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Chair

Mr. Blake Richards

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● (0900)

[*English*]

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

We have with us this morning representatives of Farm Credit Canada and also Mr. Malli from Vancity Credit Union. We'll probably start off with Farm Credit Canada, who are listed first on my order.

Mr. Carlson, the floor is yours for the next ten minutes to make some opening remarks to the committee.

Mr. Lyndon Carlson (Senior Vice-President, Marketing, Farm Credit Canada): Thank you, Mr. Chair.

Good morning. It's a pleasure to appear before the Special Committee on Cooperatives on behalf of Farm Credit Canada.

My name is Lyndon Carlson. I'm the senior vice-president of marketing at FCC. With me today is Michael Hoffort, our senior vice-president of portfolio and credit risk.

We appreciate the opportunity to talk to you about the cooperative sector in Canada. Cooperatives have a proud heritage. They have played a major role in Canada in rural communities for more than 150 years. FCC is pleased to be able to partner with cooperatives and their members, who operate in every region in Canada.

From our perspective and observation, the spirit and values cooperatives represent are alive and well in rural Canada. They provide an opportunity for producers to work together towards a shared vision of cooperation and positive business outcomes.

Before I share more with you about the role we play with cooperatives and the many productive partnerships we have established over the years, I'd like to tell you a little bit more about FCC.

FCC is a commercial crown corporation. We offer a combination of financing, insurance, information and learning products, and management software.

Our sole focus is agriculture. We lend to agriculture in all sectors, in all geographic regions, and to all sizes of operations and business models. Our mandate is to ensure that the agriculture industry has ready access to capital to withstand the unique challenges and opportunities facing producers over the long term, through good times and challenging times.

More than 100,000 customers choose to do business with FCC. Our offices are located in a hundred communities across Canada, where we are accessible to customers and close to all aspects of agriculture. Many of these customers are clients of cooperatives.

While the majority of our customers are primary producers, we also have customers whose businesses provide products and services throughout the agriculture value chain.

Many of our customers are cooperatives, and they represent an important part of our lending program. The cooperatives we work with operate in most of the agricultural sectors, including crop inputs, beef, dairy, and agrifood. I would like to highlight a few of them, as follows: Federated Co-operative Limited, United Farmers of Alberta, La Coop fédérée, Co-op Atlantic, and Agropur. These five cooperatives are among the largest cooperatives in Canada, serving millions of Canadians. Combined, FCC has credit facilities in place for these cooperatives in excess of $185 million.

In western Canada, through our partnership with Federated Co-operative Limited, FCC works with retailers in 194 locations to help Federated Co-op provide crop inputs to customers across western Canada.

United Farmers of Alberta provides crop inputs through 38 locations in Saskatchewan and Alberta. UFA has over 120,000 active owners.

In Quebec, La Coop fédérée has 90,000 customers who have access to financing to purchase crop inputs through FCC.

Co-op Atlantic is the second-largest regional cooperative wholesaler in Canada and the largest cooperative in Atlantic Canada. It is owned by more than 100 cooperatively owned businesses across the Atlantic provinces and the Magdalen Islands.

Agropur in Quebec serves more than 3,300 dairy farmers, who produce more than 3 billion litres of milk that is processed annually in 27 plants spread throughout Canada, the United States, and Argentina.

In addition to these larger co-ops, smaller cooperatives also play an essential role in advancing agriculture across the country. Over the years many of these smaller cooperatives have approached FCC in search of the right partner to meet their unique financing needs. We listened, recognized the gap in the marketplace, and responded with a lending approach designed specifically for them and their members. As a result, they and their members have been able to grow and prosper.

A great example of these small cooperatives are those that represent Canadian cattle producers. Cooperative members are able to access financing through FCC to purchase cattle at the point of sale.

I would like to share a few examples of such cooperatives that we finance.

Foothills Cattle Co-op is located in Alberta and has a membership of 318 producers and extends into British Columbia and Saskatchewan. Over the life of its involvement with FCC, $184 million has been advanced to assist its members in purchasing cattle.

Similarly, Athabasca Heifer Co-op, in Nestow, Alberta, has accessed $24 million to assist 65 members.

In Ontario, members of the Eastern Ontario Feeder Cattle Cooperative have accessed $31 million through FCC to advance the cattle operations of its 18 members. These are significant dollars on a per-member basis.

In a little over a decade FCC has provided over $1 billion to members of over 30 partner cooperatives located across Canada, from Prince Edward Island to British Columbia, to facilitate member purchases of primarily livestock and crop inputs.

● (0905)

This represents a sample of the network of co-ops that FCC serves across the country. These examples demonstrate there is a clear need among cooperatives and their members for specialized financing. Because agriculture is our sole focus, unlike any other financial institution, we have taken the time to understand the needs of cooperatives big and small and responded to their specific lending needs. We believe these financing options have helped them strengthen and grow their businesses.

Credit unions are also an integral part of the Canadian financial system and continue to have a strong presence in rural Canada. FCC is working actively to develop a closer relationship with the Credit Union Central of Canada, provincial central organizations, and individual credit unions. We currently are part of a national liaison committee that includes credit union representatives from Ontario, Saskatchewan, and Manitoba. The committee shares information, works to resolve issues, and discusses opportunities to work together.

At this point, I would like to respond to the comments made by the Credit Union Central of Canada on July 10 to this committee with respect to FCC's mandate. FCC does not believe the Credit Union Central of Canada's request for a legislated mandate review is necessary. We believe this because we have heard first-hand from our customers and others across the industry that agriculture as a whole benefits from FCC's presence in the market in a competitive role.

FCC's mandate is to ensure that producers have sufficient access to capital to take advantage of the opportunities and withstand challenges over the long run. We are fulfilling our mandate and meeting the needs of our customers. This is why 100,000 customers across Canada choose to do business with us. Customers say they choose FCC because of our industry knowledge, the strong focus on building relationships, and the flexibility we provide. We take time to listen to our customers' ideas and concerns. Finally, FCC products and services are tailored to meet the unique needs of agriculture.

We believe that healthy marketplace competition and a choice of financing options is good for all Canadian farmers. Even those who are not FCC customers tell us that FCC's presence provides producers with more financing choices. They know FCC is a strong and stable financial partner who will support the industry over the long term. In the end, the agriculture industry, other financial institutions, and the Canadian economy benefit.

FCC is proud of the contributions we have made to support the agriculture industry for more than 50 years. We believe the main reason we've experienced success and enjoy strong customer support, growth, and retention is the customer experience we provide. Many of our employees have agriculture backgrounds, and they are passionate about the industry and deeply committed to the success of our customers. As a result, the satisfaction of our customers is second to none. We know they have choices and we must continue to do an outstanding job every day to earn their business.

The Canadian cooperative movement has and will continue to play an important role in rural Canada. FCC is well positioned to provide financing approaches that are flexible, innovative, and adaptable to the evolving needs of cooperatives and their members. As a leading provider of agriculture financing in Canada, FCC is an important and critical financial partner to the agriculture industry. Ultimately, the sustained health of Canadian agriculture and the producers who bring it to life is what is important to FCC. We believe in agriculture, we stand for the success of our customers and producers across Canada, and we stand ready to serve the industry for the long term.

Thank you for the opportunity to speak to you today. I look forward to any questions.

● (0910)

The Chair: Thank you very much, Mr. Carlson.

We'll move now to Vancity Credit Union and Mr. Rob Mali.

You have ten minutes now to make opening remarks, and following that we'll of course take questions from the members. The floor is yours.

Mr. Rob Malli (Chief Financial Officer, Vancouver City Savings Credit Union): Thank you, Mr. Chair and members, for inviting Vancity to be part of this important study into the opportunities and challenges facing the cooperative sector in Canada.

My name is Rob Malli, and I am the chief financial officer and current acting CEO of Vancity, based in Vancouver, British Columbia. Today I will be speaking from the perspective of credit unions at the national and provincial levels as well as Vancity. Please allow me to begin by spending a few moments talking about credit unions in general.

It is clear that your constituents find value in cooperatives through the growth that has been achieved throughout Canada. With membership currently at 5.2 million, and membership growth surpassing population growth, assets in financial cooperatives reached $140 billion by the end of 2011. This is roughly the same size as that of the National Bank of Canada, the sixth-largest bank in Canada.

We see this as positive from a market competition standpoint and in terms of being a significant contributor to the current health of our financial services industry. This is an important distinction in the cooperative operating model. We grow to support the communities and members we serve, which in turn sustains the long-term viability of the credit union.

Since 1946 Vancity has known that members make us who we are. This started with the provision of banking services to those in the community who weren't served by existing financial institutions. As a cooperative, Vancity is driven by the needs of its members, which has resulted in the provision of many firsts in its early beginnings, including being the first in Vancouver to write mortgages east of Main Street, at the time a working-class community that wasn't considered a desirable place to lend, and being the first financial institution in Canada to underwrite mortgages to women without a male co-signer.

This ability to work with the needs of the community serves us well today, and has allowed Vancity to be an innovator in providing real-time solutions to community issues in such areas as affordable housing, local food systems, social enterprises, energy and the environment, and financial literacy, just to name a few.

One recent example is a real estate development in downtown Vancouver. In 2010 we took over this real estate development as collateral when the developer went bust. We worked with a local partner to create 60 West Cordova, an innovative development that is a prototype for affordable home ownership in Vancouver. It was geared towards those who had modest incomes but were restricted by Vancouver's housing prices. With prices up to $150,000 less than nearby properties, we took a different approach to design, development, and financing, and used specialized mortgage solutions and preferred rates to increase affordability while still adhering to sound risk management principles.

By keeping our focus local, we invest our capital in the same locality where we earn it. This concept resonates well for our membership, and has made the Vancity brand very appealing. Our focus on making impact in the community has attracted a lot of members. Roughly one in six people in our market choose to do business with us. Of note, the majority of them would be welcomed by traditional financial institutions. They choose Vancity as a banking alternative not only because of our products and services, many of which would be termed mainstream, but also because of our innovative model and connection to the places where they live and work.

With this support over the last six and a half decades, Vancity has grown to become Canada's largest credit union, with assets of $16.1 billion, and 59 branch locations serving over 479,500 members and employing about 2,500 people.

But at Vancity, these members are not just the people we serve. These members are the people at the helm who guide us on our journey by electing members to sit on our board of directors or by becoming directors themselves. This democratic approach has been successful in driving Vancity's focus in providing our members with an opportunity to voice their concerns and have a say in the running and focus of the credit union, which is unique in the banking sector and exclusive to cooperatives.

Ultimately, Vancity believes that banking with the community in mind doesn't mean giving up product quality or value. We maintain our commitment to financial sustainability, social inclusiveness, and environmental responsibility while holding ourselves accountable to the member owners and ethical commitments.

On behalf of the British Columbia credit union system, I would like to thank the Government of Canada for introducing as part of the budget in 2010 a federal credit union option. While B.C. credit unions are successful financial institutions under provincial jurisdiction, we view the federal charter option as another means for interested credit unions to achieve their business objectives and enhance member services.

We are also pleased to see that the draft complementary regulations required to bring the federal credit union framework into effect were recently published in the *Canada Gazette*. However, the move to build upon our past success must also be measured against what we are required to surrender. Historically our strength has been the ability to take the credit union charter and leverage it to build communities and support local needs in both good times and periods of stress.

● (0915)

We share the government's concern about the conversion of equity to shareholders, which could be of short-term benefit to specific stakeholders, such as directors and management, and could water down the democratic processes that have made credit unions so successful in the past. We want to preserve this relationship with the community as a stakeholder, not as a single shareholder, to keep the Canadian financial institutional landscape strong.

One example of a somewhat different approach is the divisible versus indivisible capital structure seen in other countries, such as France and Italy. In this structure, capital is restricted and cannot be accessed by members or investors if it is privatized at a certain point in time. In essence, the concept of indivisible capital helps maintain a good capital base in times of systemic stress and/or credit losses, and it supports good governance that extends beyond the current membership and/or management.

In 2011 the United Nations recognized 2012 as the International Year of Cooperatives. To celebrate this distinction, Desjardins, Saint Mary's University, and the International Co-operative Alliance are hosting the 2012 International Summit of Cooperatives, in Quebec City, in October. Vancity is a sponsor. This event celebrates the success of cooperatives worldwide and promotes the development of sustainable solutions, including the potential for community-based cooperatives to deliver social services with better outcomes.

As an organization, we have learned from the impressive accomplishments of the Emilia Romagna region of northern Italy, where cooperatives account for one-third of the GDP. For the past ten years we've been participating in the cooperative studies program at the University of Bologna to learn about the potential the cooperative model offers and to enable staff to incorporate the cooperative values and principles into our strategies and everyday work.

The same fundamental elements can be found in our relationship with the Global Alliance for Banking on Values. In 2011 Vancity joined the Global Alliance for Banking on Values, a membership organization made up of 19 of the world's leading sustainable banks, from Asia and Latin America to the United States and Europe. These banks are bound by a shared commitment to finding global solutions to international problems and to promoting a positive viable alternative to the current financial system. These organizations believe that we must improve the quality of life for everyone on the planet, recognizing that we are economically interdependent and are responsible to current and future generations. We are proud to mention that two other Canadian credit unions have since joined: Affinity Credit Union, from Saskatchewan, and Assiniboine Credit Union, in Winnipeg. Together these organizations will work towards building momentum around sustainable banking, as it is our view that it has consistently delivered products, services, and social, environmental, and financial returns to support local economies.

Like credit unions, sustainable banks have played a positive role in supporting small and growing businesses over the long term, which has proven to be quite comparable to the financial returns of traditional banking models. The idea that you don't have to choose between your financial well-being and the health of your community is at the heart of our sustainable banking model. It is our hope and desire that the federal government recognizes the significance of this values-based business model and supports the movement as it becomes more widespread in the Canadian landscape.

Vancity has had the unique opportunity of working within a provincial regulatory environment, influenced by our favourable experience working with OSFI through our wholly owned subsidiary, Citizens Bank, which is a federal schedule I bank under the Bank Act, which we've had since 1997.

Although not required to do so, we have adopted additional risk management standards that go beyond provincial requirements in many areas, including in capital and liquidity management, as that complements our view on long-term sustainability in the best interests of our members.

What we do recognize is the inability or difficulty of remaining unique using a compliance-based regulatory approach to supervisory oversight. It is our desire to see government tailor their oversight programs to support and encourage our uniqueness, while adhering to a sound regulatory and risk-management framework. Recognition needs to be given to the fact that we are different. An appropriate OSFI-like framework needs to be created to preserve our capacity to deliver on community impact; we should not be forced into a regulatory landscape tailored to the banking industry. With this in mind, we believe that Vancity is a positive example of our ability to leverage the best of both worlds into a successful operating model: impact-based lending focused on community and the environment, driven by long-term viability.

Our relationship with the Kettle Friendship Society is an example of this in action. For decades, the Kettle Friendship Society has supported people with mental health issues with a drop-in centre; outreach and advocacy services; an on-site health clinic; and recreational, life skills, housing, and employment programs. When the society outgrew its rented facilities, it approached Vancity about purchasing a property of its own. Using a creative mix of first-mortgage financing and subordinated debt, Vancity helped the society purchase a 5,100-square-foot property. As a result, the Kettle Friendship Society has built its asset base for long-term sustainability and its peace of mind.

● (0920)

In conclusion, Mr. Chair, on behalf of Vancity I wish to thank this committee and your colleagues for undertaking this important study. Canadian cooperatives, including credit unions, are celebrating the 2012 International Year of Cooperatives. This reaffirms the fact that they play a vital role in building our country.

We hope that the insights provided in your final report will continue to promote and support cooperative contributions to our communities and ensure that our operating model is preserved for the enjoyment of future generations.

When you are in Vancouver, I encourage you to come by and let us show you the direct impact our activities are making in the community.

I thank you very much for the opportunity to present to you today, and I would be pleased to respond to any questions you may have.

The Chair: Great, thank you. Well, we'll certainly give you the opportunity to do that right away here.

We're going to move to our first round of questioning, and first up we have Madame LeBlanc.

You have five minutes.

[*Translation*]

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

Thank you for your testimony, which I find very beneficial. I also want to thank Vancity for its contribution to the Quebec City summit.

My first question is for Farm Credit Canada.

I would like to know how you are related to cooperatives. If my understanding is correct, you are not a cooperative.

[*English*]

Mr. Lyndon Carlson: You are correct, we are not a cooperative ourselves. But as I said in my remarks, what we've found is that co-ops of all sizes, small and large, have unique financing needs. There are many co-ops that serve farmers exclusively in rural Canada. In many of the communities where we have offices, the co-op would be often not just a business in that community, but a flagship business in that community, providing for our customers crop inputs such as fertilizer, crop protection products, fuel, building materials—you name it. So as we've partnered with some of the large co-ops that feed those networks, that's where we've really found a great opportunity to support our customers with greater access to financing for their crop inputs. Of course in this day and age a critical element in modern agriculture is feeding your crop properly.

On the other side—

[*Translation*]

Ms. Hélène LeBlanc: I would like to know what makes Farm Credit Canada different from a caisse populaire, especially when it comes to the rules that govern other cooperative financial institutions.

● (0925)

[*English*]

Mr. Lyndon Carlson: FCC has governance with the Financial Administration Act, our own legislation, the Farm Credit Canada Act, as well as supervision from the Auditor General of Canada. So we have multiple layers of scrutiny that are undertaken with us. On an annual basis, the Auditor General examines our practices annually, with a special examination every five years that goes into greater detail.

We also know that we're only as strong as the prudence we have in the lending practices that we offer. So we're very careful to adhere to good practices. In fact, if you look at the strength of our portfolio, that's both on the lending practices we have, in terms of our credit scrutiny, and then also on the governance we have of our corporation.

You will see through our recently tabled annual report that we're enjoying very good profitability, very good reserves for future potential losses, and also very good retained earnings. So we do certainly, I would say, stand up to the same level of scrutiny that other FIs do, for the good of our customers and for the good of our shareholder, the Government of Canada.

[*Translation*]

Ms. Hélène LeBlanc: Could you tell me why your clients choose Farm Credit Canada over a caisse populaire? Is there any competition between those two institutions?

[*English*]

Mr. Lyndon Carlson: For sure, one thing I would say right off the bat is that because FCC has great products and flexible products, we attract a lot of customers. At the same time, I want to remind you that of course almost all of our customers, I would say somewhere between 96% and 98% of our customers, also deal at another financial institution, that being a caisse populaire or a bank or credit union, as the case may be. We in almost every case share that customer with another financial institution. So oftentimes we might be doing the mortgage financing, and that other FI might be doing some of the short-term credit, operating loan needs, some of the personal property needs, which we would do some of as well. So I would say it's a combination of who serves those customers.

The thing I would say is that all of our customers have choice. So no customer of ours has to do business with us. They only do business with us because they chose us from what's available to them.

We believe we offer a team dedicated exclusively to agriculture, so our agricultural expertise at the front line is second to none, and I think our customers appreciate that.

[*Translation*]

Ms. Hélène LeBlanc: Thank you very much.

The Chair: Sorry, but your time is up.

[*English*]

We will move now to Mr. Preston, who has the floor for five minutes.

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

I'm going to go quickly to where we just were and then see if we can get other questions in.

We've certainly heard from a number of co-ops, certainly through briefs and even anecdotally, that for the most part there's a belief that lending institutions don't always understand the needs of a cooperative in the same way as they might understand the needs of a corporation or a business any other way.

Does FCC have a separate department for cooperatives? You do a lot of agriculture business where there are a lot of cooperatives. Tell us how you deal with that, and what your knowledge base is in dealing with cooperatives.

Mr. Michael Hoffort (Senior Vice-President, Portfolio and Credit Risk, Farm Credit Canada): From a departmental perspective, or even a special program perspective, at the FCC at this time we don't have a special program that would be specifically designed for the cooperative sector. What we do with all of our customers is really try to look at their financial needs, what they're trying to achieve from a business objective perspective, and then tailor a package that would meet those needs.

In our opening remarks we discussed some of the small livestock co-ops we deal with, and by looking at what they were trying to accomplish the cooperative structure allows us to offer a product that would allow us to finance livestock with a smaller down payment than they might be able to achieve if they came in directly from us. And through administration that they provide, that kind of collaboration from a cooperative perspective, we've been able to be a very active participant in that marketplace. So it's looking at what they need and then developing a structure that will work for those.

Mr. Joe Preston: But you're having success with that, you're having success dealing with cooperatives.

Mr. Michael Hoffort: Absolutely.

● (0930)

Mr. Joe Preston: You mentioned you're not a financial institution in the truest sense of the word; you're a lender. Most people have to have a relationship with another financial institution also. There's a lot of thought out there that sometimes Farm Credit Canada takes the low-hanging fruit and doesn't leave it for the local credit union or caisse populaire, or a bank. What do you say to that?

Mr. Lyndon Carlson: I would say that when you look at our day-to-day practices we survey our staff, our front-line sales force, on a weekly basis to find out what is the lay of the land in terms of who is out there competing for the business. Based on our surveys, we would say that 75% of the time there's not another financial institution involved. That customer has approached us and there's no other financial institution that's actually trying to win that business. So in those cases we're just serving the customer's needs as best we are able. At the same time, we would say that if you look at our portfolio we're serving customers of all sizes. In fact, in the last five years our number of customers in the smallest category, which we would put with total income, top-line income, of less than $100,000, grew at a significant rate, as well as did other levels.

Mr. Joe Preston: What proportion of your lending portfolio—if it's just off the top of your head, I'll take it—would be cooperatives versus other corporations, or single producers? How heavy are you into the cooperative business? I guess that's what I'm asking. You had mentioned some.

Mr. Lyndon Carlson: We have a portfolio now that exceeds $23 billion. So when you look at our total lending, the cooperatives as an exclusive group would be less than 10%, but it would be a significant portion at that level.

Mr. Joe Preston: So it's a significant portion. Thank you.

Vancity has grown from a very small credit union by doing some very good basic stuff and putting the need on the street—fixing needs that are there. How involved are you in helping other cooperatives or other smaller credit unions become what Vancity is now?

Mr. Rob Malli: Very much so, in a few different ways. One way Vancity has grown has been through a number of combinations with credit unions. We've grown through mergers and acquisitions. Over our 65-year history, I believe we've had a combination of 52 mergers and acquisitions. Some of those have occurred voluntarily, where we saw opportunities; some have occurred because it's in support of the system. That's one way.

The other way is that now we've created alliances. I referred to two different credit unions we're working closely with: Affinity, and Assiniboine. Because of our values-based model, we share a lot of our efficacy work together, especially investment in research and development in terms of how we serve underserved markets, etc.

We're big supporters, both at the provincial and national levels, with the cooperative movement. We share models and experiences. We've had alliances with Desjardins for many, many years, and we continue to make that strong.

I want to stress, though, that the way we organize and cooperate is unique within the cooperative structure, unlike banks. We even have relationships with banks on a regular basis. We're part of the—

Mr. Joe Preston: Shame on you.

Voices: Oh, oh!

Mr. Rob Malli: —Canadian Asset-Liability Management Committee. The purpose is to get practices. I try to emphasize that.

We've got great advantage by our bank being regulated by OSFI, in terms of understanding practices. We bring those to the system. That's another way we support the system.

The Chair: I think you made a mistake there: you made eye contact. Remember, you don't make eye contact.

Mr. Joe Preston: I should never have turned back.

The Chair: Your time has expired.

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

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

Mr. Carlson, has the board of FCC met since July 10?

Mr. Lyndon Carlson: No, they have not. We have a board meeting coming up in the first week of August.

Hon. Mauril Bélanger: I know that.

So the position you gave us this morning, that you're opposed to a review of the act, is not a board position; it's a staff position. Correct?

Mr. Lyndon Carlson: I do not know if the board has discussed it, actually.

Hon. Mauril Bélanger: You're responding to the July 10 position given by the credit union. So if the board hasn't met, it has to be a staff position.

Mr. Lyndon Carlson: Oh, for sure. These notes were prepared by management.

Hon. Mauril Bélanger: Okay.

I'm very surprised at that, because any self-assured organization usually welcomes reviews. Why wouldn't you welcome a review?

Mr. Lyndon Carlson: I guess what we looked at is that since 1959 we've had numerous reviews and legislative changes.

Hon. Mauril Bélanger: You haven't had one since 2001.

● (0935)

Mr. Lyndon Carlson: That's correct. In 2001 we received—

Hon. Mauril Bélanger: The banks review every five years.

Mr. Lyndon Carlson: In 2001 we received a mandate that we think serves our needs and the needs of our customers very, very well.

Hon. Mauril Bélanger: I was around then, and I understand that, sir, but I'm surprised that you would be opposed to a review. Why?

Mr. Lyndon Carlson: Only because we're not really looking for additional powers. We think we've got a mandate that has allowed us to grow both primary producers and the agribusiness and agrifood industry.

Hon. Mauril Bélanger: You said you've made adjustments, but you did not provide examples of those. I would appreciate it if you could—not now—send it to the clerk of the committee so we can see examples of adjustments you claim FCC has made in order to accommodate co-ops.

The other thing you said, and I haven't seen your notes and I would have liked to, is "unlike other agencies...". Which other agencies were you referring to, federal agencies or non-governmental agencies?

Mr. Lyndon Carlson: We were talking about non-governmental agencies.

Hon. Mauril Bélanger: Okay. I would have been able to ascertain that had I seen your notes.

Anyhow, I'm a little perplexed with the obstinance of not having a review. It shouldn't be your call.

Mr. Mali, you referred to the pre-publication of regulations for co-op banks, or federal co-ops I guess is what you call them, yet you've owned a bank—not you, but Vancity—since 1997. Am I hearing that Vancity would rather be going to the credit union model, but on a national basis, as opposed to a banking model?

Mr. Rob Malli: What I'm saying is that right now we do have the powers, by owning a bank as well as a credit union and other entities, to operate across Canada, and we do use it. We use it in commercial lending, in the VISA business, and the foreign exchange business.

We've learned through experience that we are focused on what makes us strong and stronger, and that's our connection to community. We can't lose that. We're not looking to take the national legislation that allows us to be a national credit union at any cost. That's where we're really strong in our position.

Hon. Mauril Bélanger: Fair enough.

So if I read between the lines, you're maybe wanting to see some changes to the proposed regulations.

Mr. Rob Malli: Right, yes.

Hon. Mauril Bélanger: Would you care to specify any? Or will that come later? You've got 30 days from July 6, I take it.

That was a nice coincidence, by the way, that those were pre-published just before our first public meeting.

Mr. Rob Malli: Right.

Yes, we will be responding formally to those, but I've highlighted a couple of areas in here and in my presentation. One would be the issue around demutualization, which we think is a big concern. The other one is around ensuring that the regulations truly are enforcing and enabling the organization. I think Desjardins spoke to some of these points in theirs, and we're consistent—

Hon. Mauril Bélanger: Am I mistaken in thinking that you have 30 days to react to those? Or was it 60?

Mr. Rob Malli: I don't recall.

Hon. Mauril Bélanger: If it were 30 days, you'd have to do so before August 7, right?

Mr. Rob Malli: Right. I believe it is longer.

Hon. Mauril Bélanger: Okay. But if you do it before August 7, we have a deadline to receiving documents that would then be distributed. It might be useful, if you're prepared to share your concerns, to send them to the committee as well, so we'd get a better understanding of some of the difficulties the regulations might be creating.

Mr. Rob Malli: Okay, we'll definitely look at that.

Hon. Mauril Bélanger: Thank you.

I've got eleven seconds to go, so I'll just make eye contact....

The Chair: All right. Well, there you go. Eye contact's been made and time has been terminated.

We will move over to our second round of questioning now. First we have Mr. Boughen.

You have five minutes.

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

Let me extend my welcome to the panel for being with us this morning, sharing your expertise.

A couple of questions came to mind in your presentations, gentlemen.

Rob, I'm going to ask you to look into the crystal ball and tell us when, across Canada, the financial way you're handling your credit union will be acceptable to all provinces. What do you think? Is that a future kind of dream that will never happen? Or will the credit unions eventually become the same as banks across the nation and accessible to all Canadians?

Mr. Rob Malli: I believe it is the situation today that credit unions do operate across Canada and are accessible to Canadians. I don't think all credit unions operate the same way, so there are uniquenesses and there are more successes in certain regions than others. I believe it's truly a decision made by consumers and by residents whether the unique proposition is offered. I believe that the values-based approach we're taking is the future. What we take pride in is if we can influence the whole system moving forward.

Just to give an example, Vancity was the first organization to introduce socially responsible investing in Canada, and even internationally it's still just starting to take hold, with the ethical funds introduction. We're now proud to say that even TD Bank, etc., are all screening their investment portfolios across the organization. That's the type of change we're trying to cause. Responsible lending, the new regulations that came out on the mortgage lending by OSFI, or even the new announcements made by the Minister of Finance, in terms of mortgage lending rules—

● (0940)

Hon. Mauril Bélanger: They're actually going back to where they were.

Mr. Rob Malli: Right—these were practices that were always established at Vancity and were entrenched in the way we do business because it's the right way to do business long term.

Even with CMHC rules around securitization, just to give you some information, Vancity has participated in securitization for funding in the past. We've always had the rule where any time our members got into delinquency, we bought back those mortgages voluntarily. We've always practised that because we believe that the fundamental relationship with a member is our commitment to the member and we don't use financial markets to let go of that risk.

So the way we do business, we believe, has always shown that it's relevant. We think it is the future. It will happen through regulations because banks have a shareholder-driven model versus a community-driven model, as stakeholders, and that's going to be the consistent rub. That's why we believe that the regulations in particular have to acknowledge the differences in the business model and be tailored to support and strengthen cooperatives because of their unique governance—they're mission-based—and their business model differences.

