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Chair

Mr. Blake Richards

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• (0905)

[English]

The Chair (Mr. Blake Richards (Wild Rose, CPC)): I call the meeting to order. I apologize that we're getting started a few minutes late. We were having a little bit of technical difficulty with our video conference, and our witness there is waiting for some logistics.

Nonetheless, one of our witnesses who was to appear this afternoon on our first afternoon panel, the Desjardins Group, is here and has indicated that he would be comfortable sitting in on this morning's panel instead. Given that we may or may not have our initial witness appearing by video conference, I think that would be a wise idea. If I don't hear any objection from the committee, I'm going to ask him to join us this morning.

Does anyone have a concern with that? I don't hear any, so I will invite Mr. Brun from the Desjardins Group to come to the table as well.

Our panel this morning will consist of Brigitte Gagné from the Conseil canadien de la coopération et de la mutualité, and Mr. Brun from the Desjardins Group. We are expecting our witness by video conference from the Quality Deer Management Association to join us as well. We will start off with Ms. Gagné and then move to Mr. Brun, and if our video conference witness is able to join us we'll have him go third.

I will now turn the floor over to Ms. Gagné to make opening remarks. You have up to 10 minutes.

[Translation]

Mrs. Brigitte Gagné (Executive Director, Conseil canadien de la coopération et de la mutualité): Thank you, Mr. Chair.

In this, the International Year of Cooperatives, we wish to start by thanking all the committee members for meeting with us this morning and for agreeing to undertake a comprehensive study of the cooperative formula this summer. We would like to express our support for the brief submitted by the Canadian Co-operative Association, an organization representing a number of Canada's cooperatives, on July 10, 2012. In addition, we support the federal government's priorities regarding job creation, economic growth and the effort to bring down the budget deficit. Consequently, we wish to offer our recommendations to the committee to help achieve these priorities. Their common objective is to position the cooperative and mutual movement as an important partner for the federal government.

Cooperatives were born of the desire of a group of individuals to fulfill a collective need, and who pooled their skills and resources to

that end. In so doing, they acquired means and expertise to which they would not otherwise have had access. In Canada, this practice was historically one of the cornerstones on which French-language communities, including those constituting official language minorities, were built. Indeed, the cooperative formula provided access to credit and savings, two critical economic development tools the banks had denied them. And so, the caisses populaires were created.

In rural settings, cooperative enterprises gave farmers access to markets by creating means of production under their control, while many insurance mutuals were founded based on the principle of cooperation in hardship. The "cooperative and mutual reflex" was thus born in Canada, and it continues to be very active to this day.

For francophones, the cooperative model is one of the keys to their economic vitality, and sometimes even their survival. Whether in terms of culture, housing, health care or access to local services, the cooperative formula is part of French-Canadian DNA. French-language cooperatives generate over two thirds of all Canadian cooperative jobs and account for 41% of the country's cooperatives. Often, they are the largest employers in their communities.

Today they are diverse, operating in a variety of sectors, and are often bilingual. They are active in every economic sphere. They can be recognized by their adherence to the seven fundamental cooperative principles that govern them, foster good corporate citizenship, and inspire confidence among members and clients alike—all of which are essential to their long-term success.

The Conseil canadien de la coopération et de la mutualité, or CCCM, was founded in 1946. It comprises 8 provincial councils, representing 3,800 French-language cooperatives and 54 French-language mutuals, and bringing together some 9 million Canadian members. Firmly rooted in its values of autonomy and intercooperation, the Canadian cooperative movement has over time put the necessary structure in place to ensure its development. It comprises three types of organizations. First, provincial councils represent each province's cooperatives and provide consulting services for business start-ups, the creation of new cooperatives and emerging projects. I would like take a moment to stress the importance of setting up new cooperatives. They are the ones in need of assistance and support.

Next are the 15 provincial sectoral federations and 2 pan-Canadian federations, which focus on market development, sectoral expertise pooling and group buying. For its part, and in conjunction with the Canadian Co-operative Association, the CCCM provides the entire Canadian cooperative movement with coordination, consensus-building and networking assistance in promoting the Canadian cooperative enterprise formula.

Embracing the sixth cooperative principle with its focus on intercooperation, French-language cooperatives and mutuals invest in creating new businesses. In addition to their own regular activities, they provide direct support for the activities of cooperative development organizations through direct investments totalling millions of dollars a year. However, those contributions alone would be insufficient to ensure the continuity and consistency of the advisory services provided to date in both languages to developers across the country, much less to strengthen them.

In several cases, with the recent abolishment of the cooperative development initiative program, maintaining that expertise is rendered more difficult, or even questioned. Cooperatives and mutuals, whose chief characteristics are autonomy, accountability, legitimacy, equality and confidence, are effective and resilient. The difference between them and traditional businesses lies in collective investment, accumulated through the joint efforts of the individuals, clients, workers and citizens that make up their members, in meeting an economic, social or cultural need.

● (0910)

Traditionally, members have a legal relationship with their cooperative, get personally involved, and contribute to it financially. These cooperatives and mutuals operate according to different accounting rules, different management principles, different laws and regulations, and different financing techniques. Collective ownership, participatory governance and a culture of cooperation serve to protect members' and employees' interests, while continuing to target surpluses that will be invested to stimulate business growth, community involvement and intercooperation. As a result, cooperatives are able to grow and carry on against all odds and are better positioned to weather economic crises.

However, they encounter a number of obstacles, including the complexity and time involved in launching a cooperative enterprise; the scarcity or, in some cases, complete lack of appropriate knowledge and expertise in start-up assistance, both in the private and public sectors; and uncertainty regarding traditional investors' access to capital owing to cooperatives' capital structure, control or profitability objectives. The fact that the cooperative difference is not recognized by some government programs is another obstacle.

We also note that these obstacles are greater during the early stages of development of cooperative enterprises and tend to diminish over time as enterprises grow stronger. We believe that consulting services and capitalization tools tailored to cooperatives' needs and specificities would help foster the creation and emergence of a greater number of these kinds of enterprises. A number of fields can serve as models in this regard.

Consider a work cooperative, for example: saving jobs is a mandate that is necessary, if not imperative to such a business. Winding up operations is a last resort, and offshoring will never be considered.

This example clearly illustrates why cooperatives are forced to innovate and be resilient. In recent years, we have seen cooperative enterprises pop up in fields as varied as health care, funeral services, energy, local transit and communications. Innovation is a matter not only of developing new products and production methods, but also

of exploring new cooperative business models—such as solidarity cooperatives—and learning about new fields of activity.

The work of consultants and researchers at sectoral federations and provincial councils fans that spirit of innovation by creating an environment conducive to the cooperative difference. Over 60% of all cooperatives created in Canada, and many of those innovations, saw the light of day in Quebec, where the provincial government and cooperative movement have maintained a rewarding business relationship for many years.

● (0915)

Mr. Réjean Laflamme (Assistant General Manager, President, Federation of Funeral Cooperatives of Québec, Conseil canadien de la coopération et de la mutualité): Many Canadian laws have an impact on cooperatives. Last April, accounting firm Malette published a study pointing to major disparities in the tax treatment of Quebec cooperatives compared with traditional businesses.

The study showed that owing to a failure of the integration principle, their level of taxation was higher, particularly for investment income, income from subsidiaries and capital gains. This poses an obstacle to the development of Quebec cooperatives.

In its 2011 budget, the federal government proposed extending the notion of “prohibited investment” to include RRSPs. This amendment, set out in Bill C-13, has an impact on the use of RRSPs to invest in cooperatives. A shareholder who, alone or with a related person, holds 10% or more of a given category of shares in a cooperative is considered to hold a “prohibited investment”. That is the case of many small work cooperatives with fewer than 10 workers who are owner-members.

This situation poses a risk for many small cooperatives, especially, as I mentioned, work cooperatives, which are now forced to contend with yet another obstacle to their capitalization.

In our opinion, these two situations demonstrate the importance of maintaining an ongoing dialogue between the cooperative movement and the federal government. We believe that it would be advantageous in such situations for a body representing cooperatives and having adequate resources to be able to have a monitoring role.

[English]

The Chair: I'm sorry to interrupt. The time has expired.

I will give 20 or 30 seconds to whoever of the two of you who would like to wrap things up for the group, but you have to make it brief.

Mr. Réjean Laflamme: Okay. So we'll go with the recommendations.

[Translation]

Mrs. Brigitte Gagné: Our recommendations are as follows. Establish a new business relationship between the Canadian cooperative movement and the federal government under the umbrella of Industry Canada, and create an organization responsible for all cooperative affairs. Create an interdepartmental committee on cooperative affairs that would see to an ongoing, constructive dialogue with the movement, in particular to review all existing programs, laws and regulations and ensure they are fair and accessible to cooperatives, not excluding any other mandate. Transfer the statistical data compiled by the Rural and Co-operatives Secretariat to Industry Canada or to national cooperative associations. Create a cooperative co-investment fund, like the one just created in Quebec, and put in place capitalization tools similar to those found across Canada. Rectify the definition of “prohibited investments” to encourage the capitalization of cooperative enterprises through the use of RRSPs. Preserve and strengthen cooperative development expertise to give all Canadians access to cooperative consulting services in both official languages. Acknowledge and apply the cooperative formula as a means of revitalizing official language minority communities in keeping with the Roadmap for Canada’s Linguistic Duality.

Those are the things we recommend.

Thank you.

[English]

The Chair: Great. Thank you very much.

I do apologize. Time does go quickly, I know. Obviously, as members have an opportunity to question you later, some of the other things that you have in your package will be drawn out.

I will just point out that we have our witness, Mr. Adams, appearing by video conference.

Hello, Mr. Adams. Can you hear us?

Mr. Kip Adams (Director, Education and Outreach, Quality Deer Management Association): I sure can.

Good morning. Thank you for having me.

The Chair: Good morning.

We have one other group that will be presenting, and then we’ll have you present in about 10 minutes or so. But I just wanted to welcome you and to make sure that the committee members were aware that you are with us.

I also neglected to thank Monsieur Laflamme for being here as well. Thank you. I’m sure we’ll have more opportunity to hear from you as members move into their lines of questioning.

I’ll move next to the Desjardins Group.

Monsieur Brun, the floor is yours for 10 minutes to make opening remarks.

• (0920)

[Translation]

Mr. Bernard Brun (Director, Government Relations, Desjardins Group): Mr. Chair, the entire Desjardins Group hails the

creation of the Special Committee on Cooperatives. We would like to thank the committee members for this opportunity to express our views and opinions on this topic. We wholeheartedly believe that this initiative is all the more timely given that the UN has declared 2012 the International Year of Cooperatives.

That is also true, primarily because cooperatives are first and foremost an expression of a tremendous business model, albeit less well-known as compared with the more traditional corporate business model, with which people are more familiar.

I would like to introduce you to the Desjardins Group and explain where it fits in Canada’s cooperative landscape. Desjardins Group is celebrating 112 years in business, so it is safe to say it’s a success story. The mission undertaken by Desjardins Group is quite unique when compared with that of traditional businesses. Our mission is first to contribute to the economic and social development of people and communities. To that end, it is important to recognize that Desjardins Group is a movement, as its French name suggests. It is not a group of specific or centralized members, such as those that make up traditional business structures. It is a network of individual, secure, profitable cooperatives that have come together, coupled with a network of subsidiaries offering competitive returns. Desjardins Group is also very involved in education as regards finance, the economy, democracy, solidarity, and individual and collective responsibility.

Now I will give you an overview of the components that make up Desjardins Group. Currently, it comprises nearly 400 caisses across Canada, 1,300 service outlets and almost 2,600 banking ATMs in Quebec. With 5.6 million members in Quebec and Ontario, Desjardins Group serves an estimated 70% of Quebecers. Desjardins Group holds \$200 billion in Canadians’ assets, which are managed through this cooperative union. We consider this to be an excellent example of what cooperatives can do, how they can grow and what they can contribute.

We especially wish to emphasize the fact that cooperatives and mutuals fuel job creation, innovation, financial stability and access to community-based services. Cooperatives and financial cooperatives often operate in sectors and communities that are underserved by traditional businesses. We do, however, face certain challenges and issues, the main ones having already been addressed by those who appeared before me. Generally speaking, access to capital and reserve protection for cooperatives are areas of concern that must be addressed through government assistance and an appropriate legislative and regulatory regime.

Like traditional businesses, cooperatives and mutuals are confronted with these issues, but solutions do exist. Desjardins Group has submitted a relatively detailed brief on the issue and has attached an in-depth economic study conducted in late 2011, which we urge you to read. To get an idea of the size of the economic sector and the position that cooperatives can hold, you need only think of Quebec. The first and fifth largest private sector employers are cooperatives: respectively, Desjardins Group and La Coop fédérée, whom you will also be hearing from a little later.

Cooperatives are present in communities and exist to fuel job creation and the economy. In terms of spinoff, Desjardins Group offers businesses venture capital and helps maintain more than 35,000 jobs.

• (0925)

Furthermore, cooperatives are known around the world as well as here at home. And that is a key message that must be understood.

Financial stability or safety is frequently mentioned. It is important, then, to remember that Desjardins Group is not only the 6th largest financial institution in Canada, but also the 4th safest financial institution in North America and the 18th safest in the world, according to international ranking.

That standing is proof that the cooperative management style can go a long way towards financial stability and safety.

Generally speaking, the cooperative model is an excellent counterbalance to the traditional capital-share business model. It drives the economy, while adding value to it, and that is something that should be encouraged.

I will now hand the floor over to Mr. Adams.

I would be delighted to answer your questions.

[*English*]

The Chair: Thank you very much.

We will now move to Mr. Adams, who is appearing by video conference. You will have the floor for up to 10 minutes to make some opening remarks to the committee as well. The floor is now yours for up to 10 minutes.

Mr. Kip Adams: Thank you, Mr. Chairman, and thank you for the opportunity to be here this morning and present to the committee.

The organization that I work for, the Quality Deer Management Association, does cooperatives from a little different end than what we've heard so far this morning. We're dealing with natural resources. I do live on the United States' side but work regularly in Canada. Essentially, the cooperatives that we work with are either landowner cooperatives or deer management cooperatives, bringing hunters, sportsmen and women, and agencies—your Ministry of Natural Resources, for example—together to manage the natural resources.

As we take a look at some of these, we can improve wildlife management programs and habitat management programs by far, benefiting all citizens throughout the province, if we can do a better job managing wildlife habitat. What we have seen by forming these landowner cooperatives—which are essentially groups of landowners or hunters who work collectively together on these small parcels of land to better manage the wildlife that's there and, importantly, the habitat that's there... If we do a good job of managing that habitat, a multitude of wildlife species will benefit from that. What we see by putting some of these together and forming these neighbourhood or landowner cooperatives is far-improved habitat and wildlife management programs, which certainly benefit the hunting industry, the habitat industry, and the ministry overall with regard to province-wide natural resources. This is important on the United States' side, but it's certainly important on

the Canadian side, where you have such abundant natural resources and beautiful scenery, etc.

We have worked with private individuals, state agencies, provincial agencies, and federal agencies throughout the U.S. and much of Canada to help align and provide this model for allowing these landowners and sportsmen and women to come together to create these cooperatives to then enhance their ability to manage these natural resources. We have literally worked with thousands of landowners to do this. We have worked with the U.S. Fish and Wildlife Service to form a model for developing these cooperatives around federal lands, and with states to develop the same thing around state lands. We are currently in negotiations with a couple of states to develop a cooperative position, whose sole purpose would be to work with these landowners and sportsmen and women to develop wildlife management cooperatives throughout different parts of these states to enhance exactly what we're talking about from the natural resources end.

One thing that's nice about it is that you can take a look at your Ministry of Natural Resources, which oversees the wildlife management within the province and is responsible for setting bag limits, season dates, etc. However, it's the sportsmen and women who have to buy into those programs and play their part to have a full impact on what you have from a wildlife management end, whether you're talking white-tailed deer, moose, bear, waterfowl, etc. The more of those people you can get on board with the ministry officials and the managers of that—buying into what they're doing and allowing that to happen on all of that private land throughout the province—the more successful those programs can be. We see hundreds of thousands of acres on the United States' side now in these landowner cooperatives, which are working cooperatively with the state agencies—in your case those would be the provincial agencies—and allowing the programs to be far more successful. There are literally hundreds of individual cooperatives here in the northeastern U.S. where I live. There are thousands of them throughout the United States, and they are just beginning in Canada.

On our part, QDMA Canada was incorporated in 2006, so we are an educational organization that helps teach people the value of managing habitat wisely, managing wildlife wisely, and the idea of these cooperatives and how they can benefit all.

This is a very new concept in Canada, but it is a concept that is growing and has spread rapidly throughout the last decade across the United States. It's what we see as the future of wildlife conservation on our side, and I'm guessing that the same thing is going to happen on your side. The model is a proven model. It works extremely well and will certainly apply to the situation you have on your side with private versus public land, the number of sportsmen and women that you have, and the natural resources industry.

This fits in well with what the committee is discussing in the talks today. It's something that's been proven here and will work extremely well in Canada as well. As an organization we look forward to being part of that and improving wildlife management and natural resource management in Canada.

● (0930)

The Chair: Thank you very much. I appreciate the opening remarks of all our witnesses here today, and I now look forward to the questions.

We'll move to the first round. Up first we have Madame LeBlanc for up to five minutes.

[*Translation*]

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

I want to thank all of our witnesses. We heard a lot of information, but we don't have much time. So I am going to take advantage of our question period to delve a bit deeper.

First off, Ms. Gagné, you talked about how the cooperative formula helped revitalize communities, particularly minority communities, in the rest of Canada. I think one of the federal government's objectives is to encourage community development across the country, from coast to coast to coast.

Could you speak to the importance of federal government involvement in the growth of Canada's cooperative movement?

Mrs. Brigitte Gagné: Through the Department of Canadian Heritage, the Government of Canada is currently holding public consultations, pretty much across the country, on the government's role and on the outcome of the roadmap, the strategic plan for official languages. The consultation process will wrap up in March 2013. The possibility of another iteration is under consideration.

Mr. Moore is travelling throughout the country and talking to people. The outcome seems to be quite positive. Keep in mind that francophones, historically speaking, have always come together to strengthen their community.

That is all the more important for them when they live in minority communities. Take Nova Scotia for example. Cheticamp is a very small and very remote minority community. Residents have joined forces to enhance their economic development.

Without federal support for these communities, I think they will have trouble surviving, and I am not alone in that view. The people who are there think so as well.

Ms. Hélène LeBlanc: If I understand correctly, you believe the federal government should get involved, particularly to help new cooperatives enter the market and provide them with assistance and support. You believe that the federal government should play a key role in the cooperative movement.

Mrs. Brigitte Gagné: Absolutely, but I don't necessarily want to say what the federal government will decide to do. However, for a few years now, it has been involved in terms of cooperative development, in other words, new cooperatives and start-ups. Without federal government support, we will never attain that level of success, even if the entire cooperative movement is willing and financially supportive. It would be impossible.

We really need the assistance of the federal government and its capacity to enact laws and make regulations that support cooperative development, so cooperatives can thrive in the long run.

● (0935)

Ms. Hélène LeBlanc: Thank you very much.

My next question is for Mr. Brun.

The Jenkins report on federal support for innovation, a project that Monique Leroux of Desjardins Group worked on, states that Canadian businesses must innovate in order for Canada to maintain its standard of living.

How do you think the cooperative movement can contribute to innovation? Can you give us any examples?

Mr. Bernard Brun: Thank you for the question.

It is quite clear that by their very nature, cooperatives are often drivers of development and innovation. They are firmly entrenched in community life. As a result, cooperatives are very attuned to people's needs and take advantage of that local expertise, which is highly valuable and specialized.

That is commonplace, which, by the way, is why Desjardins Group adopted a network-based operating style: to allow stakeholders to be as involved as possible. That being said, access to financing and capital is crucial.

To answer your second question, I would say that to foster development and innovation, you need mechanisms that make it possible to access seed money so these initiatives can bear fruit.

Ms. Hélène LeBlanc: In that respect, cooperatives contribute to innovation in response to the needs of their members.

Thank you, the bell has rung.

[*English*]

The Chair: Thank you very much.

We will now move to Monsieur Gourde for five minutes.

[*Translation*]

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

I want to thank our witnesses for joining us this morning.

Since we have only five minutes, my first question is for Mr. Brun. You said that Desjardins Group was extremely safe. I believe that is thanks to the reserve fund. In fact, year after year, the caisses have built it up and it has gone from 2% to 3%.

Could you tell us about that reserve fund, which every caisse has set up to safeguard its financial security? The results have been quite positive, as you mentioned in your opening statement.

Mr. Bernard Brun: Yes, that's an excellent point. I'm glad you brought that up. I touched on Desjardins Group's structure. It is network-based, meaning a group of independent financial institutions have joined forces. Being a financial institution, a deposit-taking institution, government agencies do provide a certain degree of protection. That involves deposit insurance.

Despite that, Desjardins Group introduced an intermediary contingency, the stability fund that every caisse contributes to. What that does is keep the entire group financially stable, while fostering solidarity among the caisses. In the event of trouble within the network, a form of intervention is possible to safeguard the stability of the group as a whole.

If you like, I could give you more technical details on how it works, but basically it is a layer of contingency within the group, where reserves are built up. That is quite typical of cooperatives. They do indeed function democratically because members vote and elect the leadership. They likely operate in a slightly less aggressive and much more secure fashion, counterbalancing the attitudes and behaviour of traditional businesses.

Mr. Jacques Gourde: In addition to contributing to a cooperative reserve fund, each caisse has its own reserve fund.

Mr. Bernard Brun: To my knowledge, the stability fund is managed by the entire group, for the benefit of all the cooperatives. That said, every cooperative, every caisse, can provide for its own cushion separately.

Mr. Jacques Gourde: Thank you.

My second question is for Ms. Gagné. We know that insurance mutuals have a long history in Quebec. In fact, Promutuel Lotbinière will soon be celebrating 160 years in business, even longer than Confederation. Could you speak to the overall financial shape of Quebec's insurance mutuals? Are they doing well? Are they sound?

Mrs. Brigitte Gagné: That is a good question.

Mr. Laflamme, can you answer that?

Mr. Réjean Laflamme: Overall, Quebec's mutuals are in excellent financial health, whether we're talking about the Promutuel network, which you mentioned, La Capitale, SSQ, Mutual Management Corporation or the others. There are more than 50 of them in Quebec, and over 100 across Canada. Obviously the challenges that the life insurance sector is going through right now are making life tougher for those companies.

The Union of Canada Life Insurance mutual in Ottawa went under because it experienced some difficulties. Because of the very low interest rates, it is actually quite difficult for life insurance mutuals to maintain reserve levels. In contrast, though, homeowner's hazard insurance mutuals and farm insurance mutuals are performing extremely well. Quebec has insurance mutuals in the agricultural sector. They are in excellent financial shape.

• (0940)

Mr. Jacques Gourde: How much of the global insurance market belongs to Quebec mutuals? Is it 20% or 40%?

Mr. Réjean Laflamme: It's about 15%.

Mr. Jacques Gourde: I want to come back to Desjardins Group. You spoke about the size of the network. Did you say it supports 35,000 jobs in Quebec, or is it more?

Mr. Bernard Brun: It's actually 45,000 jobs.

Mr. Jacques Gourde: So that means 45,000 jobs across the entire caisse network and the confederation.

Mr. Bernard Brun: That applies to the entire consolidated group.

Mr. Jacques Gourde: I don't have a lot of time left, but could you tell me about the caisses, the federation and the confederation, just to remind me how the whole structure works?

Mr. Bernard Brun: I will describe it briefly. Visually speaking, Desjardins Group's structure is similar to an hourglass. Members make up and own the caisses. The caisses have certain governance and decision-making instruments. Representatives ultimately elect the president of Desjardins Group. All the caisses are grouped together under a single federation.

What's more, this cooperative network owns a series of share-capital subsidiaries to serve all the other market niches and financial sectors: life insurance, property and casualty insurance, securities and trust services.

Roughly speaking, the hub of the structure is the federation, which is not your average central body in the general sense. The federation has very real powers when it comes to the Group's policies. One thing that I would say has defined Desjardins Group and contributed to its cooperative growth is that it has all these small entities operating separately and independently, while at the same time coming under a network that is overseen by the federation. And that federation has a real say in the Group's main policies. Because of that principle, the Group is able to thrive and move to another level. Oftentimes, the challenge that cooperatives have is being able to grow and move beyond a certain plateau.

[English]

The Chair: Thank you.

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

[Translation]

Hon. Mauril Bélanger (Ottawa—Vanier, Lib.): Thank you, Mr. Chair. Good morning ladies and gentlemen.

My questions are for Mr. Brun. I want to start by saying I appreciate your brief and the supporting documentation you provided.

Desjardins Group is one of the three hosts of the 2012 International Summit of Cooperatives being held in Quebec City. Is anyone allowed to attend or is it by invitation only?

Mr. Bernard Brun: The event is supposed to be completely open. The International Summit of Cooperatives was the brainchild of the academic sector, the business world and the International Cooperative Alliance.

Hon. Mauril Bélanger: So anyone on the committee could attend.

Mr. Bernard Brun: Everyone can attend. It is open to everyone.

Hon. Mauril Bélanger: That's what I wanted to know.

Mr. Laflamme, I noticed that you were also the president of the Federation of Funeral Cooperatives of Québec.

Would you be able to send us some information on the federation? How many cooperatives does it represent? How many members does it have? How did it come about? It seems to be mostly based in Quebec. But I know that a cooperative has recently established itself in Ottawa, and it has 500 members. Could you provide the committee with those details?

Mr. Réjean Laflamme: Yes, it would be my pleasure.

There are 26 cooperatives in Quebec, and 15 members outside Quebec. The cooperatives have a large presence in Prince Edward Island. In fact, the province has seven funeral cooperatives. New Brunswick and Nova Scotia have some as well. As you said, one has been established in Ottawa, and it will open its doors in a few weeks.

• (0945)

Hon. Mauril Bélanger: We could in fact access those services at some point.

Three things were mentioned briefly this morning, and none of them had come up, or barely, in previous meetings, either in witnesses' presentations or questions and answers.

The first was the study done by the Mallette firm, which showed that cooperatives were not receiving fair tax treatment under the integration principle. That is an important issue that we need to get to the bottom of, but I won't have enough time this morning, Ms. Gagné. So I am going to ask you to provide the committee members with either a copy of the study or an explanation given that it does seem rather complex.

The second issue had to do with business transfers. Because of Canada's changing demographics, the private sector has a generation-based ownership transfer crisis on its hands. The fact that the cooperative movement could provide some solutions that would otherwise not be accessible is extremely valuable. If possible, could you, or others who may be following us, provide us with some information or suggestions in that regard? I think the committee should take those under consideration.

The third, and somewhat sensitive, point was the whole issue of demutualization. I want to hear your thoughts on the matter, straightaway.

As for Mr. Adams, other committee members can ask him questions because I won't have enough time.

Mr. Réjean Laflamme: We submitted a brief on mutualization to the finance minister. We are against insurance company demutualization in Canada. And if it were to ever happen, we would want the minister to make certain that the collective wealth that has been built up over a period of more than 160 years remained within the cooperative movement.

Hon. Mauril Bélanger: Would you mind sending us a copy of that brief, Mr. Laflamme?

Mr. Réjean Laflamme: Not at all.

Hon. Mauril Bélanger: Ms. Gagné, where do you stand?

Mrs. Brigitte Gagné: We will definitely send you the Mallette study this afternoon.

As for business transfers, another study was done recently. We know this is a special challenge for the cooperative movement. While it is challenging for traditional businesses, it is quite serious for the cooperative movement. We are taking a hard look at the issue with the help of researchers in the field. We can definitely send you the study this afternoon.

Hon. Mauril Bélanger: Thank you.

Mr. Brun, your thoughts?

Mr. Bernard Brun: In terms of business transfers, I believe other witnesses have already mentioned the Capital régional et coopératif Desjardins program, which was set up in partnership with the Government of Quebec. This tool not only provides access to capital, but also addresses the matter of business succession, especially as it pertains to the cooperative environment.

As regards demutualization, looking at the big picture is key. In other words, it still involves an adequate legislative or regulatory regime. Cooperatives are defined by the protection that a reserve affords. Previous witnesses have told you that cooperatives have a higher survival rate. Why do they have a better survival rate than other types of businesses? Because they are more stable. Perhaps they follow a more prudent management style. Over time, they accumulate surpluses and build up reserves stemming from market success. Those reserves are supposed to help them grow and should not serve as an incentive for demutualization. That means, then, that current members should not be entitled to that money.

In terms of demutualization, it is acceptable for a business to improve its structure. That being said, if its structure changes, it is not acceptable for that change in structure to generate undue wealth, whether for current members, or for the leadership of the mutual or the cooperative.

