can get Nestlé or I can get Neilson, or whatever the competitors are. As far as how they operate in a for-profit traditional business model versus yours—I guess you're for-profit too—is there any difference in how you operate as a corporate entity versus those competitors in the dairy business? Or is it strictly just the co-op model that is different?

**Mr. Michael Barrett:** Certainly, first of all, I hope you wouldn't be reaching for those other products. Second, we are still governed by the same business laws, etc. Where the difference comes in is in the governance model we operate and where the profits go. These profits don't go offshore to nameless investors. They go directly into the rural community.

**The Chair:** Thank you, Mr. Butt.

That concludes our second round of questioning. We still have a little bit of time, so what I'm going to do is move into a third round of questioning. There will be time, obviously, for two members. I have, first on the list, Mr. Hoback.

**Mr. Randy Hoback:** Thank you, Chair.

Again, thank you, witnesses—

**Hon. Mauril Bélanger:** Mr. Chairman, if you do three, we'd have three minutes each.

• (1550)

**The Chair:** This is what I have as the order we followed in the second round. We could provide the Conservatives with two minutes for three and the NDP with one for three, but I'm sure they wouldn't agree to that. I think it's probably best that we stick with what we have. We have Mr. Hoback and then Madame LeBlanc for five minutes each. Well, it's probably only about four minutes each at this point.

I'll allow four minutes for you, Mr. Hoback, and four minutes for Madame LeBlanc.

**Mr. Randy Hoback:** Thank you, Chair. I'll try to be quick.

**Ms. Hélène LeBlanc:** I don't understand why there would be three Conservatives: Mr. Preston, Mr. Butt, and now Mr. Hoback.

**The Chair:** Just to be clear, the order of questioning in the second round is based on the principle that we follow in the agriculture committee. The principle is that every member has a chance to speak. The second round of questioning concludes with two Conservatives, as there are more Conservatives than there are opposition members. Then what happens is that the third round of questioning and any subsequent rounds follow the same order as the second round. If you noticed, the second round began with a Conservative member. That's the reason.

Mr. Hoback, you have four minutes, and then Madame LeBlanc, I'll give you four as well.

**Mr. Randy Hoback:** Thank you, Chair. Hopefully we have everything straightened out here.

Brother Michael—I'm going to call you brother, since you're an evangelist on cooperatives—your membership, when I buy a membership in your organization, is approximately \$30,000. That's what you said. When I sell it 20 years from now, is that value \$30,000? Can I get the money back if I pass away? How does that work?

**Mr. Michael Barrett:** You can get your money back. Certainly, the element of a cooperative is that the par value stays the same. If a share is worth \$17, it will be worth \$17 when you retire. Where your investment comes back is in your return on your dividends.

**Mr. Randy Hoback:** Is there a patronage payment at the end?

**Mr. Michael Barrett:** Yes, there is. Some of our larger farmers would have up to half a million dollars invested in the cooperative. They have their base capital, and then their patronage stays, and then it gets paid out as well.

**Mr. Randy Hoback:** When you're talking about the assets and the security required for acquiring capital, who takes priority in the security of your assets? Does the membership take priority over the banks, or does the bank have priority?

**Mr. Michael Barrett:** Banks right now have priority, but we are actually in the process of changing the governance model and creditor-proofing to ensure that our members are not left high and dry in case something happens. We're doing it now, in the years of plenty, so that we understand the rules and obligations.

**Mr. Randy Hoback:** Right now, the way it sits, it's not a security issue. There are assets. The assets have a market value.

**Mr. Michael Barrett:** Absolutely, there are assets.

**Mr. Randy Hoback:** It comes back to, then, understanding what those assets are. Is there a proper understanding in the banking sector of how the membership works, and are you leveraging that message?

**Mr. Michael Barrett:** No. We have the same financial institution. So for the last seven years, we've been educating them. I think they know a little bit better, but it also depends on organizational change and when I have to re-educate.

**Mr. Randy Hoback:** Okay, so when a new manager comes in, you have to start all over again. It's like the farm as much as anything. Bob would agree with me on that. It seems like you have to educate them about your business.

Have you used credit unions or those types of entities, the cooperative styles?

**Mr. Michael Barrett:** We have not used credit unions, because, as I said earlier, we couldn't get enough dollars. It was too large.

**Mr. Randy Hoback:** The volume was too big. All right.

We've talked about these 18 million members who belong to cooperatives. What type of role are you playing with your membership to educate them on exactly how they can go out and educate the general population on the value of cooperatives?