But we work side by side with banks. It's not about one or the other. We think that together it makes a healthy financial system; we just need to make sure we understand the direction and practices going forward. I believe that Canada and the world need more value-based sustainable banking models to protect us financially through other future crises.

Mr. Ray Boughen: Thanks, Rob.

Lyndon, is Farm Credit increasing the number of young farmers returning to the land? Do you see a growth of agriculture in the prairie provinces? What do you see happening, because of your involvement and your ability to help these folks get started?

Mr. Lyndon Carlson: Certainly we've had unprecedented levels of lending to young farmers in the year just ended. In fact, last year we lent $1.9 billion to young farmers—that is, persons under the age of 40. And that's a good thing, for the transfer of assets. As the older generation starts to phase out of the sector, it's critical that there's a younger generation joining.

What we see is that the feed stock for future farmers is existing farmers. Basically, most new farmers are the sons and daughters of existing farmers. So we really want to make sure we're there with access to capital so that the new generation can join that family farm.

In the census of agriculture that was just released, it still shows that over 98% of all Canadian farms are pure family farms. So facilitating that transfer and the entrance of new farmers is critical, and we will continue to support that.

Mr. Ray Boughen: Thank you.

Thanks, Chair.

The Chair: Thank you.

We're doing really well with time today. I appreciate that, everybody. We got a little bit off the rails yesterday afternoon, so I appreciate that we're making up for it today.

We'll move now to Madame Brosseau. You have five minutes.

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

I really appreciate you being here today and sharing these stories.

I was wondering, Mr. Carlson, what kinds of training programs do you have? Do you have any training programs to help young people get involved?

Mr. Lyndon Carlson: One of the things we started ten years ago is what we call FCC learning programs. As we look at the success of our customers, success isn't based only on a good balance sheet; it's based on really good business skills. That's where we really want to support our customers—to increase the strength they have to run their business effectively, not only on the production side but also on the business skill side.

To that end, we started doing learning programs about a decade ago. Last year we put on well over 200 unique events across Canada, with attendance of about 27,000 people. This year we'll do the same. This will cover topics from financial statement analysis to succession planning to marketing to human resource management, all of the skills a typical business person needs to succeed. This has become a huge part of our program.

Now, more recently, we're doing the same thing online. We do face-to-face learning programs, where people can get together in a workshop of say 30 people. Now we have videos that will share these same skill sets, and you can download them online. Last year we had over 65,000 downloads of our learning programs online. This is a critical thing, which we think is unique for the offering now for our customers.

● (0945)

Ms. Ruth Ellen Brosseau: It's very important.

Mr. Malli, it's very nice to hear the testimony and how well Vancity is doing and how it really gives back and invests in communities. I was just on your website, and the impact investments.... You invest in affordable housing; energy and environment; local, natural, and organic food; social enterprise, social venture; social purpose real estate. And you have structured for impact.

Do you work with aboriginal communities also?

Mr. Rob Malli: Yes.

Ms. Ruth Ellen Brosseau: What do you do, exactly? Do you help with employment? I was just browsing quickly. I was wondering if you could elaborate a little bit more.

Mr. Rob Malli: Yes. We help them with a number of issues. Because of aboriginal land and the issue of entitlement and getting mortgages, etc., we've created structures to allow people to get mortgages on aboriginal land, paved the way for that, because that was an obstacle in terms of some of their developments.

We've worked with them to explore other opportunities. Right now we're exploring opportunities that would allow them to perhaps set up their own credit union, or a structure, as we did in Pigeon Park in the downtown east side of Vancouver, where we work with another partner to enable them to set up their own credit union but we handle the back office for them, to enable this to be basically owned by that community. These are examples of what I mean by different forms of cooperation and structure that aren't typical, like we own everything and open a branch there.

What we're trying to do right now is really make sure we make inroads within the aboriginal community, even on the employment side. We want to make sure our staff is representative of the communities we live in. It's an issue, because we don't quite have a proportional share of employees with an aboriginal background. That's something we're open and transparent about and we're really trying to get better at it.

However, as members, we do service them in the same way and in the same respect as any other member. We try to learn of opportunities where we could help them in their pursuit of economic viability and development or social issues.

Social housing is another issue where we help a lot in the aboriginal community as well, because of the downtown east side and social services that are provided to them.

Ms. Ruth Ellen Brosseau: It's been amazing to hear about these credit unions that really give back to the community. It just seems as if you care a lot. It's very different from what you typically see from banks. When you hear about big businesses, you don't often hear that big businesses are helping out new and emerging businesses. With co-ops it's very cooperative and you tend to help each other. It's really great to hear.

Is there anything else you wanted to add?

What do you see as the future of cooperatives in Canada with the recent cuts to the development fund and the rural secretariat? Do see it as more difficult for cooperatives to get up and going? You must deal a lot with cooperatives starting up.

Mr. Rob Malli: Yes.

I think what's important, and my advice to this committee and the government, is to look at other models that are operating effectively in terms of promoting, especially in the promotion of cooperative models. That's why I've pointed to Emilia Romagna in Italy, to France, and to other areas that have embedded the role of cooperatives in their constitution and have instituted legislation, etc., in a way that respects how cooperatives need to be governed, and they need to be understood and entrenched, to make them a viable alternative without issues or obstacles in the way. It also promotes the literacy of the general population in terms of the role they play.

There are certain sectors, especially the social enterprises, especially as government continues to reduce social services in certain respects, whether they're budget-constraint-related or whether it's fundamentally methodology-related. Social enterprises being cooperatives is a great example of where a cooperative model is more aligned at the governance level, at the mission level, to deliver those types of services that are truly in the interests of the people and you don't want to compromise with a shareholder model, which may provide adverse incentives and not the right level of service, etc.

Those are examples where I think it's extremely important that we understand before we develop a framework and structure.

The other thing is I think that cooperatives themselves, to be successful going forward, need to make sure they're using their governance structure and their mission in the proper way and not trying to be like somebody else. I think some cooperative credit unions are trying to be like banks, and that's not helpful to the cooperative movement or the system. With this legislation there's an opportunity to do that, which I don't think is the right thing to do. I think it has to be grounded in its roots.

● (0950)

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

We'll move to Mrs. Gallant. You have five minutes.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman, and through you to our panel.

Mr. Carlson, you mentioned that you are flexible and serve the unique needs of farmers. You may have heard that in eastern Ontario they are reportedly experiencing the worst drought in 50 years. The corn is just a few feet high, but it has tassels, and where there are cobs there's no silk, so pollination is not going to occur. Furthermore, the nitrates apparently are so high that if they feed the silage to the cattle, they'll die. So we have that situation, and then there's the barley, where the pods are so dry that you just have to rub it between your fingers and it turns to dust. With alfalfa, the plants are too short to cut, and the taproots may be lost, so replanting must occur.

With this, the challenge for the cash croppers and the people who grow the grain for the purpose of feeding their livestock is that they just don't have anything. With hay they got one cut. Those who have to buy hay can't find it. They've looked over 300 kilometres, and it just doesn't exist. They're already feeding what hay they do have because the grass has all dried up.

The question they're facing is whether or not they can or should plant something that could be harvested this fall so they've got something to feed their cattle. They have to wait for the crop insurance payment, of course, and what they need to know is whether or not they have the capacity to plant, because they don't have access to the cash for several months when the crop insurance eventually pays out.

So my question to Farm Credit Canada is would Farm Credit Canada use the pending crop insurance claim as collateral to lend money to these farmers who have to plant?

Mr. Lyndon Carlson: Well, we wouldn't use it literally as collateral, because it's not a security instrument, so to speak, but we would certainly work with our customers on an individual basis to come up with a solution that will work for them.

We know that one weather event—for instance, this summer in southern Ontario—does not change the overall viability of that operation long term. If we need to make a loan to those people so that they can put in a new crop, through our crop input program, which is available to our customers, that's one thing we would do as a normal matter of course.

I also want to let you know about a couple of other things we've done, illustrating flexibility. One of our products that is utilized by farmers across Canada all the time is a thing called a “flexi” feature. What that permits a customer to do, at their choice, if they choose that feature, is to ask for a payment holiday, and we will grant it. We don't have to debate them over that. We build the feature right in. That customer does not have to come to us with hat in hand, asking us about this. It's a feature of the product. If they need to have a payment holiday for this fall, we would grant that payment holiday and they'll make their payment next year.

The other thing we've done, with weather events in particular, whether it be flooding in western Manitoba and eastern Saskatchewan, where crops could not get planted.... Multiple times in the last decade we have proactively sent out letters to our customers granting them a payment adjustment without their having to come in and ask for it. We proactively say that we know what they're facing and we're there to support them in difficult times.

When we look at southern Ontario, we haven't introduced at this point what we call our customer support program, but once we see the impact, if it's across a larger area where we need to take a general action.... We've done that many times in the past.

● (0955)

Mrs. Cheryl Gallant: So there are plans in place to mitigate these disasters as they occur. We don't have to lurch, looking for a new program.

Mr. Lyndon Carlson: Certainly not.

Mrs. Cheryl Gallant: You do have some things in place.

My question is with regard to timing. In order to be able to collect the crop insurance, they still have to harvest. And the suppliers, they need to know whether or not to get in some new seed for another planting. All this is contingent upon their access to cash.

How long would it take to process a loan or a line of operating credit for them?

Mr. Michael Hoffort: Generally that type of request could be turned around fairly quickly. Whether a farmer in Ontario who is experiencing a drought deals with Farm Credit or a bank or a credit union, I'd encourage them to see them very quickly and to discuss what the options are. The sooner you do get involved and set these things up....

I think any of us who serve the industry can turn them around quickly. I know that the FCC would be able to do that quite rapidly and allow them, if they did want to reseed, to be able to move forward with that.

Mrs. Cheryl Gallant: Twenty-four hours...a week for new customers?

The Chair: Unfortunately, time has expired.

Your answer was yes to that question, correct?

Mr. Michael Hoffort: Yes.

The Chair: Okay, so we'll leave it at that.

Mr. Harris, you now have the floor for the next five minutes.

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

Thank you to the witnesses for coming.

Mr. Malli, during your last statement you said that we should be looking to other areas for solutions. Of course in your opening remarks you mentioned other social enterprises and co-ops, in Italy for instance.

Thank you for being a sponsor of the Imagine 2012 summit happening in Quebec City. I only wish that we as a committee were going to that so that we, ourselves, would be able to look to other areas for solutions. There are many solutions available in the world and we should be looking at them to improve our cooperative sector here in Canada.

I want to discuss Vancity, which is largely contained within urban areas, and the unique needs that urban areas have compared with the different needs that often exist in rural areas, even as they might parallel.

Now, with residential cooperatives, of course many of them that have been in existence for a long time are dealing with some infrastructure needs, whether it be new roofs, replacement of pipes, buying new boilers, or other things like that. What kinds of services does Vancity offer to co-ops that are looking to perhaps blend and extend mortgages or to seek new financing?

Mr. Rob Malli: Sir, you're referring to housing co-ops, those types of things?

Mr. Dan Harris: Yes.

Mr. Rob Malli: First of all, our flexibility in offering product solutions, whether the blend-and-extend or flexible mortgage payment options for teachers, and all these things, are offered to our whole membership. Specifically, in the housing co-ops we are promoting that sector within all of our areas of reach. What we do is we help people get together to educate them around different ways for home ownership, especially in Vancouver, because Vancouver housing prices, as you're aware, are extraordinarily high, and for people to get into housing is a big issue. Right now we're really looking at this in terms of seniors as well.

So how do we help people educate themselves on different ways they could get into the housing market? Cooperative housing is one way, and there are a lot of benefits to that. So we promote that; we support it by offering financing options to them. Some of our options, when we're promoting areas, we to look at that and specifically see how flexible we need to be to make sure it's a viable option, not just something we promote, but economically viable by our credit criteria. We look at that holistically. So we do offer different solutions to be able to make that happen.

We also have flexibility in terms of different ways we set up the covenants, etc. If there are issues around housing, roofs, etc.—for instance, we had the leaky condo issues in Vancouver way back when.... We worked with the government agencies that were involved, but we also did a lot to try to support residents, making sure they could get loans to keep their houses without going into foreclosure bankruptcy as a result of that. We helped them deal with the issue at hand, because we knew the value would come back in the long term.

● (1000)

Mr. Dan Harris: I think we can all agree, because of the close ties that credit unions have to their communities, that it's naturally in their own best interests to make sure that those communities stay viable so that the business model keeps going.

Mr. Rob Malli: Absolutely.

Mr. Dan Harris: That's something that we think should definitely be expanded.

One of my colleagues was mentioning briefly the CDI. When that program was in existence, did you see a spike in the creation of new cooperatives in and around the areas Vancity operates in?

Mr. Rob Malli: I'm not sure in terms of the specifics of how that impacted us, because our focus is overall on the communities and the cooperatives. A lot of them are non-profits. Irrespective of the type of organization they are, as long as they're doing something good for the community, are positive, that's what we're focused on, the positive impact.

I can't speak specifically to the impact of the CDI just because I don't have the data with me. I could follow up, definitely.

Mr. Dan Harris: Certainly. If you have data available on that, I think it would be very useful for this committee to receive that information—of course, before August 7, at 5 p.m.

Mr. Carlson, during your remarks you mentioned the unique financing needs that co-ops have. This seems like information it would be useful for this committee to hear about. What kinds of unique—

The Chair: Mr. Harris, the time has expired, but I will—

Mr. Dan Harris: —financing needs do you see that should be shared with this committee?

Sorry. Thanks.

The Chair: And I'll ask that the response be quite brief as well.

Mr. Lyndon Carlson: One of the things that we see with the co-ops, especially some of those smaller co-ops that I mentioned, like the cattle breeder and feeder co-ops for cattle purchases, is that there's no obvious structure on a normal lending program. I mentioned that one co-op with 18 members. We've been able to lend them millions of dollars by saying that individually they might present a high risk, because the down payments are low on cattle purchases, but collectively, with them willing to share the risk and us willing to take on some risk, we say we can put together a model that works for the co-op and works for FCC so that together their loans are successful.

The Chair: Thank you, and I appreciate you keeping it brief there.

We'll move now to Mr. Lemieux. You have five minutes.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thanks, Mr. Chair.

Thank you for being here today.

I would just like to follow on with the financial-type questions, because I think we're fortunate to have two financial institutions here that are involved in lending.

One of the repeated comments we've heard from a number of different witnesses concerns access to capital financing for co-ops. There's been sort of a general impression that co-ops are disadvantaged over perhaps small businesses when they go to seek loans. It seems to be, in a general sense, because there's a misunderstanding of what co-ops are. There's a misunderstanding of how they're organized, what their structure is, etc. My feeling is that it's probably a bit more than just a misunderstanding. My guess is that there might be some legalities involved here in terms of access to capital.

My question kind of follows up on a question I asked yesterday. If you have a small business, you don't have a lot of capital either. It's a high-risk endeavour for a bank, perhaps, or a lending institution to finance a small business. What I want to get a sense of, from each of your respective institutions, is whether you see co-ops as being disadvantaged in some way because they are co-ops. Or is it more that we assess risk based on a number of different factors, and those factors are applied equally as much as possible, whether it's a small business or a co-op? In other words, there's no sort of built-in institutional bias against co-ops just because they're co-ops. It's not that they don't understand co-ops, so are not lending to them.

Mr. Malli, I'll start with you, because as a co-op, you would understand co-ops. You would understand their structures. We've had some people say that yes, co-ops do help co-ops. But I'm assuming, as well, that there's very much a business decision made in terms of risk analysis, capital you have access to should something not work out well, etc. Perhaps you could comment on that.

Mr. Rob Malli: Yes. An example is the Kettle Friendship Society. We had to use a creative means of trying to help them get established, both through supporting a debt and by sometimes using granting as well as lending. That's a combination of different forms to make sure that they're capitalized, etc., moving forward. That's something a bank can't do today for their members or clients in that way. We do that because of our structure.

Also, at the macro level, as a cooperative, how do we need to kind of move forward? Our only means, typically, because of the cooperative structure, is retained earnings, or growth, as a means to develop capital. There are some constraints right now. The capital markets aren't so friendly. So we have to have a means of working together, cooperatives working with cooperatives. Right now there's not a lot of latitude there to allow us to support another cooperative outside of our region, perhaps, or even in B.C., and help them with capital needs.

● (1005)

Mr. Pierre Lemieux: Is that where federal regulations might come in handy?

Mr. Rob Malli: They still don't address that, because it's an absolute. It's not a structural thing. I think it needs to be looked at further. I think that's where it's not set up in a way to support what they need. There are some disadvantages, more probably at the macro level. Whether they're intentional or not, I agree, is another issue.

Otherwise, as a business, as a cooperative, the way we run Vancity is that we create a sustainable growth model to ensure that our accumulation of equity is enough to keep pace with our ambition for growth. It has to be through retained earnings as the primary source. In addition, it's how we distribute retained earnings—we give 30% of our after-tax profits back to our members and communities every year—and still maintain enough equity.

Mr. Pierre Lemieux: Do co-ops just inherently, then, have a challenge with retained earnings, because they want to return as much as possible back to their members, and therefore it is part of the co-op structure that their retained earnings may not be as high as...?

Mr. Rob Malli: Right. Well, retained earnings for what purpose? For us, as a cooperative structure, retaining earnings serves the purpose of supporting our future growth and investment. Otherwise, they are distributed back to our communities. That's the only purpose they have. We don't have single shareholders who have a mandate to get 20% returns, right? We're not profit-driven; we're mission-driven. That's a very different structure. Cooperatives are structured that way.

If you think about the long-term investment and equity needed to build, the time to get into trouble is when there is some type of downturn or crisis or a reduction of money coming in. Or it is when you're trying to grow. When you're trying to grow, you start with capital to be able to grow your position. It's difficult otherwise.

Those are the times when we need to make sure that the right legislation is in place to allow them to get access to that, not just through open capital markets but perhaps even through other cooperatives or other structures that could allow them to have that as permanent capital or as capital that is consistent with their mission. Then they would build that back.

I think it's very important that any business have a sustainable growth plan. You don't grow from unsustainable means of capital, wherever it comes from.

Mr. Pierre Lemieux: I think I'm out of time for Mr. Carlson.

The Chair: Unfortunately, you are.

We'll move now to Mr. Allen. You have five minutes.

Mr. Malcolm Allen (Welland, NDP): Thank you very much, Chair.

Mr. Mali, we've been listening to some folks from different credit unions. Mr. Lahey was here yesterday, from Alterna, talking about how in this particular province roughly 6% of financial institutions are actually credit unions.

It's interesting to look across the country...and this is a broad-brush approach to how they have developed, if you will. We have Vancity, in the lower mainland, Vancouver area, which is a heavily urban-based area these days in its growth. As you go across the prairies, you see credit unions being more rural-based in their initiation, if you will.

You come to Ontario, and it tends to be an employer base, through the employees. In other words, the credit unions are attached to a particular employment place, whether it be, in my case, with the auto workers, or civic credit union, for civic employees who work for the City of St. Catharines. There was another one in Welland and another one elsewhere, and they were very small.

In Quebec, obviously there are the caisses populaires, with the Desjardins Group. It's a totally different piece altogether. It's a huge chunk of the market.

How do we help folks understand that credit unions are a viable alternative for them, in places like Ontario, where it's only 6%? Is a federal model, where it allows you...? Because I absolutely agree with you about keeping that vision of community first. By your simply having another branch like TD, you just become another TD with a different name.

Is there a way for us to structure federal legislation that allows you an opportunity to look at Ontario—not to simply have another branch, but to actually help grow the credit union movement, rather than a credit union branch?

● (1010)

Mr. Rob Malli: Absolutely.

To make sure we have the right facts, Vancity is only one representative of a credit union in British Columbia. British Columbia has numerous credit unions, which are in urban and rural areas. They're employment-based. They're sometimes religious-based. They're across the gamut. There are 40% of British Columbians who belong to a credit union, in one way or another. I believe it's about a 25% market share in terms of banking, somewhere around that range.

We believe that the way to strengthen the credit union system nationally is what the legislation should be focused on, not for an individual institution to be able to exercise its focus on just geographic reach. In order to do that, we believe it should enable us to work together, as a cooperative system, in a stronger way.

We could look at the Ontario credit unions, for example, from the B.C. perspective, and how do we help them learn from and extend our business models in a way that's relevant for their communities, make sure they have the capital means that they need, and the infrastructure means?

You hear credit unions talking about regulations around infrastructure, banking systems, regulatory burdens, etc., that are becoming too costly. Well, there are different ways we could structure ourselves. Again, I point to Desjardins as another model, using a federated model that has accomplished that. The caisses populaires could be effective in their own right, while still allowing a structure where they could deal with the burden of scale, etc.

I think we need to look at structures and regulations that support that type of model, or do more research. There's definitely research that needs to be done. I wish I could take you all to Italy, on our program to Bologna, so you could see first-hand...or even come to Vancouver to see how we've done it with Vancity. Vancity really is a collection of 59 different branches that are communities. I think that is what needs to be considered, not approaching the same regulations that are relevant and applicable and necessary for banks, which operate differently, and say we can basically transport that over with some minor tweaks. I think it needs to be a fundamental look at what it would take to support that structure.

The question in Ontario is that it's also the home place for the major banks. If you look at the statistics, that's the place that has the least amount of penetration in the credit union system, versus the rest of the country, which is very different. Are people satisfied? When I come to Ontario and talk to people, they are not necessarily satisfied. If you look at the data on bank satisfaction with consumers, it's telling as well.

There are ways, but you're on the right track, in that you have to be able to see how we could organize ourselves and solve our own problems and meet the needs of our consumers in a way that doesn't limit us to geographic reach. It doesn't mean applying a model that means we can go national just for the sake of going national.

The Chair: Thank you very much.

We'll be moving now to Mr. Butt. You have five minutes.

Mr. Brad Butt (Mississauga—Streetsville, CPC): Thank you very much, Mr. Chair.

Good morning, gentlemen. Thank you very much for being here.

I'm assuming both of your organizations work with no government money, you're not funded by any level of government, and you're self-sustaining. Has that always been the case? With FCC, when it was first started, I'm assuming the federal government of the day recognized a problem, a challenge, etc., and decided to create the organization. How long have you been self-sustaining? I'm assuming that model is working, because it sounds like both your organizations are very successful. So maybe you can explain a little bit about some of that history for someone like me, who doesn't know a lot about FCC. I come from an urban riding outside of Toronto, and it's not really an area I have explored. Maybe go through that a little bit, the history of that, and how you're operating now, how you're in a self-sustaining financing model.

Mr. Lyndon Carlson: In 1959 and into the early 1970s we would have received an appropriation annually. In fact, as we started out, banks didn't offer farm mortgages, so we were the show in town to do farm mortgages. We never turned a profit, though, for that whole period of time. We were kind of living from hand to mouth, so to speak, as an agent of the government. There's no doubt about that.

Later on, as we got through the 1970s and into the 1980s, we became what was a complementary lender, really taking more risk than other lenders.

Then we hit the days of the mid-1980s, when interest rates became.... I started 30 years ago, and we were lending money at 16.5%. You can just imagine the interest expense. Of course there was a price to pay with that combination based in the agricultural community, and then failure.

We went through some really tough times in the late 1980s and the early 1990s. At the end of that period the government realized that we needed to operate like a commercial crown with a business structure that was sustainable. If we were going to serve the industry, we had to be around.

In 1993 we received new legislation and we were directed to enter the marketplace as a self-sustaining business. We have not received any more money from the federal government since that period, which is now about 20 years ago.

Today we operate as a self-sustaining crown, we pay a dividend back to the federal government annually, and we take on business of all shapes and sizes, all sectors, all enterprises, across the country. Now we actually have a good balance sheet and we're here to serve.

● (1015)

Mr. Brad Butt: Mr. Malli, you can continue with Vancity. Obviously, from what you've told us today, you're a wildly successful organization in British Columbia. I'm assuming that you're operating with no subsidy from government, it's funded within your internal operations, you make money off your investments, your mortgages, and other things you're doing, and you're reinvesting that back into the community. So you're a true co-op that's operating and being extremely successful without government money.

Mr. Rob Malli: That's correct.

From our beginnings, people came around a kitchen table to create Vancity in 1946, to pool their money together because at that time the banks weren't lending east of Main Street. They just pooled their money together to lend to one person and created it. Ever since then, that's how Vancity has operated.

The one thing we do work on with governments is to help them execute on their mandates. We've worked in the past with Western Economic Diversification Canada to be able to exercise their mandate to be effective because it aligns to our mission. So we could work in partnership and say if you were trying to get access to put this money out and provide it as a safeguard to make loans that otherwise wouldn't be made in places, we could help you do that and execute that. In fact, anytime we've done that in partnership we've shown a return. They haven't had to spend those pools of money that they've put aside because we have such trust in the community in the way we do it and we are able to do it at a much lower cost. So it saves government money, at the end of the day, by doing it, and a lot of it we just adopt as our normal practice.

We've partnered where appropriate, but we don't get it directly. It's our members or the community at large that would get the benefit of those types of things.

We've done other things on partnership around social housing issues, etc., but we work with agencies, not getting money for ourselves.

So absolutely, we're a product of self-funded.

I think that's the issue I wanted to raise as well with social enterprises—the way to transition. There's a transition period we have to consider here. What we're granting now is provided to a lot these entities or social services. They were given by government. There's a way to wean them off that, but you have to have the right structure in place. This is where we believe that social enterprise, the social cooperatives, can play a big role. There's probably a transition period when they take great pride in being self-sufficient and viable.

Atira Women's Resource Society in Vancouver is a great example of this. We've worked with them from the beginning, originally granting, etc., and now they run their own enterprises to self-fund their operations. They have hired women who used to be clients or participants, who would otherwise be in their shelters, and now have them working for them.

These are the types of innovations that get created in social cooperatives that help fuel them in the future without government money.

The Chair: Thank you very much.

We'll now move to Mr. Payne. You have five minutes, as well.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Mr. Chair.

I also want to thank the panel members for coming today. It's important that we hear their testimony.

I've met with some FCC folks, on a number of occasions, to fill me in. I'm from Alberta, and I've met with the folks from Lethbridge.

You talked earlier about helping young farmers. Do you have a designated dollar amount, or the number of young farmers you try to help out on an annual basis?

● (1020)

Mr. Lyndon Carlson: We don't.

We set a target annually with regard to our lending, to ensure that our front-line force remember to always focus on young farmers, as well as all farmers. For example, last year we set a target of $1.5 billion for young farmers, and we exceeded that target by lending $1.9 billion. We keep that as a kind of steady focal point for our active lending.

This year we also launched a new program, which we simply call the young farmer loan program. We have allocated $500 million of funds specifically targeted at young farmers. They can not only get a loan from us, but they can do so at a price that's below what they might otherwise pay—that price being prime plus a half.

As a young person without a proven track record, typically we would have to mitigate some of that risk through a higher interest rate. But we want to make sure we give these farmers a good start. We launched that program in April, at prime plus a half, and no loan fees at all. They don't have to pay for their appraisal and their security and that sort of thing.

With this many weeks into it, which is a short period of time, we already have over $100 million approved for young farmers.

So yes, we certainly focus on young farmers.

Mr. LaVar Payne: Is that right across Canada?

Mr. Lyndon Carlson: That's right across Canada.

Mr. LaVar Payne: What kind of a breakdown would you have for western Canada versus, say, Ontario.

Mr. Lyndon Carlson: Western Canada has come out of the gate really fast. Atlantic Canada would be the lowest amount because there are fewer farmers in the Atlantic. But from Quebec going west, the numbers are strong in every province.

Mr. LaVar Payne: Okay.

I've talked to other bankers. They think you folks have an advantage in terms of being able to lend to farmers. What would your comments be in regard to having an advantage over traditional bankers?

Mr. Lyndon Carlson: We are committed to giving our customers the best products and services that we can. Whenever we are aware that another financial institution is vying for that business, we are very diligent to never undercut the competition on price.

We borrow money through the consolidated revenue fund, and that's at a good price, for sure. But banks have a double-A rating, and they're able to access funds at an attractive price as well. Plus, they have millions of dollars of deposits on hand. They pay very little interest, and they can use that to reinvest in their lending program.

All that being said, every time we're making a price adjustment, where there's a competitor involved, we do not undercut the competition on price. We believe that by winning the business based on service and knowledge, we compete very fairly in the marketplace.

Mr. LaVar Payne: You also spoke in your opening comments about Foothills Cattle Co-op, Agropur, and UFA lending. What do you use for collateral for these types of organizations? Is there any special method you use versus your regular lending?

Mr. Michael Hoffort: With Foothills, we finance the members of the Foothills Co-op to buy cattle. In this case, the security amounts to the livestock.

What the members have done in that situation is come together to set up a pooled security fund as part of their membership in the co-op. It's a backstop, if necessary. But really, it comes back to the member and the livestock first, and then if it ever has to, the co-op's kind of pooled security situation.

You mentioned UFA and some of the others. Typically where we have gotten involved is that we're a member of a lending syndicate. Chartered banks in Canada are typically the lead. Credit unions could be participants in that, depending on the situation. Farm Credit is a member, as well.

These will be structured in different ways, sometimes with specific security agreements, sometimes with overarching agreements with the cooperative, in terms of the security take. There's an assessment of the business model: where they're going with their business, the profitability. It's really a standard assessment on the risk of what's happening there.