[English]

The Chair: Okay. Thank you very much.

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

Up first I have Mr. Lemieux for five minutes.

[Translation]

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thank you kindly.

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

Mr. Brun, since you represent Desjardins Group, I have a few financial questions for you.

We, the committee members, have repeatedly heard from a number of witnesses that cooperatives are up against numerous challenges when seeking financing for project development. We were told that the reason they have trouble getting the financing they need may be a lack of education in the financial sector. As I see it, the problem is a bit more complicated than that, just as complicated as the matter of demutualization. Perhaps it is also unique to cooperatives.

Can you describe the challenges that arise when a cooperative is looking for financing to grow its operations?

Is a lack of education to blame? Is it a poor understanding of cooperatives? Is it a legal barrier? What happens to the guarantees if the cooperative fails to make a payment?

Since financial cooperatives are more familiar with the reality that cooperatives face, is it easier for cooperatives to work with a financial cooperative when they need money?

• (0950)

Mr. Bernard Brun: Thank you, Mr. Lemieux.

That's an excellent question. As you mentioned, the matter is rather complicated. I will try to stick to the main points. But if you need additional information on the more technical aspects or other elements, I want to say right off the bat that we would be delighted to provide the entire committee with those details.

When we talk about financing, I think we need to distinguish between financing for small cooperatives, in other words, seed money, and financing, or access to capital, for large cooperatives.

Mr. Pierre Lemieux: That's what I wanted to discuss.

Mr. Bernard Brun: Small cooperatives, of course, have the challenge of acquiring a small amount of financing in the beginning, because they can't always use their equity or property as a traditional business would.

When it comes to large cooperative enterprises, it is true that all financial institutions do not necessarily have a good understanding of cooperative structures or an awareness of that model. We are probably better informed at Desjardins. So there are educational challenges, but there are legal ones as well.

If we look at the legal challenges, I can use Desjardins Group as an example. This past spring, we were able to launch an issue of capital shares worth over a billion dollars. To make that happen, however, we had to work hand in hand with both levels of government, just to be able to structure that capital share issue, which will mean permanent shares in the cooperative and will generate some dividends.

So a capital share issue can happen, but only after close coordination with the authorities in order to comply with requirements. When done right, the results can be tremendous. Just consider the fact that this cooperative-issued capital is Tier 1-ranked under the requirements of what is commonly called the Basel III reform, for financial capitalization.

Cooperatives also enjoy greater stability because of their structure. They have a more loyal following and deeper roots in the community, but they have more trouble accessing capital quickly because they cannot issue shares. Therefore, they often maintain an extra cushion. This capitalization is much more secure. As a result, Desjardins has a capitalization rate of over 17%, which is considerably higher than that of Canada's other major banks.

What is necessary, then, is a very close working relationship with the government to make adjustments possible and to adapt legislation, not simply to the traditional business model, but also to the cooperative enterprise structure.

Is there any information you would like in more detail?

Mr. Pierre Lemieux: That's fine. Thank you.

Mr. Réjean Laflamme: I just want to add one thing. Mr. Bélanger mentioned the Federation of Funeral Cooperatives of Québec, which I am the president of. All of the funeral cooperatives are Desjardins caisse customers. So the caisses agreed to finance our network and the individual funeral cooperatives. Desjardins' credit cooperatives are doing their part when it comes to financing existing small and medium-size businesses.

• (0955)

[English]

The Chair: Thank you very much.

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

[Translation]

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

I just have a brief question for Mr. Brun.

Obviously, Desjardins Group has been a shining light in the rich and dynamic history of Quebec's cooperative movement. Can you describe what Quebec is doing to allow its cooperative movement to flourish? Could the government adopt similar measures to stimulate the cooperative movement outside Quebec?

Mr. Bernard Brun: The simple answer is that it stems from a close relationship between the cooperative sector and the government. The sector has a direct relationship and an ongoing dialogue with government officials, so that rules can be adapted swiftly in response to cooperatives' needs.

As for Quebec, it has a long history of cooperative development. Earlier I mentioned that Desjardins Group was celebrating 112 years in business. But beyond that, we have an ongoing dialogue with the government, and a perfect example of what that exchange can do is our newly acquired ability to issue capital shares. You need to consult with the government and the department, as well as the regulatory authorities.

The same applies to the protection of the cooperatives' reserve, since a cooperative's reserve cannot be shared in Quebec. What that means is control of those assets, which have accumulated over time, cannot simply be handed over to private financial interests, new members, newcomers or the cooperative's executives overnight.

What that does is ensure the stability and continuity of the entire cooperative movement. I would say those are the two main features. Since the issue is now under federal consideration, it should also influence property and casualty insurance mutuals, and—as far as the potential for cooperative bank development goes—even federal credit cooperatives. The issue of reserve protection will also have to be examined in that regard.

Mrs. Brigitte Gagné: I want to add this. When the federal government set up the Co-operative Development Initiative, the small sums that were distributed throughout each of the provincial councils and each province, to help with the start-up costs of an advisory service, did provide a boost.

A number of provinces had absolutely no support mechanisms whatsoever, either for the movement or for cooperative development. The program gave the movement leverage with the provincial governments. What that little bit of funding also did was make the governments aware of the cooperative movement and cooperative development. They saw the involvement of the federal government in that arena. Should we not examine how economic development takes shape within our jurisdiction and how it takes shape elsewhere? So you saw an increasing commitment by the provinces towards cooperative development from that point forward.

Ms. Ruth Ellen Brosseau: The cancellation of programs, the recent changes and the termination of the CDI will have repercussions, possibly for those looking to start a new cooperative. There could be serious repercussions. Starting a cooperative will be more difficult. Those people need support from their province or the federal government. So program cancellations will certainly have an impact on all that.

Mrs. Brigitte Gagné: As we see it, the possibility of accessing start-up advice across Canada in both official languages hangs in the balance because the CDI has been terminated. There is no doubt that it has a direct impact, especially in official language minority communities. So it is extremely important to us to find a solution and an alternative to the mechanism that is gradually fading away and will disappear altogether in March 2013. We need to think about how we can get things back on track. Those services are vital to communities.

• (1000)

Ms. Ruth Ellen Brosseau: If we think about the future, I think we need open communication and an appropriate level of support on the federal government's part. How do you see the future in light of the cutbacks and changes?

[English]

The Chair: As you've noticed, the time has expired, but a question has been put. If you would like to answer it, make it brief, please.

[Translation]

Mrs. Brigitte Gagné: As I said at the beginning of my opening statement, I don't think it is our job to tell the government what to do or what approach to take. But we do think the government should continue providing leverage to the cooperative movement so it can take charge of its growth and development.

The federal government also has to provide that leverage when it comes to the provinces and within its own departments, in order to foster understanding, knowledge and expertise around cooperative development. It must ensure a tangible presence across the various departments responsible for drafting legislation and regulations.

[English]

The Chair: Thank you.

We'll now move back across to the government side. We have Mr. Payne, for up to five minutes.

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

My question is to the witnesses through you.

First of all, I'd like to thank the witnesses for coming today. I'd also like to thank Mr. Adams for joining us by video conference.

I'm going to have a few questions, but I want to start with the Desjardins Group. In terms of the umbrella group, how does that play right across the country? What regulations are you faced with from province to province? Then thirdly, what federal regulations are helping you to move from province to province and to have these organizations as part of the umbrella?

Mr. Bernard Brun: That is quite a large question for a group such as Desjardins. The caisses populaires are incorporated under the

provincial, Quebec legislation and under the federation. As I mentioned before, there is the subsidiaries side, consisting basically of share capital companies owned by the group. On the insurance side those companies are also provincially incorporated, so you would need a licence to operate in the other provinces.

On the banking side, the caisses populaires can act within their own province. That's why Desjardins has mainly caisses populaires in Quebec. It also has the caisses populaires of Ontario that are under their own federation, which is affiliated to the Desjardins Group. Of course, there's always a challenge because of those multiple jurisdictions in which Desjardins is operating. So this is always the kind of challenge we are facing. But we try to serve members throughout Canada. So on the banking services side, sometimes you will help them through virtual tools like the Internet, but our banking services to our individual members are mainly in Quebec—or in Ontario under the federation of the caisses of Ontario. In the rest of Canada, Desjardins is mostly active on the insurance side, meaning general insurance and life insurance, and the wealth management sector.

Mr. LaVar Payne: I also have some questions for Mr. Adams.

I found it interesting that you would have cooperatives, but I'm not certain how that actually works in terms of membership, what kinds of fees there are, and how that helps provincial.... And secondly, where exactly in the provinces is it? Is it in Quebec, is it in Ontario, that your organization is working and developing these cooperative land deals?

Mr. Kip Adams: Most of the cooperatives we work with are informal ones through the landowners. Some of them will have an actual contract that they sign, or an agreement, but most are informal in that they are handshake deals where the parties agree to follow a loose set of guidelines that are developed by the cooperative members to better manage the habitat and the wildlife there.

Where the provincial and the federal governments come into this is through making this information available to the sportsmen and women of Canada, promoting those cooperatives as a model for managing wildlife. It's less in the way of a monetary end or an oversight end, and more in the way of a promotion and teaching end from the agency side. We work throughout Canada, mostly eastern Canada. We spend more time in Ontario and Quebec than the other provinces, mostly because we're a membership-based organization and have more members in Ontario, Quebec, and New Brunswick than we do in western Canada.

We have a volunteer base of members who help teach, because we're an educational organization that provides information on how to manage deer and other wildlife habitat. And we work cooperatively with the Ministry of Natural Resources and other managers to work together to make sure we can improve this. Because of that more of our membership base is in Ontario than anywhere else, which helps to facilitate the movement and grow it. And just as we've seen on the United States' side, it leads to an increase in the numbers of members, which then facilitates cooperatives throughout the whitetail's range, as we work with deer more than anything else. We're starting to see that same thing on the Canadian side, starting mostly out of Ontario and to a lesser extent in Quebec.

•(1005)

Mr. LaVar Payne: I'm still a bit vague about what happens in terms of the membership. Do land groups become the membership? Do any fees have to be paid?

Mr. Kip Adams: There is no fee. The membership whom I spoke of was the membership of our organization, the QDMA. Fees are not required for these cooperatives. Many times it's the information that we provide that has been the impetus for people to become involved in the cooperatives. But there is no membership fee; there's no membership base. It's open to anybody who wants to be involved and to learn more about wildlife and habitat management, to teach others about it, and then collectively to bring these smaller properties together so that you have a larger acreage base to have a bigger impact on those habitat and wildlife programs. There's zero fees, and certainly nothing to us, and it's all voluntary and in most cases informal.

Mr. LaVar Payne: Thank you.

The Chair: Thank you, Mr. Payne.

We'll move now to Mr. Harris. You have the floor for the next five minutes.

[*Translation*]

Mr. Dan Harris (Scarborough Southwest, NDP): Thank you to all of our witnesses for being here today.

Before I start, I would like to move a motion having to do with committee business.

[*English*]

Mr. Chair, I'd like to serve notice of motion at this time that we intend to bring forward a motion that the Special Committee on Cooperatives invite the Minister of Agriculture to appear before the committee before August 30, 2012.

The clerk will be receiving an email shortly, in both official languages, with that motion, to be discussed later.

[*Translation*]

Once again, thank you for being with us. I have a number of questions, and I will start with you, Mr. Brun. You will be hosting the summit, which will get under way on October 7, 2012. Could you briefly explain why you decided to take on that role?

Mr. Bernard Brun: Thank you for your question, Mr. Harris and your interest in the summit.

As I mentioned in my presentation, the UN has declared 2012 the International Year of Cooperatives. So every country is invited to contribute and attend. In Canada, Desjardins Group is by far the biggest financial cooperative, with its nearly 6 million members. We had an opportunity to take part in certain events, but upon further reflection, we decided to do more. In the spirit of cooperation and coordination, rather than inviting just Saint Mary's University and the International Co-operative Alliance, we opted to invite the world to Canada so everyone could see how cooperative development had taken hold and grown here. It also provided an excellent springboard for requesting specific studies on how the cooperative movement has developed, on how this business model has evolved and on how it could benefit the economy and contribute to financial stability. In

short, instead of taking part in a local event, we tried to create a cooperative-minded event that would bring Canada and the international community together. This kind of summit has never been put on before, it's the first of its kind in the world. We are extremely proud and we hope it will be a resounding success.

Mr. Dan Harris: I know we are looking forward to taking part and learning about best practices around the world, not just here at home. We hope the committee will hold off on its report until we have had a chance to attend the summit and read the documentation you have prepared. I think it's wonderful that you have already made a number of recommendations in your presentation and I have some questions about that.

Your third recommendation calls for a transfer of the statistical data compiled by the Rural and Co-operatives Secretariat to Industry Canada. Why are you recommending that?

•(1010)

Mrs. Brigitte Gagné: First off, as you know, the Rural and Co-operatives Secretariat was the idea of the Conservative Party a few years back. Since then, the secretariat has been working with cooperatives, who see the organization as the gateway to the federal government. The fact that all the secretariat's resources have been cut significantly has repercussions. In particular, the statistics we used to rely on in order to understand the big picture and the state of Canada's cooperative movement will virtually disappear.

As I understand it, some of the statistical information compiled in 2010 is on hand, yet we cannot even access it because there isn't anyone who can work on it and convert it to an appropriate format. For us, that information is vital because it represents the only statistical data that exists in Canada that can tell us how big the country's cooperative movement is. That's all we have. So, of course, it has to be accessible. What's more, the federal government spent a lot of money on developing an entire data processing system for this specific purpose. We consider it vital that this data live on.

Mr. Dan Harris: I fully agree with you.

Both your first and third recommendations mention Industry Canada. Yesterday, someone suggested that farming cooperatives be transferred to Industry Canada. Would that be better in your eyes?

Mrs. Brigitte Gagné: That idea has actually been bouncing around for a few years now. I can recall a standing finance committee a few years back when I was asked the same question.

Because of the way the cooperative movement is evolving, the purpose it serves in an extremely diverse range of sectors and the momentum it is gaining within Canada's economy, the movement is no longer concentrated in the agricultural sector. It has spread everywhere: finance, funeral services, health care, fisheries, natural resources, forestry and so on.

It is clear then from that diversity of sectors that the movement is not just agriculture-based. Cooperatives need a gateway that provides for dialogue with the federal government. And it has to line up with the very nature of the cooperative movement. We saw Industry Canada as a department that would have the ability to address the needs of cooperative enterprises.

[*English*]

The Chair: Thank you.

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

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

Welcome to the panel. I join my colleagues in thanking you for being with us this morning.

I have a couple of questions. First, Mr. Adams, does your organization work with other national groups, like Ducks Unlimited? Do you have any partnership arrangements there, or any kind of liaison between your group and others here in Canada?

Mr. Kip Adams: Yes, sir, we do. We work with Ducks Unlimited. We work with the National Wild Turkey Federation, Rocky Mountain Elk Foundation, and numerous other non-profit wildlife conservation organizations, as well as state, provincial, and federal organizations.

We don't have a specific liaison to work with those other groups in Canada. I serve as our director of education and outreach, so I would facilitate that role. But yes, we work closely with many of those other groups on numerous issues.

Mr. Ray Boughen: Thank you.

To the panel now, across Canada there are different mutual groups, including credit unions and co-ops. Do you see anything in terms of a national theme down the trail within the next five to ten years, where we would maybe have an organization from one of the provinces establish themselves in other provinces and become part and parcel of the financial landscape of the country in terms of... The Royal Bank is everywhere. The Canadian Imperial Bank of Commerce is everywhere. Do you see mutuals also taking that role across the country, being financial institutions that one can plug in anywhere in Canada—yes, no, maybe?

•(1015)

Mr. Bernard Brun: Yes, absolutely, but probably not in the way you were mentioning, like the Royal Bank of Canada.

As I mentioned in the introduction, the Desjardins Group already has close to \$200 billion in assets. It is quite a large financial institution and active throughout Canada through its caisses populaires or subsidiaries.

We are also providing services and products to other credit unions. Don't underestimate our intercooperation together, as it's one of the characteristics of co-ops. We try as much as possible to work together. Within Desjardins we even have a special team to discuss and be in continuous contact with the credit unions to see how we can work better together, how we can offer those services. But at the same time, the purpose of a caisse populaire or a credit union is also to remain grass-rooted in its community.

That's why I always mention the way we work, which is more through a network. So it would be a network of caisses populaires or credit unions under a federation. We believe that a large part of the success of Desjardins is because its federation has real, effective power over the whole network. In the rest of Canada there are centrals in every province, but you have some that are active in more than one province. For example, Central 1 is a central that is active in British Columbia and Ontario.

So you will see, I believe, a lot of evolution on the credit union side and the caisse populaire side in the upcoming years.

Mr. Ray Boughen: Right. Good.

Madam, what's your vision?

Mrs. Brigitte Gagné: For the other cooperatives outside of the financial system, I would say that they have the same challenge as any other enterprise, which is the international market and opening markets. They have to be extremely strategic and begin to think outside of their own primary vision, I would say. For example, you will have Agropur here this afternoon. You can ask them. They are now in Brazil. They are looking at different ways of maximizing their work, doing business, and extending their market. La Coop fédérée is the same. It is now in Ontario, New Brunswick, and central Canada.

So all of our cooperatives are thinking strategically to position themselves inside an international market.

Mr. Ray Boughen: Okay.

How's the time, Chair?

The Chair: You have no time left.

Voices: Oh, oh!

The Chair: We will move now to Mr. Allen.

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

And thanks to the witnesses.

It's interesting to hear, because the credit union I belong to, FirstOntario in the province of Ontario, obviously started out as an auto workers' credit union, with one branch. And now I think it is the third or fourth largest in the province and has moved along. In fact, their ex-CEO, Mr. Lahey, is here this afternoon. He is now the CEO of Alterna.

Madam Gagné, and I believe Monsieur Brun, as well, talked about this idea that folks are innovating and changing, because in many places, at least on the financial side or the credit union side, many small industries would have had a one-branch credit union. Whether that be places like Ferranti-Packard, for instance, that used to be open in St. Catharines and is now closed, that credit union had to find a place to go when those employees no longer had a place to work. They ended up merging with different ones. I think they went to Meridian, actually, which is the largest in Ontario.

You started to talk about innovation and the sense that the visions, perhaps, and the mission statements are changing, especially on the financial side. But I think you were also alluding to the sense that the visions, and perhaps the mission statements, were changing on the non-financial side of cooperatives. They are looking at a broader picture that, yes, can sometimes be within a province and sometimes not, and in fact, I think, can be international.

I'm interested as to how policy-makers can help with that type of innovation for those who wish to choose it. Cooperatives are about decision-makers on the ground deciding that they wish to change their vision. They are not about having someone tell them that they must change their vision. It's the opposite view of for-profits or the investment style whereby someone at the top says that we're going to buy this or go buy that. Cooperatives are grassroots organizations that say, "What do the members want to do?" Basically, if you change your vision, you go and ask your members what they want to do.

Are there things we can help with when members decide that they want to change that vision? Or should we just leave you to do it on your own?

I'll certainly take an answer from whomever.

• (1020)

Mr. Bernard Brun: I'll just make a short comment, if I may.

I don't believe that the credit union, and I can speak for Desjardins, is changing its mission. We're not changing our vision. Our vision is still to contribute to the economic growth of the members and the community to support the community. We do that, of course, through financial services, because this is what we do. But we still maintain the same focus. We're just adapting, probably, the way we react and how we interact with the other caisses populaires. We have the challenge of how concentrated we will get, how many caisses populaires we want to keep, and how we will stay grassroots and connected within the community. That is part of the challenge. But as for the mission we have, we're still clearly focused on that.

I can say that Desjardins has \$200 billion in assets, but we made \$1.5 billion last year. Let's say that over the last year, we gave back an average of \$0.5 billion to the community. It was through sponsorships, directly to the members, etc.

To go back, it's always the same mission, but the challenge of the way we will reach that goal, of course, is changing through time.

[*Translation*]

Mr. Réjean Laflamme: There are two parts to that answer. Firstly, let's consider the local aspect. As far as innovation goes, we're dealing with sectors where the cooperative movement used to have no presence. That means sectors such as wind energy in Ontario and home health care services for Canada's aging population. Those are major sectors that did not exist before. New sectors such as these have come on the cooperative scene in a big way, because of the movement's desire to meet the population's needs.

Now, let's consider the international side of things, which, by the way, we will be discussing at the summit in Quebec City in October. How can cooperatives work together more on the international stage? We were just talking about agriculture. The world's biggest farming cooperatives are actually coming to Quebec City and will discuss the possibility of doing business with one another because there hasn't been much of that so far.

Every country has sort of done its own thing. The Europeans are working on legislation to allow for European cooperatives. So you

won't have just French cooperatives or British cooperatives, but European cooperatives. Perhaps we'll reach a point where we need something similar in Canada. Cooperatives could operate in the U.S., Europe and elsewhere.

[*English*]

The Chair: Thank you very much.

Mr. Malcolm Allen: It's always reassuring to know that the mission statements aren't changing—

The Chair: Sorry, Mr. Allen—

Mr. Malcolm Allen: —even though the adaptability has to change as far as the bigger and broader picture goes. My good ear did hear the tweep, tweep, tweep of his button over there, so that's my time.

The Chair: It certainly is, and I appreciate your indulgence there.

We will now move to Mr. Preston for the next five minutes.

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

Thank you for coming. We continue to learn more and more about cooperatives, credit unions, caisses populaires, mutual insurance. It's not all one thing. It's a collective group of a bunch of great things.

I asked a question of our witnesses yesterday, and I'm going to start off with that. Cooperatives seem to have a greater success rate. They don't "seem to"; they have a far greater success rate than standard operating corporations or sole proprietorships or any other start-up businesses. You do a better job; you last longer; you're more likely to be successful. I'm trying to catch that lightning in a bottle. What is it? Why are cooperatives more successful?

• (1025)

Mrs. Brigitte Gagné: First of all, they are rooted in the community. Second, they answer the direct needs of the community. Third, they're democratic, in the sense that it takes so much time to have a consensus among the people who want to start the cooperative that, when it's done, it not like a shooting star. These are, I think, the three major reasons why they last longer. Through different periods I would say, different times, where difficulties emerge, all together they have an expertise that multiplies each other's knowledge. So they bring different alternatives, different points of view, and because of that they bring a certain capacity to go further than just saying "we'll let go because we are not strong enough", or whatever.

Mr. Joe Preston: Desjardins is among the largest of the financial institutions in Canada. It started off as a grassroots organization in one place and grew. As Madame Gagné just said, you recognized a need. You didn't go places you weren't needed. You went to where you were needed and became successful that way.

Please correct me if I'm not stating correctly something you said, but I believe you said you're democratic and that's how it works, and you take less risk because of that, because you must have commitment from your members to move forward on items. Did I paraphrase you correctly, even if I didn't quote you properly?

Mr. Bernard Brun: I probably wouldn't say we take fewer risks. I would say we are more prudent in the way we approach things. Of course, we will take some risks as we are a financial institution also, but we are members and service-oriented to the members. That's our first purpose. So profit comes, but it comes later. Some financial institutions probably go first to the shareholders; for us, it's service for the members, and, of course, profit is somewhere in the equation.

Mr. Joe Preston: As Mr. Allen said—and I agree—it is about the members. The mission statement doesn't change. It may grow bigger, the activities going against that mission statement may be different, but you start off with saying “I'm serving the members”, or as somebody said yesterday, “I'm helping others. I'm serving others by being part of a cooperative.”

But your decisions come from a broader scale. In a standard corporate structure one person may very well make billion-dollar decisions—right or wrong. In a cooperative situation it's about the group making the decision for the risk, right? It's one vote, one person, and that's how we get there.

Something that came up earlier in one of the other panels was about small credit unions, caisses populaires. You're the biggest, so I'm going to pick on you. You are run by the same rules as all financial institutions across Canada. But some were saying that some of the rules are a bit onerous for a one-off shop, for a very small caisse populaire or credit union.

What are your views on that? Should you be forced to follow different criteria or procedures from the smaller guy's, because it's harder for him?

Mr. Bernard Brun: That's an excellent question. The credit unions or the caisses populaires don't have to have special treatment. It's more that the rule needs to be adapted or just thought of in a way that's fitting, for example, for a smaller credit union or a caisse populaire.

I'll give you a clear example that comes up even for Desjardins right now. As I mentioned, we are not one big organization. We are a federation of small financial institutions. So when you're talking, for example, about money laundering, what do you do? I don't have one centralized company where I can grab all the information from everywhere. I have to visit every place. So sometimes the rules could be just thought about and adapted to the reality of cooperatives.

• (1030)

Mr. Joe Preston: Thank you very much for that.

The Chair: Thank you.

There's a point of order.

Hon. Mauril Bélanger: In reality, Mr. Chairman, it's not a point of order—

The Chair: Okay, well then....

Hon. Mauril Bélanger: —but a point of pride.

The Chair: Okay.

Hon. Mauril Bélanger: I make it a point, Mr. Chairman, to make sure that members realize that Desjardins was founded by a clerk of the House of Commons at the turn of the 19th century.

Mr. Joe Preston: I'm glad he found good employment.

Voices: Oh, oh!

Hon. Mauril Bélanger: Indeed. His name was Alphonse Desjardins.

The Chair: I think I saw some anger on Paul's face there.

But anyway, we have time for one last round of questioning for Mr. Butt, for five minutes.

Mr. Brad Butt (Mississauga—Streetsville, CPC): Thank you very much for being here, all of you. I appreciate it. I'm certainly learning a fair bit more about cooperatives and how they operate.

I am interested a little bit in the following, and I know Alterna will be here later. They're a major player in the village of Streetsville, which I'm very proud to have in my constituency.

I'm curious about the credit union system and to get a little bit more specific information on how it works, and how it works when you are operating in different provinces and under different regulatory regimes. Mr. Brun, maybe you could explain.

How do you manage to operate when there are provincial regulatory requirements that you must fulfill if you want to operate in different provinces, even though you term yourself as a national organization? What are the differences? Are there some barriers because of the fact that there's really not a significant federal role in terms of the regulatory aspects of day-to-day operations in a cooperative model, other than that you're a financial institution and you have to meet some of those federal regulatory barriers?

Are there things the federal government and the provinces could be doing to mirror or better align some of the regulatory challenges under which you have to operate?

Mr. Bernard Brun: Let me add, first, that when we say financial services, it's the banking services that we have. Desjardins will operate in every province, but through the other types of services, life insurance, etc. For the banking-type services, of course, since it's provincial and you have your caisses populaires, you do those through your caisses.

Desjardins is acting in the other provinces, but it's done through affiliation, for example, the caisses populaires federation of Ontario. The other ones can be clients of Desjardins. They can buy some services, for example, in compensation, or some products, as we also do with the credit unions. It is an ongoing challenge because it's provincial everywhere. That's why Alterna constituted a federal bank, so it could serve its member clients in other provinces.

This is an ongoing challenge. Right now the federal government has put forward a new piece of legislation to allow a federal financial cooperative, which is nice, but it also has some challenges. It doesn't allow one to work in a network or a federation, like Desjardins is doing, which we believe is essential to remaining grass-rooted in your community. You want to remain really connected to your community and loyal to your members, and you ask that from your members in return. This is one of the challenges.

Also, the reserve, which is possible to share, is another challenge.

We need a lot more discussion, of course, because I believe the caisses populaires and the credit unions are tightly connected with our provincial authorities. That's part of their success, too.

Mr. Brad Butt: Mr. Adams, just for me to glean a bit more information about your organization, are there any other regulatory barriers that you see operating in Canada that we could be considering, as a committee? Or would you generally say that you're successful in the way you're presently operating and that as far as the federal regulatory regime is concerned, you probably don't want any more government interference in how you are operating?

Do you have any ideas for us, other than what you shared with the committee earlier?

•(1035)

Mr. Kip Adams: We were incorporated in Canada in 2006 and received charitable status a year or two later. That was a big hurdle for some of the educational opportunities we like to provide. But since we've been able to get that charitable status, we've been able to do a bunch of educational opportunities. There are seminars, events, and workshops that teach a lot of people about wildlife management and, obviously, the value of cooperatives.

From that end, we're now pretty free to do what our mission is, and that is essentially to teach people. I don't think there's any additional federal oversight on the regulatory end that could help us to meet our mission any better.

You probably don't get to hear that a lot in Canada.

The Chair: Thank you. The time is up.

We did go a little over time. We started a little late as a result of some of the technical difficulties, so I thought I would allow that.

I thank all the witnesses.

Mr. Adams, we didn't get much of a chance to question you, and I know there were some questions that Mr. Payne had about the membership and structure of your organization. If you could provide some information in writing for the committee, that would be very helpful for us.