**Mr. Michael Barrett:** For Gay Lea, in the year 2012, if you purchase our product, we are starting to use other IYC and cooperative logos. We have a genuine, not just generous, website. We have links to our fellow cooperatives. In fact, I was talking to The Co-operators Group only two weeks ago about doing some cross-branding.

**Mr. Randy Hoback:** The co-op brand itself is out there. People understand co-op, but they might not necessarily understand what's behind what a co-op actually is.

**Mr. Michael Barrett:** I think Britain does a better job of having a singular co-op brand, and I think there is a model there for Canada to be able to follow.

**Mr. Randy Hoback:** All right.

Chair, I will stop right there.

**The Chair:** Sure.

I will allow four minutes for Madame LeBlanc.

[Translation]

**Ms. Hélène LeBlanc:** Mr. Chair, I am going to share my time with Mr. Bélanger.

But first, I would like to ask Mr. Barrett a question.

[English]

Succinctly, can you tell us how cooperatives such as yours vitalize or keep rural communities dynamic all across Canada?

**Mr. Michael Barrett:** In Ontario we have two plants within what I would call metropolitan Toronto. They have been there for decades. But if you look, we have plants in Guelph, in Ivanhoe, which competes with St. Albert, and in Teeswater. I am not much of a betting man, but I would tell you that those sites, if they belonged to other organizations, would be shut down. You're only talking perhaps 100 jobs in Ivanhoe, 100 jobs in Teeswater, 110 jobs in Guelph, but those are substantial economic contributors to those communities. If you walk down Teeswater, half the stores are empty. The grocery store is one that we helped to set up as a cooperative. It is still struggling. That is an important economic contributor.

I can ship the milk to Guelph, but we are there because we are committed to rural sustainability. Our members live in that area, and we're certainly a vital part of those communities. They would be shut in a heartbeat if they were owned by somebody else.

• (1555)

[Translation]

**Ms. Hélène LeBlanc:** Thank you.

**Hon. Mauril Bélanger:** Thank you very much, Ms. LeBlanc, for being fair. I wish the chair would have done the same. Thank you kindly.

[English]

Mr. Chair, I just want to let you know that I will be bringing up in the business section the notion that we may want to consider, as a committee, inviting to appear before us the economic development agencies of the Government of Canada, with what we have heard today, to see how they view co-ops. It might be of significance and of importance for us in our work. And I also believe that the secretariat in agriculture might be of significance, if we could get the person responsible before us. I just want to let you know I'll be bringing those up in the next round.

Mr. Barrett, is there an equivalent co-op structure for the dairy farmers in other provinces to Gay Lea Foods? Are there others in Ontario, first of all?

**Mr. Michael Barrett:** There are other smaller cooperatives. We are by far the largest. There is Organic Meadow, etc., and St. Albert, for example. They are distant.

**Hon. Mauril Bélanger:** Okay, and in other provinces—

**Mr. Michael Barrett:** Yes, there are. There is Farmers Dairy. There is Scotsburn Dairy, Northumberland Dairy.

**Hon. Mauril Bélanger:** What is the level of cooperation among these in order to have a sort of national cooperation? How does that sit now?

**Mr. Michael Barrett:** As I mentioned, there is a dairy cooperative meeting pre-summit happening at the Quebec summit, but I have probably spent in 2012 at least 20 days on the road developing relationships with cooperatives in the dairy sector, and we are doing such things as joint purchasing. We are looking at being able to streamline production, being able to give each other business, and to cooperate on supply chains. It is an important part of our outreach.

**Hon. Mauril Bélanger:** I have a final question. If there were an ability to construct a co-op beyond a provincial boundary, would it happen, and what would it take for it to happen?

**Mr. Michael Barrett:** I would not say it would be easy, because there are still regional identities and concerns, but I believe—and I am, again, the cooperative evangelist—it is the methodology that would ensure a successful and healthy dairy sector in Canada.

**The Chair:** I'm sorry, your time has expired.

I'll suspend the meeting for just a few minutes so we can clear the room and move in camera.

**Hon. Mauril Bélanger:** I move that we do not go in camera.

**The Chair:** I'm sorry, the meeting is suspended.

**Hon. Mauril Bélanger:** I'll be moving that we do not go in camera so that the people who are waiting to see—

**The Chair:** You have the ability to do that once....

The meeting is now suspended.

[Proceedings continue in camera]









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