Mr. Lyndon Carlson: I would add quickly that another thing with UFA and some of our crop-input programs, with a cooperative, is that we are taking all the risk. So when we're doing a crop-input loan to a farmer facilitated through UFA, UFA doesn't have to take any of the risk. We'll provide a crop-input loan to that farmer for this year's production cycle without security, based on balancing the risk across the whole portfolio. So that way the cooperative doesn't actually have to pledge security for its crop-input program, and that debt doesn't appear on its balance sheet.

● (1025)

The Chair: Great. Thank you very much.

Point of order?

Hon. Mauril Bélanger: It's really a question that I'd like to put to our analysts to complete the picture we just heard, if I may.

Could we ascertain whether or not the Government of Canada guarantees the loan portfolio of the FCC? I thought there was a role there, a backstop role of some sort, and I think we should be aware of that, if it is the case, so we have a complete picture.

Thank you.

The Chair: Thank you.

We have concluded the second round of questioning. We do have a few minutes remaining, so I'll allow one more round.

The first in our third round would be Mr. Lemieux. You have five minutes.

Mr. Pierre Lemieux: Thanks, Chair.

I'll just continue with my question to FCC about co-ops. In the lending practices that you have at FCC, do you find that co-ops are disadvantaged because they are co-ops, or are they treated in much the same way as other groups, agencies, and organizations seeking loans?

Mr. Lyndon Carlson: I would say they're not disadvantaged. I can't think of how they would be. The large co-ops, of course, are large organizations that have lots of capability, so we set them aside because they can access funds from any financial institution. The medium-sized, independent cooperatives that serve communities also have been very successful, and they've got quite a history. Again, I think we'd treat them as we would any other corporation.

When it comes to the smaller co-ops, the ones we've talked about, like the cattle-feeder ones, those are really where we take a group of individuals that could be quite small in number and, as Mike mentioned, we ask them to put forward a bit of an account so we have a loan-loss pool, and that takes some of the risk away from them and from us, and then they come together as a group. That's different from if they were a partnership or an incorporated group of individuals.

We sometimes fail to remember that whether it's an individual or a group in a corporate structure, those individuals typically will sign a guarantee for the lending that this small company or that proprietor takes on. If the co-op members are also willing to share in the risk, then that's really the thing. How do we, as a financial institution, mitigate the risk? That's where we ask them to participate. So they don't have to sign a guarantee, and that's why we set up a pool. They may not want to guarantee someone else's loan, if they're an individual farmer, so that's how we got around that to create a risk profile that we think is going to be sustainable.

Mr. Pierre Lemieux: Okay. Let me ask this as well. We did have a larger co-op here saying that it had a fairly large initiative it was seeking funding on, and it did have challenges, even as a larger co-op. It was making reference that it would have to go back to its members, and that's not always easy to do.

Mr. Mali, from a financial cooperative point of view, can you just give us an estimate of how large some of the loans might be that you would give? I'm not asking for a particular case, but can you just give us an order of magnitude of the upper end...?

Mr. Rob Malli: Just in general?

Mr. Pierre Lemieux: Yes, just in general. For example, do you go as high as $15 million sometimes, or never above $10 million...?

Mr. Rob Malli: The largest loan we have is probably about $25 million. We syndicate past that point, which means that we would share the loans with other credit unions or banks. We do a lot of that, especially with—

Mr. Pierre Lemieux: How big could a loan go in that case, ballpark?

Mr. Rob Malli: They could go to $50 million or $100 million.

Mr. Pierre Lemieux: All right. Then again, I asked this question yesterday to someone. It's a one-stop shop for the customer. In other words, they go to you and then you will syndicate with the other lending institution. It's not the customer running around trying to...?

Mr. Rob Malli: Right. It depends on the situation. We do commercial lending across the country, mainly looking for impact types of commercial loans, but if we're the lead syndicate on that, then we would do that. Otherwise, we get invited into other syndicates, so it goes both ways. That's the thing.

I was just reflecting on the earlier comment on funding. We're the only cooperative financial institution that's actually rated by DBRS, in terms of a rating agency, to get access to commercial paper programs. That is an issue for cooperatives because our structure isn't well understood. So they were experimenting with us. We've been very successful, but because of the nature of the cooperatives and our structure with Central of B.C. and Credit Union Central of Canada, joint and several, it creates a problem in the capital markets to access funding, which is different from capital for the purposes of equity. But that is an issue, and because of the lack of understanding and entrenchment—even at the federal level, I would argue, with regard to understanding—that further creates uncertainty, so the markets use that uncertainty against us.

● (1030)

Mr. Pierre Lemieux: Are you a bit of a trial project, then?

Mr. Rob Malli: Because we're the first ones, we've been consistently trying to prove the case, and investors who take up our offering, even through the credit crisis, have consistently taken up our paper. It never went down, even though it did go down for many of the banks, because the trust in the community is high and our premium is very low. I just think there's more work that could be done to help support the national understanding of cooperatives and the risk level, etc., that could help enable them to be on more of a fair playing field.

Mr. Pierre Lemieux: When would you have first received that rating? Is that something relatively new?

Mr. Rob Malli: No, we've had the rating probably for at least six, seven years, and we operate really effectively. They do a public rating of us, an annual review, and that is something that other cooperatives can't access right now, but—

Mr. Pierre Lemieux: Could that change?

Mr. Rob Malli: It could change.

The Chair: Okay, thank you. Time has expired.

That does bring to a conclusion the time for this panel.

We will take about 15 minutes to set up the next panel. If members or our witnesses would like to carry on conversations, there certainly is an opportunity to do that over the next few minutes.

Hon. Mauril Bélanger: Do we have an answer?

The Chair: He does have answer for you, yes. I'll read it to the committee:

> On March 19, 2007, Finance Minister Jim Flaherty delivered the federal budget for fiscal 2007-08 and announced the federal government's intention to consolidate the Crown borrowings of Farm Credit Canada by providing direct lending to the corporation beginning in 2008.
>
> The Consolidated Borrowing Program was officially launched on April 21, 2008, and the FCC is now borrowing directly from the Federal Government.
>
> FCC will no longer be issuing debt in the capital and money markets. Outstanding capital market debt of FCC will continued to be honored by FCC until maturity date.

Does that respond to your question?

Hon. Mauril Bélanger: Who's the backup?

Mr. Lyndon Carlson: As a federal crown corporation, ultimately, we have only one shareholder: the Government of Canada.

Hon. Mauril Bélanger: So there is the guarantee by the government.

Okay, thank you.

The Chair: Thank you. So that should clarify your question.

That concludes the panel. I'll now suspend the meeting until 10:45.

● (1030)

——————————(Pause)——————————

● (1045)

The Chair: I call the meeting back to order.

For our second panel of the day, we have with us Federated Co-operatives Limited. We have Vic Huard, the vice-president, and Mr. Glen Tully, the president of the board. We also have with us Arctic Co-operatives Limited. We have Mr. Andy Morrison, who's the CEO. We're looking forward to hearing from both groups.

I will start with the Federated Co-operatives Limited. Is it you, Mr. Tully, who will be giving the presentation? Okay. You have ten minutes to make opening remarks. I'll try to give you a signal when you have about a minute remaining, just so you're aware of that. But because we only have the two groups here today, I'll be a little bit flexible and give you a minute or two extra if you need it.

I'll turn the floor over you now, and you can make your opening remarks.

Mr. Glen Tully (President of the Board, Home Office, Federated Co-operatives Limited): Thank you very much.

Good morning, Mr. Chair and committee members. My name is Glen Tully, president and chair of Federated Co-operatives Limited, Canada's largest consumer cooperative. With me, as already mentioned, is Vic Huard, vice-president of corporate affairs. We will share our presentation this morning. He will speak with you in a few minutes.

Thank you for asking us to participate in the committee hearings into the cooperative sector.

FCL is a multi-faceted organization. It is owned by approximately 235 retail co-ops throughout western Canada. These co-ops are member-owners. We provide central wholesaling, manufacturing, marketing, and administrative services for our member-owners across a wide range of business lines that feed, fuel, and build individuals and communities across the cooperative retailing system, or as we call it, the CRS. Home office is in Saskatoon, Saskatchewan. Regional offices operate there as well as in Winnipeg, Regina, Calgary, and Edmonton.

Vic will be speaking to you about the scope and scale of our operations. But as a retired farmer, I feel compelled to point out that two of Canada's largest annual megaprojects—seeding and harvesting in western Canada—simply could not happen without the fuel production and distribution system provided by the cooperative retailing system.

As a consumer cooperative, we believe that we have the responsibility to provide goods and services to our member-owners who remain committed to the over 500 communities in which our members operate.

A uniqueness of our consumer co-op sector is the link between consumers and producers in providing goods and services that each requires. Whether it is crop inputs in Birtle, Manitoba, or ethnic foods in Calgary, Alberta, or fuel to support the forestry harvest in northern British Columbia, we continue to be responsible to our member-owners.

I'd like to conclude my remarks by commenting on two unique aspects of our business model: our democratic structure and our cooperative's role in leadership development.

The directors of FCL represent 15 districts across western Canada. These districts are not dissimilar to the constituencies that each of you represents. Each director brings the knowledge of the cooperative structure, but more importantly, the knowledge of what goods, services, and community support their constituents will require now and for the future.

If I use myself as an example, I hail from Marquette, Manitoba, where my family farmed. Our family had always supported the local co-op. After being elected to the Marquette Co-op board, I began to participate in the leadership development offered by Federated Co-operatives Limited. In 1995, when the director from my district retired, I was encouraged to let my name stand, and I was chosen to represent our district. After ten years of service, some as vice-chair, I was elected president and chair in 2005. Having the president and chair position be full-time and located at home office allows much better communication between the democratic and operational components of the cooperative. I should point out that general managers of local co-ops are not allowed to be FCL directors, so our board truly comprises democratic representatives from our respective communities.

The leadership development aspect of my path is an example of one of the most underestimated value-adds cooperatives provide to communities. What I'm talking about is the training and leadership development of people. By developing the leadership potential and capacity of people, cooperatives build community capacity. This capacity then strengthens the community. Whether it's the local rink committee, the health district, or local government, co-ops build community capacity that allows communities to thrive and succeed.

I can't emphasize enough how important this grassroots leadership development is for individuals and communities. People from all political stripes come together with a common purpose—to support their cooperative. And many of these people take advantage of the development opportunities to become leaders in their communities and beyond. This is one aspect of the co-op's role in Canadian society that is not well enough understood. And it is one I feel should be explored together to determine if there's a role for government and cooperatives to work together to support and enhance it.

Thank you for your attention.

I'll now pass it over to Mr. Huard, who will finish the presentation. I look forward to your questions.

● (1050)

Mr. Vic Huard (Vice-President, Corporate Affairs, Home Office, Federated Co-operatives Limited): Thank you, Glen.

Members of the committee, I'm honoured to be here today to represent FCL and its member owners, who together make up the Co-operative Retailing System. For more than 85 years, the CRS has been a key player in the economic growth of western Canada. Our cooperative federation provides goods and services across a wide range of business lines, including retail, commercial, and bulk fuels; food stores; home centres; crop protection products and seed and feed for agriculture; pharmacies; and wines and spirits in the province of Alberta.

We are deeply committed to ensuring that communities across western Canada grow and prosper. We believe strongly that investment for the long term will ensure that people living in those communities have an opportunity to participate in, and contribute to, their own success.

Investment in the economy of the west, in local communities, and in people is at the core of who we are as a company and as a cooperative.

FCL itself is the largest non-financial cooperative in Canada. In the most recent *Financial Post* 500 survey, it ranks as the 51st largest company by revenue in the country, comparable to companies such as General Motors of Canada and Encana, and larger than the Potash Corporation of Saskatchewan. We like saying that. In our last fiscal year we had top-line sales of $8.3 billion and realized a net profit of $835 million. Most of that profit was returned to our 235 member owners. The 2011 patronage allocation was just the latest installment in the more than $2.2 billion that FCL has returned to our member-owners over the past five years.

But let's look deeper into the numbers and into the individuals and communities that are affected by them.

FCL itself has approximately 3,000 employees across the region; our retail member-owners employ another 16,000 people. These 19,000 employees represented a payroll of approximately $800 million in 2011. This is an enormous investment in the more than 500 communities across the west where the CRS has a presence. We are determined to continue to invest in communities, large and small, across the region.

While others disinvest from rural and smaller communities, our cooperative has chosen to reinvest in many of those communities through the jobs we provide and the facilities we build. Over the past five years we have invested almost $4 billion in capital projects, including almost $3 billion in our petroleum manufacturing and distribution system alone.

Earlier I mentioned that FCL had paid out $2.2 billion in patronage allocation to our member retails over the past five years. The redistribution of earnings, however, does not stop there. Each year local retail co-ops distribute their earnings to individual members by paying out cash allocations as well as by investing in members' equity accounts.

Over the past five years, western Canadian co-op members have received more than $1.1 billion in cash back from their local co-ops. This represents a significant reinvestment in people and communities across the west and in the western Canadian economy as a whole. But the story doesn't stop there.

A portion of members' allocations are deposited in members' equity accounts, to be redeemed when those members retire or move away from their co-op's trading area. As of today, individual co-op members across the west hold more than $1.5 billion in equity accounts, an amount that continues to grow year after year, even as those equity investments are redeemed. That represents significant and growing future income for individuals and potential reinvestment across the region.

The moneys that are redistributed by FCL and our member retails stay in western Canadian communities and are, in turn, reinvested in all manner of community and individual development. This includes the development of new cooperative ventures, if that is where people choose to put their financial and human resources.

That is the essence of the cooperative model: people at the community level choose to develop themselves and their communities in the ways they see fit. We at FCL and our member-owners believe that we have always made, and will continue to make, these investments in people and their communities.

To use a poker analogy, we believe that the CRS and our individual member-owners have already paid our table stake in the growth of western Canadian communities. That includes our continued investments into the cooperative model that has proven its worth as an efficient and sustainable model for community and business development. Indeed, we believe that the CRS is invested well past table stakes; put simply, we believe that we're "all in". We invite you, as parliamentary leaders, to consider carefully ways that governments at all levels can design and implement appropriate policies, regulations, programs, services, and yes, even fiscal resources, when appropriate, to ensure that cooperatives can continue to thrive and contribute to this great nation.

● (1055)

Thank you for your attention, and we welcome your questions.

The Chair: Okay, thank you for your presentation.

We now will move to the Arctic Co-operatives Limited.

Mr. Morrison, you have the floor for ten minutes to make opening remarks.

Mr. Andy Morrison (Chief Executive Officer, Arctic Co-operatives Limited): Thank you. Good morning.

Mr. Chairman, members of the special committee, thank you for the opportunity to speak to you today. I compliment you on your efforts to review and explore the important role of co-ops, especially in this International Year of Co-operatives.

My name is Andy Morrison. I am the chief executive officer of Arctic Co-operatives Limited. Arctic Co-ops is a service federation owned and democratically controlled by 31 community-based cooperatives located in communities across the Northwest Territories and Nunavut. These 31 multi-purpose cooperatives are locally owned and democratically controlled by more than 20,000 individual owner-members in the north.

The first local co-ops in the Arctic were incorporated more than 50 years ago, at a time when many communities were established in the north. At that time the aboriginal people in the north lived a traditional lifestyle: they lived on the land, they hunted and fished for survival. Inuit and Dene people who lived in what was then the Northwest Territories were encouraged to move into permanent settlements. These settlements were very basic and may have included only a religious mission or a trading post. No housing or other services were available.

In these new settlements people continued to do what they had always done: they lived off the land. The difference was that the new settlements became a home base. In the new communities aboriginal people continued their tradition of working together and supporting each other. Gradually, they began to build their communities. They provided themselves with services. Ultimately, these services became the foundation for local businesses. The business structure adopted in many communities was the cooperative model, a model that was consistent with the traditional way of life of the Inuit and Dene people of the north.

The co-ops in the Arctic developed slowly. They struggled with a serious lack of capital, limited experience in business, and the great challenges of living in a part of Canada with virtually no infrastructure, extreme costs of operation, harsh weather conditions, and great distances. Co-ops persevered, however, in part with support and encouragement from government, and also with support and encouragement from cooperatives in other parts of Canada.

In addition to their efforts at the community level, local co-ops joined together to form service federations, enabling the co-ops to pool their buying power and develop common support services. Arctic Co-operatives Limited is that type of service federation. This year we are celebrating 40 years of local cooperatives working together through a federation they own and control.

To partially address the very serious lack of capital, the co-ops in the north also developed a financial arm, the Arctic Co-operative Development Fund. In 1986 the co-ops in the north, in partnership with the Government of Canada, represented by the Department of Indian Affairs and Industry Canada, along with participation from the Government of the Northwest Territories, helped to establish the Arctic Co-operative Development Fund. By working together locally, working together through their service federation, Arctic Co-ops, and working together through their financial arm, the Arctic Co-operative Development Fund, ordinary people across the north have built a successful network of local business enterprises. As multi-purpose enterprises, the local co-ops in the Arctic provide a wide range of essential services to their communities. Retail services are the largest business activity of the local co-ops. Full-service hotels are an essential part of the infrastructure in remote communities. Co-ops also provide services in the area of fuel distribution, cable television, Inuit art marketing, residential and commercial property rental, construction, heavy equipment, and various agency-type services.

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

● (1105)

Compared to other types of small business in Canada, this is a remarkable achievement. It is especially remarkable when you consider the extreme conditions under which the co-ops in the Arctic developed and have continued to operate. Why is this survival rate so strong? We believe that it is because local co-ops chose to work together through federations that they own and control. Pooling their buying power, developing common support services, and supporting each other in good times and difficult times has enabled local co-ops to become the most important locally owned and controlled businesses in the communities they serve.

The co-ops in the Arctic provide much-needed employment. The local co-ops in the north employ about 1,000 people. Co-ops train and develop employees and elected officials. Co-ops build essential community infrastructure. Cooperatives invest in their communities. They return their profits to their owner-members. And co-ops provide ordinary people with a voice in the economy.

The cooperatives in the Arctic and in other parts of Canada are an important part of our national economic framework. Co-ops bring stability to our economy.

In addition to our business operations, we also provide support to groups that want to develop new cooperatives. We don't do this for economic gain; we do it to support ordinary Canadians as they build a better world for themselves and their families.

Cooperatives are ideal partners for government. We ensure stability and growth in our economy. The co-ops in the Arctic often partner with government to achieve common goals. I mentioned a few moments ago the highly successful partnership between the co-ops and various levels of government in the development and very successful operation of our financial arm of the co-ops in the north, the Arctic Co-operative Development Fund.

We are active partners with Aboriginal Affairs and Northern Development Canada in the development and delivery of the new Nutrition North Canada program.

We are currently partnering with the Canadian Co-operative Association, Gay Lea Foods Co-operative, and the Financial Consumer Agency of Canada to develop and deliver a financial literacy program in the Canadian Arctic.

We are partnering with Human Resources and Skills Development Canada in the skills and partnership fund for the development and delivery of a new, comprehensive training program for aboriginal co-op employees in the Arctic. And until next March we will continue to be an advisory services partner under the federal cooperative development initiative, or CDI.

Mr. Chairman, the co-ops in the Arctic are a unique and very successful part of the Canadian cooperative movement. Through the years, we have overcome many obstacles to become an important part of the economy in the north. We believe that cooperatives are an important option for developing our economy and for providing long-term employment. We believe that this is especially true in aboriginal communities across Canada. We are committed to partnering with the Government of Canada to build strong, self-reliant communities.

Thank you.

The Chair: Thank you both for your presentations.

We'll move right into questioning now.

In our first round of questioning we have up first Madame LeBlanc, for five minutes.

[*Translation*]

Ms. Hélène LeBlanc: Thank you.

I want to begin by thanking you, gentlemen, as you have brought us very good news on cooperatives in these current economic conditions. It is encouraging to know that the cooperative movement is creating sustainable employment, helping to build communities and continuing to survive and provide communities with what they need—even in regions with sometimes extreme conditions.

You also talked about the new generation of cooperatives, which is necessary for companies to work. New cooperatives must be created. Could you tell me what kinds of challenges cooperatives are currently facing?

Perhaps Mr. Morrison could begin.

● (1110)

[*English*]

Mr. Andy Morrison: Thank you.

Certainly in our area of operation, the challenges are many. We operate, as I indicated, in very remote parts of Canada, and just everyday business is a challenge. However, that's life. That's our role, and we're committed to meeting it.

Some of the challenges we face include the development of people. You talked about succession. In a cooperative, we have, I believe, a greater opportunity for positive succession planning, whether it's in a leadership role or at the employment level. We have a constant pool of people we can draw on, from the leadership standpoint. Co-op members become the next leaders of a cooperative. Our challenge is to have training and education programs that will enable them to fulfill their roles and represent all of the members of their cooperative. We have a training program, and we support local leadership development.

We also are very committed to the development of co-op employees. In the north there is great competition for competent and stable employees.

[*Translation*]

Ms. Hélène LeBlanc: I have to interrupt you so that Mr. Tully or Mr. Huard can comment. Thank you.

[*English*]

Mr. Glen Tully: Sure.

From our standpoint, leadership development is one of our challenges going forward. Even as we try to create that leadership development, in many of the areas in which we operate in western Canada high-speed Internet is not available. So we have difficulty training potential leaders.

Certainly we face the same challenges any business in western Canada faces: the changing landscape, rural depopulation, and the fact that communities are changing. We very much focus our efforts on community. Community used to be how far you could ride your horse in two hours. Now community is how far your car will travel. Communities are getting much larger. We face these challenges as that landscape changes. We have to react to it.

I'd be remiss if I didn't say competition, competition, competition. Certainly in the food industry, where we operate, there are many more players. That makes us sharpen our pencils. Competition is good, and we'll deal with it. But that's a challenge.

[*Translation*]

Ms. Hélène LeBlanc: Did you want to add anything, Mr. Huard?

[*English*]

Mr. Vic Huard: I think Mr. Tully covered it off. Thank you.

[*Translation*]

Ms. Hélène LeBlanc: Okay.

What kind of a role do you think the government could play to help the cooperative movement—as a business model—continue that good work?

[*English*]

Mr. Glen Tully: I can speak to that a little bit.

All we're looking for is a level playing field. We'll deal with the competition, as I said, as a strategy, as long as we have the same rules and regulations the rest of industry has and as long as they are clearly defined so that we know when to make investments in certain areas and when not to make investments in certain areas. From our standpoint, as legislation or regulations begin to be changed or as changing them is thought about, all we're asking for is a voice at the table.

The Chair: Thank you very much. That concludes the round.

We'll move now to Mr. Preston. You have five minutes.

Mr. Joe Preston: Thank you very much.

It was great to hear from all of you today.

I'm going to go a little bit further from where my colleague was on leadership development.

All businesses, of course, must spend time developing their next leaders. Mr. Tully, you told a great story about yourself. You started off at a local co-op in your own hometown and moved up through the chain, if you will. You made a great comparison that I hadn't thought of. In some of your co-ops, like yours, they are constituencies, much like ours, aren't they? Maybe they like you better than they like us. But you have to get there with the support of your friends. You're sent there with the support of your friends.

You talked a bit about leadership development. Mr. Morrison, you also talked about leadership development being a huge part. I don't think you were talking only about leadership development in terms of training employees in the co-op. I'm hoping that you were also talking about leadership development and training for other co-ops and the management of them.

You're a co-op made up of other co-ops. Am I correct? Your members are actual co-ops themselves. Tell me a bit about that leadership program and how you help other co-ops grow and strive.

I'll hear a little bit from Mr. Tully and then from Mr. Morrison.

● (1115)

Mr. Glen Tully: Thank you.

Yes, through our HR department we provide leadership training both on the employee side and the democratic side.

We like to think of our organization as two distinct groups. We have the operations people, who need to be at the top of the game. We have to have the best people running our cooperatives. On the governance side we have to have those individuals.

Of course we belong to CCA and our provincial organizations that support things like the co-op chairs at universities, etc. So we're developing a whole basis of leadership.

I think where we get frustrated the most is sometimes with the lack of knowledge of the cooperative model in the greater workplace.

Through co-op chairs at universities, through education through CCA, and through our own education programs at our grassroots level, we continue to develop that democratic understanding.

Mr. Joe Preston: Super.

Mr. Morrison, you said you started off and you certainly struggled with many problems in the starting of the cooperatives in the north, because you start with other problems. Any business starting in the north, cooperative or non-cooperative, starts with those same types of problems. You went through your struggles; you worked together cooperatively to help solve them. You're now at the point where you have solved this level and are trying to grow still, and I imagine the training situation is the same. You're having to train your own employees to be good employees at what you do. Are you helping train other cooperatives to be as good as yours?

Mr. Andy Morrison: First off, I wouldn't say we've solved all of our problems.

Mr. Joe Preston: No, but you've solved them to today's level.

Mr. Andy Morrison: We've progressed, certainly.

As a federation, we are very similar to Federated Co-operatives. Our members are other cooperatives, and our role is to support our member cooperatives in the development of employees and the development of their leaders, their elected officials, boards of directors. We have training programs in both areas to develop boards of directors to oversee the governance structure, and it is an ongoing process. It's a constant regeneration and development of leaders, as it is with co-op employees.

Mr. Joe Preston: You said many other government agencies are also cooperatively helping. You mentioned HRSDC, there's certainly Aboriginal Affairs and Northern Development Canada, and I know you even mentioned Gay Lea Foods as somebody who's helping you do other projects. What other government agencies are you also dealing with in some way?

Mr. Andy Morrison: Because our members operate in the territories, we have a lot of dealings with the governments in the territories, in the Northwest Territories and Nunavut. We have less direct, day-to-day contact with the federal government, although the programs we—

Mr. Joe Preston: Some would say that's a good thing.

Mr. Andy Morrison: No comment.

We deal with government, depending on what the issue is. If it's the development of our financial literacy program, it's the Financial Consumer Agency of Canada; if it's transportation, the freight subsidy program relating to perishable nutritious foods, it will be Aboriginal Affairs and Northern Development Canada.

Mr. Joe Preston: At this point I don't want to look at the chair.

The Chair: You'd probably better not, because now I'm going to cut you off. Unfortunately, your time has just expired.

We'll move now to Monsieur Bélanger for five minutes.

Hon. Mauril Bélanger: Thank you.

Welcome, gentlemen, and thanks for being here.

Mr. Tully and Mr. Huard, I gather from your presentation that you have some integration or vertical integration in some of the areas of business. Can you give me a very short sample of that on the petroleum side?

Mr. Vic Huard: Actually the petroleum side is the best example, because that is our most vertically integrated part of our business.

We're involved everywhere, upstream, midstream, and downstream.

● (1120)

Hon. Mauril Bélanger: Do you refine?

Mr. Vic Huard: We do.

We are the owner of our wholly owned subsidiary, the cooperative refinery complex, legally named Consumers' Co-operative Refineries Ltd., in Regina, Saskatchewan. That refinery has been in operation now since 1935, and it's—

Hon. Mauril Bélanger: What's your supply? What do you refine?

Mr. Vic Huard: We refine Canadian-based crude stocks, mostly from—

Hon. Mauril Bélanger: From the oil sands?

Mr. Vic Huard: Yes: 40% of the feedstock into our refinery comes from the Canadian oil sands.

Hon. Mauril Bélanger: I don't want to pry into your plans here.

Mr. Vic Huard: No, that's fine.

I'm shocked this has come up.

Hon. Mauril Bélanger: Right.

I don't know if there's a growing consensus, but there's certainly more talk of Canada developing its own capacity to refine, as opposed to just shipping bitumen away. Is that something you would encourage in the co-op model, in particular?

Mr. Vic Huard: I'd say we've encouraged it. This year, in the next few weeks, we will be bringing on stream our section five expansion of our refinery complex, which is going to increase our current refining capacity from 100,000 barrels a day of input crude to 145,000 barrels a day of input crude over the coming months. As I said in our presentation, we're all in. We've made that expansion. It's a huge priority for us.

Hon. Mauril Bélanger: This is with your members' resources?

Mr. Vic Huard: Correct. We've self-source-financed the majority of this project. In recent months we did in fact go out and get a syndicated financial instrument to allow us to—

Hon. Mauril Bélanger: I'm almost tempted to ask if Peter Lougheed is a member, but I won't.

Mr. Vic Huard: I'm sure he's envious.

Do you know what? Peter Lougheed is in fact a member of the Calgary co-op. I will say that. I do know that.

Hon. Mauril Bélanger: Okay, I appreciate that. I look forward to learning more, as we have.

You mentioned something, Mr. Tully, about the lack of knowledge of co-ops. I hope this committee will put a bit of a dent in that. I hope for anybody listening over the last couple of days, today, and tomorrow, and perhaps when our report comes out, that indeed we'll have made a minor contribution to growing the knowledge of co-ops in Canada.

For the Arctic co-op, you mentioned the Arctic Co-operative Development Fund, created in 1995. How does that link to the CDI?

Mr. Andy Morrison: It doesn't. The Arctic Co-operative Development Fund is a stand-alone financial arm of the cooperatives of the Northwest Territories.

Hon. Mauril Bélanger: In which the Government of Canada participates?

Mr. Andy Morrison: It participated when we were incorporated. It is run completely and totally by the cooperatives in the Arctic. It is an extremely successful financial arm—

Hon. Mauril Bélanger: What are the sources of the funds?

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

Hon. Mauril Bélanger: Wow. Was all that self-generated?

Mr. Andy Morrison: Self-generated, reinvested—

Hon. Mauril Bélanger: That's a hell of a return for a \$10.2 million investment.

Mr. Andy Morrison: It is a fabulous return. We're very proud of it.

Hon. Mauril Bélanger: You should be.

One of the biggest tasks, I suppose, is transporting goods from the southern part of the country to the northern part, if you will. Do you own or do you anticipate owning the means of transport, as a co-op?