I know the other two organizations we had today have both been able to submit written briefs. I would strongly encourage your organization to do the same. We are requesting more written information by August 7 at 5 p.m. eastern time.

With that, I thank all of our witnesses today for your great testimony. I will now suspend until 10:45, when we'll begin our next panel.

The meeting is suspended.

•(1035)

(Pause)

•(1045)

The Chair: I'll reconvene the meeting.

We have our second panel all set up and ready to go.

We have with us, by video conference, from Ag Energy Co-operative Ltd., William Ravensbergen and Rose Marie Gage. And here in person, from La Coop fédérée, we have Denis Richard and Jean-François Harel, and from the Conseil québécois de la coopération et de la mutualité, Hélène Simard.

We will follow the order we have on our agenda.

I'm not sure who is making the presentation from Ag Energy Co-operative Ltd., but I will turn the floor over to you for 10 minutes to make an opening statement to the committee. The floor is now yours for the next 10 minutes.

•(1050)

Mr. William Ravensbergen (Chairman, Board of Directors, Ag Energy Co-operative Ltd.): Thank you.

We will both be presenting.

It's a privilege for us to be here with other cooperatives as change agents for growth and sustainability of cooperatives and to be representatives of a viable alternative to standard Canadian business models.

My name is William Ravensbergen and I'm the chair of the board of directors for Ag Energy Co-operative Ltd. I've held the position of chair for the last three years and the position of director for an additional three years. P. Ravensbergen & Sons Ltd. is a founding member of Ag Energy, is a user of its services, and has been since its inception in 1988. Therefore I have an intimate knowledge about our governance and the mechanics of the organization, a member's/user's perspective. I have personally invested my time, energy, and funds to ensure that Ag Energy is a successful member-based service organization that deals with solutions that are sustainable for our members and customers.

Ag Energy is an Ontario-based cooperative representing members in Ontario and serves more than 1,000 customers in Ontario, Quebec, and British Columbia. We are a services-based cooperative that provides natural gas and electricity solutions to its members and customers.

We were incorporated in Ontario 24 years ago. Our beginnings served as cost-effective procurement of natural gas for greenhouses as a result of energy deregulation, as energy typically is one of the largest input costs for our sector.

Ag Energy is a for-profit cooperative with annual sales in excess of \$20 million. Our primary focus is to provide cost-effective energy commodity and investment opportunities to our membership.

We are a lean organization of 10 employees, serving agriculture, agritech, and agrifood. We are expanding our offering to include managed cooperative services for other co-ops. Our board of directors is accountable for our governance and is currently eight directors and two trainees, all of whom are from member organizations or are members. Our board represents entrepreneurs, owners, and member staff with ties to the ag sector.

For our members, we operate on a break-even philosophy so that they may procure their energy at wholesale prices. For our other consumers—that is, non members—we provide competitive solutions. Our focus is the delivery of natural gas solutions of greater than 50,000 metres cubed and 150,000 kilowatts of electricity consumption per year.

We are a member of and actively participate in the Ontario Co-operative Association and depend on policy and support from federal and provincial governments to ensure that co-ops are a supported business alternative.

We expect that government will support its constituents and embrace the cooperative principles to ensure growth and sustainability of the co-op sector as a means of investment, employment, job creation, tax base, etc.

Some of the obstacles we have faced are limited policy reform and education; affordable financing structures or reasonable financial covenants; grant structures or government funding, which sometimes excludes co-ops as a standard; and excessive red tape in dealing with government or support services.

At this point I'd like to pass on the presentation to Rose Marie Gage, the CEO of Ag Energy and the chair of Guelph Energy Co-operative, a co-op established by three founding members, one of which is Ag Energy. The Guelph Energy Co-operative was created to provide green energy solutions in the community of Guelph, Ontario, where Ag Energy is headquartered.

Thank you.

Mrs. Rose Marie Gage (Chief Executive Officer, Ag Energy Co-operative Ltd.): Thank you.

Dear committee chair and committee, sincerest thanks for the opportunity to share our thoughts regarding enhancing cooperatives and their support structures across Canada.

We are presenting a number of ideas that may be advantageous for future job creation and the growth of the Canadian economy by Canadians and for Canadians. Ag Energy's recommendations for your consideration are as follows.

First, recognize that cooperatives are a vital and viable means of business as a model for Canadians to supplement the existing definitions of business structures—for example, sole proprietor, partnership, joint venture, and so on.

Second, ensure that the federal cooperative corporations act is a flagship or leading-edge model for all provinces to use as a template for progressive improvements to the respective provincial co-op corporations acts and to ensure future viability, innovation, and competitive enhancements.

Third, reduce all forms of red tape in the processes that govern and support all cooperatives, irrespective of co-op type or industry served.

Fourth, eliminate all boundaries or hurdles for cooperatives in gaining access to capital financing, innovation centre support, government programming, and so on that are currently open to other businesses and excluded for co-ops. For example, create something akin to an affirmative action program or co-op equity program, with explicit guidelines, a positive outreach program and accessibility to all. The program should report tangible metrics that prove it is effective and provides benefit to the co-op sector. Another example is to modify existing programs that appear arbitrarily closed to co-ops due to a lack of understanding or a narrow scope by program custodians. Here, for example, I refer to angel investor matching programs by FedDev—with up to \$1 million that can be raised—that are matched and provided by FedDev for accredited investors.

Fifth, consider supporting co-op ventures by requiring all, or at least many more, funding programs to include broader community benefit and community support among the funding criteria. While other entities could also meet such criteria, co-ops would be particularly well positioned precisely because they are community-based, locally owned enterprises. Many programs already do require applicants to demonstrate broader community benefits. Extending such criteria to more programs would truly provide a boost to cooperatives.

Sixth, move the co-op secretariat to Industry Canada or Service Canada to ensure wider representation for all cooperatives across all industries, while ensuring that all expertise is maintained or improved upon.

Seventh, create two advisory committees for the co-op secretariat that represent all provinces and territories and a wide variety of co-op industries. It is desirable that this be represented by the co-op sector and not government employed. It is suggested that one represent for-profit and the other not-for-profit, and report to an executive committee that is comprised of both.

Eighth, establish a web-enabled presence for co-ops with tools to assist growth and development, the ability to share successes and best practices, and a means to ensure continuous learning for the co-op community. This can have the look and feel of a co-op learning and sharing centre complete with resources and details, but without the expense of bricks and mortar of traditional centres or institutes.

Ninth, create a director or board development program that enhances or builds upon existing training material akin to the Institute of Corporate Directors, which will be funded from future user fees. Please ensure that this is an affordable model relative to the current ICD structure.

Tenth, enhance means to capitalize cooperatives, whether it is through tax credits, use of self-directed RRSPs, or other incentives as they create jobs and provide taxes to the communities that they support.

Eleventh, amend the Income Tax Act to clarify that co-ops may raise more than 10% of their member equity in the form of investments through self-directed RRSPs.

Twelfth, eliminate the sunset clause around the deferred preference shares that is in place for 2016, or extend it for another decade to lapse at 2026. This would further assist in the continued capitalization of cooperatives.

Thirteenth, consider extending tax deferred preference shares beyond the agricultural co-op sector so that all cooperatives are able to utilize this means of retaining member capital within the cooperative.

• (1055)

Fourteenth, create an entity similar to Sustainable Development Technology Canada that supports the commercialization of for-profit cooperatives. This can be focused around the for-profit co-op sector to bring broader benefits to communities. This organization could be governed and funded in a similar manner to the Sustainable Development Technology Canada entity. The federal government could provide the seed moneys for the original structure, and the board of governors or directors could come from various co-op corporations and reflect various industries. This would serve two purposes: one would be to ensure that profits and ownership are maintained within Canada; and two, it would assist the co-op movement to have a shared financing vehicle that would consider innovation and potential investment outreach internationally.

On behalf of the board, the staff, and the member of Ag Energy Co-operative, we thank you for your time and consideration today. We look forward to your questions and also to your report, and would welcome the potential improvements that you will make along the way as a result of this review today.

Thank you.

The Chair: Okay, great. Thank you.

We'll move now to the La Coop fédérée.

Monsieur Richard, you're making the presentation, so the floor is yours for the next 10 minutes.

[Translation]

Mr. Denis Richard (President, La Coop fédérée): Thank you, Mr. Chair.

I am going to give part of the presentation and my colleague, Jean-François Harel, the general secretary at La Coop fédérée, will give the other part.

First, I wish to thank the committee for inviting us and allowing us to share our point of view on the place of cooperatives in Canada.

To begin, I want to make it clear that we are not claiming to have a global or comprehensive vision of the issues and challenges faced by the cooperative sector in Canada. However, we hope that, in the short time that has been graciously given to us, we will be able to provide you with valuable insight into La Coop fédérée's place in the global sector of agricultural cooperatives.

I will now hand the floor over to Mr. Harel, who will give you an overview of the organization itself.

• (1100)

Mr. Jean-François Harel (General Secretary, La Coop fédérée): Good morning everyone.

La Coop fédérée is the second largest non-financial cooperative in Canada. We are a federation of agricultural and agri-food cooperatives that is 106 members strong, representing a total of nearly 90,000 members.

With total sales of more than \$6 billion, La Coop fédérée and its network of affiliated cooperatives provide employment for nearly 16,000 Canadians in 4 Canadian provinces for the most part. Our activities are concentrated mainly in Quebec, New Brunswick and Ontario, but through our subsidiary, Olymel L.P., limited partnership, we are also active in Alberta and have sales offices in Japan and Australia.

The main industries in which La Coop fédérée and its affiliated cooperatives operate are farm input supplies and hardware materials and petroleum products distribution. La Coop fédérée is therefore the largest distributor of agricultural fertilizers in eastern Canada and one of the largest independent petroleum products distributors.

La Coop fédérée and a few of its member-cooperatives are also involved in the food processing industry, and several of our member-cooperatives are also present in the food distribution market. Through its subsidiary, Olymel L.P., La Coop fédérée is one of the largest pork and poultry processing companies in Canada and exports more than half a billion dollars of pork meat to over fifty countries worldwide.

La Coop fédérée is at the heart of an organizational model that brings together agricultural producers, citizen-consumers, food processing entities and distributors. I believe this provides us with a unique viewpoint on our sectors of activity.

How can the Canadian cooperative sector innovate to meet the needs of its members? By their very nature as cooperatives, La Coop fédérée and its network of affiliated cooperatives represent a natural partner for people who have their community's development at heart. Deeply rooted throughout the Quebec countryside, eastern Ontario and New Brunswick, La Coop network has perfected a business model designed for communities on the brink of decline. This model allows them to maintain basic services for their fellow citizens.

These combination service-stations, hardware and convenience stores are now the modern equivalent of yesteryear's general store. There are now more than 15 of these businesses currently in operation, providing the community with basic services, thus helping to stop the decline of these communities.

[English]

The Chair: *Pardonnez-moi*, the interpreters are having a little bit of difficulty keeping up, so could you just slow down a little bit.

Mr. Jean-François Harel: Too fast? Okay.

The Chair: Yes.

Thanks.

[Translation]

Mr. Jean-François Harel: I will take over.

We intend to continue developing this new formula wherever possible. As one of Canada's largest employers, La Coop fédérée and its network of affiliated cooperatives are significant agents of economic development in rural areas. For nearly five years, La Coop network has been involved in a wide-ranging restructuring process named the "Chrysalide" project.

The process is intended to pool the production assets and agricultural services of participating cooperatives to ensure that they can operate as a single unified body. This new approach is very innovative in management terms since it paves the way for economies of scale and critical mass, which are usually generated by corporate mergers. The approach, however, preserves the community's local involvement and feeling of belonging.

It should produce several tens of millions of dollars in recurrent savings that will benefit our members and, indirectly, each region's economic status. Unsurprisingly, restructuring usually means closing businesses and job losses. The "Chrysalide" project does in fact include the closure of several establishments, but they will generally be replaced with other, more employment-generating activities.

In this respect, La Coop network has reiterated its commitment to sustainably developing its activities and to converting agricultural biomass into energy production. There are several pilot projects currently under way to produce bioenergy from agricultural biomass. And we have recently joined forces with a group of Manitoba researchers, Prairie Bio-Energy Inc., to market technologies they have developed and to create a division dedicated to producing and distributing energy from agricultural and forestry biomass.

In terms of innovation, La Coop fédérée is involved in numerous projects, particularly through its participation in Cooperative Research Farms, the largest privately owned livestock and poultry research network in North America, as well as its own research farms. We are also involved in an ethanol fuel cell project and are partners in the fractionation of agricultural biomass molecules to manufacture bio-products.

Keeping within the framework of its commitment to sustainable development, La Coop fédérée has partnered with the Association québécoise pour la maîtrise de l'énergie and other major players in the Quebec economy. Together, we are working on implementing a cooperative to collect carbon credits and allow Canadian businesses who wish to take part in this upcoming new carbon economy to benefit from economies of scale.

This project is the result of the commitment of La Coop network leadership in response to the Quebec government's pledge regarding climate change. The network is readying itself to seize any

opportunity that may arise in a future carbon market, as well as educating and preparing La Coop network regarding climate change and energy efficiency.

As part of its "Chrysalide" project, La Coop network also invested in a comprehensive program to modernize its information technology infrastructure. In doing so, there is additional pressure on telecommunications firms to modernize their own networks and introduce the latest technologies in rural areas. We are currently living in a knowledge-based economy, and delays in updating and upgrading communication technology infrastructures in rural areas are a huge impediment to their development.

La Coop fédérée believes that concerted action on the part of all major economic players in these rural areas, in combination with a dynamic financial incentive policy from both governments, would be required to accelerate the deployment of high-speed Internet and digital telephony throughout all of these regions.

For our part, La Coop network will have invested almost \$30 million to modernize its computer and communications infrastructure over a 5-year period. All of these actions and projects are proof of the commitment of La Coop fédérée and La Coop network to the sustainable development of rural and peri-urban communities.

• (1105)

Mr. Denis Richard: Mr. Chair, what means are at the government's disposal to provide added support and greater opportunities and visibility for Canadian cooperatives?

We believe that a healthy and balanced economy rests on three fundamental pillars: a dynamic and highly productive private sector; a competent and efficient public sector; and a social cooperative economic sector that allows for individual and group accountability and empowerment so individuals can satisfy their own needs.

Besides coaching its own network of affiliated cooperatives, La Coop fédérée plays an active role in developing the cooperative movement in Quebec through financial support for structuring activities. Those activities include the Montreal issue table on cooperatives and mutuals, and a support program for the implementation of new cooperatives, in partnership with the Quebec government.

However, the federal government also has a role to play in the development and implementation of cooperatives in Canada, as it does with private enterprise.

Reinstating a fund dedicated to establishing new cooperatives would be a step in the right direction. Transferring the Rural and Cooperatives Secretariat to Industry Canada could also be a positive initiative if it were supported by sufficient resources to ensure that it could fully perform its role. The department's development policies must encourage, or at the very least not discourage, the cooperative movement and ensure that it becomes a priority for the department going forward.

In order for the movement to develop efficiently, Canadian cooperatives must be adequately monitored. Moreover, cooperatives are a model of economic organization that is different from share-capital businesses. Therefore, a well-organized cooperatives secretariat would ensure that regulations and legislation are not adopted without consideration for their impact on the cooperative sector.

As it pertains specifically to our sector of activity, a recent OECD study confirmed that the proportion of total household spending by Canadian families on food is relatively low, as compared with that of other countries. The proportion is evaluated at 9% in Canada and 7% in the U.S., while in France it is estimated at 14%, and in China it is 35%. That shows that Canadians have a fairly efficient food system.

From the consumer's point of view and despite recent price increases related to market hypervolatility, we can say with certainty that our agricultural and agri-food sectors are quite efficient.

However, the performance of our agricultural and agri-food sectors, which are at the core of regional economies, could significantly deteriorate if we persist in liberalizing the trade of agricultural foodstuffs without taking into consideration the unique features of this sector. Agriculture and food cannot just be bargaining chips in the liberalization of world trade.

As an agri-food cooperative, La Coop fédérée wants to make our position clear when it comes to the importance of agri-food in the Canadian economy. Agricultural cooperatives have a tremendous presence in this sector. In fact, cooperatives account for a significant share of the agri-food sector. You will be hearing more about the nomenclature over the next few days. We believe that the agri-food sector must remain partially regulated.

La Coop fédérée believes that liberalizing the trade of agricultural foodstuffs is desirable, but must be the subject of an explicit negotiation between all the countries that take into account the population's food security and sovereignty issues.

• (1110)

[English]

The Chair: Excuse me. You've actually gone a little bit over time already, but I see that you're nearly finished. I'll just give you 20 to 30 seconds to wrap up very quickly.

[Translation]

Mr. Denis Richard: I will end with a point on the liberalization of agricultural trade. And that point is this: we cannot stress enough the importance of regulating that trade. To quote something Paul Krugman, the 2008 Nobel Prize winner in economics, said in addressing a forum:

We had a very serious outbreak of human suffering and political instability resulting from a really quite brief spike in the price of food. It was not an extended period; it was overtaken by events by the broad collapse of economic activity thanks to the financial crisis. Had it gone on any longer, it might have been much worse and all indications are that the food crisis of 2008 was a dress rehearsal for future crises and we better have some mechanisms in place to deal with these.

Thank you for having us and for listening to what La Coop fédérée has to say.

Of course, we would be pleased to answer any questions.

The Chair: Thank you, Mr. Richard and Mr. Harel for that presentation.

We will now move on to Hélène Simard of the Conseil québécois de la coopération et de la mutualité, for 10 minutes.

Mrs. Hélène Simard (Chief Executive Officer, Conseil québécois de la coopération et de la mutualité): Thank you, Mr. Chair.

Ladies and gentlemen, members of the committee, I want to thank you for meeting with us today.

It is extremely important for all of Canada's regions that you have a clear understanding of where things stand and that we all support the creation of a tool that will help strengthen the economy and society.

The Conseil québécois de la coopération et de la mutualité brings together about 40 major cooperative and mutual organizations and associations throughout Quebec and Canada. We represent 3,300 cooperatives and mutuals across Quebec, which employ over 92,000 people and provide services to more than 8.8 million members. Together, these cooperatives generate \$25 billion in revenues and hold assets estimated at over \$173 billion. In 2009 alone, Quebec's cooperatives and mutuals paid out more than \$800 million in dividends. When you know that 75% of operations take place in the regions, you realize that this money goes back to our communities. It represents \$85 million in donations, sponsorships and community involvement. That is the incredible power of cooperatives.

In Quebec, more than 30 provincial organizations from all sectors and the Quebec government have endorsed the Declaration on the International Year of Cooperatives. These organizations represent labour, management, economic development, environmental and academic groups, as well as municipal federations. They advocate the creation of conditions conducive to the development of coops and mutuals, tailored to their features and functions and respecting their autonomy. This vast backing clearly demonstrates the strong support of Quebec's socio-economic stakeholders. They recognize the roles that coops and mutuals play in social and economic development, and their ability to contribute to sustainable prosperity by meeting the public's social and economic needs.

A strong economy requires the same kind of diversity in business that occurs in nature. We are absolutely convinced that the Canadian economy will become stronger and contribute to national prosperity if we spur innovation by stimulating the growth of cooperatives in additional fields. Coops in new economic niches address growing needs of Canadians in urban and rural environments. Those needs include renewable energy, domestic assistance and home care, daycare, new immigrant integration, transportation, recreation and tourism, health care, community services, cultural industries and manufacturing industries.

Cooperatives are also an important means of ensuring the survival of businesses confronted by the absence of a younger workforce to replace leaders who are getting older. With a survival rate twice that of other businesses, coops constitute a strong incentive to stimulate and support such undertakings.

The largest coops are now reaping the benefits of globalization as they market Canadian products around the globe. Coops have become thriving economic hubs for thousands of Canadians across the nation. In 2008, some 63% of new coops in Canada were established in Quebec, as compared with 43% in 2004. What happened? Joint efforts by Quebec's cooperative movement and the Quebec government to support cooperatives in their various stages of development have boosted the coop survival rate. That is why the cooperative network must continue offering specialized services to coops as part of its effort to promote intercooperation and the development of viable and sustainable businesses.

This model for supporting cooperative development could indeed be implemented throughout Canada, by relying on relationships with provincial cooperative boards and their partners. The Cooperative Development Initiative was the first step in the right direction. In coordination with provincial measures, the initiative helped the cooperative movement innovate and grow stronger, while giving it leverage.

In Quebec, for that matter, all provincial program administrators sat on a committee overseen by the Conseil québécois de la coopération et de la mutualité to ensure coordination with CDI measures. Thanks to that mechanism, it was possible to avoid all the problems that can arise with program duplication. The stakeholders were able to consider all the projects, providing an efficient way of seeing the big picture.

● (1115)

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

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

According to a report by Ernst & Young, globalization, consolidation, technology, environmental protection imperatives and increased competitiveness have boosted coops' capital requirements. They must acquire additional investments from their members to obtain the funds they need. Governmental policies promoting such capital inputs could have a decisive impact on the development of cooperatives, communities and regional economies.

Because Canadian tax laws fail to adequately consider their unique features, cooperatives have to deal with certain fiscal disparities. Take, for example, the flawed application of the integration principle, which has been mentioned already. The integration principle serves as the foundation of our tax system. The choice of legal structure through which taxpayers earn their revenue should have no impact on the amount of taxes they pay. Since cooperatives are not eligible to employ some of the existing integration mechanisms, tax inequities adversely affect cooperative members. Such factors may also deter investment in cooperatives. This is the case with capital dividends, taxation of investment income and taxation of revenue from a subsidiary.

This flaw results in major taxation inequities when it comes to capital gains, for instance. The maximum rate of additional taxation for a cooperative on capital gains is 21%. For investment income, it's 4%, and for income from a subsidiary, that rate is 15%. We have the study done by tax experts at the Mallette firm, which Ms. Gagné mentioned. It points to these exact problems. Given that 2012 is such a milestone year for our movement, we are using this opportunity to call on our governments to examine the situation and rectify these problems.

In addition, holding cooperative shares in an RRSP is turning into a very problematic issue. In the 2011 federal budget, the government made significant changes to the rules for holding cooperative shares in a registered plan. Now, a member of a cooperative is no longer allowed to hold over 10% of a cooperative's capital and is subject to heavy penalties, when it comes to RRSPs. This rule is designed to prevent the circulation of capital and the misuse of measures, situations that do not normally apply to cooperatives because the transfer of RRSP shares is not tied to the organization's decision-making authority. This legislation clearly illustrates the difficulty lawmakers and regulators have when it comes to taking into account cooperatives' unique features.

We have a few recommendations that I would like to call your attention to.

Firstly, we recommend that the government create an environment conducive to the development of cooperatives, tailored to their features and functions.

Secondly, we recommend that the government consider the specific nature of cooperatives in all of its programs, laws and initiatives for business, unless it has specific reasons not to do so. The Government of Quebec recently undertook such a commitment as part of its entrepreneurship strategy. I think the outcome would be very positive if the Government of Canada were to adopt a similar approach.

● (1120)

Thirdly, we are calling on the government to forge a partnership for developing cooperatives to support the creation of cooperative businesses throughout Canada.

Fourthly, we are asking the Canadian government to review the overall fiscal environment for cooperatives to reduce or eliminate inequitable taxation.

I didn't have enough time to go over it in detail, but I will end by underscoring the findings of the Ernst & Young study I referred to earlier. The report mentioned the implementation of a federal cooperative investment plan, similar to Quebec's. Our research shows that this would be an extremely lucrative measure in terms of federal government revenues. So it would not be an expenditure, but an investment.

Thank you.

The Chair: Thank you, Ms. Simard.

[English]

We'll now move to our first round of questioning, and first up we have Madame LeBlanc, for five minutes.

[Translation]

Ms. Hélène LeBlanc: Thank you to all of our witnesses for their briefs.

You've given us a number of recommendations. You've done an excellent job of describing the situation. You've also put forward solutions and real examples of the contribution and innovation of the cooperative movement. You've risen to the challenges posed by the current climate. I think it's wonderful. I want to sincerely thank you for everything you're doing in that respect.

My background is in agronomy, so I am extremely interested in the agricultural side of things. I am also the industry critic, so the innovation that cooperative businesses have shown is also of interest to me.

Mr. Richard and Mr. Harel, you referred to some very innovative energy projects that La Coop fédérée was working on.

Have you been able to access federal R and D programs? Did those programs suit the needs of the cooperative movement?

• (1125)

Mr. Denis Richard: For many years, La Coop fédérée has been accessing federal government R and D programs. Sometimes we have to find roundabout ways of accessing some of those programs because cooperatives are not always directly eligible. What we often do is partner with other businesses in order to access programs.

As for the new energy initiatives, they nearly always involve partnerships. In terms of the use of biomass molecules to manufacture new products, the emerging trend is such that the research would be too expensive for La Coop fédérée to undertake on its own. While you might consider La Coop fédérée to be quite a big business because of its \$6 billion in sales, it is too small to pursue this kind of research alone. So we have to work with partners. We work with other Canadian businesses that are not necessarily cooperatives.

It was mentioned earlier that Desjardins Group was a partner in the carbon area. And we have partners in Manitoba helping us with the combustion piece. In terms of developing the next generation of ethanol, we also have other partners who have been working in the field for a long time.

I will let Mr. Harel speak to the molecule project, since he knows more about the last consortium held with the businesses in the Eastern Townships.

Mr. Jean-François Harel: It's a partnership with Enercan. We often undertake this type of partnership because of our agricultural role. Basically, we are able to provide biomass, ensure the supply and develop dedicated plants. So the research consortium has an agronomic component. Because of that, the Industry Canada people are often interested in what we're doing.

Ms. Hélène LeBlanc: Do you think the federal government should have a role in facilitating these kinds of partnerships?

Mr. Jean-François Harel: These are high-risk sectors, so frequently the problem is accessing dedicated funding. There are, however, existing provincial and federal programs. As for R and D tax credits, big businesses don't have much trouble when it comes to meeting program requirements. Where problems are more likely to crop up is in the agricultural area. What we have done is join forces with other institutions in Quebec to set up a group exclusively dedicated to farming, in order to help farmers, who in some cases are engaged in research and innovation. Unlike big business, they don't carry out basic research, but instead focus on practical aspects. They need just as much access to these credits as any other business or Canadian would.

Ms. Hélène LeBlanc: Thank you.

Ms. Simard, you talked about the cooperative investment plan. If I'm not mistaken, you already proposed that measure to the federal government. What reaction did you get? Did anything positive come of it? Does the government have any interest in a plan of this kind?

[English]

The Chair: As you know, the time has expired. I will allow you to respond, but briefly.

[Translation]

Mrs. Hélène Simard: Yes, presentations were given. A House of Commons committee examined the issue and all four parties unanimously resolved to support such a plan. We've even received Mr. Harper's backing as far as implementing a cooperative investment plan goes. We hope the Department of Finance will continue to pursue it and that the plan will eventually see the light of day.

The Chair: Thank you.

Now, we are moving on to Mr. Gourde for five minutes.

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

I also want to thank all the witnesses for being here this morning. Your presentations were extremely informative.

My question is for the representatives from La Coop fédérée. You seem concerned about market hypervolatility. You went to the trouble of mentioning it in your closing remarks. Could you elaborate on that? Are you worried about what might happen?

Obviously, it can lead to an imbalance if grains start becoming too expensive, for instance. It could mean supply problems for La Coop fédérée's other lines of business, such as meat. That could happen if producers started to produce less meat. Could you please explain that in greater detail?

• (1130)

Mr. Denis Richard: The comment I made about price hypervolatility is not really a concern for La Coop fédérée. That is not a threat to us. I was referring to Canada, as a whole.

Agri-food is a more stable sector, particularly because of the cooperative presence. These are businesses that cannot make swift agreements or fall prey to hostile takeovers by foreign non-Canadian companies. Canada's agri-food sector represents a big chunk of the country's GDP, as compared with other countries around the world. The increasing financialization of the agri-food sector and price hypervolatility may, in the long run, mean higher food costs for Canadians.

The average Canadian spends 9% of their income on food. In China, that figure is 35%. In Europe, it's 15%. Along with the Americans, who spend 7% of their income on food, we have the lowest food costs in the world. There is a much greater likelihood of our food spending going up than that of the Chinese. For them, the global economy could bring down food costs. Canadians, however, are likely to see those costs go up.

What we are saying is that the government has to take a cautious approach to liberalizing the trade of agri-food products. Fostering world trade is important; not only is it necessary, but it also stimulates the economy. But agri-food trade does require a certain degree of regulation, so that Canadians do not lose the tremendous advantage of being able to spend just 9% of their income on food. Maintaining that 9% is key, or targeting the Americans' 7% might even be better. Keep in mind, though, that the Americans subsidize a large portion of their agri-food industry.

That was the final recommendation put forward by La Coop fédérée, a major agri-food player. We are advocating that the government exercise prudence in its policies going forward and that it endeavour to maintain or reduce Canadian's current proportion of food spending of 9%.

Mr. Jacques Gourde: Since world output determines grain prices, not Canada individually, what do you suggest in terms of regulations or measures? The market often determines grain prices, and there are a lot of speculators out there right now.

Does that impact farms? Farmers don't necessarily receive the profits this speculation can generate.

Mr. Denis Richard: It dramatically increases the risks involved with managing a farm in Canada, because input costs hinge on grain prices. A farmer may see a highly volatile market with very swift peak periods as a great opportunity to make a profit. But, as they say, what goes up must come down. When grain prices come down, as they did in 2009, farmers end up paying input costs that are too expensive in relation to grain prices. So the economic impact is significant. Farmers can no longer be satisfied to run their operation; they also have to engage in speculation. And that increases the risks.

On the Chicago stock market, back in 2008, at the height of the financial crisis, grains were traded back and forth between the producer and the user 60 times. So that means 60 back and forth possession acquisitions between the producer and the user. That means greater risk for farmers not speculators because that is their business. If I am a farmer, more and more, I have to play the role of speculator.

[English]

The Chair: Thank you.

Next we have Monsieur Bélanger for five minutes.

[Translation]

Hon. Mauril Bélanger: Thank you, Mr. Chair. Good morning, ladies and gentlemen.

Mr. Richard, I had the pleasure of attending the official opening of one of your cooperatives in Notre-Dame-de-Montauban, a village northeast of Shawinigan. I was with some fellow committee members. The village was about to lose its grocery store, its gas station and its hardware store. Now, they have a coop with a grocery store, a hardware store and even a Desjardins bank machine. They also have a gas station. Ultimately, the municipality brought the public library into the fold. Everyone is glad, and if I understand correctly, more than 80% of the families there have joined the coop. That's an incredible example of a project that delivers community services. I saw it with my own eyes.

That brings me to the other point that you mentioned, the Internet. To get to the village, I used the map on my iPad, but my service cut out on the way there. That's when I realized what life was like for residents in the area. What is La Coop fédérée doing, aside from the \$30-million injection you talked about, to ensure local service and create a new business? I saw similar situations in Alberta and other rural areas. Is there truly a future in the movement for a new crop of cooperatives?

• (1135)

Mr. Denis Richard: I think there is room for the cooperative movement. When people take matters into their own hands, they manage to do some pretty great things.

The Notre-Dame-de-Montauban example shows that La Coop fédérée's board of directors has been willing to sacrifice a portion of its revenue for many years in order to help the communities that take control of their destiny in the sectors it is involved in. It will not create a concept. La Coop fédérée would have never created a concept like the one in Notre-Dame-de-Montauban. If community members agree to form a cooperative and take charge of the situation, we support them and take risks. That is not a business decision. In a business decision, La Coop fédérée would have never created a concept similar to the one in Notre-Dame-de-Montauban. However, as we are part of a cooperative, we agree to take a bit more of a risk for the benefit of those who come together in a cooperative.

Regarding the Internet, in order to have a network of cooperatives affiliated to La Coop fédérée—as in the Notre-Dame-de-Montauban example—it is important to have permanent and effective communications. I say “permanent” because communications are often not permanent; they are often temporary and fluctuating in the regions. The data absolutely must be centralized so that a large business can work with our network. That requires easy access to Internet communications that are always reliable and fast, so that everyone can constantly be online in order to lower the administrative costs to a minimum. Communications, around the world, help reduce companies' administrative costs. That entails a minimum critical mass. It is possible to create a federation with small cooperatives like it's been done in Notre-Dame-de-Montauban, but means of communication are required.

Hon. Mauril Bélanger: Ms. Simard, during your presentation—and I want to thank you very much for it—you provided very specific figures on the additional taxation of vertically integrated cooperatives, if I have understood correctly.

You said that, in the case of capital gains, taxation may be up to 21% higher than it is for a private share-capital business. We are talking about 4.5% on investment income and 15% on income from subsidiaries.

Is that the case for your subsidiary, Mr. Richard? You do have a subsidiary, right?

Mr. Denis Richard: Yes, we have several.

Olymel is the most well-known of them, but we have several.

Hon. Mauril Bélanger: Is that the case, or do you have to take endless detours to not get there?

Mr. Denis Richard: The first principle that applies to us is the obligation to follow the rules. However, major companies can create subsidiaries to adapt to the regulations. The study shows that, for most cooperatives, the tax burden is greater than it is for share-capital businesses.

La Coop fédérée, owing to its sales figures—the company has tax experts—may create and own other companies so that it can follow the rules. That can happen. However, generally speaking, cooperatives are penalized in terms of taxes.

• (1140)

Hon. Mauril Bélanger: Mrs. Simard, what do you have to say about that?

Mrs. Hélène Simard: That's right....

[*English*]

The Chair: I'll just ask you to make it very brief, if you can, as the time has expired.

[*Translation*]

Mrs. Hélène Simard: As Mr. Richard was saying, the study carried out by tax experts focused on general cases related to the direct status of active cooperatives.

When it comes to taxing income from a subsidiary, we are told that cooperatives, like share-capital businesses, do not have a mechanism that avoids double taxation—such as when a subsidiary pays a dividend, which it then distributes to its members.

A share-capital business can use that mechanism to avoid double taxation, while cooperatives cannot. Naturally, as Mr. Richard was saying, small and medium-sized cooperatives cannot structure their company so as to avoid those problems.

[*English*]

The Chair: Thank you.

That closes out the first round of questioning. We'll move to the second round now.

We have Mr. Boughen first, for five minutes.

Mr. Ray Boughen: Thank you, Chair.

Welcome to the panel and to Bill and Rose. It's good to have you folks with us. We appreciate your taking the time to share your knowledge with us.

Speaking of knowledge, there are 14 items, Rose, you put together with your folks. If you had to pick the top three out of the 14, what would they be, and why would they be?

Mrs. Rose Marie Gage: I think if we were to look at the largest, most overarching opportunity, it would really be providing cooperatives with parity with other types of corporate structures, whether they're privately held or publicly held entities.

If you could do that, whether it incorporates grant structures or support services or tax applications or all of those aspects, that would be one. And that's a fairly big ask.

Another one would be opening up the co-op sector to be across all boundaries and across all industries. And provide some form of an innovation centre. That would be comparable to point 14. That would be a good area to focus in on for future advancement from a for-profit perspective, because profits will, in turn, ripple through the Canadian economy and will make substantial improvements.

Last, but I think also formidable, is the reduction of red tape. There is a federal program looking at red-tape reduction right now. I would suggest some effort to look into how to deal with the co-op structures and the co-op entities that are supported and to further enhance the red-tape reduction program to incorporate cooperatives.

I believe that if you were to embrace those three, it would be a formidable change for the co-ops represented here today and for those across Canada.

Mr. Ray Boughen: Okay, thank you for that.

Turning to the panel, I have one of your quotes here, Madam Gagné. I'm wondering if you can put this in a bottle and we can take it home with us.

You say here that “co-ops continued climbing in 2009, to a total \$11.5 billion, for an overall 85.5% surge from 1999 to 2009”. We have to get some of that and spread it around this country. That's phenomenal. How do you account for that? Share with us your secret.

[Translation]

Mrs. Hélène Simard: That figure concerns employment growth. It comes from a study carried out by the ministère du Développement économique, de l'Innovation et de l'Exportation du Québec. That department has asked us the exact same question. What is the magic secret?

I would say that the secret is in the cooperative's very structure. A cooperative is created to meet its members' needs. When it goes through a good period of growth, it considers reinvesting in order to create jobs and provide its members with enhanced services. It does not generate those revenues to invest them in a tax haven or to speculate in another area of activity. It is dedicated to its original mission.

The mission to create jobs is part of companies' willingness—across Canada—to create economic prosperity and employment. The goal is not to create wealth for the sake of wealth itself. The goal is to create wealth in order to distribute it and make it work, so that it can be used to develop our territories, regions, communities and workers. It is in this spirit that members govern cooperatives.

However, that would be impossible if companies were unsustainable. They are sustainable because, in accordance with their governance rules, administrators manage them like real companies.

People sometimes think that a cooperative is not administered like a company because it starts out small or because it is created based on the need of a single member. A cooperative is truly a company whose members, general assembly and board of directors care about having a sustainable company at the end of the year that can save money for the future, invest in equipment, innovate and improve working and living conditions.

• (1145)

[English]

Mr. Ray Boughen: Thank you.

How are we doing, Chair?

The Chair: You have 10 seconds.

Mr. Ray Boughen: I have 10 seconds? Okay.

To the gentlemen, how did you establish outlets outside of Quebec with the ag services? You talk about B.C. and some other outlets. I'm wondering how you set that up.

The Chair: I'll ask that the response be a brief one, please.

[Translation]

Mr. Denis Richard: Outside Quebec, it is a matter of acquiring companies. We are very present in southern Ontario in the farm input business, but that has been achieved through company acquisition.

We are also present in Alberta, in Red Deer. Once again, we acquired a slaughter house in Alberta.

Outside Quebec, we don't really have meetings with members of the cooperative movement. That's unfortunate, but it has to do with opportunity. Had we been able to merge with current cooperatives, we would have favoured that method. In reality, we acquire private businesses sold by people who are often retiring.

[English]

The Chair: Before we move forward with the next round, you just mentioned that you had acquired a slaughterhouse. Was it in Red Deer, Alberta? Okay. Was that one that was formerly a Fletcher's plant? Is that correct? Okay. Well, I've been there many times. We used to haul our hogs from our farm there every week, so that's a little personal note there anyway.

We'll move on to Madame Brosseau for the next five minutes.

[Translation]

Ms. Ruth Ellen Brosseau: Good morning, everyone.

My question is for the whole panel.

The government recently eliminated the Co-operative Development Initiative. That initiative provided \$4 million annually and helped young cooperatives start up. Do you think that decision will affect young cooperatives that want to start up or are beginning to come together? Could you give us any specific examples of the impacts those cuts will have on cooperatives or your own members?

Mrs. Hélène Simard: The \$4 million certainly helped provide technical support for creating a cooperative. There was an innovation component, which had more to do with business projects. Assistance was provided for start-up and business plans. Support was given for part of the risk and innovation in cooperatives. We could see in the part related to support—especially in communities with fewer experts—that a cooperative is not started up like another company. Starting up a cooperative is an activity recognized by the United Nations.

The first thing that must be done is establishing a community entrepreneur. They must be provided with support and understand properly the governance rules that will apply to their work. Their entrepreneurial spirit must be allowed to flourish. They are not people who, at some point, have that spirit of individual enterprise. That is another way to support company start-ups.

It is certain that the support provider must be someone who is familiar with the cooperative culture and life, and with the company development business environment. That is why expert support is needed. This is recognized around the world.

I can talk about francophone communities because I have been a member of the Conseil canadien de la coopération et de la mutualité. In many communities, the Co-operative Development Initiative helped cooperatives pool their tools, but they could not necessarily afford to hire experts to support new companies.

That initiative helped create new companies in New Brunswick, in sectors like services for seniors. In the energy industry, a nice example was provided earlier. There have been some examples in New Brunswick's wind and business services sectors.

Many companies were able to start up thanks to that more specialized support, which is always complementary to the economic development support that may be available elsewhere. That's a key tool. It is something of a cornerstone—in its absence, companies cannot start up or will be much fewer.

• (1150)

Ms. Ruth Ellen Brosseau: I now go to Mr. Richard or Mr. Harel.

Mr. Denis Richard: In connection to what Mrs. Simard said, we have introduced La Coop fédérée to you. That company has a network, \$6 billion in sales and a 90-year history. Ninety years ago, cooperatives were created with the help of the agriculture, land and forestry department's regional agrologist or the village priest. To start up, a cooperative needs someone to organize the collective entrepreneurship. Studies show that those companies have a better survival rate, but the start-up process is less straight-forward than when entrepreneurs have an idea, acquire some money and create the company themselves. Their idea is sometimes poor, and the company disappears.

Cooperatives are based on a collective need that requires organization. As you were told earlier, Canada's economy needs cooperatives and social economy, but cooperatives need help starting up. Once they have taken off—like La Coop fédérée—they no longer need assistance to operate. As a company, La Coop fédérée can take on the world. Through Olymel, we sell in 50 countries, but 90 years ago, La Coop fédérée could not do that. Ninety years ago, it needed help to start up its cooperatives.

Mr. Jean-François Harel: I want to add something to what Mr. Richard said. La Coop fédérée is also a federation of cooperatives. It plays both roles. It supports cooperatives and provides them with consulting services for their strategic planning and business turnaround. Once the cooperative has been created, it is La Coop fédérée's job to support it in its growth. However, its role is not the establishment of cooperatives, especially since it is already working in mature industries.

[English]

The Chair: Thank you.

For our next round of questioning, we have Mr. Lemieux. You have the floor for the next five minutes.

Mr. Pierre Lemieux: Thank you, Chair.

[Translation]

I want to thank the witnesses for joining us today.

I think it's very important to hold meetings on cooperatives because, this week, Canadians have an opportunity to learn about cooperatives and their success stories. We have heard a lot of testimony highlighting the successes and the strength of cooperatives in communities across Canada.

[English]

I would like to ask a question about some of the comments we've received on a number of days regarding government programming and the challenges that co-ops sometimes face in accessing the government programming.

I was going through some examples yesterday. There seems to be fair treatment between businesses and co-ops. For example, both co-ops and businesses benefit from the lower business tax rates that are now in effect, and from accelerated capital depreciation, particularly if they're in the manufacturing industry. The preferred dividend tax rates apply to businesses as they apply to co-ops. So there didn't seem to be any disconnect there.

But there was a comment here from the Ag Energy Co-operative. Rose Marie, you made a comment about modifying existing

programs that appear arbitrarily closed to co-ops due to a lack of understanding or a narrow scope by custodians.

We've had a number of co-ops make, I'll say, general comments, but not really specific examples. I understand it's difficult, because if you discuss a particular project, it just may not have ranked high enough. I can tell you from programs in my riding that oftentimes there's a certain amount of money available and the demand usually exceeds the money available by a factor of seven to 10 times. So if there's \$1 million available, you get demands for somewhere between \$7 million and \$10 million worth of projects, and you simply can't approve them all.

I'm wondering if you could perhaps provide us with some concrete examples, with or without naming particular projects, of what you perceive to be roadblocks. I would think that government programming would not set out to exclude co-ops. I would think it would be open to any business enterprise, that they would be evaluated in a comparable manner and then ranked, and then funded where possible.

• (1155)

Mrs. Rose Marie Gage: It's very difficult to provide comparable, apple-to-apple types of examples. Really what we're looking at is just being points of mind alongside any type of program that allows for funding of the co-op sector.

For instance, a point was raised here about angel investing matching programs, where if you have accredited investors, which is a specific category, as I'm sure you're familiar with, looking at investment.... If you can garner that type of investment and have the FedDev program open up comparable types of opportunities, that would be good. But at this point in time this particular program goes strictly through angel investment entities. As such, it actually excludes the co-op sector, because it's strictly to angel investors.

Now, one could open it up so that the angel investors also are from a co-op entity of angel investors, but that's not been comprehended as of yet, and perhaps that's just merely a new thought.

So it's really just thinking differently from how we have, and rather than having very a narrow focus to opportunities for granting, have a little bit wider focus.

Mr. Pierre Lemieux: What I'm thinking of is in terms of economic development. We're very focused on jobs and job creation, for example.

Here in Ontario we have FedDev Ontario. They have programs running. They focus their priorities on job-creating projects and initiatives, I would think put forward either by cooperatives or by industry, put forward by business. In other words, the project has its own merit, whether it's being presented by a cooperative or being presented by a business.

In my riding we have the community futures development corporations, CFDCs, that deal with more local use of federal money. We just had a cooperative structure get funding to launch a feasibility study on a project they put forward.

Again, perhaps on this angel investor, I'm not aware of that one. Perhaps that program is targeting one sector and not another. But in general when we look at job creation programs or something along those lines, have you detected a difference that you can put your finger on?

Mrs. Rose Marie Gage: We have not had one specifically. I've just had exposure to this angel investment opportunity, and I saw that it did not include co-ops. It really was specific to an example that was in terms of angel investments, and it was through angel investment entities. So the funding would come, if there were angel investors, through an angel investor group.

It's really looking at and asking whether you can do something comparable and provide dollars attributed to growth that would allow for, perhaps, angel investment for cooperatives. It's just really looking at parity.

But we have not found specifically at this point in time, through our past, anything that has been a tremendous boundary. We have been fairly narrow in terms of our scope, which has really been in the offering of commodities to our membership, as well as looking into some green-energy opportunities. And we have successfully garnered some granting opportunities when we've partnered with local universities.

Mr. Pierre Lemieux: All right. Thank you.

The Chair: Thank you.

Next we have Mr. Harris for five minutes.

Mr. Dan Harris: Thank you, Mr. Chair.

Thank you to the witnesses. *Merci d'être ici.*

Ms. Gage, I'll start with you. Just to follow up on that, are you familiar with any co-op programs that are making use of investment or opportunities through FedDev?

Mrs. Rose Marie Gage: We have actually gone ahead and worked in conjunction with a couple of cooperatives. I have been exposed to them, but I can't remember, truth be told, what the specific ones were. I do believe they did get some form of granting. I don't believe it was exceedingly large, but it was some form of relief for their cooperative to get structured.

I also am of the impression that the Ontario Co-operative Association has received funding—I'm not sure whether it's federal or provincial—to allow for training programs. That has allowed us to successfully garner a recruit via Ontario Co-op's employment base, and that individual is now part of our full-time staff.

So yes, there have been opportunities to be able to use...and gain support—and job creation as well.

• (1200)

Mr. Dan Harris: Thank you. That's certainly something for us to look into a bit more.

I want to move on to your recommendations, and then I'll also ask the same question to La Coop fédérée.

Your sixth recommendation is to move the co-op secretariat to Industry Canada or Service Canada. I'll just focus on Industry,

because many other witnesses have brought this idea forward as well.

Why do you think it should be moved to Industry Canada?

Mrs. Rose Marie Gage: There is a limiting aspect to where it currently is. On a conference call with other cooperatives, it was very evident that those in the non-agricultural sectors felt that was a hindrance.

For us, as long as opportunities in terms of expertise and skill sets are still provided, there is no reason why it should not go to Industry Canada, where a wider platform of services is actually available, whether they're perceived or not. Perhaps it's just a matter of perception that, in terms of cooperatives, individuals feel they are not getting as much value from the current entity.

Mr. Dan Harris: Okay, thank you.

[*Translation*]

My question is for the representatives of La Coop fédérée. I have with me a copy of your presentation because I would like to read an excerpt from it.

I will read it in English.

[*English*]

just to get the quotation right:

Transferring the Co-Operatives Secretariat to Industry Canada could also be a positive initiative if it were supported by sufficient resources to ensure the fulfillment of its role.

[*Translation*]

You are in favour of that transfer, and you also say that sufficient resources are required. Do you think the secretariat currently has sufficient resources to play its role properly?

Mr. Denis Richard: We at La Coop fédérée think it is important for the Rural and Co-operatives Secretariat to be transferred to Industry Canada. That belief is based on Quebec's experience. Cooperatives should be the responsibility of Industry Canada, which develops businesses. That body often establishes policies. It presents programs to the House of Commons for developing companies in Canada and stimulating the economy. It has budgets for developing companies. Cooperatives are another form of business and are attached to an agricultural department. We could end up with different policies.

Let's consider Quebec's experience. That province put its department of industry and commerce in charge of relations with cooperatives. That enables department people to develop policies that apply to all types of businesses. We see that as an advantage because some of Industry Canada's budgets may be distributed among cooperatives and other companies.

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

Mr. Dan Harris: Do you think the Rural and Co-operatives Secretariat has sufficient resources?

[*English*]

The Chair: Sorry, unfortunately your time is done.

Mr. Dan Harris: It was just to have him briefly respond to the second part of my question.

The Chair: I will allow it, but be very brief, please.

Mr. Dan Harris: Thank you.

[*Translation*]

Mr. Denis Richard: As several people—including Mrs. Simard—have said many times, we need a mechanism if we want to have dynamic cooperatives. You will call it what you want, but the mechanism will consist in supporting and counselling cooperatives, so that the government can understand what goes on in them.

• (1205)

[*English*]

The Chair: Thank you.

We'll move now to Mr. Preston.

You have the floor for the next five minutes.

Mr. Joe Preston: Thank you very much.

Thank you all for your presentations and your recommendations. We're compiling quite a list here of things to look at, and sorting through them may or may not be easy. Many of you are hitting on some of the same things.

I heard something new, Mr. Ravensbergen, in your piece of presentation. You talked about your organization and expanding your offering to include managed cooperative services for other co-ops. Can you give me a quick version of what that means? Are you helping other people start co-ops, or manage their co-ops after they've started? Are they associated with the co-op you have, or are they at arm's length?

Mrs. Rose Marie Gage: It's Rose here, actually, and I'll take this one on as I'm working on that more directly than William is. William serves as the governing head for the entity.

Yes, where we can provide value, we're looking at providing services to others who are looking at creating co-ops.

For instance, we have already invested in an infrastructure, whether it's our IT, our membership categorization, our customer database, and so on. So where it makes sense for us to be able to lever what we have and proffer our skills to others, we would like to be able to do so. That way, what we are doing is diversifying our skill sets and our revenue streams, but also supporting others, without having to go through the same learning curve or the same investment.

Mr. Joe Preston: It makes great sense.

Are they associated with your co-op, or are they arm's-length organizations that just come to you and on a fee-for-service basis hire your skills?

Mrs. Rose Marie Gage: They are not owned by us. They would be entities that we might take a stake in, or perhaps they would be

just generic co-ops that are looking for services. So it could be arm's length or it could be completely exclusive on a fee-for-use basis.

Mr. Joe Preston: Fantastic.

Mrs. Rose Marie Gage: We are open to the opportunity.

Mr. Joe Preston: Great.

From our panel, is this prevalent throughout your organizations too? Is this happening on a general basis, that co-ops already existing are helping manage other co-ops or helping start-ups with other co-ops and giving them your expertise?

[*Translation*]

Mrs. Hélène Simard: Yes, that is done on a regular basis. That is common practice for the members of the Conseil québécois de la coopération et de la mutualité and for cooperative federations. We say that an isolated cooperative is a fragile cooperative. We encourage them to participate in their regional development cooperative and the federation in their industry sector—when there is an organized sector. Good business practices are shared. Knowledge is pooled, and that is how companies develop. That's extremely important.

I would like to clarify a few things. When it comes to support programs, the board administers them with the Government of Québec. The financing rate by cooperative members is over 70% in our cooperative federations. I am not taking into account all the major cooperative networks, which contribute to the help provided for small cooperatives, the start-up process or support.

A number of cooperatives are grouped together. Small and medium-sized companies are grouped together in new federations. They may work in energy, funeral services, the school world, cable services or telecommunications. In those company networks, support can sometimes be given to innovations, to the restructuring and development of new business sectors, but generally, members provide a major contribution. That is typical of the cooperative business model. People develop on their own and participate in their development.

[*English*]

Mr. Joe Preston: Perfect.

I think I've hit on another secret of the longevity of cooperatives and why we have great success. It's cooperatives helping cooperatives stay in business and go further in business.

Monsieur Richard, is it the same thing in your organization, helping other cooperatives succeed, within your network and outside of your network?

[Translation]

Mr. Denis Richard: A cooperative is a company. It has a board of directors that ensures the company's sustainability. Some of our results will help other cooperatives. That is not our priority, unless we're talking about cooperatives from our network. As Ms. Harel said earlier, we provide support services to our members. We are willing to help other cooperatives in collaboration with the Conseil québécois de la coopération et de la mutualité, and occasionally with other stakeholders. However, that is not our priority.

• (1210)

[English]

Mr. Joe Preston: I love the thought and I'm glad I've heard of it. It sure beats the, "Hi, I'm from the government and I'm here to help." Instead, "I'm here from the cooperatives and I'm here to help."

The Chair: I'm sorry, Mr. Preston, but I have to cut you off there.

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

Mr. Malcolm Allen: Thank you, Mr. Chair.

I hear what Mr. Preston is saying, but I think what the cooperatives are saying is, "Hi, the government hasn't helped much yet."

Mr. Lemieux talked about job creation and that FedDev was meant to be an investment fund for creating jobs, etc. It seems from what I've heard in the last number days from the testimony from co-ops is that you ought to be at the top of the list because of your success rate, your longevity, and the fact that you create jobs rather than off the lists, it seems. It's sometimes on the list, but sometimes there's a list that you should be on and folks don't know that's the list that you're supposed to draw from. As much as the government maybe doesn't have to be in your backyard all the time telling you what to do, it certainly ought to be there to assist you when you're looking for help.

These are all wonderful things and, clearly, Mr. Richard, you talked about restructuring. I say this because we've heard all of these wonderful stories, which they are, but not all is light. I hate to be the proponent of a dark cloud, but there doubtless are moments in time when things don't go as well as the members want.

What makes you different from a for-profit, investor oriented, shareholder company when their bad times come? What is the difference between you and them? How do you see yourselves restructuring? Do you restructure differently? Do you look at it differently?

[Translation]

Mr. Denis Richard: Companies are part of the same economic world; they are facing the same economic imperatives. They must have the same management capacities, regardless of the company's nature or structure.

In a crisis situation, one of the key features that sets cooperatives apart from share-capital businesses is the fact that cooperatives redistribute their surplus based on the activities of all their members. Share-capital businesses, as their name suggests, redistribute their profits based on invested capital. Those are investors, and that mostly happens in public companies.

In the case of big companies like La Coop fédérée, our competitors are public companies. They must report their results every three months. Agri-food is a fluctuating sector. In periods of crisis, those companies' executives must report to their shareholders and explain why they had poor results that month, and why they may have more such results next year. Investors then tend to leave companies. However, our members don't leave us. They are users; they are our clients. They understand the situation because they need the cooperative in the long term. They accept the fact that the cooperative cannot redistribute money during a crisis year. Since their company is necessary, it must stay put.

I am a farmer. If I had invested capital and was expecting a return, in the case of a crisis in agriculture, I would take my capital and invest it in another area of activity. However, as I am a farmer, my company must endure. So I would not withdraw my capital. I am patient because that is important for my company, whose user I am. The same goes for agriculture. Whether we are talking about a cooperative in the energy sector or another industry, owners are users. So they are patient; they accept and understand crises.

[English]

Mr. Malcolm Allen: So it's in the sense of a longer term view. I'm reminded of the business press, which talked about Apple this morning, supposedly the glowing star of the last year, going down in the last quarter. So it seems that all of a sudden, the company is headed for the doldrums. Yet it's the wealthiest company in the world when it comes to capital assets, but somehow the last three months have sent it into a tizzy, according to the business press. I never hear that about my credit union actually. It's usually not in the business press, except when it merges. The last time I checked I got my share dividend last year, like I have for the last 47 years. I was a kid when I went there. My father made me join. He said it was a good thing for me. My father was right, rest his soul.

But, Madame Simard, you talked earlier about the Ernst & Young study. I know it's in your brief and we can look at it. I think you're right that it's a good idea for us to look at that study, but I wonder if you want to flesh that out a little more.

I hear the bell, so you're not going to get much time to flesh it out, but at least add a few more words to it.

• (1215)

[Translation]

Mrs. Hélène Simard: That study is available in French and in English. I will send it to you. I think it is more eloquently worded than anything I could say on the topic. What's important is that it gives a solid overview of the capitalization problems and the solutions that have been adopted. I think it may provide you with considerable guidance in your work.

[English]

The Chair: Thank you very much.

I want to thank all our witnesses today for their information and participation. It was very valuable to us, as a committee.

We will now suspend until 1:45.

The meeting is suspended.

- (1215) _____ (Pause) _____
- (1345)

The Chair: Mr. Speaker, the meeting has now reconvened.

This afternoon we have with us two panel members. First, from Alterna Savings, we have Mr. John Lahey, the president and CEO. And from the Excellence in Manufacturing Consortium, we have Alan Diggins, the president and general manager.

I'm not sure if there was discussion about who would go first. How about I turn to you, Mr. Lahey, as you are listed first on my sheet? That seems the appropriate thing to do, so I will turn the floor over to you. You have 10 minutes to make opening remarks to the committee. Then we'll turn to Mr. Diggins.

Mr. Lahey, the floor is now yours for the next 10 minutes.

Mr. John Lahey (President and Chief Executive Officer, Alterna Savings): Thank you, Mr. Chair, and members of the committee, for inviting me to be part of this important study on the opportunities and challenges facing the cooperative sector here in Canada.