Mr. Andy Morrison: The bulk of the product we ship to the north we ship by air, and we ship from multiple destination entry points to the Arctic. The infrastructure costs of owning an airline or owning multiple airlines is prohibitive. We partner with airlines across the Arctic, so we do not anticipate owning airlines. We did at one point in time own an aircraft, but it was just not the best use of capital. But we are the majority partner in a shipping company, Nunavut Sealink and Supply Inc., which ships product by sea. As we speak—

Hon. Mauril Bélanger: I have to stop you there, because I've got 12 seconds left.

I'll maybe put a question in quickly. There's a moving away of the aboriginal community into urban centres from reserves. Does that affect at all your business and your activities?

Mr. Andy Morrison: People are moving, in some respects, from smaller communities of the north to some of the larger communities, but the population generally is growing right across the north, so it is —

Hon. Mauril Bélanger: It's strictly limited to the north, then?

Mr. Andy Morrison: That's where we operate, correct.

Hon. Mauril Bélanger: Thank you, sir.

The Chair: Thank you.

We'll move to our second round of questioning now, and up first we have Mr. Payne. The floor is yours for the next five minutes.

● (1125)

Mr. LaVar Payne: Thank you, Mr. Chair.

I thank the gentlemen for coming to tell us all about the very successful co-ops that we've heard about from other organizations.

I want to start off with Federated Co-operative. I understand, of course, that the fuel piece is a very important aspect. If I might just ask in terms of the fuel, are you providing fuel to Calgary co-op and also to the Medicine Hat co-op?

Mr. Vic Huard: We provide fuel to all of our member retails. In fact, the primary mission of our co-op refinery complex is first and foremost to supply fuel to our cooperative retailing system members.

Mr. LaVar Payne: I buy most of my fuel from either of those two organizations when I travel back and forth to Calgary.

Mr. Vic Huard: Thank you.

Mr. LaVar Payne: Well, I'm a member. Actually, my wife is the member. We consolidated at one point in time.

Mr. Brad Butt: Is there a conflict of interest, Mr. Payne?

Mr. LaVar Payne: What? The dividends are good.

Anyway, I just wanted to touch on this, Mr. Huard. You did talk about the amount of dividends that the individual retail stores were giving, I believe. I thought I heard you say a million dollars, but I—

Mr. Vic Huard: Oh, no. Over the last five years it was $1.1 billion in cash.

Mr. LaVar Payne: Okay, because $1 million didn't make any sense.

Mr. Vic Huard: I'm sorry. Perhaps I misspoke. I'm sorry if I misspoke. Thank you for pointing that out. It was $1.1 billion.

Mr. LaVar Payne: Okay. I thought it was much larger, because I know the amount of dividend that my—

Mr. Mauril Bélanger: They probably got $1 million themselves.

Mr. LaVar Payne: No, no. My wife received substantially less than that.

Anyway, I'm very grateful to helping out our cause.

Mr. Vic Huard: Thank you for pointing that out. I appreciate that.

Mr. LaVar Payne: Okay.

There's a big business in the retail side. I know you talked about urban stores versus rural stores. I'm wondering what kind of mix you have there, in terms of percentage. What's the greater proportion? Is it urban or rural?

Mr. Vic Huard: It depends on our business line, of course. In food, I'd say that about 35% of our total food business at the retail level is in what we would consider our urban—maybe a bit more than that, about 40%—and then the remainder is divided among mid-sized and smaller communities across the west.

With regard to petroleum, I don't have that number in mind, to be honest. It's proportionate, because we sell an awful lot of our petroleum, as Mr. Tully indicated, in rural areas to support the actual operations at our bulk plants and cardlocks for commercial trucking.

I don't have the number off the top of my head. I can get that to you, if you like.

Mr. LaVar Payne: I do see your trucks quite a bit on the highway.

Mr. Vic Huard: You see a lot of our trucks on the highway.

Mr. LaVar Payne: Mr. Morrison, I believe you've been before the aboriginal affairs committee—I've been on that committee, and I continue to be on that committee—so welcome back in a different role.

I believe we did hear from you in regard to Nutrition North, and that program was just being rolled out. I'm wondering how that program has impacted the Arctic co-ops, particularly across the north.

Mr. Andy Morrison: Yes, I did appear before the aboriginal affairs committee. I thank you for remembering that.

The program has rolled out. We believe the program is a success. There have been some growing pains with the new program, but the old program was broken. The efforts of the government to develop a new program in consultation with industry people we believe provides better quality, more timely delivery, and better-priced perishable and nutritious foods to the people of the Arctic.

Mr. LaVar Payne: That's really positive to hear. I thank you for that.

Do you continue to provide input to the group that is reviewing all of those suggestions that may still need some tweaking?

Mr. Andy Morrison: Yes, we do. There's an advisory committee that oversees the program. We appeared a couple of months ago before the advisory committee, providing additional input on how the program should operate.

Mr. LaVar Payne: Okay.

I think you did touch a bit on this, and I thank my colleague on the other side for talking about the funding that was put together in terms of the Arctic Co-operative Development Fund. Do you know how much was originally given by each of the organizations, the federal government and the territories and so on?

Mr. Andy Morrison: There was $10.2 million in capital that was provided. There was $5 million in new cash that was provided by Industry Canada under the native economic development program; $4.9 million was the conversion of existing debt from Indian and Northern Affairs Canada from the Eskimo loan fund, and $300,000 was from the Government of the Northwest Territories.

● (1130)

Mr. LaVar Payne: Okay, thank you.

The Chair: Thank you very much.

We'll now move to Mr. Harris. You have five minutes.

Mr. Dan Harris: Great. Thank you very much.

Mr. Tully, you mentioned that you're in 500 communities in the areas you serve. Approximately what percentage of those businesses provide the flagship business in those communities? I don't expect an exact number.

Mr. Glen Tully: I would say it's the majority. We want to be the first business in each of the communities we operate in. Obviously, for competition you're either one or two in most of those communities, and we try to be number one.

Mr. Dan Harris: Okay. So if you weren't there, there'd probably be a lot of struggles and additional challenges in those communities for people to get the kinds of services they need.

Mr. Glen Tully: Interestingly, in our model we also wholly own another subsidiary, The Grocery People, which provides goods and services to independents. In many of those communities, Federated Co-operative is supplying the total food input into that community, both at the independent store and the co-op store. It would be their only access to that wholesale; they cannot achieve purchasing from other wholesalers in those communities.

Mr. Dan Harris: Otherwise you're talking about a lot more than a couple of hours by car, for most of that.

Mr. Glen Tully: Correct, yes.

Mr. Dan Harris: Mr. Morrison, you're the only witness I'm probably going to say this to, but I wish we had a lot more time with you. And that's not a reflection of the other witnesses, who have all been phenomenal, but you're representing an area that has way more additional challenges than even the rural and urban cooperatives do, and you're one of the only representatives, if not the only representative, from the territories who we're going to see. So thank you for coming and for all the information you've shared already.

But it was also the particular insight you might be able to provide in your advisory capacity with the CDI that I'm interested in and wanted to ask you about. Have you found that program to be a success in the north at helping to get new cooperatives started?

Mr. Andy Morrison: I believe it has been. As I indicated, we are an advisory services partner under the co-op development initiative, and we have been working with groups, and not just in the Northwest Territories and Nunavut but in parts of the northern provinces and the Yukon, in the development of cooperatives. With the development of a cooperative, you can't parachute a cooperative into a community; it has to grow from the ground up. So the efforts of the CDI program have enabled us to use our expertise to work with primarily aboriginal communities, which I think has been very beneficial.

Mr. Dan Harris: Is it a program you would have liked to have seen continued?

Mr. Andy Morrison: Yes, we would have.

Mr. Dan Harris: There is always room for improvement, so if that program had continued, do you have any suggestions for ways in which it could have been improved?

Mr. Andy Morrison: I know the cooperative sector has looked at a number of different options in terms of one being a capital pool or co-op development fund. We have first-hand knowledge of the benefits of a pool of capital to develop businesses, particularly in areas that are underserved from a financial institution standpoint, or areas that are challenged from a capital standpoint. The most recent version of the co-op development initiative we thought was an improvement over the initial years of the program. We thought that just with ongoing tweaking and working with the cooperative system constant improvements could be made in the program. I'm not suggesting anything dramatic, but just through use you can improve things.

Mr. Dan Harris: We should always be looking at tweaking government programs that exist to make them better and serve our communities and Canadians in a better way. Thank you very much for that.

Another point that you mentioned was how cooperatives bring stability to the economy. In rural and northern and very remote areas, one little thread comes out and everything can fall apart. Can you elaborate perhaps on the type of stability that co-ops bring to northern communities?

● (1135)

Mr. Andy Morrison: A good analogy, a good example, is the Inuit art marketing. Many of our member cooperatives began as producer cooperatives marketing the art produced by their owner-members. The cooperative network has been involved in art marketing for more than 50 years, and we have been the constant throughout that process. Unfortunately, art marketing is something that when the economy goes up the market goes up, and when the economy goes down we see the market going down. But because cooperatives have been there, we have been able to provide that stability in the market. If we weren't there, we don't know that the industry would be in the position it's in today. It is experiencing difficult times because of the economic conditions, but it continues. Would it have continued if there was not stability?

The Chair: Thank you very much.

Mr. Dan Harris: Thank you very much.

The Chair: We'll now move to the government side. Mr. Boughen, you have the floor for the next five minutes.

Mr. Ray Boughen: Thank you, Mr. Chair.

Let me add my voice of welcome to my colleagues, and thank you folks for being with us this morning sharing your expertise.

Vic, let's start with what's happening in Saskatchewan. Perhaps you and Glen could share with the committee the position you've taken with the University of Saskatchewan in looking at the community perspective in terms of what's happening to the environment and how we're dealing with it, and all of those good things.

Mr. Vic Huard: We have relationships with a number of universities across the west, but specifically with the University of Saskatchewan. It's very multi-faceted, actually.

We're one of the largest funders, the second-largest funder, I believe, of the Centre for the Study of Co-operatives at the University of Saskatchewan. We believe that it's a very important program. It is a significant value-add to the understanding of cooperatives and cooperative infrastructure across Canada, and even internationally. It's an internationally recognized institution. It's an area where we think there's an opportunity for further partnerships with governments.

We have a very robust relationship with the Edwards School of Business at the University of Saskatchewan. We hire a lot of their students on our cooperative program. And we're the lead sponsor of the students' society there.

On the environment and technical services side, which I happen to be responsible for, we have a very comprehensive relationship with the Canadian Light Source Synchrotron. We're working on a number of very innovative projects on bio-remediation on the petroleum piece. In fact, we just entered into a very exciting partnership on a new anaerobic process that we believe is going to be leading-edge worldwide, and that will be a technology that can be exported. We're working very closely with the University of Saskatchewan garnering NSERC grants and SR and ED grants, which is a program we partner with extensively with the federal government. We're very grateful for it. We think it's an excellent program.

So yes, we have a high-level relationship with the University of Saskatchewan, as we do with several other universities across the west.

Mr. Ray Boughen: Sure.

Glen, can you talk to us a little bit about carbon capture and what's happening with that program?

Mr. Glen Tully: It's probably not an area I'm most comfortable talking about, because it's very much on the operation side.

From a governance and board of directors aspect, we're very conscious of the regulations around carbon and carbon footprints. It is our policy and our instruction to our operational people that we keep the environment first and foremost in mind as we move forward. From the governance side, that's about all I can say.

I know that we have very innovative programs. We have great relations, usually, with the provincial environmental organizations. We are back and forth daily on how we can improve this, how we can reduce the usage of fuels, and how we can be environmentally responsible.

Mr. Ray Boughen: Andy, I have a question for you.

The revenue stream in the north is much different from revenue streams in the south. Can you tell us how that's working out for you in terms of the phenomenal growth of co-ops and credit unions in the north? Is there a secret formula you're using to make that happen? Can you let us in on that?

● (1140)

Mr. Andy Morrison: First off, there are no credit unions in the north. There are just cooperatives. One of the challenges of the north is the lack of financial services.

I certainly don't believe that we have a secret formula. The north is somewhat of a captive market in terms of the shopping and so on that takes place. The communities of the north are highly dependent on government and government employment. But most recently they have become very dependent on resource development. There are a number of major projects taking place in communities across the Arctic that are having a very positive impact on cooperatives in particular.

Cooperatives are service entities. We meet the needs of community residents. We meet the needs of government. We meet the needs of business, and we meet the needs of the resource industry. It is adapting to try to be there to meet those needs. That's what we strive for on an ongoing basis.

Mr. Ray Boughen: Sure. Thank you.

Thanks, Mr. Chair.

The Chair: Thank you very much.

We'll move now to Madame Brosseau, for five minutes.

Ms. Ruth Ellen Brosseau: I'd like to thank you all for being with us this afternoon.

We touched briefly on the cuts to CDI. I was just wondering how the Federated Co-operatives see the cuts to CDI. Is this something that could be more difficult for up-and-coming cooperatives in the future?

Mr. Glen Tully: I'll make some comments, and then Vic can add to them if he wants.

We didn't participate in the funds from CDI. As Vic indicated, we represent the consumer cooperative movement. We feel, from Federated Co-operatives, that we're, as he used the term, “all in” in developing consumer cooperatives in western Canada. That's our core. That's our strength. That's our knowledge.

We never accessed funds from CDI, and really don't see, as a consumer cooperative movement in the west, that we would. That is why we belong to organizations such as the Canadian Co-operative Association and the provincial organizations in the four western provinces that look at the greater cooperative movement and what their requirements are.

I would suggest that what CCA is suggesting to you would be our position on CDI for the greater cooperative movement. For the consumer cooperative movement, we don't see that we require CDI.

Mr. Vic Huard: If I may, I would add only one thing, and it's to reflect somewhat on your questions for Andy. This is certainly something I know our apex organization, the CCA, and certainly the Saskatchewan Co-operative Association are aware of. There are significant opportunities, whether it's a consumer cooperative or any other type of cooperative, to work with first nations and Métis communities across the west in cooperative development. It's similar to what's happened in the north. When I spoke about possible frameworks and regulatory environments, that's one I would urge you to look at, however the program evolves. And we recognize that programs evolve and change, but I think that's one area of significant opportunity around economic and personal development we'd like to see explored. I suspect that you'll be hearing from the CCA on that one.

Ms. Ruth Ellen Brosseau: Thank you.

Mr. Morrison, we really see the positive impacts of co-ops in the north. They are very successful. I was just wondering if you could comment on some of the barriers facing traditional businesses in the north.

Mr. Andy Morrison: Certainly the greatest challenges we face are just our distance, our conditions, the lack of infrastructure in communities, and transportation networks. There are many, many challenges.

Some of our other challenges are education levels. Education levels are increasing all the time in the north, but there's lots more to be done. Certainly part of the role we play in the development of co-op employees and co-op leaders is to try to address some of the needs as far as education and training are concerned. Those are some of the challenges.

Another very significant challenge to any kind of a business in the north is utilities. Particularly in the territory of Nunavut, electricity is diesel-generated, and the cost of electricity can be as much as $1 per kilowatt hour. Consider that the cost of electricity in Ottawa is, I believe, probably 10¢ to 15¢ per kilowatt hour. It's about 7¢ or 8¢ in Manitoba. When you pay $1 or 75¢ a kilowatt hour, it is a huge barrier to food security. The cost of electricity has to be passed on to the consumer, and the availability of food is threatened as a result of that. That's just one example of infrastructure challenges in the north.

● (1145)

Ms. Ruth Ellen Brosseau: I can say that some of my colleagues met with the UN special rapporteur when he did a tour, and food security was a great concern. We did hear of that specifically in the north—access to food and transportation.

I was looking on your website. It said that when people think of co-ops, they think of retail co-ops, because that's how they get their food. You have a merchandising division that provides procurement services to help reduce the cost of buying groceries. It ensures that members have access to fresh food, milk, and some meat.

How do you see the future relationship with the federal government? We would think that consultation is very important and necessary. There wasn't much consultation done before the cuts to the CDI at all, was there?

Mr. Andy Morrison: Well, certainly there wasn't at our level. I can't speak for the consultation that took place with the Canadian Co-operative Association. Certainly we felt that the CDI program was offering value or benefits, particularly in the area we serve, which is rural and aboriginal communities, and we thought the program was beneficial.

The Chair: Okay, thank you very much. Time has expired.

We'll move now to Mr. Lemieux.

Mr. Pierre Lemieux: Thanks, Chair.

Just to follow up on your last comment, Andy, we felt that CDI was extremely valuable too. It ran for two five-year terms, was funded, and I think we've seen the fruit of it. When we spoke with Quebec cooperatives yesterday, we learned they had 595 new cooperatives form over a five-year period. We've heard sort of a similar story across Canada. When we hear about the financial stability and financial strength of cooperatives and how they create jobs and are embedded within our local communities, this is all extremely positive.

Madame Brosseau said we cut the program, but the program just arrived at its natural end. Programs have a term, and it's at the end of its five-year term. It was not renewed, it's true. But to echo a comment I made yesterday, the government finds itself in a $23.5 billion deficit, and I know that many of the co-ops that have come in front of us do not operate in deficits. If they did operate in a significant deficit like that, which is somewhere in the range of 7% to 10% of government revenues, I know that their membership—and each member has a vote—would demand that the cooperative review its expenditures and get out of deficit. Actually, Canadians ask the same of us. One Canadian over the age of 18 has one vote too, so we're very responsive to our membership in a sense—Canadians—and they are demanding that we review our programming. We do realize the value, and we also see the fruit that has come, and the government is unable to sustain all the expenditures it made in the past.

I do want to move on, though, to a question to Mr. Tully about some of your capital investments. It was in the billions of dollars. I don't have the number at hand, so you can remind me during your answer. But the question I'd like to ask is where did that capital funding come from? The funding to invest in expanding your operations, was it partly taking some of the revenue and putting it aside in a capital fund, allowing it to grow, reinvesting it? Did you seek funding from alternate sources, like financial institutions? Could you remind us of the magnitude of your investments and perhaps where you sought the needed capital?

Mr. Glen Tully: Thank you for the question.

I guess this started out with a request for expenditure to increase the capacity of the refinery, and that started out as a $1.9 billion project that has now grown to a $2.6 billion project. As we moved forward, we knew that our reserves and the earning potential wouldn't cover that, so we had to outsource. We actually have a syndicated loan with chartered banks and some of the other participants you've had around this witness table, to fund that expansion. That was fine. We're large enough and the project is going to be significant enough that they're willing to participate in that, so we're quite excited.

With regard to the other capital projects, we're probably going to put in close to $3.5 billion with that refinery expansion. And then of course you have to have some place to send that product to, so you have to build corporate bulk plants all across the west; you have to have facilities and the equipment to be able to deliver it out to the consumer, so there's a significant investment. Some of that is of course being funded through reserves, profitability, through our member retails who also have reserves and profitability. They make investments.

So together, that's the size and scope of our operations.

● (1150)

Mr. Pierre Lemieux: Okay, and then do you find in your experience—you can't speak for other cooperatives—that other cooperatives, perhaps smaller ones, follow that type of model whereby they create a reserve for future expansion projects so they have something to work with? I'm not saying it would negate the necessity of going to seek funding from financial institutions, but they're basically building a fund that allows them to expand their operations in the future. Do you find that other co-ops do that type of thing?

Mr. Glen Tully: As you realize, we have many small co-ops in our system. We've certainly encouraged prudent fiscal management in those cooperatives, so we suggest and recommend that. But the fact of the matter is that some are so small that they need to look at other ways of delivering. The landscape has changed, as I said before, so in our system we're seeing some amalgamations happening, which is really right-sizing the business to match what the community requirements are. So yes, if there aren't enough reserves and cash and profitability being captured, they have to look at a different model.

The Chair: Sorry, unfortunately your time has expired.

We'll move now to Mr. Allen. You have five minutes.

Mr. Malcolm Allen: Thank you, Chair.

Thanks, folks, for coming.

Mr. Tully and Mr. Huard, clearly you're of a scale that is extremely large in comparison to most co-ops many of us would be familiar with, especially in the eastern part of the country, where there aren't nearly as many folks, especially the vertical integration you talked about earlier, especially on the fuel side. I just wish some of our private sector refineries in the province of Ontario had decided to take your longer view and kept them open and expanded them, rather than winding them down and closing them.

Perhaps when you are finished with this particular piece and are successful, as I have no doubt you will be, you may want to gaze over your shoulder to us poor folks in the east and come help us with that refinery capacity and send that stuff east. It would be extremely welcome, to say the least, especially to somebody like me, who's been a co-op member and a credit union member all my entire life, basically.

Mr. Tully, earlier you talked a little bit about leadership, and I know Mr. Preston asked you a couple of questions. I want to talk more on the governance side, because I believe that's where you said you come from.

My sense is the difference between the governance model of a co-op versus a shareholder investor, which has a board of directors, is the board of directors in that group tends to be invited—sometimes they're voted, but they tend to be invited—and then shareholders are supposed to vote on it. I get those things in the mail. I usually never send them back, so proxy somebody's forming, no doubt. We actually have direct elections for those, and I'm sure your co-op's the same.

Can you talk to me just a tiny bit about the really important factor of how that leadership development program that you have instils in those directors, who are ultimately owners, and how it reinforces their sense of why they should be owners and continue to spread that message that it's a great thing to be in a co-op?

Mr. Glen Tully: My experience, as I said before, is I got involved with a cooperative because I went to an annual meeting. I was nominated and then elected, and before I knew what had happened I was sitting on the local board of directors. But I say that a little bit tongue in cheek, because in what we're trying to implement, if you're going to be part of the community at a local co-op level you need to engage that community. And that might be going out and asking people to serve on the local board, people you've identified as potential leaders in the community, and then, as they become involved, getting them access to those training and learning programs to develop their skills and hone their skills in understanding governance.

Governance of a cooperative is different. You're absolutely right, we're exactly the same as you. Every three years I have to go back into my district and get re-elected by the constituents of that district. My responsibility is to represent them at the FCL board table in making decisions, first and foremost, for the Federated Co-operatives, but also with the responsibility for the communication back to the community. Sometimes that's not easy, because sometimes we have to make decisions that aren't always favourable back in those home communities, but it's better for the organization and the consumer cooperative movement as a whole. You very much are a politician. So I respect your chosen career path, because I know what it's like.

Hopefully that answers your question.

● (1155)

Mr. Malcolm Allen: I appreciate the comments, and I'm sure all of us who are elected officials appreciate your compliment, and we would extend that compliment back, obviously, for those who are in governance and take on the role.

You used the term “right-sizing” earlier, and in part of the governance piece you talked about making decisions. But in some of those decisions for cooperatives, in some cases—and it depends on their bylaws and their constitutions—there's actually a vote about rights. If we can use the term “right-sizing”—I'm not always sure I actually like that term—It tends to be a commercial term from big corporations, which usually means employees are getting laid off. But in nine times out of ten what it means for co-ops is they've come to a point where they have to make a decision about should they merge, should they wind up, should they go somewhere else. But they make the decision. It's more of a democratic decision-making process than it is—and I'll use the auto sector, since that's where I come from—somebody sitting in a Detroit board office saying we're closing.

The Chair: Mr. Allen, I'm sorry, time has expired. I don't know if you have a question—

Mr. Malcolm Allen: The question was basically is there a sense of it's more a democratic decision-making body by the actual membership rather than just simply having somebody sitting in a board office and saying they're closing that one?

The Chair: I'll ask for a brief response, if you can.

Mr. Glen Tully: I think when organizations look at amalgamation, merger, or even a buy-out, it's always to keep the service in the community only in a different structure. So that's why we can say we're still in 500 communities.

The Chair: Thank you. I appreciate you keeping that very brief.

Mrs. Gallant, the floor is yours now for the next five minutes.

Mrs. Cheryl Gallant: Thank you, Mr. Chairman, and through you to our witnesses today.

First of all, I'd like to mention that I concur with Mr. Allen in wishing some of the extra fuel that you'll be refining comes east. I'm really happy to hear that he's in support of a pipeline from west to east. We've really made some progress here today.

What's also interesting is that in addition to your expanding availability and supply, you're very conscientious about the remediation. Reference was made to the project with the University of Saskatchewan. You'd mentioned various government programs that they'll be accessing in order to help fund. What about the private sector? Does the private sector, in addition to the co-op, play any role in this very interesting, productive, and applicable science that is going on?

Mr. Vic Huard: Yes, very much so. Through our partnership with the University of Saskatchewan and even just internally with our environment and technical services group, we have a relatively small in-house group of experts in our environmental and technical side. One of the main roles they play is to coordinate relationships with private sector consultancies on the projects we do. Whether it's direct remediation—let's say an oil tanker happens to spill and we need to do a cleanup directly—or proactive pieces around how we're going to bio-remediate sites or how we're going to reduce our environmental footprint in our logistics chain, we work extensively with private sector consultants in that regard. There's a tremendous amount of expertise out there. Our primary role, in some respects, is to coordinate that knowledge and then apply it to the businesses that we undertake.

An example of that would be our refinery. Part of our refinery expansion is the waste water improvement project. To the best of my knowledge, we're going to become the first zero-water-effluent refinery in North America. In other words, we're going to take all the water—as you can appreciate, refineries use a lot of water in their processes—and it's going to be recaptured, recycled, and reprocessed. There is going to be zero effluent water going into the municipal sewer system as a result of this.

That technology is very much a private sector technology that would apply to the refinery complex.

● (1200)

Mrs. Cheryl Gallant: This technology that is in cooperation with the University of Saskatchewan, will it be eligible for patenting and use by other private sector companies as well?

Mr. Vic Huard: We always look at those opportunities, for sure.

I want to stress here that the SR&ED program is very important to us in this regard.

Mr. Bélanger mentioned a return on investment of the fund in the Arctic. I think the SR&ED is another example of great return on investment, providing those kinds of tax credits to us, to allow us to do the kind of research we do in collaboration with the private sector as well as the university. There are some technologies coming out of this. We are a business, and we will be looking at whether or not.... Whether the patent resides with the University of Saskatchewan or with one of our private sector partners or ourselves would remain to be determined.

On some of the projects we're working on now, particularly around bio-remediation, we're certainly having those discussions. Those are years out. We're just in the experimental phase, but it's certainly something we discuss.

Mrs. Cheryl Gallant: We'll be very interested in hearing, perhaps in the industry committee, how your system using phosphorus is able to stop the metal from staying in the soil and being absorbed by different animal species.

My next question is for Mr. Morrison. What are the types of financial services that are provided to our Arctic communities?

Mr. Andy Morrison: The types of financial services in the Arctic are very limited. If you consider the Northwest Territories and Nunavut, there are 58 communities, and nine of those communities have financial institutions—all chartered banks.

Many people in the Arctic have virtually no experience with or exposure to financial institutions. Many people do not have bank accounts, and as a result are not able to access the economy the way people in southern Canada can.

Part of the work we're doing is the development of a financial literacy program to try to raise the level of financial understanding for ordinary people across the Arctic.

Mrs. Cheryl Gallant: In my riding, one of the remote communities lost its last chartered bank and a credit union came in and provided a kiosk in a grocery store. Are those types of options available to the residents of the far north?

Mr. Andy Morrison: Credit unions are essentially provincially regulated entities. There is no active legislation in the Northwest Territories or Nunavut for credit unions.

There is the possibility of developing agency-type services, for example, in a cooperative or some other kind of business. We have been looking for many years at how, as a cooperative system, we could support the development of a financial network, a credit union network, to provide community-based financial services. Legislation and capital are some of the challenges we've not been able to overcome in the short term.

The Chair: Thank you.

We're now moving to Mr. Butt. You have the floor for the next five minutes.

Mr. Brad Butt: Thank you very much, Mr. Chair.

Coming from a business background, I'm always curious to know what businesses, co-ops in this particular case, you consider to be the competition, or whether you really have competition.

Mr. Morrison, I think you essentially said that the reason you're there is because it was the grassroots community, the public, who said they needed this type of cooperative arrangement in their communities. Perhaps that was out of necessity, or perhaps there was not adequate private sector competition that could provide those services.

Let me ask both of your organizations, do you have competitors? If so, what would you say is the main advantage for your clients, your members, who have chosen to be part of your cooperative rather than going down the street and buying what they need from the competition?

I don't know which organization wants to start, but I'd be curious to know. Certainly not knowing the far north very well, and not really knowing the sector as strongly as I should, probably one of the reasons I volunteered to serve on this committee is that I wanted to learn more about what the cooperative sector is doing across the country.

Mr. Morrison, do you want to start?

● (1205)

Mr. Andy Morrison: Thank you.

We absolutely have competition in most of the communities where cooperatives are located across the Arctic. The old Hudson's Bay Company essentially began in the Arctic with trading posts. Part of their operations were spun off to an organization called the North West Company. The North West Company operates retail stores across the Arctic, across the northern part of the provinces, in Alaska, the South Pacific, and the Caribbean. They are the competitors of the local cooperatives in probably 85% or 90% of the communities where local co-ops are located. We compete head-to-head with them on a daily basis.

Mr. Brad Butt: Interesting.

Mr. Glen Tully: Definitely.

From our aspect, we have all kinds of competition. Every organization out there is usually competing in one of our business lines. I'll use an example—and again, it's a changing landscape. I'll speak to Red River Co-op, in Winnipeg, Manitoba. They're a fuel cooperative. Their competition used to be Imperial Oil, Petro-Canada, and Shell. Today their competition is Canadian Tire, Superstore. The competition changes as businesses mature. That's an example of business competition.

Even more of a challenge, I think, is our competition from every organization, whether it's Potash Corporation trying to get our IT people to move over and be IT people for them.... I mean, there's a human capital shortage of expertise out there in many of the businesses we operate in. We have IT technology. We have human resources. We have marketing people. All those organizations that have those types of divisions are our competition. They try to take our best people, and of course we try to retain their best people.

If I've learned anything in business, it's that if you're a good manager, you're a good manager whether you're selling shoes or you're selling fuel. It's about developing that expertise. It's about attraction, retention, and employment of people.

I'll let Vic speak a little bit.

Mr. Vic Huard: I think the representative from Vancity said something that I thought was very compelling. I don't mean to.... I lost my rose-coloured glasses about a decade ago, and I never found them afterwards. But I do believe that a cooperative being a mission-driven organization matters. On the HR competition side, for example, we do find people who are more compelled to join us because of that. I also think that individuals participate in a co-op as customers for that reason, as well.

I will mention—and your colleague can attest to this, seeing as how his wife buys fuel at the Medicine Hat and Calgary co-ops—that a not insignificant infusion of cash back on equity repayments doesn't hurt. That's a fundamental part of our model. It's the backbone of what we call our “lifetime membership benefits program”. It's extremely important, as is the democratic participation for certain individuals, as they mature in the cooperative.

I dare say that individual members of the cooperative, when they first join, aren't motivated by the fact that they can come to a meeting.

An hon. member: I can understand that.

Mr. Vic Huard: I don't mean to diminish the importance of the meetings, but you have to provide good business, good services, good products, but also let people know that the community matters and the mission of the organization matters. As they mature in the cooperative, their family grows up and they have a bit more time on their hands, they become more involved.

I think one of our great competitive advantages is that it's almost impossible for our competitors to match that kind of personal commitment and passion.

The Chair: Thank you very much.

We have concluded the second round of questioning, but we do have time for one more round. We will go to Mr. Preston.

Mr. Joe Preston: Thank you very much.

Mr. Tully, you talked about how you moved up and were elected to the board of directors system by being at a meeting. That occurred to most of us because we missed a meeting.

I want to talk a bit about the decision-making process. You've seen it from the absolute grassroots through to the head of an organization the size of yours. One of the things we're hearing a lot from the cooperative movement is on the ability to manage risk in a far different way from most for-profit organizations, if you will, or other corporations would do it, that a one-member, one-vote system truly gives you a built-in cushion on a risk factor because there are that many minds thinking about the risk each time a decision is made. I'll ask you to verify that.

Obviously you've taken decisions up to a board level to try to get something moved, and then sometimes it doesn't happen because the one-person, one-vote system tells you that was the second-best idea that day. Is that a typical pattern? Does that happen?

● (1210)

Mr. Glen Tully: I would like to make one point of clarification. Certainly at our retail levels it is one person, one vote. But as you move up to what we call second and third tier cooperatives, which we are, there is a democratic representation on the basis of their purchases from us. So even though it's not one member—

Mr. Joe Preston: But it's still—

Mr. Glen Tully: —it still brings more minds to the table, exactly. It is very much driven by the community. Co-ops exist to provide benefits to their membership. By benefits, I mean products, goods and services that maybe are not attainable in the community without that cooperative, or at a price the members are willing to pay. That's the reason cooperatives exist.

I operated a farm. Why did I belong to my local co-op? It's because they provided the goods and services I required when I needed them. The head office was in my local community, so I had a direct line to say "I need this today".

The responsiveness of a cooperative model to the community I think is underestimated. In being part of that democratic process, it's phenomenal.

Mr. Vic Huard: You touched on risk management. If I may take a moment to speak to this, from the operational side, separate and apart from the democratic side, as you can appreciate, with an operation of our scope, we have a comprehensive enterprise risk management framework we work within.

One of the advantages we have as a cooperative—and again I will reflect on something Lyndon Carlson, from FCC, was saying—is we're not beholden in our system to the tyranny of the quarterly forecasts and reports. We're not beholden to analysts in certain financial sectors. We're certainly cognizant of doing well, but we can take a longer time horizon on a number of our investments. The refinery complex is an example of that. We're not being judged by a group of shareholders or directors who are saying we didn't meet a quarterly....

I will reflect on a headline I saw recently that Apple disappointed its analysts because it only had a $8.8 billion profit in the last quarter. I confess to being somewhat befuddled by that, but it's an example of the tyranny of the quarterly, as we call it. We're not beholden to that tyranny, nor are other cooperatives.

I think that's a very important distinction. It allows us to take a very different time horizon on risks, investments, and operations that other organizations don't have.

Mr. Joe Preston: It would also reflect risk in the sense that had the decision by a good group of brains in a room.... And Mr. Tully, you mentioned that your board of directors is right there in your own home town sometimes, and I'll give you that five guys meeting in your drive shed gives you a board of directors meeting sometimes too. But the real piece here is your risk. Even at that level, if a group of people had said no, we're not moving forward with the refining process, and because they were in the majority they had said no, that's too much risk for us, cooperatives are able to deal with that. They're able to deal with the disappointment of the group of people saying no, it's too much for us at this moment, maybe in another year or two, or maybe something else. So you move on to another decision and continue to make dividend profits for your members in a different way, with perhaps less of their equity at risk.

● (1215)

Mr. Glen Tully: Yes, I would agree that not every project that comes to the board of directors is necessarily approved in the form that maybe our operational people wanted, and it's because of that reflection back on what do our member-owners expect. It might be they expect less of a return, or they might expect more service.

Mr. Joe Preston: As you mentioned, Mr. Huard, that—

The Chair: I'm sorry, time has expired.

Mr. Joe Preston: I didn't even look back this time.

The Chair: I saw the eyes in the back of your head, though, so those ones I got.

That does conclude the time for this panel as well. I want to thank all three of our panellists, Mr. Morrison, Mr. Tully, and Mr. Huard. Thank you very much. It was very informative for all of us and it was much appreciated. I appreciate your taking the time to be here today.

Now we will suspend the meeting until 1:45.

● (1215)

——————————(Pause)——————————

● (1350)

The Chair: I call the meeting back to order.

We have a fairly full panel, and it looks as if we have a good group here as witnesses this afternoon. We're looking forward to hearing from all of you.

First of all, we have with us, from Encorp Pacific, Mr. Neil Hastie, the president and CEO. We have, from Mountain Equipment Co-op, Ms. Shona McGlashan, chief governance officer, and Ms. Margie Parikh, vice-chair of the board of directors. Joining us by video conference from lovely Olds, Alberta—the birthplace of many notable individuals and some not so notable, such as yours truly—from the Alberta Association of Co-operative Seed Cleaning Plants, Mr. John McBain, who is the vice-president.

Can you hear us all right, Mr. McBain?

● (1355)

Mr. John McBain (Vice-President, Alberta Association of Co-operative Seed Cleaning Plants): Yes, loud and clear.

The Chair: Okay.

Well I have you first, so I'll turn the floor to you now. You have ten minutes to make your opening remarks, and the floor is all yours.

Mr. John McBain: Thank you very much. Good afternoon.

My name is John McBain. I'm vice-president of the Alberta Association of Co-operative Seed Cleaning Plants. We represent 71 member plants: 69 in Alberta and two in the Peace River region of B. C. Each plant is a locally owned co-op run by a board of directors who come from the surrounding communities.

Our member plants play an important role in the agricultural communities. We clean seeds to exacting standards. We facilitate the testing of seeds for germination and disease. We educate about disease prevention. We provide seed treatments. We act as a source of information on new and old seed varieties and seed treatments. We act as a link between pedigreed-seed growers and the producer looking for that one particular variety of seed.

Each area of the province has different needs, in addition to seed cleaning. Individual co-op plants are able to identify the unique needs of their communities and to then provide services to meet those needs. In areas where ergot on wheat is an issue, plants use coloured sorters to segregate infected wheat seeds. Some plants specialize in the processing and marketing of peas or oats for speciality markets. Plants with access to rail lines facilitate the loading of producer cars. Some plants have been marketing feed, tarps, and veterinary supplies to producers in areas that have no local supplier. With their entrepreneurial spirit, these local boards and managers try to meet the needs of their agricultural communities.

Many of these plants are aging and need to be upgraded or replaced. Some of the older co-ops have also been enclosed by ever growing towns, and it becomes necessary to relocate outside of urban areas. Also, to stay competitive in the global market, substantial capital investment is required for new technologies and specialized equipment. New updated facilities will be able to comply with new environmental and safety regulations and protocols. Upgrading is also necessary to deal with the increasing need for disease monitoring and control. However, being run as cooperatives, these plants try to run as efficiently as possible in order to provide great service at an affordable rate.

When plants need to raise capital for new technologies, such as colour sorters, or to replace aging plants, they have difficulties. Few co-ops qualify for government grants or incentives. Farm Credit and banks are a source of loans, but we're looking for a way that would allow local investment by the community. Local co-op members and other businesses would be potential sources of investment if given the right incentives.

At our 2010 annual general meeting, we passed a resolution that the provincial board would lobby for refundable investment tax credits and RRSP investment status for agriculture investors who invest in co-ops. This would allow co-ops to raise the required capital to acquire depreciable assets. The existence of such a tax credit would give members and other agriculture investors benefits comparable to other Canadian investments. An example would be the oil and gas industry's flow-through-shares tax incentive.

Agriculture investors will support a business they know and understand rather than being forced to seek investment opportunities in other Canadian corporations.

Investing in the stock market draws capital from our local communities. Local investment has the potential to attract workers and keep young people in a community by providing new technologies and challenges.

In some communities that have lost their elevators and rail lines, the local co-op seed plant is the one thing helping to keep the community alive. Allowing a tax credit would enable these communities to invest in their own futures instead of having their investment money leave the community for other sectors. Our proposal would encourage local capital investment and would treat agriculture investors like oil and gas investors.

Being able to invest in local co-ops would allow us to upgrade equipment and plants for improvements in efficiency, quality, and food safety. As producers invest in new seed varieties, and with the increasing movement toward identity preservation, it's important that our plants are able to use the new technologies to protect the purity of these new varieties. It is also very important in the control of crop diseases, such as fusarium. Our plants go to great lengths to test seeds and to educate producers about the necessity of preventing the spread of this and other diseases.

There are new machines currently being tested in Saskatchewan that use near-infrared technology to sort seeds based on various parameters, such as protein content, the presence of disease, etc. Such technologies will be more and more necessary with the increasing demand for identity preservation.

● (1400)

We look forward to the results of your committee on cooperatives. I think raising capital for expansion and new equipment is difficult for everyone, but we hope you will look at our proposal, which would encourage local investment and economic diversity in rural areas, and enable producers to invest in their own industry as we move into a marketplace increasingly focused on food quality and safety.

Thank you for this opportunity.

The Chair: Thank you very much, Mr. McBain.

We'll go next to Mountain Equipment Co-op. I'm not sure who is giving the presentation, or maybe both of you are, but I'll turn the floor over to you and let you make that decision. You have ten minutes, and we're looking forward to hearing your opening remarks.

Ms. Shona McGlashan (Chief Governance Officer, Mountain Equipment Co-op): Good afternoon, everybody.

[*Translation*]

Good morning, ladies and gentlemen.

[*English*]

First of all, I'd very much like to thank the committee for giving Mountain Equipment Co-op the opportunity to come and contribute to your inquiry.

My name is Shona McGlashan, and I'm the chief governance officer at Mountain Equipment Co-op. I've been employed at MEC for nearly two months now. With me is Margie Parikh, who is the vice-chair of our board of directors, and Margie has been one of our directors since 2010.

We have also provided a written submission, which I've given to the clerk, to supplement this presentation, so you may find some additional information that will be of interest to you there.

First of all, I'd like to start by giving you a brief overview of Mountain Equipment Co-op. Some of you will be quite familiar with us, and indeed I understand that a number of you are our members.

Mountain Equipment Co-op was founded in 1971 in Vancouver, and it's incorporated under the B.C. Cooperative Association Act. It was founded by six friends to provide equipment for outdoor activities such as hiking, camping, and climbing. Famously, its initial retail operations were out of the back of a VW van.

Fast-forward 40 years, and we're a vibrant and successful retail cooperative. We exist to inspire and enable all Canadians to lead an active outdoor lifestyle, and we do this by providing great products and services related to activities such as hiking, camping, canoeing, stand-up paddle boarding, yoga, running, and cycling. We now have 3.75 million members, mostly in Canada and some overseas. We have 15 retail stores, from Victoria in the west to Halifax in the east, and an increasing part of our business is now web-based as well. We generated $270 million in revenue last year, in 2011; we employ 1,600 people; and we are responsible for over half a percent of all retail sales in Canada.

I would like to briefly touch on some of the governance and financial aspects of our cooperative structure.

We sell our products exclusively to our members. A lifetime membership share in MEC costs $5 today, just as it did in 1971. We operate on the cooperative principle of one member, one vote. All our members can participate in the election that elects our board of directors from among the membership, and our board must be active members of the co-op.

At the end of the financial year, after paying our suppliers, our employees, and covering our operating costs, Mountain Equipment Co-op returns any surplus at the end of the year to its members in the form of a patronage return. Our members have directed that this return be used to purchase additional patronage shares in the cooperative. Each year the board of directors assesses whether to issue a share redemption and buy back some of those shares from some of our members. But aside from the share redemption, you can see that member capital in the organization builds up and up over time. Over the course of 40 years, our members' combined equity in Mountain Equipment Co-op now amounts to about $160 million. We use this capital to invest in inventory and new stores and infrastructure, all with the aim of serving our members better.

You can find more information on the financial aspects in the written submission, and of course we'd be very happy to take questions on that if the committee wishes.

I also want to talk about how being a cooperative is integral and fundamental to the way Mountain Equipment Co-op does business, and how it's necessary for our success. We are a retailer, and we operate in an increasingly complex and competitive environment with other retailers who are not necessarily based on a cooperative structure. Because we're a co-op, we are not driven by a profit motive. We aim to make a small surplus target and we have reinvestment of member equity. This allows us to do two things. The first is that we can provide products to our membership that are on average 7% cheaper than the retail market average. The second is that because of this, we have headroom, if you like, to expand some of our energy and some of our efforts on areas that are very important to us as an organization, and important to our membership. Margie is going to speak to some of those.

● (1405)

Ms. Margie Parikh (Vice-Chair, Board of Directors, Mountain Equipment Co-op): Thanks, Shona.

What are those areas that are important to our members? Sustainability is critical in terms of facilities and green buildings but also in terms of our products and our supply chain. We are continually working to reduce our environmental footprint.

Operating according to an ethical sourcing policy is important to our members. We have a policy that aims to improve the working conditions of those who produce our products, whether they be in Canada or elsewhere in the world.

In terms of community investment, we are a member of "1% for the Planet", and over the last ten years we have put back approximately $16 million into outdoor activity and environmental organizations.

As Shona mentioned, our democratic governance model means that I and the other eight directors are directly elected by the membership—any member over the age of 15 has an equal say in electing us—and then we are accountable to the membership.

Finally, we aim to be an exceptional employer. We're proud to have been recognized as one of Canada's top 100 employers. We have policies around salaries so that our floor staff are paid above market. Conversely, our CEO and our senior management are not to exceed market. We create working conditions and provide training to our staff so that they can live the talk, inspiring and enabling everyone to live active outdoor lifestyles.

What are we looking for? We are looking for recognition that the cooperative is a sustainable and healthy business model that contributes to the Canadian economy and to Canadian communities and international communities, and that serves the needs of ordinary Canadians. We are successful, not only as a retailer with over a quarter of a billion dollars in revenues but also as an entity serving more than 3.5 million individual members. In other words, we are successful as a business and a cooperative.

Do we need capital from the government? No, but we are in our 41st year. Recognizing that cooperatives are an important, sustainable, and healthy business model, we ask that you support the Canadian Co-operative Association's goals, which may include structural or financial support for start-ups.

Why do cooperatives succeed? Our members are invested—in our terms minimally, in terms of their $5 shares, but certainly emotionally through support of our mission and our model. Without the profit motive, as Shona alluded to, we can offer great products and exceptional service that our members want—an excellent value.

We succeed because we serve our members and our communities, including the community of Canada. We also support each other locally, nationally, and internationally through active participation and governance in other cooperatives.

We succeed because we are a member-mission-driven organization. We strive to enable and inspire everyone to be active outdoors. We understand the power of community and cooperative principles. Together we are stronger and can do more for one another.

We look forward to your questions.

The Chair: Thank you very much.

We have one more presenter, and that is, of course, Mr. Hastie from Encorp Pacific. I'll now turn the floor over to you. You have up to ten minutes to make some opening remarks for the committee.

Mr. Neil Hastie (President and Chief Executive Officer, Encorp Pacific (Canada)): Thank you, Mr. Chairman.

I am an orphan here before you. We are not a cooperative. I'm here to set out the potential use of the cooperative structure—listening to my colleagues from the coast and the kind of energy that cooperatives can generate—and I'm here to brief the committee on a potentially significant opportunity that would, however, require some adjustments to the act itself. So that's my intent: to outline the nature of the opportunity in an area that you may not have thought of and talk a little bit about what might have to be adjusted in the act for this opportunity to be unleashed.

My company, Encorp Pacific, has been in business since 1994. We're a product stewardship corporation operating in the province of British Columbia. We are organized under the Canada Corporations Act, part II. We operate a recycling system in British Columbia for beverage containers and for end-of-life electronics. So I'm going to actually be talking to you about the idea of what I would call a resource recovery cooperative, a cooperative organized to generate improved recycling performance in Canada.

Here is some background. The Canadian government, along with all the ministers of the environment, in 2009 adopted an official policy to manage recycling in the country, called extended producer responsibility, or EPR for short. That's the official position of the Canadian Council of Ministers of the Environment, and therefore of the federal government as well. The essence of EPR is it turns over the responsibility and obligation for recycling of consumer products to the manufacturers of those products. There are currently between 50 and 75 organizations in Canada that are in fact EPR organizations. It's a growing sector, and I'm here to talk to you about the potential unleashing of more consumer participation in recycling to improve performance in the country, and doing that through the Canada Cooperatives Act.

I'll focus on one particular part of recycling. Everybody has a part they are particularly keen on, but I'll focus on packaging and printed paper, of which we are all large consumers. Currently, in this country we send to landfill about 60% of all the packaging and printed paper. It's a perfectly good resource, and we send it to landfill. The challenge, of course, is to start creating a circular economy and using that material, because it is very valuable material. EPR, as a policy position, is intended to do exactly that.

I want to give you a point of reference. The recycling performance in Canada is at about 40%. It varies a bit from province to province. Belgium, for example, is at 80% and Germany is at 85%, essentially operating the same kinds of systems we have here. But what we don't quite yet have in Canada is the engagement of the citizen, and I want to speak to you about that.

But looking at the economic impact, if we were able to increase our recycling rate, which has been growing but at a very modest pace, from the current 40% recycling up to 75% recycling, which is still not world-scale, it would create an economic value of between $500 million and $1 billion. That's jobs and that's economic value.

The other thing about recycling, of course, is that it reduces greenhouse gas emissions. Things that go into landfill produce greenhouse gases. Tremendously important for the industry, the companies, is that recycling creates a secondary source of materials, the recycled materials, as opposed to virgin materials that require extraction from the earth. So those are very, very high civic values and economic values as well.

What I believe could occur with a resource recovery cooperative is a significant engagement of the citizen. I think my colleagues to the left would be able to speak eloquently about the kind of engagement that is generated when you're participating as a partner in a cooperative.

● (1410)

That's going to be a fundamental driver of improved recycling performance in the country, because essentially that recycling performance relies exclusively on the consumer. It relies on the individual to do it. And engaging an individual by having that be an individual member of a cooperative whose purpose is in fact to generate the resource recovery economy I believe is a huge opportunity.

You can understand that my familiarity with the act may not be as intensive as my colleagues'. I have some general observations in terms of the adjustments that would be required. You would need to permit single-province operation, as opposed to, I understand, requiring that the cooperative operate in more than one province. The membership would have to be open to a broader classification than just individuals. It would have to create a structure in which it would permit access to capital markets. Much of what Canada will need is enhanced infrastructure for recycling, and that takes capital. Access to capital markets is fundamental.

The revisions of the act need to embed alternate dispute resolution mechanisms in what appears to be a highly judicial orientation to dispute resolution. It needs to in fact embed alternate dispute resolution mechanisms.

Finally, I would suggest that consideration needs to be given to integrating it with some of the powerful attributes of the Canada Corporation Act, part II. That is the reason we chose it as a corporation. It was because it brings with it some very high and fundamental governance standards, which I think are necessary when you're pursuing a public policy good.

In summary, I believe that there is an opportunity in a growing segment called the "extended producer responsibility" segment. There are currently about 60 organizations operating in that segment, and that segment is growing every year, literally, in the country.

There's a tremendous opportunity to improve our recycling performance in Canada. I think it drives sustainability. It drives economic growth. And it is simply the right thing to do.

Thank you.

● (1415)

The Chair: Thank you very much.

We will move to our first round of questioning for the witnesses. Madame LeBlanc, you have the floor for the first five minutes.

[*Translation*]

Ms. Hélène LeBlanc: Thank you, Mr. Chair.

Thank you for your very useful presentations. This helps us become familiar with different types of cooperatives—even some emerging ones.

Mr. McBain, you mentioned RRSPs—a mechanism that could make investing in cooperatives easier. Could you tell us more about that? You talked about RRSPs, but you also discussed tax credits.

Why do you think members are unable to take advantage of mechanisms that would facilitate investing in cooperatives?

[*English*]

Mr. John McBain: The biggest thing is that we have lots of members. They can invest now in the co-op, but they don't really get any kind of tax incentive or that sort of thing, as other Canadian corporations might get when you make an investment in such a corporation.

We have lots of farmers who are members. They have RRSP money that's been invested in the stock market or elsewhere. I think they would like to have that kind of money put into something they support in their community, rather than have it go out of their area. Those are some of the things we're sort of looking at.

We have access to loans, just like everybody else, through Farm Credit or Alberta Financial Services types of things, but those are just loans. We're looking at having membership participation in investing in these co-ops. We sell memberships. Each co-op sells its own memberships at each plant. So they have membership capital that way. We're just looking for more investment from other businesses in the communities.

● (1420)

[*Translation*]

Ms. Hélène LeBlanc: If I have understood properly, that would require changes to federal regulations.

[*English*]

Mr. John McBain: Yes, it would be some changes to the regulation, as well as the Income Tax Act.

[*Translation*]

Ms. Hélène LeBlanc: Thank you very much.

My next question is for the Mountain Equipment CO-op representatives.

Your company is well-established, but I would like to know what challenges you think the cooperative movement as a whole is facing.

[*English*]

Ms. Margie Parikh: We have many, many co-ops, and they are varied in size, structure, and mission. It is challenging to speak on behalf of all cooperatives, but certainly what I've been hearing through the Canadian Co-operative Association is that access to capital, in some cases, is a challenge, especially with the smaller organizations. We don't have individual shareholders. We can't have a public offering. As we heard this morning, as well, sometimes financial institutions are reluctant to lend to cooperatives. I think that is a barrier for many co-ops, especially smaller ones.

There are many good things that being a cooperative entails—as we heard a few minutes ago on the engagement of our members—but sometimes that can't overcome some of these structural barriers.

[*Translation*]

Ms. Hélène LeBlanc: How do you view the federal government's role—as a partner—in the growth of cooperatives?

[*English*]

The Chair: As you've probably noticed, the time has expired, but you've been able to put a question, and I'll ask that the response be as brief as possible.

Ms. Margie Parikh: In terms of what we need from the government or what the government's role is, I would go back to the Canadian Co-operative Association, which has a much better handle on the varied needs.

Again, there's no one prescription. I think there are probably structural as well as financial contributions and support that the government can provide, and I would look to the CCA to provide that direction.

[*Translation*]

Ms. Hélène LeBlanc: Thank you very much.

[*English*]

The Chair: Okay. Thank you very much.

Next we have Ms. Gallant. You have five minutes.

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

First of all, to Mountain Equipment Co-op, do all of your members have voting rights, the ones who pay the $5 to buy things from the store?

Ms. Shona McGlashan: Yes, they do.

Mrs. Cheryl Gallant: Do you send out notices for these meetings, or is the voting by mail?

Ms. Shona McGlashan: People can vote in-store or by mail-in ballot or electronically. People will be informed by e-mail, by signage in the stores, and on our web page.

Mrs. Cheryl Gallant: Okay.

Ms. Shona McGlashan: But I would say that take-up on our election is relatively low.

Mrs. Cheryl Gallant: Okay.

I know of a lot of people who have memberships, and no one has ever been advised about voting, so I find that very interesting.

Ms. Shona McGlashan: If they send us their e-mail address, I'll let them know.

Mrs. Cheryl Gallant: Okay.

Now, I notice that you have “1% For The Planet”, and that you support environmental causes. Which environmental groups or causes do you support?

Ms. Margie Parikh: Well, it depends. First of all, within each community where we operate, we support organizations locally. We're serving our members locally. There are national organizations, such as CPAWS, which we partner with and support. Some of the organizations are national and some are local.

We assess it every year—some of the information we can provide to you, as well as being on our website—and every year we show where we've donated funds, what those organizations do, and we provide links to these websites.

We have a fairly rigorous process, which includes a board member on the committee looking at all of the applications and whether they meet out members' needs.

● (1425)

Mrs. Cheryl Gallant: I was looking at your website, and I couldn't find that list, nor the list of not-for-profit organizations you collaborate with to promote access to the outdoors. Perhaps we can talk afterwards.

Now, with respect to ethical sourcing, I notice that you monitor your factories abroad to ensure there's essentially no slave labour going on. What method do you use to monitor that?

Ms. Margie Parikh: We aren't the experts in that, so we rely on third parties. We don't do our own monitoring; we rely on third parties who specialize in monitoring to audit our factories and report back to us. We operate within a policy that says what's allowable and when there is an infraction found how we deal with it. Our intention is to support our factories to improve their practices and thereby improve the conditions for their workers, but that monitoring is done by independent third parties.

Mrs. Cheryl Gallant: So in terms of sourcing and organizations and ensuring that people are treated fairly in the workplace, you would support ethical oil, for example, in Canada?

Ms. Margie Parikh: Right now our scope is with the products we produce, so we work to improve the conditions in the factories where we produce our products.

Mrs. Cheryl Gallant: On your website you talk about a green building program. Would your store in Ottawa, for example, have an item or a system that would demonstrate the green energy, so to speak?

Ms. Margie Parikh: In fact Ottawa is undergoing renovation at the moment, and if you come into the store as our renovation wraps up you will see examples of that. We just opened a few weeks ago a new store in North Vancouver. It's beautiful. It's in an area where we've rehabilitated the land coming off a stream.

Yes, we employ, for example, green energy practices with our building materials. We have parking for electric cars. It involves the proper use of sunlight and grey water, and all those sorts of things. They are leading practices. Obviously, when we're building new, it's state of the art, and when we're renovating as well. In our existing structures we do what we can and actually make significant investments in doing that.

Mrs. Cheryl Gallant: Thank you.

Mr. Hastie, you mentioned that you really don't have citizen participation with respect to electronics end of life. Are you from Ontario?

Mr. Neil Hastie: No, I'm from British Columbia.

Mrs. Cheryl Gallant: Okay. In Ontario, for example, we have a recycling fee that was enacted back when they introduced the HST, on the same day, as a matter of fact. They thought consumers wouldn't notice, I guess. We are active in participating in end-of-use, because $25 for TVs, $11 for computer monitors....

We have over $71 million in excess, surplus, just sitting in an account not being used, and 100,000 tonnes of old equipment that needs to be recycled. Can your organization use these types of funds in some way?

Mr. Neil Hastie: We operate exclusively in British Columbia. I think you're describing the Ontario circumstance. I don't have a lot to offer in terms of the prescription for Ontario. The electronics program in British Columbia does have some of the same features, however. If you go into a big-box retail store in British Columbia to buy a new flat-screen television, you're going to pay a fee there too. They are similar in that respect.

You started off talking about citizen engagement. We do have it, clearly. We don't have enough of it. I know that because I know how much material we're still sending to landfills. This is material that originates and is in the hands of the consumer. It's the consumer who makes the choice, either through lack of understanding or laziness, or in some cases it's very difficult, if you happen to live in certain kinds of dwelling types, to store things for recycling. But it's the consumer who's making the choice to send that material to landfill. That's what I mean when I say we want to find a method, and this could be one of those openings to find a method to engage citizens more completely. All of us do recycle now to a certain extent, and we're all part of the recycling community, but we're not formally acknowledged within the recycling community because there isn't any way to do that. You're a citizen, you're a taxpayer—

● (1430)

The Chair: I'm sorry to interrupt, Mr. Hastie, but we're well over time. I'll give you five or ten seconds to wrap up very briefly if—

Mr. Neil Hastie: I think I just wrapped up.

The Chair: All right, thank you.

We'll move now to Mr. Bélanger. You have five minutes.

Hon. Mauril Bélanger: Just five?

The Chair: Just five. I'm going to try to hold you to that.

Hon. Mauril Bélanger: I have four things, and I'm going to try to do them in five minutes.

First to you, Mr. Chairman, there's an item I'd like to discuss tonight after the next session, on business. I'm quite happy to do it public. It's concerning the report. I have a few questions I think the committee may be interested in.

Second, Encorp, you said you were an orphan. Well I believe you have siblings and you may not be aware of them. There is an outfit called the Old Town Glassworks in Yellowknife, and all they do is recycle glass, bottles essentially. They do some very nice material. So you might want to get in touch with them. It's not in B.C., but it's still part of the same country.