My name is John Lahey, and I am president and chief executive officer of Alterna Savings and Credit Union Ltd., headquartered here in Ottawa.

My objective today is to broaden your appreciation of the positive impact financial cooperatives or credit unions have on the lives of underserved or marginalized Canadians.

Alterna's history is proud and dates back more than a century. In 1908, banks were not in the business of lending money to average citizens, and in those days, there was no legitimate alternative Canadians could turn to. The Civil Service Co-operative Credit Society, the first Canadian credit union established outside of Quebec, was founded in Ottawa in response to loan sharks who were charging people an astronomical interest rate of 200% a year, and doing business, we are told, right here on Parliament Hill.

Perhaps the where of where they did business makes for an interesting myth. But what's true is that credit union members pooled resources to support each other and in so doing were able to deliver far more affordable deposit and credit services. In 2005, the Ottawa-based Civil Service Co-operative Credit Society and the Toronto-based Metro Credit Union merged to form Alterna Savings.

Alterna Savings, which today holds over \$2.3 billion in assets and employs some 450 people, provides financial services to members through 22 branches located in greater Toronto, the national capital region, Kingston, North Bay, and Pembroke. Our Quebec clients are served, through two branches in Gatineau, by our wholly owned subsidiary, Alterna Bank.

Like most cooperatives, we're also consistently strong supporters of the communities we serve. In 2011, we invested 4.24% of pre-tax earnings in community economic development, more than double our minimum targeted commitment of 2%.

I know that the committee has heard and will continue to hear from presenters the merits of cooperatives and how government can use legislation, regulation, and subsidies to help Canada's cooperatives maintain their enviable record of success. I'd love to spend an hour supporting each and every one of these suggestions, but given the time limitation, I've chosen to focus my remarks on sharing with you two concrete examples of how cooperatives positively impact the lives of underserved and marginalized Canadians.

Cooperatives, through a proven business model, are known the world over as an effective means of positively enhancing local economic development. Credit unions, in fact, were formed for precisely this purpose. It was to provide access to the financial services local citizens and entrepreneurs needed to build strong lives and enviable communities. Over Alterna's 100-plus years, the challenges of access have continually changed, but remarkably, there have always been people in our communities who have struggled to gain access to our financial system. Credit unions have always been about access—people helping people—and Alterna Savings is no exception.

A case in point is our long-standing status as a pioneer in microfinance. The objective of our microfinance program is to promote entrepreneurship, foster job creation, and aid in the economic growth of our communities. To do this we partner with leading community organizations to provide much needed financing to entrepreneurs who simply do not qualify at their local banks. Our experience is that this lack of access is particularly acute for new Canadians, high-risk Canadians, and marginalized individuals.

We wanted to measure how well our microfinance work was doing, so we engaged Carleton's Centre for Community Innovation to do an evaluation. Going into that work, we already knew one thing for sure: our financial cooperative makes no money on microfinance. At best, we break even. That's, of course, why the banks don't do it.

What we wanted to know, however, and what Carleton's study confirmed, was that the program delivers the kind of quantifiable social benefit that makes the effort worthwhile. Microfinance helps individuals contribute more meaningfully to their communities through higher quality of life, reduced reliance on government assistance, increased job creation, and business expansion.

I have brought copies of the Carleton study for you to look at later. It documents why this program is so important to Alterna's community economic development efforts.

However, the impact of our program is best appreciated by telling you a story. One of the amazing facts the Carleton study unearthed is that 95% of the businesses financed by the Alterna microfinance program over the past decade are still operating. One of those entrepreneurs was a single mother, working two jobs to support four children, who was struggling to provide even the basic necessities for her family. With the assistance of a \$5,000 Alterna microloan to get a health-care service business started, we're happy to report that the business now employs close to 40 local citizens, generates over \$1 million in annual revenue, and is a strong contributor to our economy.

• (1350)

Those businesses are real. They pay taxes, they buy goods and services, and they employ people in meaningful jobs. Our communities are better off every day because of this program.

The second example I wanted to share with you today comes to us as a result of our banking work in the broader cooperative sector. In this example Alterna is a proud participant in an effort that demonstrates the power created when cooperatives cooperate.

The Co-operative Housing Federation of Toronto, or CHFT, partners with 31 local Toronto housing cooperatives. A few years ago its executive director set out to make a difference. He and several colleagues had a dream that young people growing up in these housing cooperatives should have a chance to attend university and develop successful careers.

Through sponsorships from individuals and cooperatives such as Alterna Savings, as well as groundbreaking local academic partnerships with every university and community college in the Toronto area, CHFT has now been able to provide almost 200 young people financial scholarships to pursue post-secondary education. Many of these young people come from low-income and/or immigrant families. In fact, in many cases they are the first in their family to attend college or university. These opportunities for continuing education are opening important new doors for their future.

By the end of 2013, CHFT expects to have awarded more than \$1 million in post-secondary financial scholarships to deserving young people who have not only achieved academically, but have been actively involved in the development of their cooperative housing communities. These awards are concrete examples of how a combined cooperative effort can have a real impact on the lives of those living in our local communities.

Alterna Savings, through its financial services business efforts, also supports other cooperatives through strategic financing as well as the supply of cost-effective products and services. As an example, we're proud to support organizations like Toronto's Centre for Social Innovation. CSI, as it's known—not the TV show—is an organization that provides shared workplaces, safe opportunities for socially minded business people to network, as well as shared business services.

The future promises to be challenging for financial institutions, particularly small financial cooperatives. Alterna Savings, formed by the merger of two smaller credit unions in 2005, is a prime example of the consolidation trend in Canadian credit unions over the last two decades. The practical reality is that financial cooperatives, in

Ontario at least, and to a lesser extent across Canada, will need to consolidate an increase in sophistication if they are to survive in the emerging financial services marketplace.

Alterna Savings was pleased when the federal government announced a proposed regulatory framework for federally incorporated credit unions. We see that as a positive and progressive development for cooperative financial banking in Canada.

Canadians are spoiled when it comes to banking. They're used to national institutions they can access any time, anywhere. Today credit unions fill most of those needs very effectively, but as technology shrinks our world and consumer expectations continue to evolve, some credit unions will want, and perhaps even need, to move outside their provincial boundaries and expand extra-provincially.

This new legislation will allow that to happen. It will provide credit unions a strong option for enhancing service to members, and as a result, support the long-term growth of cooperative financial institutions in Canada. We're excited about the prospects for a reinvigorated financial services industry that includes a strong and growing credit union alternative for our members and all Canadians.

One last point I wish to touch on before closing is the increasing regulatory burden being placed on financial institutions, particularly small organizations.

Alterna Savings acknowledges and agrees that a strong regulatory framework is critical to protecting the safety and security of Canadians; however, collectively we are concerned that increased regulations may be swamping small financial cooperatives unnecessarily. Regulations are in most cases being applied consistently, regardless of an institution's size or complexity. The result is a much higher relative compliance cost for credit unions.

The government's Red Tape Reduction Commission emphasized in its final report that a one-size-fits-all approach to regulation tends to disproportionately burden small business. Credit unions are small businesses. Most cooperatives are, in fact, small businesses.

We agree with this conclusion and urge the government to follow through on its commitment to require regulators to examine current and future regulation through a small-business lens. This modified perspective is needed if we are to ensure that new and existing rules do not unnecessarily affect credit unions adversely. Credit unions provide strong competition to the big banks in local communities across Canada. We're not looking for special rules; we're simply looking for the small-business lens that was promised in the Red Tape Reduction Commission.

•(1355)

In fact, in many communities across Canada, credit unions are the only provider of financial services.

Banks are already heavily advantaged in terms of size and scale. Let's not provide an additional unintended advantage for the larger banks by making regulatory compliance unnecessarily difficult for the financial industry's small businesses.

Mr. Chair, that concludes my remarks.

On behalf of Alterna Savings and Credit Union, I wish to commend the government for undertaking this important study.

Across Canada this year, cooperatives, including credit unions, are celebrating the 2012 International Year of Cooperatives. Cooperatives have played, and continue to play, a vital role in building our country. We hope that the insights provided in your final report will serve to further promote and support the contribution of cooperatives to our communities.

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

•(1400)

The Chair: Great. Thank you, Mr. Lahey.

I did allow you an extra minute there. With just the two of you, I think that was certainly okay.

I'll extend the same courtesy to you, Mr. Diggins, if you require an extra minute or so. One witness was moved to an earlier panel, so I will allow a little leeway for you. You now have approximately 10 minutes to make your opening remarks as well.

Mr. Alan Diggins (President and General Manager, Excellence in Manufacturing Consortium): Thank you very much.

Good afternoon.

We're not a cooperative. The Excellence in Manufacturing Consortium is a membership organization and the consortium is a registered, federally chartered, not-for-profit organization. We're not a cooperative, so I'm still trying to figure out how we got invited here to respond to this, but I'll tell you our little story.

Certainly our business is cooperative in nature. We have endorsed the formation of a true cooperative, a purchasing cooperative, the first one in Canada, but I'll just give a little bit of history to maybe understand who we are.

While I was working with a college system up in Owen Sound, Ontario, which is two-and-a-half hours north of Toronto, we had a lot of opportunity to have the manufacturers working together in that community. One of the reasons we focused on manufacturing was that manufacturing has got the biggest advantage to create wealth in any community—in any small community, in a province, or in the country. So I focused on that activity, working with the manufacturers, and got to know them all very well.

About that time, in the mid-1980s, we had a plant close, a 500-person facility, and that was devastating for a community of 19,000 people. So we got together with all the plant managers and said, okay, what can we do here to offset this? Now we're not going to

have another 500-person facility located in rural Ontario—that was true then and it's certainly true today—so we asked if we could work together and continue to help each other out and share each other's resources. We did the math, and we said if we did this for three years, and each one of us grew by 5% over three years, we'd replace that 500-person facility. That was eighteen manufacturers, three of them fairly large in size.

That, then, led into a lot of really interesting activity. We call it sharing and stealing with pride, in an informal way, but it's really about having the manufacturers share their resources, share their ideas, share their problem-solving. And we facilitate that. We get manufacturers together. We've got 55 geographically regional consortiums across Ontario and the east coast, where we pull manufacturers together on a regular basis and get them working together. When you drive down any street in an industrial area and you see buildings with hundreds of people in them, problems have been solved, and they're staying in their own buildings and staying quiet. What we do is draw them out of the buildings and get them working together and again helping each other out.

So we've grown through the years, again, to now have 55 regional consortiums across eastern Canada. We have recently launched a manufacturing portal, if you will, an online manufacturing portal, which will take us right across Canada and help manufacturers through the age of online learning.

In Alberta they call what we do in Ontario and the east coast “clustering”, and that is getting together, helping each other out. The other thing that has happened just recently is that, through the Province of Alberta and Productivity Alberta, a branch of the government out there, we have been invited to take our activity to Alberta, to create that ability for communities—small communities in particular—to draw their manufacturers out and help them work together and get better at what they're doing, be more competitive and keep jobs in Canada.

One thing we have done as a membership organization in Ontario, because Ontario has unregulated energy rules—Alberta and Ontario are the only two provinces that have unregulated opportunities—is that we formed a purchasing group, if you will, not a co-op, where we've grouped together manufacturers to buy electricity and natural gas. The power of that has been phenomenal. I've got some results here, if you want to see them, where we've got medium sized manufacturers who, by working together and by our doing the due diligence on finding a third party to manage this, are easily saving \$100,000 a year just by having the power of working together in a co-op type of fashion.

From the very beginning, going back more than 15 years, we were always involved with purchasing people from the buildings in the various communities we were in, and they always wanted us to get together and try to save money buying this and that—a very complicated arrangement. We listened to this for a lot of years, then last year we didn't incorporate, but we licensed our name to a co-op, a not-for-profit cooperative. We're in the EMC Purchasing Cooperative. It's owned by the members. It just launched a year ago and it's just nicely getting going. It is the only one of its kind in Canada—for manufacturing, that is. It's the only one of its kind in Canada, and in the United States there's only one small one that is struggling along.

• (1405)

There's been great uptake on this purchasing cooperative, which may be of interest to you folks. Again, by working together... I'll give you a very simple example of the power of that group. The example is one of our members, a little manufacturer, an assembler really. We went into his building and asked, what do you spend your money on, where's your biggest cost, other than payroll and that kind of stuff? He went around and he looked at all of the little pieces and said, I don't spend a lot of money anywhere. I spend a little bit here, a little bit here, a little bit here, a little bit here. We asked, what's the biggest cheque you write each year? He said, I assemble these little things and I ship them. I spend \$500,000 a year on couriers. The lights came on, and we got some of our other members together, who formed a committee and went out and got all of the couriers in Canada together, and as we sit here now, some four months later, that young fellow and his business is now saving 45%. So he's paying about \$200,000 less in shipping than he was before, and that's the power of cooperatives.

I could go on for about 45 minutes on what EMC is about, but substantially it's a membership organization working together—

The Chair: You could go on for 45, but I can give you four, if you want.

Voices: Oh, oh!

Mr. Alan Diggins: I don't know what else I could do in four or five. I think, really, we're about creating excellence, awareness, and innovation. That's really what we're about. The excellence is created by getting people like yourselves together, helping you to share and borrow ideas and thoughts, and behave that way. That's not normal behaviour; that's a learned behaviour. So if you, sir, had a manufacturing facility and there was something in this gentleman's building that you saw and you really liked in terms of process that would save you a lot of money, in our organization it would be okay for you to go and talk to Joe and say, would you mind if I steal that idea from you? The answer would be, yes, and I'll help you do it. That's the power of working together.

That, Mr. Chair, is a very brief synopsis of what EMC is about.

The Chair: One thing you'll find in this room is on one side of the table they're always going to be okay if the other side steals their ideas, but not vice versa.

Voices: Oh, oh!

The Chair: But we certainly appreciate your remarks.

A voice: We're willing to have them take our ideas.

The Chair: It's only a commentary on the nature of our business, of course, that one side is always happy to have the other steal their ideas, but no one wants it the other way around.

Anyway, we will move to our questioning now. First up we have Mr. Harris for five minutes.

Mr. Dan Harris: Thank you, Mr. Chair.

On that note, when they come up with ideas that we like, we vote for them.

Mr. Lahey, and Mr. Diggins, thank you for coming today.

Mr. Diggins, thank you for your candour, and perhaps confusion, on why you're here. But still, I think you made a relevant presentation about working together and, frankly, the power of economies of scale—about how, when you group together in a collective in varying forms, you're able to get better rates for yourselves, or, in the case of employees, they're able to get more favourable deals with their employers. So thank you for still coming today.

My questions are going to be for Mr. Lahey and Alterna Savings. When I was younger and treasurer of the Ontario New Democratic Youth, we were a member of the Metro Credit Union, and it was always great to deal with them. They provided services that weren't available at the big banks, and we were certainly thankful for that.

As I understand it, Alterna is part of a pilot project that's working with some housing cooperatives. Of course, housing cooperatives are dealing with a number of challenges right now—primarily with buildings that are 20 to 30 to 40 years old, with roofs that need replacing, with capital infrastructure costs. Many of them still have mortgages left over, and as a result they're looking to, in many cases, blend and extend in order to refinance and be able to pay for these capital projects.

I understand Alterna is involved in some of those pilot projects. Are you familiar with them? Could you explain a little bit about what that project is and why it's going to be beneficial to co-ops?

• (1410)

Mr. John Lahey: I'm very familiar with it. In fact, I asked one of our senior officers, who retired about eight months ago, to stay on in a consultancy arrangement to focus exclusively on this on our behalf.

There are approximately—if my numbers serve me correctly—60 housing cooperatives in Ontario. They exist right across the country, but we focus simply in Ontario, where there are about 60 in Ontario that are in the situation you very aptly described. They still have long-term mortgages on their properties, and they have significant challenges with respect to the aging infrastructure of their facilities.

We've been working with the national Co-operative Housing Federation on this pilot to establish a mortgage product. Utilizing today's record low interest rates—which certainly, if they committed today, would be committed for another five years—to allow them to take equity out of their housing co-op to pay for necessary expenses.

We're in the latter stages of putting together the first financing package for a housing cooperative in the Milton area. We haven't completed it. There are a couple of things that are still being worked out that are outside of our control. The most notable one, I believe, is that they still have mortgages with CMHC, and the national institution is negotiating with CMHC on that.

Mr. Dan Harris: I believe one of the challenges they've been facing is that to break those mortgages with CMHC they're looking at possibly 8% to 10% penalties. If you have a 90-unit co-op and \$1 million on the mortgage, if you have to spend over \$100,000 to break the old mortgage, that's a lot of equity that could be put into those units and that building.

You mentioned there were a couple of challenges. What's the other one?

Mr. John Lahey: The other challenges are more within our control. They have to do with ensuring that the right controls are in place, in terms of making sure the money gets spent where it's supposed to be spent. As you may know, any kind of construction lending is fraught with risk if you're not properly controlling the outflow of the cash.

Some of the mechanics of this, if you will, are still in the process of being sorted out—the documentation—because it's a bit of a unique arrangement that we're trying to put in place. If we can get this first one done, which I'm confident we will, then we can use that as a template for as many of the other 60 co-ops that want to do it.

The total for the 60 co-ops would be somewhere in the order of \$200 million to \$250 million in lending, which would stretch Alterna's capacity. Once we get the pilot in place, we'll be working with the cooperative sector to look for other participants.

Mr. Dan Harris: Thank you.

The Chair: The time for that has expired.

Mr. Dan Harris: Did I miss the beep?

The Chair: We were doing a count up rather than a count down, so there was no beep. But I can assure you, we gave you an extra 25 or 30 seconds.

Mr. Payne, you now have the floor for five minutes.

Mr. LaVar Payne: Thank you, Chair.

Thanks to the witnesses for coming today.

Mr. Lahey, you talked about a national framework for allowing credit unions to expand across the country. Could you give us a bit more information on that, and how that is going to benefit your organization and/or other credit unions?

Mr. John Lahey: If you aggregate all the credit unions, together they're about the size of the National Bank. Because we're all independent institutions, our capacity to utilize that size is somewhat strained. We do some of the things that Alan identified, like working together and cooperating, but the reality is that for some of the larger

credit unions, seeking out diversification of risk is probably one of the most important reasons why organizations would spread across the country. For instance, you're going to hear from Vancity tomorrow. A big chunk of their operation is in Lower Mainland, B. C. That's a major earthquake zone, so that's something they've lived with since the day they started. The major banks also operate in that, but their risk is diversified by virtue of being in other parts of the country. That's one of the reasons why organizations would do that.

In some of the other provinces the market share of credit unions is actually quite high. In Manitoba it's approaching 45% or 50%, whereas in Ontario it's about 6%. So as people move into other provinces you're more likely to see credit unions come to Ontario than to see Ontario credit unions go someplace else. It will help us in Ontario because it will raise the profile of credit unions. We're small. Our history is a little different from what it was in other parts. In a lot of cases, we grew out of manufacturers that are much smaller today or don't exist. The connection we have with the community is different in Ontario from what it is in other places. From our organization's perspective, it will drive credit union investment into Ontario and provide us opportunities to partner potentially—maybe merge, but certainly partner with other institutions—and in so doing, diversify some of our risk by being able perhaps to invest in other provinces.

• (1415)

Mr. LaVar Payne: I may be coming back to you, Mr. Lahey, but I wanted to ask Mr. Diggins a question. You talked about the clusters and going into Alberta, working together with manufacturers there. I've certainly heard of clusters in Alberta, particularly in my riding, in Brooks, Alberta. Were you involved in that group or not?

Mr. Alan Diggins: We are going out in the fall to do a kind of look-see, if you will. In our first one week out there we looked up in Fort McMurray, Grande Prairie, and the Saskatchewan border in the north, and then Edmonton and Calgary. Our understanding is that they're going to want us in Lethbridge and Medicine Hat to start with, and then grow it out.

The key to being successful out there is that there are some groups, as you mentioned, in place out there, but none of them do exactly what we do, and that is getting the people out of their buildings and working together. Our challenge is going to be to make sure that we line up with those other organizations, that we don't interfere with them, and that there's no duplication. We've worked in a lot of communities—as you know, in 55 communities—and we haven't bumped into anybody yet. Our model is such that we can be flexible.

In the northeast of the province we may actually be doing our business for the construction industry, because there's very little manufacturing up there. That may change our model a little bit, but the philosophy and how we do business can apply anywhere. John just mentioned a few minutes ago that it's working informally among the cooperatives in London.

Mr. LaVar Payne: I want to go back to Mr. Lahey again. You talked about regulatory burden. I'm just wondering if you have two or three prime regulatory issues that you would see as being able to help the credit unions. In particular you mentioned the size versus the complexity of the major banks.

Do you have two or three of those that would be beneficial to hear, that could be reduced to help your organizations?

Mr. John Lahey: In some ways it may be as much about what might happen as about what is happening. Money laundering and terrorist financing reporting are very burdensome undertakings. It's hard to argue that you shouldn't be reporting on this stuff, so I'm reticent to even bring it up, because we all know it's important. But much of the reporting seems, from our perspective, to go into a black hole.

Mr. LaVar Payne: Can't we simplify things somehow?

The Chair: I'll just allow you to very quickly respond to that, but the time has expired. Be very quick, if you want to respond to that.

• (1420)

Mr. John Lahey: We think it could be simplified, but what we're particularly worried about is it becoming more onerous, if people are talking about moving the \$99 to \$100 limit to \$5,900, or something like that. That would increase the amount reporting exponentially. So we're more worried about where it might go, rather than where it is, which we've coped with.

Mr. LaVar Payne: Thank you.

The Chair: Thank you.

Before we move to our next, I'm just going to use my prerogative as chair here. There was something that just got my attention in your response, Mr. Lahey, to one of Mr. Payne's questions.

You mentioned the market capitalization in Manitoba of credit unions was 45% and in Ontario about 6%.

Mr. John Lahey: Market share.

The Chair: Pardon me, market share.

It caught my attention. I was thinking about Alberta, my home province, and I just was curious if you knew the number for Alberta.

The reason I ask is that, obviously, there are the Alberta Treasury Branches in Alberta and I wondered how much effect that had on the share of the credit unions.

Mr. John Lahey: ATB, based on what I know—and I'm certainly no expert—does have a big effect, but the market share in Alberta is significantly higher than it would be in Ontario. And part of the explanation is that every province has a different set of powers. Ontario probably has the narrowest set of powers for credit unions in the country.

The Chair: You don't have the number for Alberta, but would you hazard a guess? Or would that be fair?

Mr. John Lahey: They'd probably shoot me, my friends in Alberta, if I got it wrong.

The Chair: All right. I know you don't want to be put on the spot, and I appreciate that. That's not a problem.

So what I will do now is turn the floor to Monsieur Bélanger. You have five minutes.

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

Incidentally, if we do have a business session, I might mention that there's one area that I think everyone forgot, including me, and that is to perhaps consider inviting sports teams. I think that three of the Canadian Football League teams are cooperatives or cooperatively owned. I don't know if there are any more in the other...but if we have a chance we should perhaps consider that. I gather, also, the Green Bay Packers are, but I don't think we should be inviting them.

The Chair: Sorry, Mr. Bélanger, I'm not using your time for this, but do you know the three teams?

Hon. Mauril Bélanger: Saskatchewan is one for sure, and I believe Winnipeg, and perhaps Calgary—but Calgary is a different kind of arrangement.

The Chair: Yes, I don't know that they're a cooperative. I could be a mistaken, but...

Hon. Mauril Bélanger: All the proceeds have been reinvested into the community, into the team, and it's owned by a small group, which may be a cooperative model, but I'm not sure.

The Chair: Okay, that's a great suggestion. I appreciate that.

As I said, that didn't come out of your time. You've got about four-and-a-half minutes remaining.

Hon. Mauril Bélanger: All right.

Mr. Lahey, I thought Alterna was the first one in the country—but we'll leave that in abeyance for now. But to my understanding you're also the only credit union that owns a bank charter. Correct?

Mr. John Lahey: Vancity owns one.

Hon. Mauril Bélanger: I didn't realize that.

Mr. John Lahey: Yes, they own one as well.

Hon. Mauril Bélanger: Okay. And the reason you have used it, if I understand correctly, is its origins as part of the civil service, and that you have clients on both sides of the Outaouais River. You just couldn't walk away from them.

Mr. John Lahey: That's exactly right.

Hon. Mauril Bélanger: Okay.

As you mentioned in your text, the government approved in the 2010 budget the creation of a banking co-op. Coincidentally, just before we met on July 10, the government pre-published on July 6 the regs, so you have a sense of what those are.

Without prying into your business development plan or any proprietary information, is Alterna satisfied with the conditions that have been created for the co-op banking universe in Canada?

Mr. John Lahey: Under the proposed regulations?

Hon. Mauril Bélanger: Yes.

Mr. John Lahey: Yes, I'd say we are. I think what we have to recognize is that this is the first iteration, so it's not perfect, and everybody knew it wouldn't be perfect. So I think it will evolve over a period of time, but there's nothing in the regulations that we object to.

Hon. Mauril Bélanger: So you include in that the minimum capital requirement, and things like that.

Mr. John Lahey: We think it's appropriate. Certainly the regulatory standards that OSFI applies are a significant step up, probably, for most credit unions. So that will be a challenge for them.

Hon. Mauril Bélanger: Okay.

On the matter of compliance costs, we are all aware now of the FINTRAC requirements, and I hope that we're not looking at going any lower than what those currently are—and certainly I wasn't aware of our maybe doing that—but are there other examples of compliance costs that apply in an unfair manner to smaller entities?

• (1425)

Mr. John Lahey: In our estimation, most of the regulatory requirements in this country are because the financial services industry is dominated by the big companies. It's really designed for their needs.

For instance, we run this small bank, as you've said. The new CDIC—I forget what they call it exactly—fast-tracks deposit arrangements, which are designed to allow CDIC to take quick control of an organization that's in trouble. They're quite substantial for a small organization like ours to put in place.

We have met their requirements—we used some chewing gum and baling wire to do it—and we're in full compliance, but it was a significant effort.

We think it's a bit like trying to kill a fly with a sledgehammer. The requirements were really designed for a large organization.

Hon. Mauril Bélanger: On the matter of CMHC and the notes, I've had a meeting with the CMHC officials and they've clearly indicated that their hands are tied. Because of the nature of the mortgages being closed mortgages, they have to recover it all.

I'm not blaming CMHC. I gather that if the government were to direct CMHC to behave differently, the money these mortgages represent, mortgages that are at fairly low rates now, could easily be relocated and engaged in other matters.

As a financial expert, would you believe that's possible?

Mr. John Lahey: I'm not sure I fully understand what you mean when you say—

Hon. Mauril Bélanger: Let's say they have a \$2-million or \$3-million locked mortgage at a rate of 2.3% or 4%. Given the rates today, they could possibly replace that money fairly easily. But unless they're told to do so, they figure they're locked in and they can't.

My question is, if CMHC were given the green light to allow for the closed mortgages to be bought off at a lesser penalty, equivalent to the others, say a three-month penalty, could they relocate that money productively and not lose on it?

The Chair: Before you start, we're about 35 seconds over time. I know it was a clarification of the question you had asked earlier, so I allowed that.

I will ask that your response be as brief as it can be.

Mr. John Lahey: It's really hard for me to answer that question because CMHC's powers have been significantly changed in recent times.

The reality is that the arrangements between the housing co-ops and CMHC are commercial arrangements and have commercial requirements. I do believe there would be some benefits to everyone, if we were able to find a way to meet in the middle somewhere.

It's pretty hard for me to answer that question.

The Chair: Thank you.

We'll move into our second round of questioning now. First up is Mr. Boughen.

You have five minutes.

Mr. Ray Boughen: Thanks, Mr. Chair.

Thanks to the gentlemen for sharing their time with us this afternoon.

Alan, when I listened to your presentation, I thought it was a good business move that allowed you to buy six, seven, or eight industries at one time—and as my colleague Dan said, the economy of scale enters into that equation. But what happens to any profits that the company accrues? Is there a share dividend, or is it banked for future use?

Mr. Alan Diggins: It goes back to the members. The cooperatives are facilitated by a third party. Actually this one is facilitated by people who came out of the Home Hardware cooperative—a very sophisticated group.

A lot of the money in the early stages is going to be to insure the receivables, if you will. If you can guarantee the receivables for vendors, they're going to get better prices in the end. Probably in the initial five years, some of the profits will be turned back into self-insurance. It will go back to the members. As well, the objective of this whole thing is volume rebates. That's where the real money is for the purchaser of the steel, and that kind of stuff.

But it's a true model cooperative. The people running it, the third party, work for a percentage of the profits. It's a pretty clean model.

•(1430)

Mr. Ray Boughen: So around the board table is it the co-op model, one member one vote?

Mr. Alan Diggins: That's correct.

Mr. Ray Boughen: Is has nothing to do with how many shares the member may have in the corporation.

Mr. Alan Diggins: No.

In EMC, our organization, we've licensed our name to give it the strength, so we've got two shares, if you will. That's just to keep the spirit and ensure that it follows the model we've established over the last 15 years, in terms of how the relationships work between the manufacturers. But every company that joins only gets one share.

Mr. Ray Boughen: Good. Thank you.

Mr. Lahey, I was interested in your analogy of the money moving to the west, or the opportunity for involvement of credit unions and co-ops headed west. What about the west coming east? What do you see happening there? Is that a possibility, a probability, or not going to happen?

Mr. John Lahey: I meant to imply that it was far more likely that the credit unions in the west would come east than that the ones in the east would go west.

I think the western credit unions are very strong. They have a long-standing successful history. I don't believe some of them would be interested in going outside their province. I think they are quite competitive, but others have different views. I think Ontario represents a big opportunity for them. It's the biggest consumer market in the country and it's where credit unions have the lowest market share. For sophisticated western credit unions, I think they'll take a long hard look at it.

Mr. Ray Boughen: What do you attribute the small market share to? Obviously there's lots of opportunity for financial operations here, there, and everywhere.

Mr. John Lahey: I think it's a function of things that have happened over a long period of time.

I spent most of my life in banking, so when I came into the credit union I spent a lot of time trying to figure out exactly that question.

I think many of the western provinces, in particular, see having their own financial institution sector as very important to their local economies. In their minds—and I think there's a lot of truth to it—eastern Canada hasn't always been a consistent and reliable supporter to them, so they see themselves as needing to be self-sufficient, and a financial sector is important to that.

That's not the case in Ontario. Ontario has been the home of the banks. I think the Ontario government likes credit unions and is committed to credit unions, but it doesn't see them as strategically important as perhaps some of the western provinces do. The powers that have been provided to credit unions partly reflect that, I think, but credit unions in western Canada have broader business powers. They also have unlimited deposit insurance.

I think they've had kind of a friendly environment. I think their history is different with consumers as well, because consumers share a lot of that willingness or wish to be independent of eastern Canada.

Again, that's not true in Ontario. In Ontario you can hardly go very far before you find someone who is either employed by a bank or is married to someone who is employed by a bank. Banks have a very strong history in Ontario, and credits unions were hurt by that, having really developed in the industrial sector, which has shrunk in Ontario.

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

We'll move now to Mr. Allen.

You have five minutes.

Mr. Malcolm Allen: Thank you, Chair.

Thank you both for coming.

As Mr. Boughen was asking the question and Mr. Lahey was explaining—we were conversing earlier—I thought I would point out that Mr. Lahey used to be the CEO of FirstOntario, where I've been a member for a long time. But it goes back to the auto workers actually, and specifically to General Motors and not auto workers in St. Catharines or in Niagara, but actually to one plant. We had what we used to call CU-men—because they were men at the time, not women—who would come around and sign you up, as a new employee when you entered the work force, to join the credit union. That's how they drove their membership base.

I think of my late brother, who worked at Ferranti-Packard and also belonged to a credit union at Ferranti-Packard, which John would remember, of course. It made electrical equipment. When that plant and other plants closed, the credit unions closed as well. So the history of Ontario credit unions is driven by small manufacturers and large manufacturers. At one point in time they couldn't merge in Ontario, so when they died, they died.

One of our branches, while you were CEO, Mr. Lahey, was Holy Rosary in Thorold, which was actually a credit union to the parish. It wasn't attached to an industry or a company; it was Holy Rosary parish of Thorold. The credit union was for the parishioners, and you had to be a member of the parish to belong to the credit union. So it was a different dynamic, I think.

I want to actually get to both of you, and time will run short.

Can you compare the first 55% of your career, Mr. Lahey, with the second part of your career, which is now ongoing, and the banking aspects of where you were? You were there for a substantial period of time. Your CV correctly points out—and I already knew this—that you were a senior executive there for a long time. Can you compare what you saw coming into the credit union movement and what you've seen subsequently? Can you give us a sense of the importance of why credit unions are truly needed, not only in this province but across the country?

●(1435)

Mr. John Lahey: For about two years I ran CIBC's retail network across Canada when they were in the midst of the TD-CIBC merger, which didn't happen. If I had 10 priorities for the year, they were all about money. It was all about growth, it was about income, and it was about profit. That's the nature of the beast. That's why they're so strong.

I went to the credit union and it was all I could do to get profit even on the agenda. I think that's one of those examples where neither extreme, in my view, is the right place to be.

I think what you see is that the profit preoccupation of the banks causes them to abandon things or to not pursue things that they probably could afford to pursue but which don't represent the next incremental best investment for them.

I think credit unions play to a different agenda. I think we have to be a lot more focused on profit because the reality is that we need capital to support our business. It's true at Alterna and it was true at FirstOntario that profit isn't the first, last, and most important ingredient in my day. That's why we can do micro-lending. There is no way we could get micro-lending done at the bank because you don't make any money at it on your income statement. People would laugh at me. If they did do it, they would do it in the charitable division, and it's not about charity; this is business. This is helping people create viable businesses and create viable lives.

I think credit unions and cooperatives, because they don't have the drop-dead profit motive, are much better positioned to support social innovation and community economic development.

Mr. Alan Diggins: Can I throw a bit of a curve at you? I grew up in the bank and the last thing I did in the bank system was create the first commercial banking centre for any chartered bank in Canada. That centre was made up of lenders who understood manufacturing. They had dirt underneath their fingernails and understood it. I call them old fashioned bankers.

I've spent the last five years watching the old fashioned bankers either die or retire, and there is not much opportunity for manufacturers in Canada, period, to enjoy old fashioned bankers. I may have a conversation after this, and there may be an opportunity here.

I've been at his level at two chartered banks, and they're just not listening. There are so many manufacturers in this world that need old fashioned bankers who understand people. A good example is our chairman who bought out a part of General Electric, spent \$400,000 of his own money trying for a management buyout with 30 of his people who put \$7 million in and they could not find financing in Toronto. This was up in Owen Sound.

I listened to him for a whole winter and there was one old fashioned banker left and I said, "Jim, enough of this. Can I call a banker I know?" I did that on Monday, they saw them on Tuesday, and they had their money on Friday.

There might be an opportunity to look at forming cooperatives on the financial side for manufacturers, which are run by guys with dirt under their fingernails. That's a bit of a curve for you.

●(1440)

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

We'll now move back to the government side.

Mr. Butt, the floor is yours for the next five minutes.

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

Thank you very much, gentlemen, for being here. In particular, Mr. Lahey, it's good to see you again. Alterna has a wonderful retail location right in the heart of the village of Streetsville, right across from my constituency office. I walk by it all the time, and I see that it's a busy hub. So congratulations on a very successful location there in my home riding.

Congratulations, by the way, on the 2012 MicroSkills Corporate Spirit Award you recently received. Obviously, you're clearly a leader in that. You've indicated that you're not doing it because it's a money-maker. It's not making everybody millionaires. You're doing it because of the cause, or the mandate, of the credit union. I think that's wonderful.

You gave one example, I know, in your opening remarks, of how the micro-skills program works. Did you want to maybe expand on that a little bit more and talk about how it's an important part of your mandate and generally about what it's designed to accomplish for the clients who are approved under that program?

Mr. John Lahey: Yes. We have established inside Alterna a community economic development group, if you will, as a line of business, and microfinance is part of that. Microfinance was developed by the old Metro Credit Union over a decade ago, and it was focused on helping people get off social assistance. It very specifically focused on people who are underserved and disadvantaged in the community.

We do two or three things that I think differentiate our approach from other people's. First is that we require them to get education on how to run a business. Many of the micro-lending programs you see across the country do not require that, and as a result, they have much higher failure rates. We require them to go through that. Most of that is actually training sponsored by the federal government. So thanks for that.

The second thing we require them to do is to do a business case. Many of these people have never done that. We help them through that. We mentor them through that. But they have to put a business case, because at some point in time, if they're successful, they're going to grow out of the micro-lending side of things, and they're going to have to sit with one of the old-fashioned bankers, or maybe one of the new-fashioned bankers. They're going to have to convince them that their business is viable. So they need to know how to manage the business.

The third thing we do is mentor them. We actually, in many ways, hold their hands through much of it. I think that's probably what differentiates us most.

The other thing for Alterna is that Ontario is one of the few provinces where there isn't any government subsidy for micro-finance, so any losses we have on the program we eat.

It's a relatively small program, but it's effective. It's an important piece of our overall community economic development, but it's not the only piece. Overall, the overall piece is profitable. This particular piece, in terms of our income statement, we try to keep breaking even.

Mr. Brad Butt: Second, in my short time for questioning, I want to get back to the housing cooperatives. Both Mr. Harris and M. Bélanger have raised it. There might be some confusion among the general public that may be watching about how these original mortgages, these 35-year agreements with CMHC and housing cooperatives, were entered into. CMHC had to go out and borrow that money at that time when there were high interest rates. They were able to borrow from long-term bondholders, get a lower rate, and actually pass on that mortgage rate at no markup to those housing co-ops. Now it's great to say that interest rates have dropped and everybody should break their mortgages and all that, but everybody has to understand that it's a domino effect, right? CMHC has to pay penalties if they want to break those long-term funding agreements with the bondholders.

I assume that credit unions would be very interested in having mortgages or in providing project financing or retrofit financing to housing co-ops, given the rates today and so on, once those first mortgages have been paid off. Or perhaps in a second mortgage position, where you could negotiate with CMHC, some projects have been allowed. They've been given exemptions by Canada Mortgage and Housing Corporation to go out and get a second mortgage or project financing, because they have a capital need or they have something else they need to do. I'm assuming that credit unions would be quite interested in lending to cooperatives. They have asset value there. There are real estate holdings there that are worth something. It sounds like a sound investment to me. I'm assuming that credit unions would jump at the chance to lend to housing co-ops.

• (1445)

Mr. John Lahey: I believe that to be true. Certainly, Alterna is very interested, and that's why we're participating. I agree with you. These are commercial loan arrangements. People come to us all the time. We're on the other side sometimes, and sometimes we negotiate, and sometimes we can't. I think there are ways to get this done, but it may require a little bit of flexibility on everybody's part. That's the negotiation and discussion under way right now.

The Chair: Thank you.

Sorry, your time has expired, Mr. Butt. I appreciate that line.

We'll move next to Madam LeBlanc.

The floor is yours for the next five minutes.

Ms. Hélène LeBlanc: Thank you very much.

Again, I want to thank the witnesses for the great information they are providing.

I just wanted to go back to the micro-lending programs that you have. They're just great. I think they're very interesting. You were

mentioning that sometimes you have to eat a loss that's ongoing, but because I think you probably would be interested in expanding these programs, because of the need, do you see a role for government, perhaps through a provincial-federal government partnership, in helping? Would you see a way that could help expand these programs, which have such great benefits?

Mr. John Lahey: There's always a potential role for government. For instance, we rely on government-sponsored training programs on how to set up and run a business. Maintaining those types of programs would be critically important. Some of the provinces have programs where they will share in the losses of such a program. That's of some benefit, but I think it tends to encourage organizations to think of this more as charity than anything else. These people do have to go out and engage in the commercial world, so they should learn how to do that right from the first moment.

We've mitigated some of the losses by entering into some partnerships where organizations will guarantee the loans for us. For instance, we have a partnership with the City of Toronto for microloans for disadvantaged youth in the west end, in the Jane-Finch area. They guarantee the loan losses, but they use our program, and we apply our adjudication and our standards and all of those kinds of things.

I think there are ways to drive partnership. I'd be reluctant to say that government should get too involved, but there are some critical points in the process where government can be very helpful, I think heavily, on the education side of things. This is something we have found, and I think research shows that small businesses fail in large part because the owners are not prepared for operating the business.

Ms. Hélène LeBlanc: Yes. I think the requirements that you had set out are very wise in order to help entrepreneurs succeed, whether it's the size or whatever.

I would like you to help me understand what would be the difference or advantage to a cooperative financial institution being federally regulated as opposed to provincially regulated. Could you explain to me briefly what would be the difference or what would be the advantage? You were mentioning the July 6 legislation.

Mr. John Lahey: The main difference is that you're allowed to operate outside of your home province. There are some other powers that the banks have that perhaps would accrue to a credit union, but many of the credit unions, outside of Ontario at least, or west of Ontario, have access to some powers that the banks don't have. For instance, B.C. credit unions going into the federal jurisdiction have to deal with two particular problems. One is that they no longer would have a 100% deposit guarantee, and the second is that they would have to withdraw from their insurance operations, which they're allowed to do and the banks are not allowed to do.

The primary advantage of going to federal jurisdiction is the ability to operate extra-provincially. That's not to be undersold, because, as I said, diversification of risk is an important thing for any financial institution.

We know that business owners who might be resident in Ontario do business in B.C. When you tell them that you can't help them in B.C., where do they go? They tend to go to the banks. If you're lucky, they'll go to a credit union in B.C., but they don't like to break up their business.

So there are some advantages but also some growing pains that people will have to get their minds around before they go federally.

• (1450)

The Chair: Thank you.

The time has expired on that round.

We'll move to Mr. Lemieux.

You have the floor now, for five minutes.

Mr. Pierre Lemieux: Thank you, Chair.

I wanted to explore the issue of financing for co-ops, because we've had a lot witnesses explain that co-ops have challenges seeking capital financing.

I'll start with newer co-ops. When you have new co-ops, they basically raise money by selling memberships. They don't have a lot of capital, and they probably don't have a lot of capital assets. And they don't have a track record, because they're new.

What I'm wondering is whether, as a lending institution, you see a co-op that's starting out as being more disadvantaged than a business, which also does not have.... Actually, it has less membership than a co-op. It perhaps has a low level of financial backing; it too would not have a lot of capital assets. That's why they're seeking a loan in their early stages.

Could you comment on that? Is it just two different but perhaps similar scenarios? Starting up anything is really challenging. Money is hard to come by.

Or do you feel that co-ops are more disadvantaged than a small business would be?

Mr. John Lahey: I don't think that co-ops would be more disadvantaged than others, all other things being equal. Anyone has to come with a good business case and a good sense of what they're undertaking.

I have to admit that Alterna doesn't do a whole lot of that at this point in time. We don't have the skills to do it. We do some of it. We're helping finance a funeral co-op, for instance, in Gatineau right now. They're in the start-up phase. I think helping anyone in the start-up phase is not for the faint of heart.

I will tell you that by and large, regulators don't like us doing that because of the risk profile that tends to go with it.

I don't think they're more disadvantaged. I just think that it's a really hard thing to do.

Mr. Pierre Lemieux: All right.

At the other end of the spectrum are what I'll call the medium to large sized co-ops. We had one in particular here a few days ago that had an \$8 million or \$10 million project. They were having difficulty

seeking funding. I don't quite remember the details or whether the details were provided or what they were.

It could be, I would imagine, related to perhaps the lack of a track record. Perhaps it's the way co-ops report their financial records and whether they're open to the public, etc., so maybe it's harder for a lending institution to evaluate risk with a co-op. Perhaps it's related to the membership structure. When members leave, they take their money with them. Does that provide more risk to a lending institution?

I'm wondering if you could perhaps shed some light on the other end of the spectrum—the medium to large sized co-ops—and why they might find it challenging to seek capital funding.

Mr. John Lahey: It probably depends on the level of security they're putting up against the loan. At the end of the day, it's easy to give money away. It's really, really hard to get it back. No financial institution wants to realize on security.

Most credit unions focus the majority of their lending on commercial lending. They are loans that are secured by real estate. When you go outside of that, the number of credit unions that are actually positioned to participate narrows quite quickly.

I don't know—

Mr. Pierre Lemieux: Excuse me.

Could you just repeat that? You're saying that co-ops that lend money use real estate as their—

Mr. John Lahey: It is credit unions. Most credit union lending that isn't agricultural—agricultural is a little different—and that is commercial is secured by real estate. That reflects the size, the risk tolerance, and the profitability of credit unions.

For instance, my particular credit union does lots of things the banks don't do. But one of the things we also don't do that the banks do is make a ton of money. Our ability to backstop high-risk loans is relatively limited. So the quid pro quo for us is that we tend to rely on real-estate-backed lending.

My guess is that the one you're talking about either hasn't talked to a credit union or is talking about financing something that's secured by receivables or inventory.

• (1455)

Mr. Pierre Lemieux: Yes, it might have been related to that. But I think it was also that they were looking for a large loan, and credit unions might not be able to do that, which would have meant parsing it into—

Mr. John Lahey: We do pretty big loans. Alterna has done loans in partnership with Vancity, through its Citizens Bank and through Concentra Financial in Regina, and that sort of thing.

We can do reasonably large loans. They aren't \$500 million loans, but \$30 million to \$50 million loans are not unusual.

Mr. Pierre Lemieux: Okay.

For the customer, is that a one-stop shop? I go to you and you will partner with someone else, or is it about me running around?

The Chair: The time has expired, but I'll let you finish up.

Mr. John Lahey: We work it out. That's our competitive advantage with the banks. We try not to send people from pillar to post to organize their own.... We try to work as a one-stop.

The Chair: Thank you.

We'll move now to Madame Brosseau.

You have the floor for the next five minutes.

Ms. Ruth Ellen Brosseau: Thank you both for your presentations. I find that we're learning so much so fast, it's amazing.

Mr. Lahey, it was really nice going through this book and reading all the positive testimony, hearing the stories of people and families and how you've really changed their lives. It must be heartwarming to know that all the work you're doing is changing lives.

You mentioned that the demand was far greater than your capacity. Will there be expansion in the future? You're mainly based out of Ontario, so are there expansions or mergers or anything planned in the future?

Mr. John Lahey: As I said, we package microfinancing under our community economic development effort, and we are in the process of trying to expand that. With regard to microfinance, I think the point in the report is that we currently have three people doing it. If we had the capacity to put nine people on it, we could keep nine people busy. If we had 15 people, we could keep 15 people busy.

I think there is a lot of demand for microfinance, but it's very labour intensive. As I said, in terms of direct income statements, you don't make much money. It's hard to put too big a piece of your operations up against it, because at the end of the day regulators do require us to make money, to generate capital, to protect our depositors. It's a balancing act.

Ms. Ruth Ellen Brosseau: Do you feel that credit unions are more or less susceptible to the financial crises that have plagued the world's largest, most prominent banks? Are they more or less susceptible, or are they better off?

Mr. John Lahey: I think the credit union system in Canada has demonstrated that it's a very strong set of institutions. We're just as regulated as the banks. Some of the standards aren't quite where banks' standards are yet, but the reality is that our business is pretty bread and butter.

If you look at Alterna, half of our balance sheet is residential mortgages. We write nothing off on those. Half of what's left is secured lines of credit, which are secured by residential real estate and probably have loan-to-values of 25% to 30%. There's virtually no risk to that. Our commercial loan portfolio, which is the rest of it, has zero delinquencies because we're pretty conservative lenders. I think that's true of most credit unions across the country—certainly the large ones.

There are some small ones that are struggling, but they're relatively modest in size, and the regulators are working cooperatively with all of them. I think they will either be wound down in an

orderly fashion, like the Holy Rosary Credit Union, or they will be nursed back to health.

Generally, all of the credit unions in Canada collectively have strong capital positions and strong liquidity positions, so I don't think we're more susceptible.

Ms. Ruth Ellen Brosseau: You do a lot of education. I was on the Alterna Savings website, and you have a lot of classes to help people understand what it means to take out a loan. You help them and follow them through the process. It's not just about lending the money and leaving them there: you educate people so they're actually learning and making good, educated choices.

Is this a practice that you've always had?

• (1500)

Mr. John Lahey: Educating consumers has always been one of the core principles of cooperatives. The degree of focus has ebbed and flowed over the years, but Alterna finds that educating consumers has a strong payback for us. We've particularly seen it in the micro-lending program. We see it in the commercial lending program as well.

Ms. Ruth Ellen Brosseau: We've heard from a lot of witnesses that education is a big thing when it comes to cooperatives. I didn't know very much about cooperatives before being on the committee, and I find I'm learning so much—my colleagues and I. We're very proud, and lucky, as this is the International Year of Cooperatives. This is great, but we're really looking for some answers.

Do you think the federal government has a role in partnering and enabling the development of cooperatives, and nurturing them?

Mr. John Lahey: I think anything the federal government can do to support the development of cooperatives is in the best interests of Canadians. It's a proven business model. It's an alternative to the public company. It's not a replacement but an alternative to the public company.

I've yet to see any scenario that caused me to believe there's a downside to supporting the development of cooperatives. So my answer would be yes.

Ms. Ruth Ellen Brosseau: I don't know if you've heard about the

The Chair: Sorry, we're out of time on the round. I apologize.

Ms. Ruth Ellen Brosseau: Thank you.

The Chair: We'll move now to Monsieur Gourde. You have the floor for the next five minutes.

[Translation]

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

I want to thank the witnesses for being here.

My question is for Mr. Diggins. Over the years, you have developed a certain expertise in an important economic sector. Could you tell me once again about your company's history and the needs it meets?

[English]

Mr. Alan Diggins: Yes, it arose out of a need, first of all, in Owen Sound when the one plant closed down. I was fortunate at that time. It was a small community and I had about a 10-year history with these companies when I was working for the college system and had developed a relationship with each of the manufacturers and then with the people in those buildings.

For an organization like ours to be successful, we're in the plant, we're on the floor. We're not up here; we're not in the boardroom, but where the money is being made and where the problems are. How it started really was by building one relationship at a time and then getting those relationships working together and really adopting the philosophy that sharing and borrowing ideas were okay.

When we were first asked to expand into another community, for example, I took what we were doing in Owen Sound and I failed. I failed three months in a row with what we were doing to get them working together. I found out through a friend of mine, after the third month of failing, that this whole thing of expecting people to share and help each other out is a learned behaviour.

We have adopted some philosophies, if you will, of how to teach people to give themselves permission to behave that way. The fundamental success or why it works is about the relationship-building and having them understand that it's okay to behave this way.

[Translation]

Mr. Jacques Gourde: You use a human approach that is very close to the reality of companies you have set up over the years. You have developed your expertise and found a way for companies with problems to improve their methodology and competitiveness.

However, beyond all that, what services do you provide to them? You say that, in the beginning, your company was not a cooperative. Yet, your approach and philosophy include some cooperative aspects, right?

[English]

Mr. Alan Diggins: The primary way we get them working together is to get into a community, a geographic grouping of manufacturers, and we invite them, in a facilitated way, to help each other out. That's the primary methodology we use. After we do that to them two or three times in the community on a regular basis, they learn to understand the power of helping each other out.

We don't consult to or train to our manufacturers; we work for our manufacturers. Through the years we've listened to them and we've developed many programs and services that they need. We provide the due diligence ahead of time.

For example, with the energy program I mentioned earlier, we did a whole year of searching and due diligence, finding out what the best approach was, finding the best facilitators there were in the province to make that happen, and then brought that to our members.

As we've grown, those trusted relationships we've developed with other programs have paid off well.

For anything the manufacturers need, they tend to come to us now. We listen and if it's something we can help them with and help more than one or two of our members, or help the group collectively, then we'll start pursuing that. That takes a lot of work.

In terms of capitalization, we have done a lot of work ahead of time for any of the programs we bring to our members. It takes a lot of our time, a lot of our capital, and a lot of our manpower to make sure we get the best of the best that we can present to our manufacturers.

The energy program was one. The purchasing cooperative, although we're just a member of it, took similarly the same due diligence, finding the right company to run that for them. In many other programs, from training to consulting to 360-degree health and safety programs, and environmental programs and that kind of stuff, we have a very heavy investment at the front end before we bring anything to the manufacturers.

• (1505)

[Translation]

Mr. Jacques Gourde: Thank you very much.

[English]

The Chair: Thank you.

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

Mr. Joe Preston: Thank you very much.

First of all, Mr. Lahey, thank you for the work you do on the microloans piece. There's not enough of it out there, and the fact that you're doing some of it is making a great difference.

In terms of the training programs you're putting the new entrepreneurs through, many of them probably have not ever been entrepreneurs before they've come to you from a microloan or microcredit point of view. Is it done through the CFDCs or the local economic development agencies? You mentioned that it maybe was a federal program, but...

Mr. John Lahey: You're getting to a level that I'm probably ill-qualified to comment on. I can certainly get you the information.

Mr. Joe Preston: That's fine. Thank you. I haven't read through the whole book. It may very well say it in there.

Again, thank you for doing that. It's a great way; planting the seeds of business is a neat thing to watch. Some of the plants wither, but most through extraordinary effort grow and succeed.

You also mentioned something with regard to a credit union point of view versus a bank point of view. I'm not here to say bad things about banks. I've often said that the second-most important relationship in my life as an entrepreneur was with my banker. My wife, of course, would have been first.

A voice: She was first? Phew.

Mr. Joe Preston: Yes, she was first—honest. She dislikes it when I tell this story, because I say that sometimes they were pretty close.

Voices: Oh, oh!

Mr. Joe Preston: But the real answer is that what we're learning from the credit unions and the *caisse populaires*, the cooperative banking sector, is that there still is that on-the-ground relationship. I happen to know the manager of my credit union, and whether I see him at the baseball diamond when the kids are playing or at the chamber of commerce, there's more of a relationship than "Hey, that loan I need...". There's that day-to-day relationship, and that's an integral part, we're saying.

Alterna has grown into a fairly large organization, of those relationships. Do you work at all with other credit unions of smaller size to help them succeed, to help them with best practices that you found as you grew?

Mr. John Lahey: We do. Most of it is indirect, because we share it with what we call our Central, which is Central 1. We share all of those stories. We have a pretty open book to credit unions in terms of our policies, our bylaws, and anything they want of that sort. There's a credit union in town here, Your Credit Union, which is much smaller, where we provide their audit services on contract for them.

To be honest with you, I think we could do a heck of a lot more, but we do some, directly and indirectly. The reality is that everybody is just busy with coping to get through the day. Sometimes cooperation, as Alan suggested, is a learned behaviour. Some of us didn't learn to share when we were kids, and we haven't learned yet.

•(1510)

Mr. Joe Preston: The business gets in the way of the business, right?

Mr. John Lahey: Sometimes.

Mr. Joe Preston: Your day gets full, and before you can help the next guy your day is finished.

You mentioned the red tape reduction piece and the compliance piece from a banking point of view. If you have some ideas as to how we can better suit smaller credit unions from a compliance point of view, with large banks from a compliance point of view, we'd all be happy to hear it. We keep hearing about it, but I'm not sure I've heard a solution yet other than, "Gee, I wish it were better."

So if you can think of something along those lines, I'd love you to provide it to us at some point.

Mr. John Lahey: We'd be happy to submit something. I'm sure Credit Union Central of Canada could help me with that, because they hear this all the time.

Mr. Joe Preston: But again, I don't think any of us want to say, "Oh, let's quit: just comply".

Mr. John Lahey: No.

Mr. Joe Preston: You know, it's about—

Mr. John Lahey: No, it's not about changing the standards. It's about adapting the standards to the complexity and the size of the organization.

Mr. Joe Preston: Yes.

Alan, on your side, I've been involved in many purchasing cooperatives and business cooperatives, and whether they were formal cooperatives, which most of them are now, in the sense of one member, one vote, and a corporation set up to do the purchasing.... There's so much money to be saved by people in like businesses working together even if in fact they're competitors. You're creating an equal playing field, because those competitors are now buying power or advertising or product at a same price. Now you can beat them just by how good a business person you are.

This is not a new phenomenon, the people working together, but it seems to be growing exponentially. In the sense of what you've done in Owen Sound, or what you're now branching out and doing, can you talk about the size? How much money do you think you've saved a group of manufacturers in a medium-sized community like Owen Sound by their getting together to do either purchasing together or health training together? Can you throw some numbers out as to what you think they're saving?

Mr. Alan Diggins: It's hundreds of millions of dollars, definitely, over a 15-year period in Owen Sound alone.

It's not something we've done personally.

Mr. Joe Preston: No, no.

Mr. Alan Diggins: We've just facilitated that happening.

Mr. Joe Preston: Yes. So the dividend—

The Chair: Is it related? If it's related, I'll allow it, just very briefly.

Mr. Joe Preston: No, it's not.

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

We've concluded our second round of questioning. We have just a few minutes remaining. I will start a third round. There are only about three minutes, I believe, and I'll allow you to utilize those three minutes.

Mr. Boughen, you're next on my list. You have three minutes.

Mr. Ray Boughen: Okay. Thanks, Chair.

We've heard from a number of witnesses about the successes of different operations they've been involved in. I'm just wondering what happens when an operation that you have funded starts to go sideways. Are there steps in place to help pull the project back onto the rails? Are there some formalized operations that take place? When do you get to the point where you say, "This one isn't going to fly, guys; it's buried in the hangar someplace here, and we'll have to get back to it"?