Mr. McBain, I have one quick question. There were modifications in the 2011 budget to RSPs and what could be invested from them into co-ops, for instance, with a 10% limit that any such investment could represent in terms of the overall assets of that co-op. So for a small co-op that's become a real problem. Have members of your federation experienced that?

Mr. John McBain: No we haven't had anybody with any investments from any RSPs or anything like that.

Hon. Mauril Bélanger: Is there a reason why? You may want to look into that.

Mr. John McBain: Yes. I think because that's fairly recent it maybe hasn't trickled down to all of our member plants yet. It might be one of the reasons.

Hon. Mauril Bélanger: You may want to take a look at that and express your views, if you have any, because that's how things get modified eventually.

On MEC, I think you're about as close to organizational sainthood as it's possible to be. At least that's what it sounds like, and I'm not even going to go there. I want to go to the evolution of co-ops. You have 3.5 million members. How many of them are not Canadian?

Ms. Shona McGlashan: I do have that figure for you, if you will hold on one second. I don't know how many are not Canadian, but we have about 130,000 members located in the U.S., and about 277,000 located outside Canada.

Hon. Mauril Bélanger: So 300,000 or 400,000 outside of Canada. At what point does that become a problem, or does it ever become a problem in terms of governance, in terms of applicable laws? What happens the day that you have a majority of your members who are outside of the jurisdiction in which you have been created?

Ms. Shona McGlashan: That's an interesting question, and I'm afraid not one I know the answer to. So far it has not been a problem.

Hon. Mauril Bélanger: Will you be attending the Quebec summit?

Ms. Shona McGlashan: Yes, I will.

Hon. Mauril Bélanger: Maybe we can ask that question there.

Ms. Shona McGlashan: Absolutely.

Hon. Mauril Bélanger: All right.

You say you get 18,000 new members a month.

Ms. Shona McGlashan: It's an incredible number, yes.

Hon. Mauril Bélanger: How many do you lose on a monthly basis?

Ms. Shona McGlashan: It's a lifetime membership.

Hon. Mauril Bélanger: So you lose the people who die, essentially.

Ms. Shona McGlashan: Yes. We don't have records of that, although people can apply—

Hon. Mauril Bélanger: How many members are you aware of who are members but are no longer alive?

Ms. Shona McGlashan: For us to be aware that they were no longer alive, they would have to apply to have their share in the co-op put as part of their estate. So people can apply to get their capital out once they reach 75, or after they die.

Hon. Mauril Bélanger: Do you advertise to recruit these 18,000 members? I know political parties in this country would love to recruit about 18,000 members a month.

Ms. Shona McGlashan: If people go into the store and they want to buy a product, they need to buy a membership at that point, if they're not already members. That's how we get them.

Hon. Mauril Bélanger: That's how it happened to me. I was in Winnipeg. It's not one of the activities you've listed. It was partying outdoors. I was attending *Le Festival du Voyageur* in minus 40 degree weather, drinking at midnight from an ice glass. I figured I needed to be better clothed, so I became a member. Thank you. It kept me warm all night.

Ms. Shona McGlashan: I'm glad we had the products you needed.

Hon. Mauril Bélanger: We haven't asked this question of anyone so far. Is there any question you'd like us to ask that we haven't asked? Is there something you want to reveal to us, or have us thinking about, that we haven't asked?

● (1435)

Ms. Shona McGlashan: I think beyond what we've presented to the committee, we don't have any further requests or questions.

Hon. Mauril Bélanger: What's the maximum numbers you can accommodate?

Ms. Margie Parikh: Of members?

Hon. Mauril Bélanger: Yes.

Ms. Margie Parikh: We're here to serve our members. So if we have more members, we will endeavour to serve them. And if you're not a member, we encourage the rest of you to come on in and check out our nice products.

Hon. Mauril Bélanger: So six billion?

Ms. Shona McGlashan: Worldwide membership.

Hon. Mauril Bélanger: Thank you.

The Chair: Time has expired.

We're going to move now to Mr. Lemieux. You have five minutes.

Mr. Pierre Lemieux: Thank you very much, Chair.

Thank you for being here.

I have been a member of Mountain Equipment Co-op since the early days, the early 1980s—so way back when.

I want to follow up on a comment that Margie made about co-ops having difficulty accessing financing. We've been asking this question—I, in particular, have been asking this question—to a number of different witnesses, particularly financial institutions, a good number of which have been financial co-ops.

The impression I have is that there are always challenges in start-ups seeking financing but that the system and decisions are not biased against co-ops. In other words, there are always challenges. There are always high-risk ventures. There are always problems in terms of collateral for loans that financial institutions, including financial co-ops, can access.

We've had a number of people, on the other end, who say that it's hard to access financing and the system is biased against them. But then we've had financial institutions say there's no real bias; they do a risk assessment and they treat businesses like they treat co-ops.

There are a few unique challenges, but it didn't strike me as being very untoward, meaning that they had hurdles that couldn't be surmounted.

This brings me to Mountain Equipment Co-op.

Shona, you mentioned that you started in 1971 with six members and $65 in the bank account. I think you were saying today that you have $261 million in annual sales. That's a tremendous growth in the organization and impact on the ground. Tell us how you did that. Tell us how Mountain Equipment Co-op grew into what it is today. I think you might reveal to us, and to Canadians—because this is televised—the model of success. Could you fill us in?

Ms. Shona McGlashan: I'll defer to Margie, because I've only been working at Mountain Equipment Co-op for just over a month. She knows more of the history than I do.

Mr. Pierre Lemieux: Sure.

Ms. Margie Parikh: There are a couple of things. One is that we did have help. We didn't have government help back then, but we had help from REI, in the States, which I believe provided products to us at wholesale prices so we could then offer them to Canadians.

Ms. Shona McGlashan: REI is another co-op.

Ms. Margie Parikh: Exactly.

Another thing is that the world was different in 1971. We have more challenges today. We have more competition today.

When we move into an area, our goal is not to wipe out the competition. Our goal is to inspire and enable everyone to live active outdoor lifestyles. The more people we have living happy outdoor lifestyles, the better. We want to add to a community. I think because we are a cooperative, the engagement levels are high and people believe that.

That's how we grew. It was very organic, and we did have some financial support.

When I was speaking earlier about support for small start-ups—again, we don't need the support—I've heard from the Canadian Co-operative Association and other smaller ones that access to capital can be challenging.

I know Vancity, for example, and some of the other cooperatives have it as part of their mission to support other cooperatives. But it may be more difficult from a traditional lending institution. We don't have the same ability to go out and raise funds through an IPO or something like that. That's where the challenge lies.

Mr. Pierre Lemieux: But neither do many small companies, right? They don't do an IPO either. If they're small, they haven't got anything to offer. Investors wouldn't be....

I think when you have a new start-up, they have the same challenges. They're perhaps a slightly different flavour, but they have the same problems with access to capital. You don't have any track record. You don't have anything to show. You don't have anything someone can put their hands on if something doesn't work out well. I think it's a challenge that's shared by anyone who has a great idea and wants to commercialize it and run with it.

I'm interested in knowing how you grew financially.

You're buying from another co-op in the United States, which is great—to see co-ops working together. You're buying goods at a particular price that you then sell to members, and you return money to your members.

You must have put aside money for expansion, for growth. Not all of our profits went back to...? I'm assuming that you must have a fund. We've had a number of cooperatives say they have a reserve for expansion and growth, and they build that reserve every year. They use that reserve to help them. They still need to seek additional funding, but that is what they start with. Is it the same with Mountain Equipment Co-op?

● (1440)

Ms. Margie Parikh: Yes.

We are not profit-driven, but we aim to create a surplus. That surplus goes back to the members in terms of a patronage return, and we use some of that capital to grow: provide more member services, purchase our products, do our Ottawa renovation. Beyond what we need to grow for our members, we return directly to our members.

Mr. Pierre Lemieux: Right. Is that a model you'd recommend to other cooperatives?

The Chair: I'm sorry, time has expired. If it's a yes or no answer, I'll allow it.

Mr. Pierre Lemieux: I just wondered if that's a model you would recommend to other cooperatives.

Ms. Margie Parikh: It is the model that many cooperatives use.

Mr. Pierre Lemieux: Okay.

The Chair: Thank you. I appreciate the brevity there.

Madame Brosseau, you have the floor now for the next five minutes.

Ms. Ruth Ellen Brosseau: Thank you very much.

I'd like to thank you all for being here and sharing your stories of success.

Mr. Hastie, what you were talking about really made me think of a group I met in my riding. They're called SIT. It's a group that's been working for about ten years and they help integrate people who have maybe had trouble finding work, have had difficulties in their life, and they work now. They get contracts with bigger businesses and they recycle things. I went to their warehouse and I was amazed, absolutely amazed. What they do is so sustainable economically and for the environment. We all have TVs. At the end of the term, what do we do with them, right? What they do, and they just transform this, I think is amazing.

I was just wondering if you could talk a little bit more about what you do out there.

Mr. Neil Hastie: That's a great connection to the engagement piece, and that's serving a social need as well within the communities. That very much is part of the sustainability formula: the economy and the environment and communities. There are other examples like that. We have some examples of not-for-profits who operate what we call a bottle depot, where you take back your empty beverage containers. They employ disadvantaged citizens to work within the bottle depot.

Those are examples that do exist in a number of circumstances, but they are small in number. I think probably Saskatchewan, not surprisingly, has the largest commitment to that in its network of bottle depots, where they employ exclusively those with disabilities. They have 75 depots that employ exclusively people with disabilities. There are those kinds of natural connections. What we need is to create the chemistry that makes the connection happen. It has to be an organized activity, it's got to be organized under a structure, and that's of course where in fact something like the Cooperatives Act represents that potential structure that will empower those things to occur.

Ms. Ruth Ellen Brosseau: Enable it.

Mr. Neil Hastie: Yes, that's right.

Ms. Ruth Ellen Brosseau: That's amazing. Thank you.

Mr. McBain, I just had a few questions. This has been going on for about 50 years, the cleaning plants in Alberta?

Mr. John McBain: This would be our sixtieth year in January 2012.

Ms. Ruth Ellen Brosseau: How has it changed over the last 60 years? I think at one point you had a few hundred cleaning plants, and right now you have about 70?

Mr. John McBain: Yes, we now have 71 members in our association.

A lot of it has changed because we have lost a lot of the provincial and municipal involvement in our plants. When we first started 60 years ago we were able to access grants from the province and from the municipalities, as well as the memberships. We have lost that revenue, and a lot of the plants. As they've aged, maybe we haven't really kept up with some of the technology. Now, as agriculture is getting a little more money in it, we're looking at upgrading and some plants are trying to do some catch-up.

● (1445)

Ms. Ruth Ellen Brosseau: Okay. I guess with the introduction of a hybrid canola and the plant breeders' rights, that has meant the farmers are purchasing more seed and they're not cleaning as much also.

Mr. John McBain: With the canola, and stuff like that, that's been pretty well taken away from the seed plants. That's all done by the big companies now, the Bayers and the Monsantos.

As far as plant breeders' rights are concerned, those varieties are grown by some of the seed growers, and those seed growers can use the local seed plants to clean those seeds. So we are still involved with the plant breeders. We're cleaning up the varieties of grain all the time. So that's where a lot of the newer technologies come in, with the colour sorters and this sort of thing to try to keep the varieties pure.

Ms. Ruth Ellen Brosseau: It's really important to invest in research and innovation, I guess. Do you have a lot of money to invest? How does that work? How do you try to keep up with the coming changes and try to keep ahead? Is that a problem for you?

Mr. John McBain: Yes, it is a bit of a problem.

Basically, plants will try a new system. The one seed plant at Bashaw, about three years ago, put in the first colour sorter. By the end of this year, 30-some plants will have colour sorters installed. One plant will try something, and then everybody shares the information. If they can use it in their plants, then they look to invest in that kind of technology.

Ms. Ruth Ellen Brosseau: Thank you very much.

The Chair: Great. Thank you.

We will move to Mr. Boughen.

Mr. Ray Boughen: Thank you, Mr. Chair.

Welcome to our panellists and to our individual person, Mr. McBain.

I have three questions I'd like you folks to deal with this afternoon. The first one is for you, John.

I'm wondering how many plants are really necessary in the seed-cleaning business. We know that the technology has brought forward different techniques and strategies to speed things up and make them more efficient. Is that true for the seed-cleaning business?

Mr. John McBain: Last year we cleaned a little over 33 million bushels in our 71 plants. This year we are going to be quite a ways above that, because more of these plants have put in colour sorters and that sort of thing.

The biggest thing is that we've had a big problem with ergot in our wheat. In the one plant that is quite close to us, at Beiseker, their volumes went from over 600,000 bushels to 1.8 million bushels in just over the year and a half after they put in their colour sorter.

If we can get these technologies and stuff, there is a huge demand out there.

Mr. Ray Boughen: Thank you.

When I look at the outdoor equipment operation, certainly you folks at Mountain Equipment are capturing most of the buying market, I would suggest, at this time.

I'm interested in your thoughts, Margie. I have the feeling that you're saying that there is a place for government to help co-ops get going. They put money on the table. There are three levels of government: municipal, provincial, and federal. Which level of government do you think should be involved in getting start-up funds in place for new co-ops coming on?

Ms. Margie Parikh: I don't know that I can answer that definitively. I would say that because we're looking at the federal co-op act, we're talking about the federal level.

Tying that into an earlier question, start-ups, whether they're co-ops or not, may require funding. But if you combine that with the recognition that the cooperative model is good for us—it's good for our communities and it's good for Canadians—that's where I would say we should be looking at supporting that particular model.

Mr. Ray Boughen: That's as opposed to putting the same number of dollars into health care.

Ms. Margie Parikh: I wouldn't trade off health care.

● (1450)

Mr. Ray Boughen: I guess I am saying that there's one pot of gold; there's not a whole bunch. We have to draw on that pot of gold to help a whole lot of things, and co-ops may well be one of them.

Ms. Margie Parikh: Yes. In terms of looking at supporting small businesses, I'm not saying that we shouldn't be supporting all small businesses. But I would like an understanding and a recognition of the role cooperatives play, not only from an economic perspective but also from the community involvement and engagement perspective.

Mr. Ray Boughen: Sure. Okay.

Neil, on recycling, SARCAN is Saskatchewan's recycling giant. It handles everything from plastic to paper to used TVs and used video recorders and all those kinds of things. There are a ton of plants around the province. In fact, they do such a good job that those that scavenge in the ditches of the highways and byways of the province don't find many tin cans, because tin cans are also part of the recycling business there. It covers a lot.

That's also available in towns and cities for residents and businesses. Businesses do a lot of recycling. It's not so much with the residential operation. How do you see that you can increase the interest of residents in recycling things?

We're big recyclers. We do paper. We do cans. We do bottles. Our trash in a week is a little wee bag. It's next to nothing.

Mr. Neil Hastie: You're absolutely right that the beverage container side is pretty well looked after. I think actually SARCAN and Saskatchewan have in fact a leadership role. They get the highest rate of recycling of beverage containers. Beverage containers are a very small part of the consumer packaging stream. It's all the other... what we typically think goes into our blue boxes. It's all of that material we're not doing very well with, and that's where the big opportunity is. We're burying millions of tons of perfectly good plastic and fibre in the ground every year. That was the perspective I was offering up. We're going to have to have a higher level of citizen engagement to crack that nut.

Mr. Ray Boughen: Yes, there's independent—

The Chair: Sorry, I'll have to stop you there, as time has expired.

We'll move now to Mr. Harris for the next five minutes.

Mr. Dan Harris: Thank you.

Of course the experience with recycling varies from coast to coast to coast in terms of the programs and availabilities and the costs and the differences between single-family dwellings and apartment buildings, for instance, many of which were built before recycling programs came into being, and they recycle at much lower rates.

I want to spend all my time with Mountain Equipment Co-op. I've been a member now for almost 17 years. I've still got the first backpack I bought from MEC, which I still use regularly, although this one's a little better for committee business.

I wanted to touch on Ms. Gallant's comments. It's actually very easy to find on the website if you go to the home page and go to “Sustainability”, and then from there you have a link to “Partnerships and Affiliations”, where all the national and regional partnerships are listed, as well as the “1% for the Planet”. There's an incredible amount of information on MEC's website, things that you would never see on a traditional business website in terms of the governance of the organization, in terms of how you stack up versus other organizations and companies.

I was very happy to see you come today and say you're doing okay and you don't need any help, but that where the help is needed is with the start-ups, with structural and financial supports. Yes, of course, governments have to make decisions, and this government, unfortunately, in our opinion has made decisions to provide large corporate tax cuts with absolutely no incentives towards job creation, but they can't find a few million dollars to help start-ups and cooperatives come together to actually build communities. We've been hearing time and time again from people that this is what co-ops are. They are in the community, they're for the community, they help grow the community, and they're about developing the economies of those local areas.

There's a strange phenomenon that often exists with MEC. For instance, in Toronto, when the store first located on Front Street, every outdoor outfitter in Toronto moved in next door. It then moved to Spadina and King and the same thing happened, where you kind of create a microclimate of everything to do with outdoors.

I noticed in reading this document that it actually reminded me of the magazines we used to get, which of course used to contain your members' ballots as well as information about board of directors. To be better for the environment, of course, that's where the e-mail came in instead. So that was a move MEC made so it would have less of an impact on the environment, and congratulations on that.

One of the statements made under “Returns and Redemptions” was that “member capital is MEC's main source of funding for future growth, given its limited access to other sources of funding due to its co-operative structure”. That statement sounds as if perhaps you had some problems seeking financing in the past. Do those kinds of structural challenges still exist, or does MEC prefer to self-fund everything?

● (1455)

Ms. Margie Parikh: We don't self-fund everything. We access capital. For example, right now we have some capital investments, so we've gone to the banks to access financing. But we have sizable revenues, and it is not as challenging as it might be if we were smaller. I'm not sure—I wasn't around then—but as I said—

Mr. Dan Harris: Mr. Lemieux, for instance, said that a small co-op with no track record has great difficulty. But MEC now has more than 40 years of a track record and impressive growth, which makes it easier.

Ms. Margie Parikh: Yes, and because we are a member organization, we are risk-averse. That's another difference you find with cooperatives. While we do access capital from the banks, we do so after very, very careful consideration, because it isn't our organization; it's collectively our organization. So we do that with great care.

Mr. Dan Harris: I wanted to continue with the employment side.

MEC employs a great number of people in a variety of different capacities. I was looking at the average wage, for instance, in the retail area. It is $13.74 per hour.

The Chair: Time has expired. Ask the question quickly.

Mr. Dan Harris: In terms of what you pay your employees, how does that stack up compared to competitors in other retail establishments?

Ms. Margie Parikh: Our policy says that our lowest-paid employees, our floor staff, must be paid above market. And conversely, our highest-paid employees, our CEO and our senior staff, must not exceed the market. That is the policy.

Mr. Dan Harris: Thank you very much.

The Chair: Thank you very much.

We'll move now to Mr. Payne, for the next five minutes.

Mr. LaVar Payne: Thank you, Chair.

I want to thank all the panel members for coming out today.

I just want to talk a little bit about some of the finance stuff and what is available to co-ops as well as to small business. If you look at the dividends, your membership dividends are handled no differently, on a tax basis, than any other corporation's. You have low tax rates, which is the same as small business. So really, there's not any difference there.

Other co-ops have had an opportunity to invest in equipment for their organizations, in terms of manufacturing and production, and they also get accelerated depreciation. There are a lot of things that are very similar to other businesses.

In terms of start-ups, certainly there might be some funding available to smaller organizations or to co-ops for training, for example. There are a number of those things one could say are available to co-ops, are available to small business, and are available to large business. To that point, I think we can say that there is some opportunity for co-ops and not exclusively for small business or for large business.

Those are a couple of points I wanted to make there.

In terms of Mountain Equipment Co-op, I was looking at your $9-million patronage payment. Did that go out to individual members? How does that work? Or is it just on a redemption of your memberships once they're surrendered? How do you do that?

● (1500)

Ms. Shona McGlashan: What happens is that at the end of each year, the surplus we have is apportioned as a patronage return in proportion to the amount of business each member has done in the co-op during that year. People don't get that money in their hands, because under our rules, our members have directed us that the money will then be applied to buy patronage shares for each individual member in the organization. Over the course of the years, and in proportion to the amount of business you're doing in the co-op, your equity in the organization will grow—slowly. We're not talking huge amounts of money here, but it will grow. If members want to find out what their equity is, they can call our service centre and they can get that number.

Separately, each year the board of directors issues a share redemption, and they will make a decision such as, say, that for everybody who has this amount of equity, we're going to redeem a hundred dollars' worth of that, or various things like that.

They are two separate issues that are quite often confused in people's minds.

Mr. LaVar Payne: Okay, thank you.

Mr. Hastie, I was listening to your opening comments about recycling and getting it up to 70%. Part of that would be so that there would not be any greenhouse gases emitted from what was going into the landfills. I don't know if you've done any study, but obviously recycling is taking up some sort of energy. How would putting it into landfill compare to recycling, which a lot of people do, including me?

Mr. Neil Hastie: The science on recycling and the impacts for greenhouse gases is fairly clear. Yes, you're right, if I go and pick something up with a truck, the truck is burning diesel. It puts something into the atmosphere. But the net benefit still exists because you're avoiding the landfill. It's the net benefit. But it is true that recycling activities consume energy. It's an industrial process. It consumes energy. But the net benefit is still quite significant.

Mr. LaVar Payne: Do you have any numbers we'd be looking at?

Mr. Neil Hastie: I don't have them at my fingertips, but that kind of data has been looked at.

Mr. LaVar Payne: If you have that, certainly it would be appreciated.

Mr. Neil Hastie: Sure, I'd be happy on a follow-up basis to provide some sources of that data.

Mr. LaVar Payne: That would be great, and we'll share it with the committee.

I won't just ask for it myself, Mr. Harris.

Mr. McBain, I was listening to you talk about your co-op seeding organizations, and certainly each individual co-op has their own membership. I'm assuming that they're also paying fees into the larger organization. One of my colleagues here was talking about the number of seed-cleaning plants and whether there was a need for that many, and you did indicate that there certainly is a lot more seed cleaning required. One of the things I was thinking about, and maybe you could help us understand that, is in fact are the numbers of these plants partly due to regionalization? Are they required in regions because they may be cleaning different products, or because of distances?

Mr. John McBain: A lot of it is to do with distances. We have quite a few member plants in northern Alberta, plus the two in the Peace River region of B.C., and they are quite remote, some of our plants. They're in very small communities. With some of the other ones when you get into central Alberta, and some of the ones in southern Alberta, there is a possibility that some of them could be put together into bigger plants and that sort of thing. That may come in the future as things move on. We're really not too sure how that may work out in the future. If these plants can stay viable in the communities they're in, there's no problem with keeping them there and keeping that part of the industry alive in those communities.

The Chair: Thank you very much.

We will move now to Mr. Allen for the next five minutes.

Mr. Malcolm Allen: Thank you, Mr. Chair.

I guess I'll make the declaration that I'm not a member. I knew that would break your heart, Pierre. It probably has something to do with the fact I'm a Glaswegian and don't want to pay the extra five bucks, and I believe you are as well. The accent sounded very familiar to one I had when I was a small boy.

Let me talk to you a bit about the governance piece. As my colleague and friend Mr. Harris said, at one point in time you used to notify your members. My credit union notifies. They don't have millions of members, they have 86,000, but their ballots are sent to every single member, along with a bio of all of their board of directors, because they believe the board of directors is extremely important to the organization, and I think you would as well. The difficulty is that when you have as many members as you do, and you rely on sending folks an e-mail, that quite often ends up in the junk mail, quite frankly. They've spammed you out because they don't necessarily want to get it from you, because they've just simply set it up that way. Or in the case of someone like my mother, they don't have one, or it's someone who just doesn't have a computer, or has moved, or has changed their hotmail address or their g-mail is totally different from the one they gave you two years ago. How do they participate?

I don't come to the store, for instance, for a long period of time. I have a vested interest in the sense of I actually want to participate, but the engagement process has now been turned back at me and it's being said to me, if you want to buy this from me you better become a member. So there's a piece of thou must: if you want this, give me the five bucks and you'll be a member. And then you want to have a governance model that says that all folks are engaged, yet you're somewhat disengaged yourself as a corporation away from your members as a co-op. It may be for altruistic measures of greening things up and not having paper, but is there any other way to engage folks that you are thinking about but you're not doing yet beyond the simple e-mail, or if I come into the store I'll see there's a board of directors and you can find out something about it, or visiting your website constantly to find out? Is there a way to do this differently?

● (1505)

Ms. Shona McGlashan: You touched on an issue that's very dear to my heart, and I'm committed to trying to increase member engagement around the election piece.

One of the things we do need to do is to make sure we have a much better grasp of members' e-mail addresses, to get them that way. We're looking at what other co-ops do. We're looking at what other organizations do that have good uptake. We'll be trying to follow best practices and do whatever we can.

We use Facebook, Twitter. We're active in social media. It's not a panacea, as we all know. We're trying our best to engage people. I'm convinced there is more we can do and more we will do.

The truth is that engagement in election processes across the board is not as high as anybody would like it. That's the case for federal elections, as well as the elections at Mountain Equipment Co-op.

We're all working toward the same goal. I absolutely agree with you that we can do better, and we will do better.

In the meantime, I would encourage our members that if they give us their e-mail addresses then they can get their share redemption cheques. There's also a bit of a carrot involved.

Mr. Malcolm Allen: I'm sure that if I had become a member and paid the five bucks, I'd make sure I got my share redemption cheque —

Ms. Shona McGlashan: You still can join. It's a lifetime membership.

Mr. Malcolm Allen: —and I would have to vote.

I'll leave that comment about the great outdoors somewhere else.

One of the things you talked about was this sense that seems to inculcate the whole co-op movement. The term that's used is “risk averse”, which gives two connotations. To those of us who are familiar with, engaged, and are members of cooperatives—wherever they happen to be, credit unions, etc., and have been in them for, in my case, most of my life—understand that when one says “risk-averse”, we take that to be prudent, versus to business folks it sounds like you're afraid.

Can you help me? Am I right on this? When cooperatives say they're risk-averse, do they really mean prudent versus afraid, or am I stuck in 1962?

Ms. Margie Parikh: Speaking for the Mountain Equipment Co-op, we mean “prudent”. It is our members' equity we work with. We are a retailer. We want to be innovative and creative. We are low-geared, meaning we are low-leveraged. But it is because we are prudent with our funds, with your funds, with other people's funds, and hopefully yours soon.

● (1510)

The Chair: Thank you very much. We appreciate that.

Next will be Mr. Preston. You have the floor for the next five minutes.

Mr. Joe Preston: Thank you very much, Mr. Chair.

Thank you all for coming today.

First of all, I was discussing our panel today with the staff in my office, and JoAnna says you rock.

I'm not a member of MEC either. I spend time outdoors; I just have not visited one of your stores.

Mr. Dan Harris: It's your loss.

Mr. Joe Preston: Yes. I'm now going to have to hunt one down, I think.

Mr. Brad Butt: Here's the five bucks.

Voices: Oh, oh!

Mr. Joe Preston: Five bucks. Thanks. It's good that I'm getting a contribution from my friend.

This is great. I'm going to have to tell the Ethics Commissioner about this.

We've had many cooperatives here over the last couple of days. We discussed it yesterday, and I thought I'd come to the magic solution of why cooperatives are successful.

I'll use Mr. McBain's group as an example. They discover that there's a need in a local community and they fill it. Because it's owned by members, they're very motivated to be heavily involved, and it works really well.

MEC, you've stepped outside of my model now. Although I'm certain there's a need out there for the goods you sell, there are others already fulfilling that need. How are you still successful?

Ms. Shona McGlashan: Ultimately, people don't buy our products because we're a co-op. Being a co-op is like a value-add, together with our sustainability, environmental programs, and other values that may be dear to our members.

We're not going to succeed as an enterprise unless the products and the services we offer are great, we do what members need, and at a price they want. We need to have all of those.

Being a co-op is a great value-add, but it's not the thing that drives people to buy goods at our store.

Mr. Joe Preston: Yes. That's the opposite of some of the other co-ops. They talked about filling a need in a community because the need had gone away. A grocery store went away, so something went in and filled the need. Maybe even regardless of price, they supported it because it was fulfilling a need in their community.

You've gone a different route, so it's a unique thing.

Ms. Margie Parikh: Yes, and I would say we didn't start out that way. When we started out back in the van, that was fulfilling a need.

Mr. Joe Preston: There was nobody doing what you were doing, or selling the goods you were selling?

Mr. Dan Harris: You'd have to go across the border to get it.

Ms. Margie Parikh: The founding members were driving across to the States and sort of smuggling the stuff back in, initially.

Mr. Joe Preston: Somebody write that down.

Voices: Oh, oh.

Mr. Joe Preston: Perfect.

Mr. Hastie, you talked about recycling, and I simply wanted to share this with you. I think we've all grown up now in a generation of recycling. Some of us maybe weren't born into it, but we certainly have grown into it. You talked about trying to find a way to increase the amount of recycling that happens in a household. I'm just going to suggest this: have children. There was nobody who made me a recycler like my children. Dad put a pop can in the garbage, and it was announced around the neighbourhood, I think. But we did all learn that way.

Your percentages have hit a wall. I understand that. Household recycling is at a point where we need to have another bump in it. I'm sure the work you're doing is going to help with that.

You're a not-for-profit, but who pays your bills? How do you pay your bills?