Perhaps you could comment on that.

Mr. John Lahey: Our policies are very similar to the policies of the banks in terms of when and under what circumstances we would intervene on a loan. It's how we apply the policy that's different.

You know, our last wish is to actually foreclose or to call a loan. We'll do most everything we can, including with residential mortgages, before we'll do that. I had a lady on the phone last night; this is about the tenth time we've tried to intervene on her behalf, and we just can't do it. But in lots of other cases we're actually able to find ways to either defer payments or capitalize interest—not always, but in most cases. Our delinquency rates are very, very low, mostly because we work with our members.

Mr. Alan Diggins: In our case, you heard me speak about old-fashioned bankers, and I gave up on that route, with all due respect.

A voice: Are you calling me an old-fashioned banker?

Mr. Alan Diggins: Oh, oh! That's right.

So I did, after five years, come up with a couple of fellows, one of whom has bought and sold 27 manufacturing facilities. You buy ones that are in trouble, make the adjustments to make them successful, and then sell them. I coupled him together with a young fellow who came out of the Deloitte group. Unfortunately, I do get a lot of calls from plant managers asking for help. When you bring in the kind of expertise in manufacturing that the fellow who'd bought and sold has, and you couple that with the kind of banking finesse that the Deloitte fellow has, you can come up with a lot of really novel ways, and good ways, to correct a balance sheet or to pick out an operational issue that is upside down. That seems to be working very well.

So we've taken a different approach as opposed to the banking.

I've sat in your chair, too, in having to call loans and that kind of stuff.

So it seems to be working well that way.

• (1515)

Mr. Ray Boughen: Thank you.

Thanks, Chair.

The Chair: Thank you very much. You're just about right on time. I appreciate that.

We will close out this panel. Thank you very much, both of you. It's been excellent, very informative. We very much appreciate your time.

I'll suspend the meeting until 3:30.

• (1515)

_____ (Pause) _____

• (1530)

The Chair: I call the meeting back to order.

For our second panel this afternoon we have with us two organizations. From Agropur cooperative, we have Madame Lorraine Bédard and Monsieur Serge Riendeau; and from the Fédération des coopératives de développement régional du Québec, we have Madame Francine Ferland.

I will first turn it over to Agropur for ten minutes for opening statements. Because there are only two groups, I'll once again allow a little leeway if I see that you're coming close to the end of your remarks, but please try to keep it as close to ten minutes as possible.

Madame Bédard, you have the floor for the next ten minutes to make your opening remarks. Thank you.

[*Translation*]

Ms. Lorraine Bédard (Corporate Secretary, Vice-President, Members Relations, Agropur cooperative): I want to begin by saying that Agropur wishes to thank the committee for its invitation and its interest in Canadian cooperatives. I am a corporate secretary and am joined by Serge Riendeau, who is the president of Agropur's board of directors. I see that you have received our brief, which I will discuss briefly in order to stay within my allocated time.

Before I go ahead with my presentation, I want to invite you to visit our web site at www.agropur.com. There, you can learn about Agropur's main trademarks, the many awards and honours our products have received, our mission, our values, the highlights of our history and the annual report for the most recent fiscal year. We take great pride in that document because it has much to say about cooperation and the manner in which Agropur expresses its cooperative pride.

The 13,000 Canadian dairy farms produce about 8.4 billion litres of milk annually. That milk makes its way to 455 processing plants, with combined sales of an estimated \$13.4 billion, or 15% of total sales in the Canadian food and beverage industry. The Canadian milk-processing sector provides employment for almost 24,000 people in every region of Canada.

Our industry is rationalized. Three major processors—Saputo, Lactalis-Parmalat and Agropur—share slightly over 75% of Canadian milk production in approximately equal shares. It is interesting to note that cooperatives have a very strong presence in the Canadian dairy sector. In addition to Agropur, which processes 25% of Canadian milk, other major dairy cooperatives are Agrifoods, Gay Lea Foods, Scottsburn, Amalgamated Dairies, Farmers Dairy, Dairy Town, Nutrinor, Northumberland, Agrilait, Fromagerie St-Albert, Organic Meadow and the Société coopérative agricole de l'Isle-aux-Grues.

The cooperative was founded in 1938. Agropur is a major player in the Canadian dairy industry. We process almost 2 billion litres of milk per year in Canada; our 3,349 members produce slightly more than 1.7 billion litres of milk; and we provide competitive and attractive jobs for 4,600 Canadians in every region of the country.

The dairy industry operates under a supply management system. We believe that this system has provided a stable environment over the years, within which the dairy industry has been able to develop while coping with the challenges arising from changing conditions in domestic markets and from international trade rules. The industry has been successful in providing consumers with quality dairy products at competitive prices. Our partners in this industry are the producer marketing boards and their national organization, the Dairy Farmers of Canada.

We strongly believe that everyone must play their role in the industry if it is to retain its balance. The government must be careful not to take any actions or adopt any programs or structures that affect the balance between producers and processors, or that allow foreign processors to gain access to the Canadian market without being bound by the same regulations as Canadian processors.

Agropur is a major player in the dairy industry, and it is also the third largest non-financial cooperative in the country. Considering all economic sectors together, Agropur ranks among the six largest national cooperatives. Agropur has a real and significant impact on the agricultural sector. Thanks to its management style and leadership, the cooperative distributed \$482 million to its members in patronage dividends in the five fiscal years from 2007 to 2011, with 25% having been paid out in each corresponding fiscal year and 75% having been distributed in the form of capital issued by the cooperative to all its members.

This capital is redeemable by decision of the board of directors after a minimum period of five years. This means that, over that same five-year period, Agropur members received \$230 million—the cash portion of the patronage dividends and the repurchase of shares that were previously issued by Agropur.

Agropur also plays a significant role in the Canadian cooperative movement. It is a member of the Conseil québécois de la coopération et de la mutualité—Quebec council on cooperation and mutual plans—and is working to promote the creation of a bilingual national body that will represent all Canadian cooperatives before various authorities, including the Government of Canada.

It is also a member of SOCODEVI, which works in the area of international development to encourage populations to take their respective situations in hand through the creation of cooperatives. Agropur provides financial support to these cooperative organizations in order to promote recognition of the cooperative movement and cooperatives as a viable business model that offers an alternative to the dominant model.

Like all large cooperatives, Agropur receives numerous requests to support the cooperative movement. It has been responding positively to these requests for a long time. However, like any other cooperative, our organization must ensure its own profitability. There is a limit to how much support can be provided from within the sector. That support must not serve as justification for the government to disengage from assisting and supporting the development of cooperatives and the cooperative sector.

We must not forget that Canadian cooperatives belong to Canadians, that they are active in every sector and every region, and that they contribute to the collective well-being through the cooperative values of self-determination, equity, equality, and solidarity. All Canadians, including the Canadian government, should take pride in their cooperatives, and the government should renew its support for this economic sector.

• (1535)

Previously subject to Quebec's cooperatives act, Agropur decided in 2000 to place itself under the Canada Cooperatives Act, which would better reflect its business situation and put it in a position to

take on members from other Canadian provinces if the opportunity arose.

Since that time, Agropur has had the opportunity to consider entering into strategic alliances with other cooperatives. The fact that it is already governed by the federal act was clearly advantageous and could have facilitated the execution of any such plans. We have been operating under this legislation for 10 years and have had the opportunity to examine it more closely at various times, especially during the consolidation of our by-laws in 2000 and 2009.

In general, Agropur is of the opinion that the act provides a suitable framework for the development of our organization. We greatly appreciate the fact that the legislator has incorporated section 159, which recognizes the distinctive cooperative nature of agricultural cooperatives operating under a supply management system. That allows them to continue to express their specific cooperative nature despite the existence of the legislative framework for supply management.

We understand that, at this time, the special committee has adopted a mandate to examine the situation of cooperatives in Canada, and not to amend the act. We ask that the committee, the government and the legislator devote the necessary time and effort to conducting a proper consultation process with the cooperative sector and Agropur in the event that amendments to the act are contemplated.

You can rely on our organization to contribute to the assessment of the potential impacts of any such amendments on the cooperative sector, on our organization, and on our way of doing business. Similarly, we can only encourage the legislator to take into consideration the specific characteristics of cooperatives when it undertakes to amend any legislation. It must ensure that any legislation that is adopted by the government includes the cooperative business model instead of excluding it.

For a long time, Agropur's cash flow from operations has been sufficient to meet its needs in terms of reinvesting in its existing infrastructure. The real problem for large cooperatives arises when a major acquisition or investment project presents itself. The fact that our members have already contributed to their cooperative's capital by having the discipline to reinvest a significant portion of the surplus earnings that it has generated each year—combined with the financial demands placed on them by their own farms—limits the additional amount or effort we can ask of them.

Agropur has welcomed the federal government's decision to introduce the program for deferred taxation of patronage dividends, which gives members the option of deferring the taxation of the value of the investment shares issued at the time of the patronage dividend until the time of their disposition.

We would be pleased to be able to announce to our members that this program will not only be renewed when it expires in 2016, but that it will be made permanent. We would also look favourably upon the federal government's creation of a program based on the example of Quebec's Cooperative Investment Plan. Programs of that kind, which do not come at high cost to the government, favour the capitalization of cooperatives by encouraging members to be disciplined or patient, and to reinvest in their cooperatives.

A number of unpublished studies prepared by large firms will be released to participants during the International Summit of Cooperatives, which will be held in Quebec City in October. One of these studies, prepared by Deloitte, will examine the productivity, financing, and capitalization of cooperatives. It would be worthwhile for your committee to take note of the results of this study.

The government has announced the cancellation of the Co-operative Development Initiative program. This program constituted a minimal effort on the part of the government to promote cooperatives. Similarly, the downsizing of the Rural and Co-operatives Secretariat may indicate that the government underestimates the role of cooperatives in Canada. It is important to re-establish these support structures. We invite the committee to recommend that the government renew that program and provide adequate support for the Rural and Co-operatives Secretariat.

Cooperatives are associations of persons who own democratically managed economic enterprises and share in the surplus earnings. As such, cooperatives are not like other enterprises, but they are indeed enterprises, and therefore, they must be viable and prosperous.

Toward this end, we would like to draw the committee's attention to government financial and tax assistance for enterprises, be they cooperatives or not. Regular support programs usually favour applicants who announce the creation of jobs.

However, for already-established enterprises, it is important that the government distinguish between the creation of wealth and the transfer of wealth. Job creation should not be the main factor considered in connection with financial assistance because this adversely affects Canadian companies, be they cooperatives or not.

The government should incorporate a criterion related to increasing the productivity of the applicant into its financial assistance programs, in order to favour investment in Canada as well as improvement of the competitiveness of enterprises with respect to foreign competition and in international markets. A certain degree of simplification of the requirements attached to the assistance provided would also be helpful to enterprises, whether they are cooperatives or not. All Canadian enterprises, including cooperatives, would benefit from these improvements.

Thank you very much.

• (1540)

The Chair: Ms. Bédard, thank you for your contribution.

We are now welcoming Ms. Ferland, from the Fédération des coopératives de développement régional du Québec

[*English*]

The floor is yours for the next 10 minutes.

[*Translation*]

Ms. Francine Ferland (President, Fédération des coopératives de développement régional du Québec): Ladies and gentlemen members of the committee, good afternoon.

I am happy to see you. Thank you for striking this committee to study cooperatives.

I am the President of the Fédération des coopératives de développement régional du Québec—Quebec's federation of regional development cooperatives, commonly referred to as CDRs. During my presentation, I will discuss CDRs.

CDRs are well-established in Quebec. For over 30 years, they have been playing an important role in our province's economic development. Their mission is to promote the cooperative approach, support promoters in starting up any type of a cooperative and ensure support following the start-up process.

Eleven CDRs cover all seventeen of Quebec's administrative regions. They are brought together in one federation, which provides them with support and assistance in the carrying out of their mandate.

It is in that capacity, and following the invitation extended to us, that I will tell you about what we think about the importance of cooperatives in Quebec, and about CDRs' contribution to their development.

I would like to begin with a recommendation. We recommend that the Canadian government establish a partnership for cooperative development to support the creation of cooperatives across Canada.

I will present three separate elements in support of our request: evidence of cooperatives' stimulation of Quebec's economy; the importance of an effective network to support cooperative start-ups; and effective support measures for the creation of cooperatives.

I will begin by talking about cooperatives' stimulation of Quebec's economy. As it has been mentioned, cooperatives are present in some 40 economic sectors. Aside from the major sectors that everyone is familiar with and that have been discussed to an extent today—agricultural, funeral, forestry, school or food cooperatives—there are also cooperatives in renewable energy, housekeeping and home care, day-care centres, transportation, tourism, health, local services—an example was provided this morning—cultural industries, the manufacturing industry and many others.

Cooperatives are present in all of Quebec's regions, both in urban—which may be surprising—and rural settings. They have done very well economically. They are socially responsible and redistribute the generated wealth, while providing services to meet their members' needs by creating quality jobs.

We feel that promoting different company types is important for building a strong economy. Collective businesses—and especially cooperatives—are added to the mix of private and public companies.

We are thoroughly convinced that stimulating cooperative development and encouraging innovation in new areas of activity will help Canada's economy become stronger and contribute even further to the country's prosperity, while helping prepare for the future.

In addition, cooperatives are an excellent way to ensure the sustainability of companies and to avoid their relocation. A number of studies point out that the lack of a new generation owing to the aging of business managers is currently a key challenge for our economy. Of course, there are several solutions, but one of them is business succession through the cooperative approach.

That business succession based on the cooperative approach encourages worker mobilization and the maintenance of local jobs. It also helps keep capital in our country and encourages community revitalization.

When it comes to the performance and sustainability of cooperatives, a recent study by the ministère du Développement économique, de l'Innovation et de l'Exportation du Québec—which has already been mentioned, I am sure—indicates that cooperatives' survival rate is significantly higher than that of traditional companies. We are talking about double the survival rate of other companies. That's not insignificant.

After three years of existence, three out of four cooperative are still there, compared with one out of two for all Quebec companies. Six out of ten cooperatives reach the five-year mark, compared with slightly under four out of ten for other companies. We are talking about 62%, compared with 35% for all of Quebec's companies.

• (1545)

After 10 years, 4 out of 10 cooperatives are still active, compared with 2 out of 10 in the case of all other companies. That works out to 44% and 19.5%, respectively. This study was carried out twice, and both times, the results were the same after five and ten years. There are certainly some explanations for that.

That performance of the cooperative model can be partially explained through the actual structure of the cooperative business model, the legislative framework of its governance, the existence of a board of directors made up of members, the democratic operation and the obligation to establish a reserve to ensure the company's sound management. In addition, the technical or specialized assistance cooperatives receive when they are created and during their development is certainly a sure value. That is why making sure those specialized services are provided to support cooperatives is key. So we can say that the amazing survival rate of Quebec cooperatives is not unrelated to the joint efforts by the cooperative movement and the Quebec government. Those same statistics clearly show that stimulating and supporting the development of new cooperatives in the spirit of economic sustainability is a strong economic incentive.

I also want to emphasize how important an efficient network is for supporting cooperative start-ups. Regionally speaking, regional development cooperatives are a gateway for people who want to create a cooperative. They take on the stimulation of the regional cooperative life and promote the approach. They provide advisory services for start-up cooperatives and business support for existing cooperatives.

Here are some figures. The CDR network is made up of more than 1,100 cooperatives and member organizations, as well as 1,500 cooperatives created over the past 20 years. During the 2011-2012 fiscal year, 140 new cooperatives were started up, leading to the creation and maintenance of 375 jobs. The Fédération des coopératives de développement régional du Québec—which brings together CDRs and of which I am president—aims to encourage concerted efforts, help highlight and share good practices, and develop growth areas for the network. CDRs or sector federations—organizations dedicated to creating and supporting cooperatives—may be very present in Quebec, but there is another CDR elsewhere

in Canada. A regional development cooperative has been operating in New Brunswick for almost 10 years. In addition, CDRs' operation and impact on cooperative development favourably attract the attention of other Canadian provinces, which are currently adopting exploratory measures on the feasibility of implementing such a model in their area.

I would like to tell you about effective support measures for cooperative development. You may know this already, but in 2008, 63.1% of new cooperatives based in Canada were from Quebec. Did you know that, from 2004 to 2010, 595 new cooperatives were started up in Quebec, thus creating or maintaining 2,845 jobs? That economic dynamism is largely due to a partnership agreement between the Government of Quebec and the Quebec cooperative movement. For the government, the purpose of such an agreement is to encourage the development of existing cooperatives' business operations, create or maintain jobs in the regions and meet the new needs of Quebecers. We estimate that such a model of government support for cooperative development could be put forward across Canada based on a partnership with provincial cooperative boards and their partners.

In closing, we would like to remind you that cooperatives have a significant impact on the economy, that they are incredibly sustainable and efficient, and that, in Quebec, they are helped by organizations dedicated to supporting them—a key to their development success. Consequently, I want to repeat the recommendation of the Fédération des coopératives de développement régional du Québec to establish a partnership for cooperative development to ensure the creation of cooperatives across Canada.

• (1550)

There are some amazing cooperatives across Canada and some very nice large cooperatives. However, those nice large cooperatives have not always been big. They started out small, 50, 60 or 80 years ago. If we want to have more nice big cooperatives in 25 or 50 years, we must start structuring and supporting the cooperative movement now, and stimulate the creation of new cooperatives. The Canadian government certainly has a role to play when it comes to creating and supporting those cooperatives. Let's work together on building a better future.

Thank you for your attention.

The Chair: Ms. Ferland, thank you for your presentation.

We will begin our first round with Ms. Leblanc, who has five minutes.

Ms. Hélène LeBlanc: I want to thank the witnesses for this very useful testimony on the cooperative movement.

Ms. Ferland, you just made a very helpful presentation. You mentioned the role the federal government could play in boosting the cooperative movement across Canada. We see that the government will have a role to play in that. How do you think those measures could boost the cooperative movement and help emerging cooperatives?

•(1555)

Ms. Francine Ferland: Far be it for me to put words into the mouths of politicians who are here to make decisions on implementation mechanisms. Any support measures and any programs that can help existing organizations better structure their actions could be used as leverage. At times, provinces have means and ideas, but they sometimes lack leverage.

I think the federal government could easily create that leverage in other provinces, so that the movement can spread. There are some very nice cooperative results across Canada. I think they should be used as inspiration to facilitate the creation of new major cooperative networks.

I think the Co-operative Development Initiative was a good example of measures that provided tremendous support for cooperative development. I sat on the steering committee for six years—from the beginning, in 2003, until 2009. Projects from all over—although priorities were still already targeted—resulted in the creation of alliances around those projects. Without the CDI's financial support, some of those projects would not have existed. People do not lack ideas, but they often lack the means to bring them to fruition. I think that is an area where the federal government could easily play a role.

Ms. Hélène LeBlanc: Ms. Bédard and Mr. Riendeau, how do you view the challenges emerging cooperatives face? What kinds of challenges do they have to meet? Agropur is well-established, but as Ms. Ferland pointed out, cooperatives start out small and grow. As a well-established cooperative, you say that cooperatives often want to develop. What are the major challenges those cooperatives must face, be they part of the agricultural or the industrial sector?

Mr. Serge Riendeau (President, Board of Directors, Agropur cooperative): That is an excellent question. I would like to begin by specifying that Agropur is a cooperative, but it is not a cooperative federation. Agropur's members are directly related to the cooperative. Our members are not related to a local cooperative, which in turn related to Agropur through a federation.

To answer your question directly, we help emerging cooperatives through our provincial or national associations, whether we are talking about the Conseil canadien de la coopération et de la mutualité or the Conseil québécois de la coopération et de la mutualité. We provide them with a fairly high level of financial support. We invest over \$300,000 in those organizations. We provide \$50,000 a year in support for a research chair at the Université de Sherbrooke.

As for the International Year of Co-operatives, we are putting up \$300,000 for the upcoming International Summit of Cooperatives. I would like to thank the government for supporting the UN resolution that designated 2012 as the International Year of Co-operatives. That shows that pretty much everyone is interested in that business model.

I think that smaller emerging cooperatives sometimes need financial support. They may also need administrative support so that they can generate maximum start-up power. Things are always the most difficult in the beginning. Once those start-ups grow a bit and acquire some experience, they can have more staff. They can stand on their own two feet a bit more.

The Chair: Sorry, Ms. LeBlanc, your time is up.

Ms. Hélène LeBlanc: In your brief, you thoroughly discuss the role of governments that can support emerging cooperatives.

Thank you very much.

•(1600)

The Chair: Thank you.

We now go to Mr. Gourde, who has five minutes.

Mr. Jacques Gourde: Thank you Mr. Chair.

I want to thank the witnesses for joining us and for their very nice presentations.

I would like to take advantage of Agropur being here to talk about its international component. We have heard from many cooperative representatives who have operated in their province and in Canada, but Agropur is active internationally. You have plants in the United States and Argentina. As a large cooperative, what has made you develop that international component?

Mr. Serge Riendeau: You need to understand that we operate in the dairy sector and under a supply management system. That system requires that we produce enough to meet Canadian consumption needs. If you think back, you'll recall that Agropur was initially a regional company that became provincial and then Canadian because of the rationalization of all those companies, either in processing or retailing.

A major rationalization process has taken place on both sides. As a result, today, three major players process from 75% to 80% of all of Canada's milk. Agropur is one of those players, as we mentioned in our brief.

In addition, we have clients on both sides of the border. Although the border between the two countries is impervious, especially in the U.S., our clients work on both sides of the border, and that also enables us to follow them.

Also, we don't think it's important to be big in order to become big. Our expansion is based on being able to maintain a balance of power against other major world players. Regardless of whether we are in a supply management system or another more open system, like in the U.S., companies' sizes force us to move in that direction if we want to continue developing. Those who have failed to do so in the past have disappeared. There are some glaring examples. Many companies—both cooperative and private—no longer exist.

We want to ensure the company's sustainability. We have been around for almost 75 years. We want to ensure the company's sustainability for the benefit of our members. We also want to make sure that, regardless of what happens in terms of market changes, our cooperative is financially strong and has a network of plants ready to process our members' milk. We want to provide them with assurance that they will have a place to process their milk.

Mr. Jacques Gourde: Has the Agropur cooperative model given you a competitive advantage in your acquisitions abroad?

Mr. Serge Riendeau: I think we are all subject to the same trade rules. I will speak on Agropur's behalf, as I am not a spokesperson for all cooperatives.

Agropur operates in a specific environment—that of the dairy sector. Whether companies are cooperatives or not, they face the same challenges, which consist in meeting clients' needs. With regard to development, we have the same concerns and obligations in terms of competitiveness. We must first make sure that the company is healthy. Financial soundness is a prerequisite for ensuring a company's development.

In a way, we are lucky because members are currently leaving almost \$580 million in capital in the cooperative to support its development. That capital is redeemed over time. However, dairy producers who are members of Agropur allow their cooperative some leeway so that it can develop.

In some cases, that is easier in a merger of two cooperatives. Agropur is the cumulative result of mergers or acquisition of over 125 companies. There is a lot of movement.

Mr. Jacques Gourde: The efforts and capitalization of all of Agropur's members help it become more financially sound.

• (1605)

Mr. Serge Riendeau: Of course, we do use traditional loans, bank loans, and so on.

The Chair: Thank you, Mr. Gourde.

Mr. Bélanger, you have five minutes.

Hon. Mauril Bélanger: Thank you, Mr. Chair.

Are any of the companies you've acquired since the beginning cooperatives?

Mr. Serge Riendeau: That was mostly the case in the beginning. Nevertheless, the most recent acquisition—in 2004—involved a western Canadian cooperative.

Hon. Mauril Bélanger: I assume that was still amicable.

Mr. Serge Riendeau: That was an acquisition, even though we are talking about a cooperative, as they did not want...

Hon. Mauril Bélanger: It was still amicable; the members had to agree.

Mr. Serge Riendeau: Members have to agree. Depending on how big the investment is, the board of directors has some leeway in managing the cooperative.

Hon. Mauril Bélanger: I just wanted to make sure I have understood the financial aspect properly.

Ms. Bédard, during your presentation, you said that \$482 million was given out in patronage dividends from 2007 to 2011. Does that account for all of the surplus?

Ms. Lorraine Bédard: No.

Hon. Mauril Bélanger: Every year, 25% of that \$482 million was paid out in cash. That was the dividend percentage, and the rest was capital. After some time, portions of capital remained. If I have understood correctly, out of that \$482 million, from 2007 to 2011, \$230 million went to the members.

Ms. Lorraine Bédard: The source is not the same, but I would say that is correct. Ultimately, our members received a total of \$230 million over five years.

Hon. Mauril Bélanger: Roughly, what percentage of Agropur's total surplus does the \$482 million account for? Are we talking about a third, a half or two thirds?

Ms. Lorraine Bédard: It's more than that. I think it's 65%.

Hon. Mauril Bélanger: So two thirds. Thank you. I will come back to this later.

My next question is for Ms. Ferland from the Fédération des coopératives de développement régional du Québec. Could you tell me roughly what percentage of activities has taken place in urban areas, compared with rural areas, in Quebec?

Ms. Francine Ferland: That's a good question. I don't have the exact answer. I think there are more cooperatives in rural areas in general, but I don't know what the exact percentage is.

Hon. Mauril Bélanger: Allow me to ask you another question.

Canada has become urbanized to a large extent since the 19th century. The same goes for Quebec. Therefore, I assume that situation is evolving. With that in mind, has the urban activity level been increasing or decreasing over the last five years, for instance?

Ms. Francine Ferland: It has not been decreasing, but I don't have the exact data with me.

Some areas of activity only develop in urban settings. Take, for instance, the cultural cooperative sector. There aren't many cultural cooperatives in small villages, but there are in Quebec City and Montreal. That sector has developed a lot in urban areas.

In addition, many cooperatives are now starting up in immigrant communities, as well.

The cooperative approach is very adaptable. It is based on a need, which varies depending on the environment.

Hon. Mauril Bélanger: That's true.

I would like to mention something to Mr. Chair and the researchers. I am talking about another area we have not studied, I think, and we may not consider. I am talking about cultural cooperatives.

If you get the opportunity, you could maybe send us a few names of cultural cooperatives. If we don't have time to summon them to the committee, some of us may at least be able to meet with them. I would be happy to do that.

My last question is for the Agropur representatives. You made a worthwhile recommendation. What you said is very different from what we have heard before. I will read it to you. You said, madam, that job creation should not necessarily be an investment criterion. You said that productivity should be one of the main criteria in assessing assistance. Could you tell me more about that?

• (1610)

Mr. Serge Riendeau: May I answer.

That is constructive. This is not a criticism, but often, when we look at requests for financial assistance, be it for foreign companies that come to invest in Canada or in one of the provinces....

Hon. Mauril Bélanger: Yes, yes.

Mr. Riendeau, I will read it:

[English]

The Chair: I'm sorry, Mr. Bélanger, the time has expired. I was allowing the witness to finish his answer there.

Hon. Mauril Bélanger: I just wanted to read the sentence, because it is the one that's rather crucial:

[Translation]

You wrote, and I quote: "Job creation should not be the main factor to be considered in connection with financial assistance, because this adversely affects Canadian companies, whether they are cooperatives or not."

That sentence jumped out at me.

Mr. Serge Riendeau: Okay, the....

[English]

The Chair: You'll have to make sure to keep it as brief as possible, because the time has expired.

[Translation]

Mr. Serge Riendeau: I will answer quickly.

That element of the questions should be properly identified. I will try to make sure we understand each other without giving you a specific example.

Job creation is often one of the main criteria considered when it comes to providing financial assistance to attract a company to Canada. We are simply saying that the government should check whether wealth is being transferred rather than created.

Very often, in the case of companies that want to set up in Canada, we are talking about a market transfer, as opposed to real job or wealth creation.

Sometimes, that also makes companies that invest in or buy a Canadian company use rationalization. The important positions—in R & D—have already been created in other countries, and that is not necessarily taken into account in the calculations.

We must look at the big picture when the government invests, whether we are talking about a grant or assistance for a new company that wants to set up in Canada. Sometimes, it's good that new companies are coming here, but a broader picture of the situation may be needed.

That is more or less the message we want to send.

[English]

The Chair: Thank you very much.

We went pretty significantly over time there. I did allow it, but I just ask members to be careful, as we move on, to try to stick at least fairly closely to the time.

I will move to the second round of questioning now.

Mr. Preston, you have five minutes.

Mr. Joe Preston: Thank you very much.

I may get back to that last bit, but I wanted to ask some other questions first.