Mr. Neil Hastie: We're organized under the Canada Corporations Act, part II, which provides a ruling from Canada Revenue Agency that we are not taxed on our surpluses. It's a tax ruling. There are in fact traditional not-for-profits, and they are organized quite differently. We simply can operate under that provision.

Mr. Joe Preston: You could have a surplus and then use it over subsequent years.

Mr. Neil Hastie: Exactly.

Mr. Joe Preston: Where are your funds generated? Is it by selling recycled goods?

Mr. Neil Hastie: About a third of all the money we get in is from selling the recycled goods, aluminum being the most valuable. A third of it, and now it's probably closer to 50%, comes from a fee we charge to consumers. These are the things that generated a lot of interest in Ontario. The last bit of it comes from the consumer as well, because with the beverage system, if you throw that beverage container away, I still have the nickel, so that's where I get about 20% of my revenue.

Mr. Joe Preston: The non-redemption—

Mr. Neil Hastie: It's the non-redemption. It's kind of perverse, because we want all the redemption we can get. We don't have any difficulty financing ourselves.

● (1515)

Mr. Joe Preston: So if you don't get the can, you do get the five cents to use into the future.

Mr. Neil Hastie: We do, indeed.

I just want to add one thing in terms of the worst recyclers. Children are fine. Once children become 18, they stop recycling. When they become 35, they start again. We have a problem with that particular cadre. We need to work on it.

The Chair: Thank you very much.

Thank you to all of our panellists. Our time has concluded. It's been very informative. We've learned a lot. We learned that Mr. Bélanger is a night owl, and we learned about Mr. Preston's garbage and what goes into it that shouldn't. We learned that at Mountain Equipment Co-op, no matter how many members you have there are always a few more you need to work on. Maybe you could make Mr. Allen an honorary member, because it sounds as if that's probably the only hope you've got there.

We thank you all for your expertise and your knowledge today. It's much appreciated.

I'll now suspend the meeting until 3:30 to set up for the next panel.

● (1515)

(Pause)

● (1530)

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

We have with us two witnesses for the last panel of the day. We have with us, from the Co-operative Housing Federation of British Columbia, Mr. Darren Kitchen, who's the director of government relations. And we have with us, from Kootenay Columbia Seniors Housing Cooperative, Mr. Kenneth Hood, who's the president.

We will provide you both with the opportunity to present opening remarks of up to ten minutes. There are only two of you, so I will allow a little leeway on that, if need be, but not too much. You have approximately ten minutes.

We're going to start with you, Mr. Hood. The floor is now yours, Mr. Hood, for the next ten minutes.

Mr. Kenneth Hood (President, Kootenay Columbia Seniors Housing Cooperative): Thanks to the committee.

In 2005, after three years of looking into the feasibility of building seniors housing, a meeting was called. One hundred people showed up. At the end of the meeting, 50 people signed up, and Kootenay Columbia Seniors Housing Cooperative was formed.

A 40-acre parcel located in Castlegar was chosen, with a price of $400,000. We required about $7 million in infrastructure. Where was this kind of money going to come from? The seniors joined together and raised about $4.4 million, with the rest coming from credit unions, and the project was under way.

Grandview Housing, which is the co-op part of it, has bungalows and duplexes. Forty-three units have been sold and are being lived in, and six duplexes are under construction.

Calamida Estates, a separate section of the 40-acre parcel, has fee-simple lots for sale to the public. There have been 38 lots sold. Ten homes have been built, and 18 lots are still for sale.

The Château Grandview future site is a 4.3-acre parcel of land. The plan is to subdivide to permit maximum usage. Strata 1, phase 1, will have 63 units of supportive living. Strata 2 will have 72 units of supportive and assisted living. Strata 3, for residential living, will have 16 pods, with 76 beds. Strata 4 will be sold as a fundraiser for Kootenay Columbia Senior Housing Cooperative, KCSHC. And a parcel of land, lot 59, a future 37-lot residential subdivision, is listed for sale as an immediate fundraiser.

How can senior governments assist? It appears to us that current governmental agencies are involved in supporting housing that has as a basic criterion subsidizing rental housing. From our experience, this approach is not efficient or economical, from the standpoint that the delivery of rental housing has the following steps:

First, usually a society or a cooperative is required to be the source of this housing as a sponsor.

Second, a developer of some sort will be required to assemble and deliver the construction. This requires a fee for service and a profit margin for the risk.

Third, financing will always be necessary, and part of this may come from the provincial housing corporation. This usually involves a project manager who knows the requirements of all the agencies. And that person will be paid a fee for this service.

Fourth, other moneys will involve private financing, which will involve a fee to prepare the documentation and registration of mortgages.

Fifth, no financing will take place unless there is mortgage insurance, which usually comes from Canada Mortgage and Housing. This fee must be paid in the initial proposal.

Sixth, no financing can move forward without a mortgage broker. This also requires a fee.

When all of the above is added together, the cost of delivering this housing has an enormous hidden cost, even if it is supported by a not-for-profit organization. The end result is that any government subsidy is higher because of the above costs to render a project affordable.

The option now is that a for-profit developer undertakes a project, with subsidies from governments at different levels, which almost equates to the not-for-profit option.

The alternative is to have the above costs removed as a result of a seniors group managing the housing project. In the instance of Grandview, the following has taken place:

First, the project was developed with seniors' cash.

Second, the designs and concepts are those visualized by seniors who understand seniors' needs.

Third, the developer's fees and profits could be eliminated, because the project is managed by seniors' collective expertise.

Fourth, seniors will recycle their homes to others when they become owners in the project. This is a saving in energy and resources, as active seniors are occupying houses that are too large for them; they are more useful to young families starting out.

Fifth, land and buildings can be set aside for subsidized housing as part of any development, providing the needed support for these projects. This does not isolate these citizens, as is the usual current instance.

● (1535)

Even though we were 8% below their affordability criteria, the refusal of B.C. Housing to interim finance the construction of Château Grandview phase one shows the current misunderstanding of this agency to such a seniors' initiative. Its stance has had the effect of increasing construction interim financing, from the current 1% from B.C. Housing, to 5% and more in the private finance sector.

An 80% reduction in financing costs would do wonders to the resulting seniors' purchase price. The entire cost of this support would be paid back, not from subsidy but from the project itself.

The reluctance of CMHC to guarantee strata title condos, as in this instance, in permitting the public to own their seniors accommodations, rather than renting from a developer who is receiving a return on investment due to a subsidy, is another misunderstanding by government.

With regard to how cooperative associations can assist, we are not informed enough as to how the provincial and federal cooperative associations are constituted and operated.

A recent grant of $15,000 was received by the KCSHC for project development funding for the Château Grandview portion of the overall Grandview development from the federal cooperative agency. This is a huge contribution for a part of the project that is most difficult, as this is where funding usually is in short supply. Perhaps construction interim financing from the national cooperative body may be another area that would greatly assist future projects, as was experienced by the KCSHC.

I am not sure of the services provided by the Co-operative Housing Federation of Canada, but obviously the Grandview project did not take advantage of these services if they were available.

What has become evident to the KCSHC in this project is the following:

Lease ownership is not a favourite with government agencies. The Land Title Office refused to register a life lease, SRE has difficulty with filing disclosure statements with lease ownership, financing is not possible for a lease ownership, and CMHC will not guarantee lease ownership interim financing.

Financing a lease by members of KCSHC only became possible when the Heritage Credit Union undertook an investigation to determine a method to do so. By instructing their lawyers accordingly, the lease document was amended and HCU now finances lease ownership.

The cooperative movement could perhaps take an active role to alleviate these hurdles.

By way of synopsis, housing continues to be a fundamental concern to all of us. Providing shelter to all citizens is a difficult task, which all of us need to become involved with.

The KCSHC found that the lease ownership model is a strong handicap in the development process, and it became necessary to eliminate it.

The experience with design guidelines, as to inclusions and exclusions to ensure a minimal economic impact on sales for those planning a subdivision, is a serious issue. It has become an economic issue in the end analysis.

What the KCSHC members have been able to achieve in a short time is something that can provide lessons to those who are in the process of developing their own project. That may be a benefit to other cooperatives in their future successful ventures.

Thank you.

● (1540)

The Chair: Thank you for your presentation.

For your presentation, Mr. Kitchen, we'll give you the same ten-minute timeframe. I'll turn the floor over to you to make your opening remarks.

Mr. Darren Kitchen (Director, Government Relations, Co-operative Housing Federation of British Columbia): Thank you very much.

Good afternoon, everyone. Thank you very much for inviting us to speak to your committee. I'm Darren Kitchen. I'm the government relations director at the Co-operative Housing Federation of B.C.

I think—in fact I know, because he told me so—that Nicholas Gazzard from CHF Canada has already talked to you a fair bit about the history and community benefits of housing cooperatives, so I don't want to bore you by going over all that stuff again. What I'd like to do instead is talk to you a little bit about what it is that CHFBC does and why we do it, and so give some context to some of the main challenges and opportunities that are facing housing co-ops in B.C. and how we are planning to address those challenges and maybe seize some of those opportunities.

There are about 260 non-profit housing co-ops in B.C., and about 90% of those are members of the federation. The federation provides education for co-ops and advocacy for co-ops, but we also provide things like group-buying programs that lessen the expense of roofing, flooring, commercial services, office supplies, and that kind of thing. We also have a pooled investment fund with some of the local B.C. credit unions, which allows co-ops to gain a higher return on their operating accounts than they would usually get on regular chequing accounts. The federation also makes some money from those, because we don't get and don't actually want government funding. So fees from those services and dues from our members are what fund the federation.

Our latest venture is a partnership with Terra Housing Consultants and Vancity, who I believe was here speaking to you earlier today. Social Purpose Development Partners Incorporated is a development company, and it has two main purposes. It's a cumbersome name, but that's the registrar of companies for you—he's a pretty literal-minded guy.

The first of these purposes is to address what I think we all know is a huge need for new affordable housing. That need is key in Vancouver, which I'm sure you've seen in the papers and such. It is one of the most expensive cities on the planet to live in—not only in Canada but anywhere you'd like to go. Condominium prices are sky high. Single-family homes are beyond the reach of all but the very wealthiest. Vacancy rates are low. Rents are rising. And very little new rental housing is being built, for reasons I won't go into here. So affordable housing is a real challenge for families in the lower mainland and Victoria areas of B.C.

That's the kind of challenge that co-op housing has been meeting for a very long time. That's why we started. It's why we do what we do: provide affordable housing to families. We think we have a role in doing that in a challenging market like Vancouver in the future.

We know very well that there's a lot of demand out there for co-op housing. We recently did the Athletes Village Housing Co-op in partnership with the City of Vancouver on the site of the 2010 Olympic village. There are 84 units in that co-op. Before we actually stopped accepting applications—because we were getting so many—we had literally hundreds of applications from people who wanted to live there. So we know there are people who want to live in co-op housing. Through SPDP, the development partnership, we hope to develop more homes to meet that demand and to meet that need for affordability.

Athlete's Village, like most housing co-ops in Canada, is a kind of rental co-op model, unlike Kenneth's equity co-op model. It's purely rental. We'd like to work with other municipalities. What makes the Athlete's Village work is the fact that it is on city land and the city leases the land to us, which reduces the costs and helps to make it affordable.

Vancouver is unusual in having a fair amount of land, and it levers land from developers. Not all municipalities are able to do that.

● (1545)

So to do this kind of model of affordable housing outside of Vancouver, in municipalities that don't have those resources, more help is going to be required. I know that we can't turn the clock back to the late 1970s and have the feds do a big unilateral co-op housing program. Housing is now a provincial responsibility, but I don't think that means the federal government doesn't have a role to play in this. We strongly think that the federal government, in partnership with the provinces and us, should continue to provide support for the development of affordable housing—in B.C., as far as we're concerned, but across Canada, too—and that funding should come in a stable and predictable way. Housing development is a fairly long-term process, three to five years from “we think we can do this” till “we've got it built”. So the funding needs to be stable.

The second major issue we're facing is that the co-ops are getting old. They were mostly built in the mid-1980s, so they're a quarter of a century old, and more. A lot of the critical building systems have a lifespan. A roof lasts 20 or 25 years, that's what it's designed for, and you need to replace it after that. Also, many of the co-ops weren't built to what today we would regard as satisfactory environmental standards. There are a lot of single-pane windows out there in co-op land. It's really energy inefficient.

Planning for these repairs isn't easy. There are a lot of studies, engineering studies, environmental reviews, you name it, that have to be commissioned, paid for, and understood by somebody who knows about these issues. If you need a loan of a few million dollars, that's not necessarily all that easy either. It's not like going to your local credit union, talking to the credit officer and getting a couple of grand to buy a laptop. It's a much more involved process than that.

This is where SPDP comes in, the development partnership. We can help from soup to nuts, from “we know we've got a leaky roof” till “we're fixed”, the whole nine yards. When you think about it, it's a very natural partnership. We have co-ops that need money for repairs. Terra Housing Consultants has a lot of expertise on the technical side of the business and Vancity has money, capital that it would like to use to make high-impact, as they call it, social development loans.

We've hit a bit of a barrier. The best way to refinance these construction projects depends on the co-op. If you're a long way into your first mortgage, just got a couple or three years left or something, it would probably make sense to take a second mortgage on top of the first, pay out the first, and then the first turns into a second, and you get lower. If the loan's big and you've still got quite a few years left on your first mortgage, it makes more sense to roll up the existing mortgage with the new repair costs and finance the thing out over another 20 or 25 years, where the repairs are sufficient to justify that.

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

I've been doing some math and I'll give you a real-world example. We're working with a co-op that has about four years left in its current mortgage term, and a total of nine years left on the first mortgage. A three-month interest penalty for that co-op would be about $12,000. With four years left, the CMHC penalty to exit the first mortgage would be $218,000. That's about 7.5% of the outstanding balance on the mortgage. Needless to day, we think this is unreasonable. Whatever you think of it, it's certainly not helping the preservation of affordability in Canada's least affordable city.

● (1550)

The last thing I'd like to mention is a challenge that's perhaps more difficult for us in B.C. to address, in terms of forming a company or starting an initiative, and that's the end of the federal operating agreements. With the end of those operating agreements, the expiry of the subsidy that allows the co-ops to subsidize lower-income and modest-income members, this is becoming a growing concern. I've been working with the staff of Metro Vancouver, which is the regional government for most of the lower mainland, and they're very worried about it. I think we need to work together to come to some way to allow the lower-income and modest-income members to remain in their homes.

That's what I came here to say today. Thank you again for listening.

The Chair: Thank you very much.

We'll move right to questioning now. For our first round of questioning, we have Madame LeBlanc. You have five minutes.

Ms. Hélène LeBlanc: Thank you.

Thank you very much to our guests for portraying the challenges that are all across Canada regarding affordable housing and how cooperatives are finding solutions.

Mr. Hood, I really appreciated the story you put forward about how seniors got together. It's a very good example of seniors getting together and building the community you described.

I would like you to tell me what you would say to another group of seniors who would like to set up a community or cooperative such as yours. What would be the lessons? You mentioned the lessons you drew from this, so what advice would you give to the people?

Mr. Kenneth Hood: First off, I think they need to do better research than we possibly did. They need to have all the facts before them on what is required in regard to getting disclosure statements and financing.

It seems like you run into a roadblock, and when you overcome that roadblock you run into another one. If there's some way you can get those facts before you in advance, then I think it makes it easier to proceed.

But I would say go for it. I think it's great.

● (1555)

Ms. Hélène LeBlanc: Do you have an organization you called upon to offer guidance, or have you become aware of any organizations since your experience that could offer guidance? Where were you looking for information?

Mr. Kenneth Hood: That's a hard question for me to answer, because I've only been involved in this for two years. It's been in the process for ten years.

Our community has a strong Russian influence. They were very involved in community efforts and lived in communes at the turn of the century, when they first came to our area. They have been very involved in these types of things. They have been involved in other developments, so they've learned over the years. But other than that, I don't know.

Ms. Hélène LeBlanc: Thank you very much.

Mr. Kitchen, I think you explained very well and very clearly the challenges facing housing co-ops right now. There are great challenges, especially for the different changes that have happened. I think you explained that very clearly, and I think we will expand on the subject, probably later on.

What I would like to find out from you is what the trend is right now. Are there new housing co-ops being set up in the Vancouver area, or are there challenges right now in establishing new co-ops?

Mr. Darren Kitchen: The challenge isn't so much in establishing the co-op, which is really just filing a bunch of papers; it's doing the land and the buildings. I mentioned that this isn't just a challenge for us. There is very little new rental housing development in Vancouver at all.

Ms. Hélène LeBlanc: Exactly. We find the same thing in Montreal. Montreal is one of the places in Canada where there used to be a lot of choices, but it seems right now that the choices are getting less and less. There are not a lot of opportunities for people of lower incomes.

Mr. Darren Kitchen: Yes, and the reason it is so hard to develop co-ops is the same reason it's so hard to develop market rental buildings. The land costs are very high. The construction costs are very high. It's much better for developers—who after all have to make a profit, have to keep the lights on—to build condos where they put their money in for a short time, they sell them off, they get their money out, and they move on to the next project.

With rentals, they typically have to leave their money in for some time until the cash flow turns positive and they can start taking their money out, and nobody wants to do that. So the economics of rentals and of co-ops are challenging. We can work with municipalities, as we have with the City of Vancouver on the Athletes Village Co-op, to get around some of those issues, and we'll continue to do more of that.

As I say, I believe there's a role for both the provincial and the federal governments to work with us to make that process easier and to make it doable in municipalities that don't necessarily have municipally owned land that they can lease.

Ms. Hélène LeBlanc: Thank you very much.

The Chair: Thank you very much.

Mr. Butt, the floor is now yours for the next five minutes.

Mr. Brad Butt: Thank you very much, Mr. Chair.

Mr. Kitchen and Mr. Hood, thank you for making the long trek from the Vancouver area to come and see us today. We very much appreciate your taking the time. Particularly, Mr. Hood, congratulations for your particular project. I found that quite interesting, and if I get enough time I will ask you a couple of questions about your project in particular.

Just for everybody's benefit, and some around the table will certainly be aware of this—Mr. Kitchen, you may be as well—it was actually a decision in 1994 by the Chrétien government to basically get the federal government out of the business of direct provision of housing. So the decision was made a long time ago that the federal government wasn't going to be involved in the direct provision or direct construction of any sort of housing on a go-forward basis. In that government's defence, it was really the lobbying from the provinces that pushed a lot of that, including Quebec in particular, which told the federal government to get out of its backyard because its jurisdiction provincially is housing. It's not a federal area of jurisdiction.

So this fiscal year this federal government will transfer more than $1 billion to the provinces, with a lot of flexibility in those affordable housing agreements as to what each province can do, province by province. British Columbia, I'm sure you would agree, is a heck of a lot different from Newfoundland and Labrador, versus Alberta, versus Ontario. The needs are different; the communities are different; the housing is different.

Let me just ask this of you, as a provincial representative, because I had an opportunity to ask Mr. Gazzard a number of federal questions when he was here. As a provincial representative, do you think that is good housing policy? Does that not make sense that the federal government transfers a blanket amount of money and then says to the provinces, "You're the experts on housing; you know what the needs are on the ground; you spend that money as you see fit"—rent subsidies, building co-op housing, whatever those provincial governments decide to do? Is that not really the right model for an efficient way of dealing with affordable housing in the country?

● (1600)

Mr. Darren Kitchen: I think it's certainly true that the closer you get to the ground the more aware the people there are of what's actually necessary. My personal belief is that it can't be a blank cheque. Outcomes have to be part of that, right, because what can happen is the province gets the money and substitutes it for what it would have done if you hadn't given it money. So outcomes need to be specified, and those outcomes I think should be related to broad factors in the housing market, such as the reduction of core need, for example.

In my own province of British Columbia, the province has focused almost to the exclusion of everything else on street homelessness and providing supportive housing. Now, that's a laudable goal, but in consequence, other important goals, such as housing for low-income and moderate-income families, have kind of fallen off the table. So you're addressing a need here but ignoring and making worse another one there. I think some targets and some balance would be a good thing.

Mr. Brad Butt: Yes, and there are a couple of different programs. I was talking about the affordable housing agreement. I wasn't talking about the housing partnership initiative, which funds the streets-to-homes program for street homelessness. That's a completely separate program, for which the federal government actually funds municipalities directly. I had a lot of involvement in that in the city of Toronto prior to being elected. And it was extremely effective, because it was actually one of the first relationships in which the federal government, our government, got back into directly funding municipalities to actually show results in the reduction of street homelessness. It was a wildly successful program, which I'm particularly proud of.

You talked about the CMHC mortgages and your concern that those mortgages can't be broken, so to speak. This is a difficult challenge, because 30 or 35 years ago, when these agreements were put in place, CMHC went out and borrowed that money at a preferential rate and provided it to the federal co-ops at a preferential rate at that time. That allowed stability. You talked about developers not building rental housing because they can't get their money out fast. Well, co-ops are exactly the same. We had to look at it longer term.

You are aware that if a co-op breaks a mortgage with CMHC with five years left, then CMHC has to pay the penalty to the bondholder it borrowed the money from. You're not suggesting that taxpayers should have to pick up the difference when CMHC has to pay its penalty for a broken mortgage so that a co-op can break its mortgage more quickly to take advantage of today's interest rates.

Mr. Darren Kitchen: I would be surprised if, given a large cash payout on a mortgage, CMHC couldn't find a way to invest that money to generate a return to pay the bondholders. As well, if the co-op were to pay the full interest that would have been owed, CMHC gets to invest its money twice. It gets to invest the principal that is repaid, and it gets an extra sum to invest from this extremely large penalty. It seems to me that they should be able to find a way to invest the principal in another way that compensates their bondholders.

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

● (1605)

The Chair: Thank you very much.

We'll now move to Mr. Bélanger for the next five minutes.

Hon. Mauril Bélanger: Mr. Hood, how many units are now built?

Mr. Kenneth Hood: There are 43.

Hon. Mauril Bélanger: That's strictly in the first phase of the project.

Mr. Kenneth Hood: That's strictly cooperative housing.

Hon. Mauril Bélanger: Okay. Have you worked together, the two of you?

Mr. Kenneth Hood: No.

Hon. Mauril Bélanger: Is there no way that can happen?

Mr. Kenneth Hood: Personally, I didn't know he was in existence.

Voices: Oh, oh!

Mr. Darren Kitchen: CHFBC so far works with non-profit co-ops. That's our membership.

Hon. Mauril Bélanger: You don't touch equity co-ops.

Mr. Darren Kitchen: We don't yet, but we do think that a niche is emerging in the housing market for affordable ownership.

Hon. Mauril Bélanger: That's something I'd like to explore. I won't have time to do it.

I'm hearing that equity co-ops are not particularly welcome in the traditional housing co-op world. Is that accurate?

Mr. Darren Kitchen: I think there's been some protectiveness of the brand, if you like, on the part of some of the non-profit co-ops. I think that would be one way to put it.

Hon. Mauril Bélanger: I want to revisit the CMHC matter a little bit. My understanding is that the amortization period might indeed be 35 years. It is 35 years, but the mortgage period itself is not 35 years. It's considerably less. It's five, six, seven, and up to ten years.

Mr. Darren Kitchen: It's typically a five-year term.

Hon. Mauril Bélanger: But they're all closed mortgages.

Mr. Darren Kitchen: Yes, they are.

Hon. Mauril Bélanger: The reason for that, and correct me if I'm wrong, is that CMHC itself is never a direct lender, except in this case. They were directed by the crown to do so. Is that accurate?

Mr. Darren Kitchen: I think so, yes. It's a bit before my time.

Hon. Mauril Bélanger: All right. The example you gave us was a $12,000 typical three-month penalty versus a penalty of $200,000 and some for the full four years remaining on the amount. Do you know the rate of that mortgage?

Mr. Darren Kitchen: Yes. It's low because it refinanced recently. I believe it's something like 1.64%.

Hon. Mauril Bélanger: That's where Mr. Butt and I may differ here. Actually I would agree with him that if indeed a mortgage is high, and that's the reason why a co-op is trying to get out of it, to refinance it at a lower rate, somebody is going to have to carry that difference, and I respect that. If it's a closed mortgage, that's a business arrangement and it has to be respected. But in the case where the mortgage rate is low and CMHC could reinvest it at the same or even higher money, therefore the primary lender, whoever the bondholder is, is not affected, all it would need is a directive from the government to do that, correct?

Mr. Darren Kitchen: I would hope that somebody could give such direction. I'm not sure of the relationship between CMHC and the government. I know they're a crown corporation, but—

Hon. Mauril Bélanger: Again, it's a matter of sound business principles. CMHC is not a charitable organization, and I respect that. But if indeed it can be demonstrated—and I'm asking you, Mr. Kitchen, perhaps to demonstrate that—that the reason for getting out is not a lower rate, but a higher amount in order to fix the conditions of the houses the people are living in, then surely to God that may be a rationale worth considering and worth acting upon for both CMHC and the government.

Mr. Darren Kitchen: I would believe so, yes.

We aren't trying to flee the mortgage for a lower rate. We would actually pay a higher rate to a commercial lender, Vancity, in our case. But it would seem to me that if someone were presented with a couple of million dollars and told to invest it, they should be able to do better than 1.64%.

Hon. Mauril Bélanger: Okay. I think we're clear on that. That, for me to be able to support it, would have to be the case. The attempt is not to get a lower rate from CMHC, but to have a larger amount over a longer period of time to fix the units that have to be fixed. Okay.

The other challenge you mentioned is the end of the co-op agreements. When is the first one coming up?

Mr. Darren Kitchen: Some of the first ones have already come up. Some of the early co-ops are—

Hon. Mauril Bélanger: What has happened in those cases?

Mr. Darren Kitchen: Mostly they've just carried on as they have before.

● (1610)

Hon. Mauril Bélanger: The people you were concerned about, the ones with lower incomes, have they been able to remain in their units?

Mr. Darren Kitchen: To date they have, but none of the older co-ops have yet refinanced their properties to do repairs.

Hon. Mauril Bélanger: Have you got proposals on how to meet that challenge?

I think I may be running out of time soon. You may want to think about that and send the proposals to us in writing so all of us can see what those proposals are and see whether or not we can incorporate them somehow in our report.

Mr. Darren Kitchen: CHF Canada will certainly do that.

Hon. Mauril Bélanger: Thanks.

The Chair: Thank you.

We'll move now to Mr. Lemieux. You have five minutes.

Mr. Pierre Lemieux: Thanks, Chair.

Thank you for being here this afternoon.

Affordable housing is certainly not my area of expertise, but I do have a couple of questions.

A number of the co-ops that we've had in front of us over these past few days have a business model. Their business model is that their revenue exceeds their expenses, and with whatever is left over there's some that is paid back to members, there's some that's put aside in a reserve fund, there's some that's put aside for rebuilding, improving, and expanding a store perhaps. That's what we just heard the Mountain Equipment Co-op talk about, the witnesses who were just here.

I'm wondering if you could explain the social housing co-op to me. I don't quite understand how it works in terms of revenue coming in, expenses going out, and the long-term plan. Do you pay a dividend to your members? How does that work when you've actually got repairs to do, as you were saying? Could you explain that to me?

Mr. Darren Kitchen: Sure.

We don't and can't pay dividends to members. Surpluses go into what's typically referred to as a replacement reserve fund, which is a fund you build up for when you need to do major capital expenses. Those funds don't, and in my opinion shouldn't, fully cover the cost of absolutely everything. No homeowner would do it that way, right? What the fund does is it piles up and it gives you enough equity to take a loan to refinance the building. That's how it works.

In terms of the business, it's not so much different. Revenues have to exceed expenditures or else you're in a world of trouble.

Mr. Pierre Lemieux: Right.

What's in it for the early membership, when you're out selling memberships, and what would a membership go for?

Mr. Darren Kitchen: I can only speak for B.C. in terms of that.

Mr. Pierre Lemieux: Yes, sure.

Mr. Darren Kitchen: What's in it for the early members is security of tenure. It's one of the most important parts of co-op housing. If you're a tenant, your landlord can evict you. They need a reason of course, but the reason could, in B.C. at least, be something as simple as they want their kids to move into your unit. In a co-op, as long as you pay your housing charges and live by the rules of the co-op, you can live there.

Mr. Pierre Lemieux: Now, are the costs for living in co-op housing meant to cover the actual operational costs and to build a reserve and to allow for repairs over the long term?

Mr. Darren Kitchen: That's right, yes.

Mr. Pierre Lemieux: It is, okay.

I just lost my line of questioning there.

In my riding, for example, we have affordable housing. Some of it is run by a co-op; some of it is not. I'm assuming it must be the same in B.C.

For example, the federal government injected...was it $2 billion or $4 billion into affordable housing over the last couple of years? And you're right; it's managed through the provinces. I thought at the time it was quite rightly so, because they know the demographics of their province. They know where they need the housing. There's never enough housing to go around. They know where to prioritize. I know they work with the municipalities directly, as well, to establish those priorities. I'm assuming in B.C. it's the same. The co-ops must have the same access to that funding as a non-co-op organization, company, business that would also apply, right?

Mr. Darren Kitchen: In B.C. it doesn't quite work like that. The province has the money and decides what kind of program it's going to fund, right? It might decide to fund seniors housing, and then it'll put out a request for proposals for seniors housing. It might decide to cover family housing and put out for that. In practice, what it has done is decided to cover street homelessness issues, and it puts out proposals for that.

Yes, the province gets the money, and yes, there's a process, but prior to that process the province has decided what type of housing it wants to fund.

● (1615)

Mr. Pierre Lemieux: Right. But that's all right, isn't it? That would be within the purview of the province to decide that. I'm not saying you'd be happy with it, with its decision-making, but I'm just saying that to me it makes sense that the province looks at its priorities and at the need. If it comes to affordable housing, if they want to target a certain segment of the population, sure, government should do that, should it not?

Mr. Darren Kitchen: The federal government ought to have perhaps a less laissez-faire approach to that.

Mr. Pierre Lemieux: The provinces are fiercely protective. Like, it's not that we're laissez-faire; it's that the provinces are fiercely protective of their responsibilities. When you look at health care and a number of other areas for which they're responsible—

The Chair: Time has expired.

Mr. Pierre Lemieux: —we're sort of not welcome.

Thank you.

The Chair: All right.

Mr. Joe Preston: We're fiercely protective of the chair.

The Chair: Yes, that's right; we've got to be protective of that, too.

We'll move to Madame Brosseau for the next five minutes.

Ms. Ruth Ellen Brosseau: I'd like to thank you both for being with us today. I know you've travelled quite a distance to share your story with us.

I would just like to say that your story of the housing co-op, Mr. Hood, is absolutely remarkable. It's a group of people faced with an issue, a challenge, a challenge of finding good, affordable, safe housing, and living in proximity to their families or access to a supermarket and a pharmacy. It's very important. I heard you say you weren't very well informed. It is a process; you sign the papers and you kind of get going, but you need some kind of mentorship and help.

What do you expect the federal government to do to help cooperatives in the next few years? What would you like us to do? What would you recommend we do?

Mr. Kenneth Hood: One issue we have is the reluctance of CMHC to guarantee strata title. Ours is all strata and the cooperative is a strata. The Château Grandview, which will be supportive living, will be strata too, and CMHC won't guarantee those types of things, so it makes it difficult to get established and to proceed.

Ms. Ruth Ellen Brosseau: Seniors live on a fixed income, so co-op housing is an option to provide them with affordable housing, access, and independence, so they're not alone, they don't feel isolated, and there's a sense of community and empowerment.

Do you think there is a need that should be provided for by the government, to make co-ops more readily accessible across Canada?

Mr. Kenneth Hood: There's definitely a need. In the supportive living part of it, we have 200 people on the waiting list in our area for the homes that are established already. They're all for rent; there's no ownership. Ours is all ownership.

Ms. Ruth Ellen Brosseau: Is the construction on Grandview that was supposed to start this spring under way?

Mr. Kenneth Hood: No, it hasn't started yet. We sort of put on a deadline of the end of August. It will move ahead. I don't doubt that for a moment. Whether it's done in the way we want to do it, or whether it's given to a developer who is going to make a profit on things, which might happen, it will move ahead.

Ms. Ruth Ellen Brosseau: What happens if people come in, and within a few years they need more help? They need more care. Their mobility is not as good as it used to be, or they have special needs. Would they have to pay extra through your co-op to have nurses on site and to have medication administered? How does that work as people kind of progress?

Mr. Kenneth Hood: Our dream was co-op housing.

After the Château is built, and when we can no longer live in our houses, we will have the right, because our co-op members are in a pecking order—first signed, first opportunity—to go into the supportive living unit. The final stage of it is 16 pods with 76 beds, which is the total care unit. You will have the right to move over into that part of it. We had the dream, once you move into the co-op, of just moving straight from there and through the process and out to the graveyard.

That's the final analysis. We wanted to do all the stages along the way to keep the people in the community where they know people.

Now, if you need help or residential living in our area, your name is placed on a list, and you could be taken 200 miles away from your family. We wanted to build something that would try to avoid that issue.

● (1620)

Ms. Ruth Ellen Brosseau: I'm there with you.

It being the International Year of Cooperatives, we're celebrating cooperatives. I'm really hoping that with this report and with all the great testimony we're getting, we're going to see something developed with the federal government and we're going to see a future partnership between the federal government, maybe, more with the cooperatives one on one, because we know how successful they are. We hear great stories about these cooperatives.

Thank you.

The Chair: I appreciate your honesty.

We will move to Mr. Boughen, for the next five minutes.

Mr. Ray Boughen: Thank you, Mr. Chair.

Welcome to our guests. Certainly your testimony is very interesting.

The federal government, although not responsible for housing per se, has over the years invested heavily in housing. If my memory serves me right, in our latest budget there's another $2 billion going into housing across Canada. I'm not sure if some of that money ended up in your operation, Mr. Hood, or whether it's there.

I heard your explanation about developing that land and the housing on it. How big is that piece of land?

Mr. Kenneth Hood: It's 40 acres.

Mr. Ray Boughen: It is 40 acres.

Mr. Kenneth Hood: That's correct. We subdivided it right from the start. In the co-op part, where we have our individual housing, nobody owns anything except the members who live there. If there are any mortgages, they are the members' individual mortgages, because they own their houses. And it's still established as a strata.

Mr. Ray Boughen: Is the complex really a combination of private and public ownership in terms of the co-op being designated public?

Mr. Kenneth Hood: No, the members got together, and the people who live there bought the land. The co-op lent us money. The mortgages they hold are on separate titles so that they don't affect the residents who live there.

Mr. Ray Boughen: I thought that was right. Then I heard you say that you would look at a developer, maybe, to do some work on the site rather than having it done through the co-op. Is that what I heard?

Mr. Kenneth Hood: We're trying to get the Château Grandview off the ground. The first phase has 62 units of supportive living. We have seven people who have signed on the dotted line, and so far, to date, they are willing to finance their individual units the same way we financed our individual homes. They put the money in, and it's taken out as the thing grows. We said from the start that we would not move ahead unless we had 31 sales. That's the hurdle. People like to see the shovel turned before they invest.

Mr. Ray Boughen: So you haven't sold the 31 yet.

Mr. Kenneth Hood: We haven't sold the 31 yet, but we're working hard on it.

Mr. Ray Boughen: Okay, good.

Mr. Kitchen, are you involved in this project?

Mr. Darren Kitchen: I'm not. I haven't been invited, and it doesn't sound to me like they need all that much help.

Typically we've focused on non-profit co-ops, as opposed to the equity side of things. As I say, I think and I hope that will change in the future as we look for more affordable home ownership options, as opposed to rental co-ops.

I can certainly see us, through our partnership with Terra and Vancity, getting much more involved in that side of things. There's certainly interest in a number of the municipalities for that kind of thing.

Mr. Ray Boughen: Thank you.

Being sensitive to your decree, Mr. Chair, back to you.

● (1625)

The Chair: You have a minute and a half, if you'd like to use it.

Mr. Ray Boughen: Do I have a minute and a half?

The Chair: You have a minute and a half, yes.

Mr. Ray Boughen: We don't want to be too generous.

Mr. Dan Harris: Can I get six and a half?

Mr. Ray Boughen: Mr. Hood, what does it look like in terms of the project being completed? Right now you're in kind of a holding pattern. Do you see some funds becoming available with Vancity or with Mr. Kitchen's help? What does the project look like?

Mr. Kenneth Hood: We have the money available. We have a mortgage available.

The interim financing is the holdup from B.C. Housing, where it's 1% versus 5%-plus out on the market, which we have a problem with, because interim financing just means during the construction period and then after that the mortgage kicks in and takes over. So we wonder why governments don't get involved.

The CMHC's reluctance to guarantee the strata title is another hurdle.

Mr. Ray Boughen: I think governments are involved. A couple of billion dollars is a fair bit of involvement. It may not be enough, but it's certainly a commitment, I would say.

Thanks, Mr. Chair.

The Chair: Thank you.

We'll now go to Mr. Harris. You have the floor for the next five minutes.

Mr. Dan Harris: Thank you, and thank you to the witnesses for coming today.

Certainly I think that when the federal government is providing money it has a responsibility to ensure that it's actually going to the ends where the government sees that money going. So if it's supposed to go to housing it should ensure that it is going to housing and doesn't end up in general revenues—that is to say, a similar situation to what happened to all the funds that were in EI. They were supposed to be for unemployed workers; now they've gone into general revenues, and that money is gone.

Going back to CMHC—and this one is something I've touched on with a number of witnesses—with respect to the penalties being paid, as I understand, Mr. Kitchen, at the Co-op Housing Federation's annual general meeting in Niagara Falls, the chair at that meeting was instructed to write a letter to the Minister of Human Resources and Skills Development, stating that excessive interest penalties are applied on the pay-out of CMHC direct lending mortgages for social housing providers, preventing those from refinancing for necessary capital improvements; that interest penalties should be reduced to be consistent with the Canadian commercial banking sector mortgage administration practices; and that CMHC should urgently review the interest penalty provisions in the existing direct lending mortgages, and seek ways to extend relief in this regard.

That mirrors what you've said today in terms of funding—

Mr. Darren Kitchen: Surprise, surprise.

Mr. Dan Harris: —and what others have said to find that middle ground.

As Monsieur Bélanger said, nobody reasonably expects to not have to pay penalties, and that those agreements were gone into. But others have said that there's perhaps a middle ground to be found. And in terms of reinvesting the money, CMHC could certainly do that to offset any additional costs they have.

Do you know if that letter has been sent to the minister yet?

Mr. Darren Kitchen: I'm sure it has been sent. Whether there's been a response or not, I couldn't say. That would have been correspondence between the minister and CHF Canada.

Mr. Dan Harris: I'm sure the Co-op Housing Federation of Canada will let us know at some point before August 7 or before this committee meets again if there's been a response from the minister to that letter.

You also mentioned in your testimony that some of the land you've gotten through Vancouver was leased from the city. Did that idea come out of the 2001 study that you engaged in that says that leasing at below-market rates is possible for local governments? Was it through that study that you worked with the city to make that arrangement?

Mr. Darren Kitchen: No, that was kind of an update of what had been a longstanding practice in Vancouver, especially of the city, which often acquires land as a result of development agreements, rezonings, stuff like that. They get a piece of land from a developer and they use it for affordable housing. For many years there were many—about half of the co-ops in Vancouver, and there are 100 of them—on land leased from the city. It's a longstanding practice. It's just something we continued with the Athletes Village Co-op.

● (1630)

Mr. Dan Harris: Going back to CMHC, there are a couple of pilot projects out there, and Alterna Savings is involved in one of them, seeking to blend and extend the mortgages. Have you had any experience with this type of endeavour or attempts to make those changes yet?

Mr. Darren Kitchen: So far the loans we've negotiated throughout partnership have been second mortgages, partly because that happened to be the most advantageous way to do it for those co-ops. They were quite close to the end of their operating agreement. You wouldn't want to bundle up what's left when most of what you're paying on that mortgage is principal and not interest. So it made sense.

We have a number of other co-ops where we know quite clearly that a second mortgage would make...covering the payments would make the housing charges completely unaffordable. They would have to be higher than the local market rates, which is a good way to empty your building, right? There are a couple where we know it would work much better if we could blend and extend, but it would be really good to come to some resolution on these penalties to avoid low- and moderate-income Canadians making a $200,000 donation to CMHC.

The Chair: Thank you. Your time has expired.

Mr. Preston, you have the next round for five minutes.

Mr. Joe Preston: Thank you.

First of all, thank you very much for what you do, for providing affordable housing to your constituents. Mr. Hood, listening to your story on how it's been working, I understand it's a long process. It's a lifetime process; perhaps we all should start now and move forward.

Mr. Kitchen, you talked about the leverage of land from the city on the Olympics, but you've obviously done it on some others too, as developers give land to the city. It sometimes becomes surplus, most of it used for parks, or it might have been used for something else but becomes surplus. Then you leverage it, or you can if the city allows you to use that land. You can leverage it for affordable housing or for other cooperative housing projects, but then the municipality keeps ownership of the land. You're leasing it, or it may be a very favourable lease, but it's not gifted to you.

Mr. Darren Kitchen: It's not gifted to us. In Vancouver, they have what they call a property endowment fund, which holds the land, and then the co-op has a lease on the land, and those leases are typically 60 years. That's the case at Athletes Village. The city used to have a formula where it would charge 50% of market value for a 40-year lease and 75% of market value for a 60-year lease. Most recently, because they're so desperate for affordable housing, they've moved to individually pricing the leases. They're supposed to come out this week, they tell me, with a call for proposals for seven city sites where the land would be free; it would be a free lease.

Mr. Joe Preston: Great. It's a free lease, but they still keep ownership.

Mr. Darren Kitchen: They still keep ownership, but they would be willing to offer someone—

Mr. Joe Preston: You're hoping it's a long term, a 40-year or 50-year term still.

Mr. Darren Kitchen: You'd look for 60 years.

Mr. Joe Preston: So there's a commitment there. How does not owning the land affect you from a capital point of view, certainly from a repair or a further mortgaging point of view? We've heard from our bankers that it's not hard to.... Well, they're risk-averse in some cases too. We'll use that term, but land is usually what holds all the cards.

Mr. Darren Kitchen: It's easier to borrow against a freehold property, obviously, because you can do anything you want against it. We've done loans for repairs for co-ops on several leased lands, and Vancity is happy to do it. Now, there needs to be a certain length of time on the lease. There have to be some conditions in place on the lease, but they're happy to do it.

We have some co-ops with 40-year leases that will be up in 15 years. So you could only get financing for ten years, and that's not enough. We're negotiating with the city on terms for extending those leases to permit financing to happen.

● (1635)

Mr. Joe Preston: Are you anywhere close to the terms on any of those land lease deals?

Mr. Darren Kitchen: The closest would be about 15 years out.

Mr. Joe Preston: So you're a good way out, but are conversations taking place as to what that will mean? You may be up against a similar thing with the city.

Mr. Darren Kitchen: Yes, we're having conversations with the city, because if we need a 25-year mortgage term we can't do that on a 15-year lease.

We've already extended a few that were suffering from the same syndrome as the leaky condos did. They needed an extension, so the city has already done that and extended by 20 years for free. So they're a good partner, Vancity is a good partner, and there's a lot more—

Mr. Joe Preston: So there's a prior history you can bank on, or at least you hope you can.

Mr. Darren Kitchen: Yes.

Mr. Joe Preston: You talked about the difference between equity cooperatives and a standard model, that there may be some good use in doing both.

Mr. Darren Kitchen: I think so. In high-value markets like Vancouver, where so many people are priced out of the market, it may be possible to do forms of limited-equity co-op specifically for models where perhaps you limit the resale value. So if you bought in at 80% of the market, you would have to sell at 80% of the market.

Mr. Joe Preston: You're limited to the same limit.

Mr. Darren Kitchen: That's right.

We would see it as something of a niche market, something of an entry-level market for people who can't jump the full step all the way up to the increasingly expensive condos. It's something we're looking at actively now and hope to pursue in the near future.

Mr. Joe Preston: Mr. Hood, on your project, you've said a couple of times you wish you had known. I think we all do that, whether it's in business or anything else. Are you sharing what you've learned with others now as they move forward?

Mr. Kenneth Hood: Any time anybody's got any questions, we're more than willing to share.

Mr. Joe Preston: That's great to hear.

Thanks.

The Chair: You've got that figured out: no eye contact; go right to a question. Perfect.

We'll move now to Mr. Allen.

Mr. Malcolm Allen: Thank you.

Thank you to both of you.

Mr. Hood, I can understand your dilemma with an equity co-op that looks at what I've experienced with some of my friend's family, who live in what they call a "life lease building". Yours is the same, except it's an equity position. Theirs is non-equity. You just simply move from this residence to this residence to that residence, to your final resting place—as you pointed out.

I've been in Castlegar a few months back. You're absolutely right about the whole idea of folks coming together in a cooperative way to try to build in a remote area like Castlegar, which is in British Columbia's southern interior, that there are long distances between places, and it's not just in places where we live in southern Ontario. For instance, where my mother-in-law went to a nursing home, it was 40 kilometres away—you can manage that—and there's some public transit. There is no public transit in Castlegar to the next location. Basically there is, but there really isn't in a way that makes any sense. So you're right about this whole sense that you would literally be separated when it comes to families at perhaps certain stages in life. Hopefully you'll get success with CMHC.

I think your story tells us that we need to have flexible models around innovative thinking when it comes to cooperatives, with no offence to cooperatives, because we have them everywhere, including my own riding of Welland, of course. We need to be able to have that flexibility to think about equity positions in cooperative models where folks are coming together to do them, and we need to have that ability with either CMHC or lending institutions who start to think in a different way from what the normal structure might be. Ultimately, at the end of the day, this actually is an equity position where, as they say, you're putting all the skin in the game. You're not actually asking the government to put skin in the game; you're doing it yourself. So I think we need to help the regulators help you get it done, since it seems to me that you're the one with all the skin in the game. Somehow we need to find a way to do that.

I wish you well with the Grandview piece, because that is obviously your next hurdle. Hopefully that works itself through.

Mr. Kenneth Hood: Thank you.

Mr. Malcolm Allen: Mr. Kitchen, my friends across the way are constantly telling us about how much money has gone in. What's the need like?

● (1640)

Mr. Darren Kitchen: I can only really speak for B.C. There's a great deal of need. More money always helps. What can I say? The more money you have, the more projects you can do and the more units you can build. I understand that there are limits to the amount of money that can be brought to the table by the government.

I am hopeful that some of that money might be targeted in B.C. a little more broadly and to more people than is currently the case. In concentrating on a single group and reducing need among that group, the B.C. government is running the risk of neglecting low-income families, for example, working families who are very important to the fabric and the economy of cities like Vancouver, Burnaby, New Westminster, and Surrey and who are increasingly being priced out of that market. That kind of pricing out, the kind of displacement of those kinds of families that we see in high-priced areas like Vancouver, is something that should be of concern to all levels of government. We're talking about the tax base of those cities; we're talking about the livability of those cities; we're talking about the ability of those cities to remain diverse places. Many lower-income immigrants have a very hard time in places like Vancouver.

So my concern is not just about the grand total of cash that's being put on the table. There is a fair bit of that. My concern is that a key demographic is being neglected to the long-term detriment of our urban fabric and ultimately of the country.

The Chair: Thank you very much.

We'll move now to Ms. Gallant. You have five minutes.

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

I tried to get your attention right before we suspended last time, because I wanted to correct the record. I had said there was $71 million in reserve for that eco fee. It was actually $71 million that was collected in fees in the first six months of the fee and about $20 million in reserve.

I just wanted to fix the record and thank Mr. Harris for giving me the link. It didn't give me the list of environmental organizations, but it did give me a few partners in the region. So thank you for that.

Co-op housing isn't something we're really familiar with in our community. I understand we have some in Ontario and in Ottawa here. But with our oppressive rent controls, they're becoming increasingly important to finding affordable housing. Also, with seniors housing, we're in that situation where people aren't quite sick enough to be in assisted living or in a nursing home but still not well enough to be all on their own. So the model you're describing is quite interesting.

Not having seen one in action in our community, I'm wondering if you could distinguish between the ways the housing co-op and a condo corporation work. What are the similarities? What are the distinguishing features?

Mr. Kenneth Hood: They're basically the same, I think. We have a strata fee. We have individual housing, but the strata looks after all the outside grounds, cuts the grass, and plows the snow. It's established. In that regard, we're personally responsible for the inside of our homes. I think condos are mostly strata corporations too, and that's the way their setup is too. They look after the outside because of the strata fees, and the inside of your place is your own responsibility.

● (1645)

Mrs. Cheryl Gallant: Could Mr. Kitchen describe what the separate features would be?

Mr. Darren Kitchen: In the day-to-day operations and just the way they go about their business, there's not a whole lot of difference between a strata corporation and a co-op. Both have an elected board of directors that takes care of the day-to-day running of the co-op. It typically has a finance committee. It will have a maintenance committee, perhaps, and a gardening committee. These are just some of the more common committees that report to the board on those kinds of functions. If you look at it strictly as how you get done what you have to do every day, there's not much difference between the two.

A big difference comes at the level of ownership. In a condominium, what you own is the air space of your unit, right? That's yours; you have a separate mortgage that you pay to the bank or the credit union every month, and then you pay strata fees to look after the common property: the corridors, the elevators, that kind of thing.

In a co-op, you don't have a mortgage on your particular unit. The cooperative itself owns the building, and you have shares in the cooperative that entitle you to residence in one of the units of the co-op under its laws and regulations, so there's no individual ownership. That's true of an equity co-op as well as a non-profit, except that the equity co-op shares are obviously worth considerably more and they trade on the market.

Mrs. Cheryl Gallant: Thank you.

Mr. Hood, you mentioned that you had supportive living and assisted living. What is the difference between the two?

Mr. Kenneth Hood: That's if the Château Grandview gets built—it's not a reality yet, but it will become one. The supportive living is getting one main meal a day, cleaning, and those types of things, and in the assisted living there are people on board to help them with their daily needs—for example, if they need to be taken somewhere or whatever. I'm not sure of all the differences, but in the first phase, that's the way it will be, one main meal a day. Even those of us in the cooperative, if we didn't feel like cooking one day, we would have the right to buy a meal and go over there and partake.

Mrs. Cheryl Gallant: Thank you.

The Chair: Thank you very much.

We'll move now to Mr. Butt. You have the floor for the next five minutes.

Mr. Brad Butt: Thank you very much, Mr. Chair.

I appreciate Mr. Payne allowing me to take his turn to ask more questions, because this is an area of specific interest to me. A lot of my background is in housing and it's part of my being elected an MP, so it's great to have an opportunity to learn a little bit more about what you're doing in British Columbia.

Mr. Kitchen, what percentage of the co-ops in the province of British Columbia would be federally funded, federally administered, through CMHC versus those that would be provincial, through the provincial ministry of housing?

Mr. Darren Kitchen: There are very few provincial co-ops. My own co-op is actually a provincial co-op, but there are 15 or 16 of them, or something like that.

Mr. Brad Butt: That's a lot different from the province of Ontario, where I'm from, where a lot more of them are actually provincial than federal. I guess that's because there was quite a bit of a boom, I guess, in funding some of that in the late eighties and early nineties, at that particular time with those particular governments that decided they were going to be in the provincial housing business at that time. So that's interesting to know about that, because I was concerned about some of the comments about CMHC and the ability to break mortgages and so on. I didn't know what a larger percentage of co-op housing was, so that's helpful to know.

Mr. Hood, with your ownership model for the residents, they obviously purchase their unit and they live in their unit. What happens when they sell the unit? Are you like a Habitat for Humanity model, where they're not entitled to keep the capital gain? What happens with Habitat for Humanity is while they live there, they pay down the mortgage. Say they bought the house for $200,000 and by the time they sell the mortgage is down to $160,000. They've built up $40,000 in equity, which they can take with them as they go. But if the house sells for anything above the original price, they're not entitled to keep the capital gain. Is it a similar model you have in your complex?

I ask that because that, in and of itself, makes sure that those units stay affordable, that nobody's gaming the system, so the new purchaser...and then the real estate value keeps escalating. Is that how your model works?

● (1650)

Mr. Kenneth Hood: Not entirely. When it was first developed, it was a lease agreement and the cooperative owned the units. But if I wanted to move out and sell, the cooperative looked after all that. If I paid $300,000, and in the time I lived there it went up to $330,000, the co-op would get a third of the $30,000 that it went up.

Mr. Brad Butt: So there's a share in the capital.

Mr. Kenneth Hood: They would take that, and then I would get the other $320,000 myself. But since that time, only about seven of the people remain a life lease, and the rest we changed to fee simple. In the Château development we didn't have any choice. You couldn't get money anywhere for a lease, so we changed that to fee simple too.

Mr. Brad Butt: Mr. Kitchen, you and I talked a little bit earlier about the affordable housing agreements with the provinces and the federal government. You had indicated that you would prefer to see more federal restrictions to make sure there's accountability for the money.

How would you propose we have that conversation with the provinces when they argue for the exact opposite? I can certainly tell you, in the case of the Province of Quebec, out of all ten provinces they were the last one to sign the last affordable housing agreement. They didn't like the conditions, because we, the federal government, wanted accountability measures. We wanted to know how that money was going to be spent and we wanted to know if some of it was for capital, to build new housing, and we wanted to know if some of it was going into rent supplements.

Actually, I'll give Quebec credit. They've got an excellent rent supplement program that they've run for years. It should be a model for the country, as far as I'm concerned. They're doing some good things in housing in that particular province, which I'm more familiar with, like I am with Ontario, but this is the dilemma we're in at the federal level.

You can write Minister Finley all the letters you guys want. She's in a really difficult position, because she's got ten governments she has to negotiate affordable housing agreements with, all of which quite often are saying very different things.

Have you got any advice I can share with the minister as to how British Columbia would sign a deal that had really strong benchmarks set by the federal government?

Mr. Darren Kitchen: I'm not sure I have much advice for Minister Finley, other than perhaps to remember that it's the federal government's money. I just know that when I'm in negotiations with things and I'm being asked to put something in in the way of resources or money, I typically regard that as entitling me to some degree of—

Mr. Brad Butt: That's good, because I'm on the human resources committee. That's good advice. Thank you.

The Chair: Thank you, Mr. Butt.

I don't know, but Mr. Harris was looking to make a trade, I think. He wanted to answer the question. If you wanted to trade spots with him....

Voices: Oh, oh!

Mr. Dan Harris: I was just going to say all the premiers are meeting right now. If the Prime Minister were to meet with them, they could have those conversations.

The Chair: All right. Thank you for that intervention.

We're closing out the second round with that one. We do have a little bit of time remaining, so we'll start a third round.

We will go with Mr. Lemieux for the first five minutes there.

Mr. Pierre Lemieux: Thanks, Chair.

Actually, I'm interested in following up, I guess, where Brad was going and where I ended off with my last five minutes, when I was rudely cut off by the chair, with respect, Chair.

Mr. Dan Harris: That didn't sound very respectful.

The Chair: And I'll do it again.

Voices: Oh, oh!

Mr. Pierre Lemieux: Yes, sir.

What I was going to say was that as I listened to the dialogue go back and forth I was not convinced it would be a great idea for the federal government to get intimately involved in social housing if right now it's with the provinces. I say that from an accountability point of view. I understand if someone's not pleased with the decision-making of a level of government then it's let's get the other level of government involved, they'll set them straight. But actually it does remove accountability for the level of government under which that responsibility falls, if that makes sense. Sometimes by bringing in another level of government, it might give the illusion that this will solve our problems, but I'm not convinced it will.

Things do get complicated, as you can imagine. Mr. Harris is talking about all the provinces and territories across Canada. It can get complicated on these matters. When we provide money for affordable housing, it does get spent on affordable housing. We do ensure that. I've been at the announcements. For example, in my riding I know how much money's flowed into the riding for that. I've stood there, and been part of the announcements. So it is.

I understand what you're saying. The province can remove that element from their budget and park it somewhere else so it doesn't go to affordable housing. I understand that. Anyway, I just wanted to get your opinion on that, because I'm not convinced it would achieve what you might like it to achieve.

● (1655)

Mr. Darren Kitchen: I think I may have given a slightly misleading impression that I wanted the federal government to write a 200-page contract in six-point type, specifying the purpose of every dollar that was contributed. That's not quite my meaning.

What I think I would like to see is a broad measure of housing need that was being addressed by the federal money. I don't think.... The provinces may not even want to do that. I couldn't say. But I think they should need to demonstrate that they have reduced housing need across the population in a meaningful way.

Mr. Pierre Lemieux: It is challenging, I'll just say that, because you can end up having finger-pointing, where if pressure is brought to bear on the province because they didn't fulfill this need, they just point and say the feds had their finger in this; if we had been allowed, we would have.... Then the feds point to the provinces and say that's clearly a provincial responsibility, even though we're involved. That's where I think things get complicated.

I think if it belongs in the province, it should be in the province. Yes, federal money should participate, and it does, but I think really the elected representatives at the provincial level need to be responsible and accountable for their decisions. If housing falls under them, it falls under them, and you can hold them to account on it.

Mr. Darren Kitchen: We do try.

Mr. Pierre Lemieux: I'm sure.

I wanted to ask you about cooperation among provinces. I know you're provincially based, but do you work with housing co-ops— social housing co-ops, affordable housing co-ops—in other provinces? Perhaps from that perspective, are there lessons learned, like how does your province do it, or what are your feelings about the way your province is managing this? Do you have a mechanism for that?

Mr. Darren Kitchen: Yes. We work very closely with CHF Canada, our national federation, and they're kind of the meeting point for all of those discussions.

You mentioned things getting complicated with the provinces, and I couldn't agree more, because the provincial legislation differs every time you cross a border. But we work with them to look at what lessons can be learned in different parts of the country, and apply it in others.

Mr. Pierre Lemieux: Right, okay.

As I said, affordable housing is not my area of expertise, but I would like to understand. There's capital money that is provided by governments to help build units. Is there any kind of operation and maintenance money as well that would sustain housing at low rent, because it's supposed to be affordable housing? Is there an annual contribution that goes to projects to sustain the low rent?

Mr. Darren Kitchen: What mainly happens in most co-ops is that a monthly subsidy comes to the co-op. It's based on the mortgage rate, and it's probably too complicated to explain right now.

Mr. Pierre Lemieux: Is it from the government, though?

Mr. Darren Kitchen: Yes.

This is what we're talking about when we talk about the problem of the end of the operating agreement, because that monthly subsidy comes in, the co-op gets it, and uses it to offset the difference between what its low-income members can afford to pay and what it costs to run the unit.

Mr. Pierre Lemieux: Oh, that was an earlier question I had. Is the rent that people pay—

The Chair: Hold on, your time has expired.

Mr. Pierre Lemieux: Okay, I'll let him finish answering.

The Chair: Did you have anything you wanted to say to wrap up the answer?

Mr. Darren Kitchen: No, I think I've got it.

The Chair: Okay, thank you.

I see that we're almost at five o'clock, so I thank the witnesses for their contributions today.

I'll suspend the meeting now.

[*Proceedings continue in camera*]

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