You mentioned that in general, rural Canada or rural areas may be more impacted by cooperatives, or cooperative enterprises, than urban, but you gave some great examples of some urban enterprises, cultural enterprises, that are now working in a cooperative sense and moving forward that way too.

I come from a rural area of southern Ontario, and we really do see the value, from a cooperative point of view, replacing enterprises that may otherwise have been there and that we would no longer have. I think we saw some examples yesterday, whether it was a credit union starting up because the bank was leaving a community or those types of things. So we really do see the imperative to rural Canada, the fill-in that cooperatives bring.

You mentioned also the success rate of cooperatives—which we keep talking about and I'm quite pleased that we're repeating for those who may be watching this—including the successful start-up rate at five years or ten years, or even one or two years, versus the standard corporation or sole proprietorship or any other form of business start-up, and how much more successful cooperatives are at the benchmarks you've mentioned.

I keep asking this question, because I really want to get it in a bottle, if I can: what's making them more successful than the start-ups of regular businesses? I do some mentoring from an entrepreneurial point of view, and if we can try to capture some of this....

But I think you hit it on the head—and I'm going to give you credit here, although maybe I heard it earlier today and it didn't sink in—that cooperatives are based on a need, and then the business forms around the need, whereas an awful lot of other businessmen.... Even me, if I have an idea and I start a business based on that idea, I'm not sure there's a need. I just think I'm better, maybe, or hope that at the end of the day I'm better than the other guy who is in the same job as I am. But cooperatives start with an advantage when they are starting with a need. Something is missing, so cooperatively people get together and address that.

Would you say that's a fairly good assessment of why cooperatives are more successful? I mean, it's pretty hard to fail if you're filling a need. If there isn't a need, it may be harder.

●(1615)

[Translation]

Ms. Francine Ferland: Thank you for your question. I would say it could have several answers. I will look at it from a very specific standpoint.

Cooperatives are created to meet a need. The closing of a company with 25 employees in a village of 1,000 has a much greater impact on its community than the closing of a company with 500 employees in Montreal or Toronto. People will join forces to try to relaunch that company and keep its services.

An example of local services was provided this morning. I have another example for you, if you have time for it. People will use that service because they see its impact on their community.

A cooperative is a company, but it is more than just a company. It is a company that affects its surroundings and is anchored in its area. It is a catalyst of change for its community. Yes, people are going to use it.

Let's say, for instance, that people lose a service, such as the last grocery store in their village. If those people join forces to keep that service, they will certainly use it, even if they know they will pay a bit more than they would at a big store 100 km away. They know that, without the store, their municipality would lose its vitality. Cooperatives' survival rate is attributable to the fact that they are created to meet a people's need, but also to the usefulness people see in it.

In addition, it belongs to them.

[English]

Mr. Joe Preston: And, as a question to our friends from Agropur, the same thing happens.... I would assume that a number of years ago, Agropur started as a good thought of some dairy farmers getting together and cooperatively creating a business. You're still in that business.

Are dairy farmers still your only members? Can anybody be a member of Agropur other than someone who has a dairy farm?

[Translation]

Mr. Serge Riendeau: Currently, Agropur's only members are dairy farms.

[English]

Mr. Joe Preston: Okay. Great.

But you've grown. You're now into—

The Chair: I'm sorry, your time has expired. Was it a very brief question?

Mr. Joe Preston: No, it wasn't. It would never be a brief question, Chair.

Voices: Oh, oh!

The Chair: Of course not. Well, then, I guess you'll have to wait until the next chance you have. But thanks for the honesty.

Madame Brosseau, you have five minutes.

[Translation]

Ms. Ruth Ellen Brosseau: Thank you for your presentations. Once again, I want to point out how useful they have been.

We know that 2012 is the International Year of Co-operatives. We know that the CDI will be abolished. It will be increasingly difficult to create and start up new cooperatives. In addition, the data from the Rural and Co-operatives Secretariat will no longer be available.

I think I have listened to your testimony carefully. You feel that new cooperatives will have a hard time and that those budget cuts will harm cooperatives or, perhaps, the creation of future cooperatives.

Ms. Francine Ferland: When a positive program that supports development is abolished, there are some repercussions, of course. Unfortunately, the rest of Canada will be even more penalized than Quebec. We in Quebec are lucky to have a partnership agreement

with the provincial government that supports organizations like ours, the Fédération des coopératives de développement régional du Québec, which in turn support cooperative development.

When it comes to local services, people tell themselves that they will lose their last grocery store and decide to create a cooperative. However, they need support because they can't afford to pay someone to conduct a feasibility study, pay a tax expert to have a look at the programs, and so on.

CDRs, which are partially subsidized, help that group of promoters acquire specialized services and set up a legally correct cooperative, with proper rules, and so on.

The federal Co-operative Development Initiative provided tremendous support for development and served as leverage with other provincial boards and other provinces—francophone and anglophone, as it applied to both languages. Unfortunately, it appears that the initiative has not been renewed. That's sad news and is not what cooperatives would want. However, if the Canadian government has another proposal, we would certainly welcome it.

• (1620)

Ms. Ruth Ellen Brosseau: I remain positive when it comes to that. Many people have told us about their cooperative since yesterday. I think this report is an opportunity to enhance Canadian cooperatives and think about the future. We need to know what we can do so that we can support them and consider the future. The federal government and Canadian cooperatives must establish a strong relationship.

I am thinking of Quebec, where the cooperative movement is really dynamic. Could the federal government adopt similar measures to boost the Canadian cooperative movement? I think that's possible.

Ms. Francine Ferland: That is our greatest desire. If the federal government were to adopt similar measures, the domino effect would certainly be considerable.

During my presentation, I briefly discussed business succession. We see a lot of company relocation in our regions. They are bought out by foreign entities and, a few years later, they are closed, unfortunately.

The cooperative approach provides an alternative for keeping those companies in our regions—in Quebec and across Canada. The federal government could create a program for supporting job maintenance and company anchoring in our regions, instead of allowing foreign takeovers.

Ms. Ruth Ellen Brosseau: My question is for the Agropur representatives. What is the main difference between your cooperative and a private company? What would you say is the biggest difference?

Ms. Lorraine Bédard: Agropur is a cooperative. So we are talking about a people's association, which is managed democratically. It has a board of directors made up of members.

The way the cooperative is managed is not different from the way another company is managed. However, certain fundamental values permeate our organization. We have an associational life that helps us maintain a connection between our member base and our company.

I think that's a success factor that allows our company to continue growing in its owners' interest.

[English]

The Chair: Thank you.

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

[Translation]

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

Thank you for joining us.

The success of cooperatives in Quebec and across Canada had been brought up a number of times. Witnesses have been saying for days that cooperatives are a success story.

I have listened to your testimony carefully. We can ascertain that Agropur's financial situation is excellent. You have paid out \$230 million to your members over five years, and a witness said that the return on investment was 11% last year. That's amazing. That's much higher than what bank investments or investments in other financial sectors yield.

In addition, according to a study carried out in Quebec, I think, cooperatives are twice as strong as private companies during a period of economic crisis like the one we are currently going through.

However, we should also remember that the federal government has a \$23-billion deficit. That's a lot of money, as it accounts for 10% of the government's revenue.

• (1625)

[English]

Canadians are demanding that we balance our books. The way I think of it, it's much like how members of the co-ops would demand that their co-ops balance their books. We've seen the success and the fruit of this program that CDI has been operating for 10 years. We're hearing it today from you.

[Translation]

There has been an increase in Quebec. You said that over 595 new cooperatives have been created over the past five years. That's a great success, but we need to resolve our spending problems.

[English]

I basically know the answer to the question, but does Agropur operate with an annual deficit equivalent to 10% of its revenues?

[Translation]

Mr. Serge Riendeau: No.

[English]

Mr. Pierre Lemieux: If Agropur did operate with a deficit of 10% would its members demand that expenses be reviewed so that the books could be balanced so that the co-op could survive, thrive, grow, etc.?

[Translation]

Mr. Serge Riendeau: Basically, the purpose of the cooperative model is to meet members' demands. When cooperatives create wealth, they share it with their members.

Mr. Pierre Lemieux: If a co-op has a 10% deficit, there will be no wealth. Members' investments would certainly be at risk. The cooperative must therefore review its spending and balance its financial situation. That is what the government is doing.

I would also like to say that no cuts were made to the CDI. The initiative merely reached the end of its natural life. The CDI was in place for two five-year periods. Very positive results were seen after five years. The government must now review its spending and balance its budget.

In closing, I would like to ask another question about the funding of other projects. According to some witnesses, it is still difficult to find money to carry out or expand certain important projects, implement initiatives and strengthen cooperatives. However, I believe, Mr. Riendeau, that you said that you put \$550 million dollars aside for future capital investments in projects. I would like to know whether the other cooperatives are in a position to do the same thing. Rather than returning a large portion of their revenue to their members, could cooperatives put a little bit of that money aside each year in order to create a venture capital fund to help them carry out future projects?

Mr. Serge Riendeau: Agropur has not always been in such a good financial position as it is now. We exercised great discipline over the past few years. In order to be able to pay dividends to our members and in order for them to be in a position to give part to the cooperative, the company first has to make money. That is the first criterion. The company therefore has to be competitive and present in the markets and we must meet the needs of our customers and consumers. As with any company, that is the first step.

I cannot speak for other cooperatives because I am not familiar with their situations, but in our case, most of our surplus earnings are given to our members. In return, the members leave part in the cooperative to be used as working capital. There is also a general reserve. We therefore combine the two. The cooperative can use some of the surplus earnings and the capital held by the members to help it to grow.

That is why we included in our brief examples of support for cooperatives when the phenomenon you just spoke about occurs. We would therefore like to see the renewal of the measure that allows deferred taxes to be paid when the capital is redeemed or when the members receive it, rather than when it is issued. This would make it possible to better capitalize cooperatives and such a measure would not cost the government very much money. It is inexpensive assistance that would help cooperatives generate revenue and develop more quickly. This is one of our requests and, in our opinion, it makes sense for both the company and the government.

• (1630)

[English]

The Chair: Thank you very much.

We'll move now to Madam Freeman.

You have the floor now for five minutes.

Ms. Mylène Freeman (Argenteuil—Papineau—Mirabel, NDP): Thank you, Mr. Chair.

If you'll allow me, Mr. Chair, I'll make a quick a comment to the remarks that I think my colleague Monsieur Lemieux was talking about earlier—my colleague from across *la rivière des Outaouais*.

I find it interesting that \$4 million is not seen as a good return on investment when, in a recession, these are areas and regions where jobs will be created. In an area like yours and mine, where we do see companies leave and cooperatives formed as a result, that does keep jobs in our regions at a time when we need them. And they do form because these jobs are leaving. That's why I think that \$4 million, when you're making choices in a budget during a recession, is well worth the investment.

That's my little comment.

I will now move to Madame Bédard and Monsieur Riendeau.

[Translation]

I am pleased that the representatives from Agropur are here. The Oka cheese factory is located in my riding. It is a good example. The purchase of the Oka Abbey helped to create and maintain jobs in the region. This is a good example of what a cooperative can do and how it can benefit our regions.

Agropur is a large international cooperative that has been around for 75 years. It has remained competitive, as demonstrated by its growth and success. In your opinion, what role must cooperatives play in innovation within cooperatives and in the operation of the market?

Is my question clear?

Mr. Serge Riendeau: Yes. It is all a matter of competitiveness. Regardless of the sector, the company must be competitive, whether we are talking about innovation or something else.

In the past few years, Agropur was the only dairy company to invest several million dollars in a research and development centre to support innovation, find new ways of encouraging Canadians to consume dairy products and meet Canadians' needs. I would like to specify that we did this without any financial assistance from the federal or provincial government. We could have perhaps done more had we received assistance. We could have developed other aspects. However, this centre gives us the opportunity to innovate and to remain one of the most competitive dairy companies. That is what we are trying to achieve and this was one way for us to expand.

Ms. Mylène Freeman: That is very interesting. Research and development is always needed to keep up with new technologies. The cooperatives have been fairly successful in doing that themselves, which is always good. One difference between cooperatives and other types of companies is the manner in which they are able to better develop themselves. Is that correct?

Ms. Lorraine Bédard: One of the great things about cooperatives is their sustainability, the desire to be around for a long time. Agropur wants to continue to exist for future generations, for our future members. It is important. Sometimes, we assess certain

investments differently or with a more long-term vision than other investor-owned or public companies. We do so because of our desire for sustainability.

• (1635)

Ms. Mylène Freeman: Ms. Ferland, in my riding, the CDR is very important. Our representative for the Outaouais-Laurentides region is excellent. We often work with him.

Often hardware stores or markets close. The farmers want to be able to offer their products, but the larger supermarkets do not give them the opportunity to do so. The CDR has often been there. With the cuts that have been announced recently, it is much more difficult to start such cooperatives. We have a few projects—

[English]

The Chair: Madam Freeman, the time has expired. If you have a question, I will allow you to pose it very quickly.

[Translation]

Ms. Mylène Freeman: How did the CDR use its funds before? How did it help cooperatives that were starting up in the regions?

[English]

The Chair: I ask that the response be as brief as possible.

[Translation]

Ms. Francine Ferland: As I explained a bit in my presentation, the CDR is supported through a partnership agreement between the Quebec cooperative movement and the Government of Quebec. The CDI is another thing. It is a federal government program that the CDR used in part but not to support cooperatives in the regions, which is what we are talking about here.

However, I would like to add, somewhat in response to Mr. Lemieux's observation, that one way large cooperatives, such as Agropur, the Coop fédérée, the Desjardins Group or Promutuel groups, provide a lot of support for the cooperative movement is through this partnership agreement with the government. The Quebec government invests money. Under the agreement, the Quebec cooperative movement adds money to support organizations that engage in cooperative development and that support new cooperatives on the ground. The fact that 595 new cooperatives were created in Quebec is not necessarily because of the CDI, but rather, it is because of the partnership agreement. We would like 595 new cooperatives to be created in Canada next year.

Thank you.

Ms. Mylène Freeman: I did not mean that the CDR was funded by the federal government.

[English]

The Chair: I'm sorry, but we're well over time. We will move now to Mr. Boughen.

You have five minutes.

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

And thanks for sharing your afternoon with us. Certainly your comments and your knowledge are very enlightening.

Picking up on what some of my colleagues said earlier this afternoon, and just lately, and listening to what some of our presenters or witnesses have told us, the co-ops have, for want of better words, a pretty good nest egg in terms of dollars put away for expansion and those kinds of things.

What do you see as the percentage that is reasonable for government to be involved in this business? There are two levels of government, the provincial and the federal governments, involved in start-up costs and other things. Has the co-op movement now reached a point where the government costs or the government input is not as critical as it once was, because there are other sources of funding for start-up co-ops that weren't there years ago? Now co-ops and mutual funds can be earmarked to help get a co-op up and running.

I'm looking at the broad distance, and at the nearer distance, as well, in terms of what a reasonable percentage is. If we talk percentage, then we don't have to worry about the numbers, such as having just a \$100,000 involvement for a co-op that's \$2 million, or you know, a co-op down here that's just getting started. What would you say would be a reasonable percentage from both levels of government?

[Translation]

Ms. Francine Ferland: It varies greatly from case to case. The needs are completely different for the start-up of a small cooperative than for the development of a cooperative the size of Agropur, for example.

I will let the Agropur representatives speak about their own situation, but in our sector, we deal with the start-up of new cooperatives. It is true that there are some financial resources available, but the organization that is going to support these cooperative projects also needs support.

There is money to assist with the start-up of the cooperative but those that support these cooperatives help them from the outset. It is very important that the new cooperative get started on the right foot. If not, they will not be included in our survival rate. They will be among those cooperatives that do not make it. The cooperatives that survive do so because they have received the proper support from the outset and they continue to receive good support over the years.

About 84 years ago, Agropur needed such support but did not receive it. The cooperative grew a little, but the situation was different. Today, it is important for people to be well informed of all the options from a legal and financial perspective. There must be financial support for such assistance.

• (1640)

[English]

Mr. Ray Boughen: What percentage...? If you're talking about an organization that needs \$2 million and it's 10% of \$2 million, you're talking more dollars than if you're talking about an organization that needs \$500,000 for start-up costs. You know what I mean? A percentage is only a kind of input cost needed for the co-ops, if in fact it's needed at all. If it is needed, what do you see as a reasonable percentage of input—10%, 20%, 30%?

[Translation]

Ms. Francine Ferland: It is difficult to answer your question. You are asking difficult questions. I do not know the magic percentage required to meet the needs of cooperatives. I think that it varies greatly from one case to another and from one organization to another.

[English]

Mr. Ray Boughen: I'm just picking up on what Pierre said, and what Madam Freeman said as well, in talking about how many dollars were required. There's money needed by both levels of government, so how best can the government spend that money to help more of the population than it's currently doing, or at least as well as it's doing—and co-ops are one of those operations?

I'm a co-op member and have been one for 50 years. I remember when the operation started, it was very tentative, very tight, with not much money available. As far as I know, it received no money from the province or the federal government. It received some help from another co-op. Now that co-op has money running out of its ears; it's certainly not short of dollars. So it found its own dollars for start-up costs. There must have been a percentage there that it used.

So I'm just wondering, if we're talking about government involvement in business, then what percentage is reasonable to start it up, if in fact there are any dollars available at all?

The Chair: The time has expired. I'll give you a second or two to finish posing your question, and then I will ask for a brief, brief response.

Mr. Ray Boughen: I'd just like to hear, Chair, from the other two panel members, what they think a reasonable number is.

[Translation]

Ms. Francine Ferland: The tax aspect can be developed. It does not cost the government very much money, has a multiplier effect and is very helpful to cooperatives. All the tax aspects are not insignificant. Earlier, we were talking about a federal cooperative investment plan that would constitute an incentive for cooperative investors to inject money into their company. This is a major contribution that does not cost very much if we consider the output.

I do not know if you have another answer to propose.

[English]

The Chair: Do either of you have a very brief response to that? We've gone a fair bit over time, so if it's very brief, I'll allow it.

[Translation]

Mr. Serge Riendeau: I will be brief. There are always bankers who can loan money and investors that can come forward, but financial assistance is always welcome. Sometimes, the assistance asked of the government is used for start-up purposes in order to ensure that new companies and cooperatives have the support they need. I think that we can also look at the situation from this perspective. The help that was available in the past was welcome.

•(1645)

[*English*]

The Chair: We'll now go to Mr. Allen.

You have five minutes.

Mr. Malcolm Allen: Thank you, Chair.

Thank you to our friends who are here today to talk to us.

As my colleague, Madam Freeman, said earlier, it is about choices.

I thank you for your recommendation 8, which talks about a renewal of a program. I have to agree with my friend, Mr. Lemieux, that it's not about taking something away, but about something that's coming to an end.

Do you want to do it again?

Mr. Preston and I agree that there are our lovely spouses who we put as number one. When you had that first dance with your soon-to-be spouse, you wanted to have another dance with that soon-to-be spouse. It seems to me that this is a program that when we had our first dance with it and saw how wonderful it was, why wouldn't we dance again with it rather than simply say no?

But it is about choices. If we renewed it for 10 years and we sold the gazebos, we'd have the money. But it seems to me that somebody built gazebos instead and spent tens of millions of dollars building gazebos rather than four million dollars a year for the next 10 years, which would have given us a program that's renewable. So it is about those choices.

From what I've heard from you this afternoon and what we've heard in the past two days—and my colleagues across the way have actually agreed—it seems that that you're successful in more ways than just being profitable. You actually keep jobs in communities and create jobs in communities where jobs have been lost. Members of a cooperative won't usually vote their jobs to Mexico or to China, but companies whose share value might drop a tiny bit in a quarter or two quarters will, because they have to appease the shareholder, who isn't necessarily the worker. In a cooperative on the other hand, in your case at Agropur, your dairy farmers aren't about to vote to have your dairy sent somewhere else to process their milk when they're actually still here. Rather than say they'll send the dairy somewhere else and make it cheaper, perhaps getting a cheaper quart of milk as a result, they're saying, I'm part of it and I'm not actually going to vote ourselves away.

This brings us back to this whole issue of why, if it's a successful model, as I think everyone here has said it is—though it's obviously not the only model, the only thing we should do in an economy—we wouldn't take that success and try to emulate and nurture it so that we can improve and expand it? Would we not want to do that as policy-makers, from your perspective? I recognize that you have a vested interest, which is okay, as we can take it from that perspective, but wouldn't that be something you'd want to encourage us to do as policy-makers?

You're free to jump in or not.

I can certainly make a question of something else or I'll just make another statement.

It's okay. I'm not trying to trap you, by the way.

A voice: What time is it?

Mr. Malcolm Allen: Mr. Chair will cut us off. Don't worry.

[*Translation*]

Mr. Serge Riendeau: I think that we live in a democratic country. In my humble opinion, cooperatives democratize the economy. I somewhat agree with you. I did not have the opportunity to respond to Mr. Lemieux's questions.

Wealth is created by Canadians, the cooperatives that are in place and Canadian companies. Ms. Bédard spoke about the sustainability of these companies. Many cooperatives will celebrate significant anniversaries in the next few years. We want to continue to be present in each of our sectors, to ensure our sustainability and to continue to create jobs for our children and grandchildren.

Our company made a business decision recently. Had we considered only the financial aspect, we would have chosen to sell part of our company to foreigners. However, we reassured our managers and confirmed to them that we wanted to keep all of our dairy sectors.

Our democratic life is very real. We consult our members every five years. During the year, we contact over 2,000 of our members who participate in this consultation. In 2002 and 2007, they reiterated their willingness to continue to be present in all dairy sectors. They wanted our company to continue to work under the cooperative model. This assured them that, no matter what happened economically, this company would be there to process their milk. This is an insurance for them and for future generations. A cooperative is a heritage received from previous generations. We want this cooperative to continue so that future generations can benefit from it.

I am not among those who are in favour of demutualizing and selling sectors. In 10 or 20 years, our children and grandchildren will ask us why we made that decision. I think that we need to look at the long term and keep the profits and the wealth in Canada. We need companies to pay taxes and create high-quality jobs and we need the expertise to remain in Canada. I am convinced of this. Sometimes, I find myself preaching to the choir, but I believe in this. It does not take anything away from other companies or from their development models. We are not saying that the cooperative model is the only one that should exist, but I believe that it has its place.

•(1650)

[*English*]

The Chair: I'm sorry, Mr. Allen, your time has far expired.

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

I'm just going to caution all members. I've been pretty lax this afternoon. But please do not take advantage of it, because I don't want to have to start cutting everybody off right at five minutes, okay?

Mr. LaVar Payne: Are you starting the clock now, Mr. Chair?

The Chair: It starts now.

Mr. LaVar Payne: I hope you're as generous with me as you have been with everybody on this committee.

First of all, I just want to say thank you to the panel members for coming. It's important.

I don't think there's anybody on the committee, on either side, who has said that cooperatives have not done a great job here in the country, all across Canada. Certainly it's been a really good model to see, certainly for producing jobs, and for the membership, obviously, for producing some profits as well as long-term survivability.

First of all, I just wanted to ask a couple of questions of Agropur. I was listening to your presentation. You talked about having 27 plants in Canada. In what regions are all of those plants?

[Translation]

Ms. Lorraine Bédard: They are in Quebec, Ontario, British Columbia, and Alberta.

[English]

They are in Quebec, Ontario, British Columbia, and Alberta.

Mr. LaVar Payne: Okay. Thank you.

I think I heard Mr. Bélanger say something about your purchasing a facility, a production plant, in Alberta.

Mr. Serge Riendeau: Oui.

Mr. LaVar Payne: Okay. Whereabouts is that facility?

Mr. Serge Riendeau: It is in Lethbridge.

Mr. LaVar Payne: Oh, in Lethbridge. Excellent.

The reason I'm asking is that I'm from Alberta. I'm glad to hear you're investing in our part of the country. That's a very positive sign.

One of the other things is that in the fourth paragraph of your presentation, on page three, you say that Agropur provides financial support to these cooperative to promote recognition and so on.

What type of financial support were you suggesting that you provide? Is it marketing? Is it cash? What comprises the financial support?

[Translation]

Ms. Lorraine Bédard: We receive a number of types of support but mainly support for provincial or national organizations, whether it be the Conseil québécois de la coopération et de la mutualité or the Conseil canadien de la coopération et de la mutualité. As Ms. Ferland said, we contribute to the government partnership program to promote the development of cooperatives. We are not part of a specific sector. Rather, we are there to support organizations that support the development of cooperatives.

We also support SOCODEVI, an international development cooperative, which has been around since 1984. This organization helps us to live by one of the cooperative principles, which is that of promoting international co-operation. At Agropur, we engage in international development in this manner by supporting the development of cooperatives in other countries.

Cooperatives are a powerful tool for supporting communities. Because we believe in our business model, we do what we can to support it. However, as I indicated in the brief, there is a limit; Agropur is a company and must therefore ensure its profitability and sustainability.

• (1655)

[English]

Mr. LaVar Payne: Okay, thank you.

You also talked, on page 6, about reinvesting in infrastructure.

Could you tell us what kind of funding you've provided for infrastructure? What kind of investments have you made for that?

[Translation]

Ms. Lorraine Bédard: We have factories. We have to repair and maintain them and ensure that they have the most up-to-date technology. These are capital expenditures we make to invest in our infrastructure so that we are always on the leading edge and remain competitive. That is what we were talking about here. Now that time has passed and given Agropur's strong financial position, Agropur is able to depend on itself to do this.

However, there are development projects for which we need financial help. We get the support we need from various banks or financial institutions.

[English]

The Chair: You have about two seconds, so I think I will stop you there, Mr. Payne.

We will now move to Mr. Butt.

We have you for five minutes.

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

Not being someone who has a lot of background in agriculture, I would be interested to know a bit more about the range of services that your cooperatives are providing and what the difference would be....

This is one of the things I'm struggling with too. I was in the property management business before I became a member of Parliament. I worked for an organization that was a collective of landlords or owners of rental apartment buildings. We could never get government to understand whether we were a business or a residence, because we were housing people. When I used to lobby municipal and provincial governments—I never lobbied the federal government in my previous life—it was often difficult for government officials to understand whether we were a business or were providing a residential service to people and managing their homes.

How do you look at cooperatives? You talk about their being a business, but you say they are different. What are the differences between being involved with a co-op versus being a traditional private sector company? For instance, what is the difference if you're a dairy farmer doing it on your own and not being part of a cooperative versus being in one? What would you say are the fundamental differences between operating as a co-op versus being a regular private business operating with a traditional private business model?

[*Translation*]

Ms. Lorraine Bédard: A cooperative is an association of people who create a company to meet a need. The need may be economic, cultural or of some other variety. In the beginning, there is a connection if we consider the basis for the cooperative and the reason for its creation. Basically, members of a cooperative help build capital, make decisions and share the cooperative's surplus earnings. They are connected to their cooperative. They help to work toward the cooperative's goal, the reason for which the cooperative exists.

When these four elements are combined, we have a cooperative. These elements do not exist in an investor-owned business, for example. An investor-owned business can certainly be managed in a democratic manner and can make a profit, but it does not share the profits it makes as a result of the reason it was created—to meet a consumer need. It does not share its profits with consumers. It shares them with its shareholders.

In our case, our shareholders are our users. They have the desire to meet the need for which they created the cooperative. They also find answers to problems within their organization. There is a therefore a connection between the reason the cooperative was created and the people to whom the money goes. The money goes to those who created the cooperative in order to meet their needs.

I do not know if my answer was clear, but the difference is democratic management, the sharing of the profits with those who created the cooperative. What I am saying may be a little bit philosophical, but it is relevant. It is part of the cooperative values and principles.

• (1700)

[*English*]

Mr. Brad Butt: Did you want to add something, Mr. Riendeau?

[*Translation*]

Mr. Serge Riendeau: To summarize all this, there are different types of cooperatives. In our case, the cooperative pays its members for their work, namely, the processing of milk that comes from farms and is delivered to the cooperative.

When the cooperative has served all its customers, it shares the surplus earnings based on the work done on the farm and the volume of milk produced. An investor-owned business will remunerate the capital. Regardless of the industry, whether you are a financier or an investor, the company will pay back the capital that you invested in it. That is an important difference.

What is more, our cooperative's board of directors is made up of 15 members. In order to be a member of the board, a person must be a dairy farmer who is a member of the cooperative. This ensures that the members are able to control the fate of the cooperative based on their needs, namely the processing of their milk, in order to obtain capital gain.

[*English*]

Mr. Brad Butt: Merci.

The Chair: Thank you. That concludes this panel.

[*Translation*]

and this meeting.

I would like to thank the witnesses for participating in this afternoon's debate.

[*English*]

I've seen no indication of there being any other business, so I don't think we need to move to committee business this afternoon.

Therefore, I will call the meeting adjourned.

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