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Chair

Mr. Blake Richards

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•(0910)

[English]

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

We've got three groups with us today, one of them here directly, and that is the Federation of Alberta Gas Co-ops Ltd. We've got Mr. Peter Harty, who is one of the directors, and we have Kevin Crush, the manager of communications.

Then we have joining us by video conference, the Red Hat Co-operative Limited. There's been a change to the individuals appearing for that group. We have Mr. Albert Cramer, the chairman, and then Mr. Doyle Brandt, who is on the board of directors.

We also have the Assiniboine Credit Union, including Mr. Nigel Mohammed, who is one of the directors, and then Mr. Dale Ward, the corporate secretary.

We'll move straight to our witnesses. I have the Assiniboine Credit Union listed first, so I'll move to them.

I'll turn it over to you, gentlemen. Can you hear us?

Mr. Dale Ward (Corporate Secretary, Manitoba Central, Assiniboine Credit Union): Yes, we can.

The Chair: Okay.

I will turn it over to you. You have 10 minutes to make opening remarks. I'm not sure which one of you will be making them, or whether both of you will, but the floor is yours for 10 minutes to do with as you choose.

Thank you.

Mr. Nigel Mohammed (Director, Business and Community Financial Centre, Assiniboine Credit Union): Thank you very much. I'll take over here.

Thank you, Mr. Chair, and committee members. First, I'd like to thank the Special Committee on Cooperatives for inviting the Assiniboine Credit Union to participate in this very important study into the status of cooperatives in Canada and what the Canadian government can do to strengthen the cooperative sector.

My name is Nigel Mohammed, and I am the director of the community financial centre at the Assiniboine Credit Union in Winnipeg, Manitoba. With me today is Mr. Dale Ward, who is actually the corporate secretary of Credit Union Central of Manitoba and is not with the Assiniboine Credit Union. I just want to correct that. But I will be speaking from Assiniboine's perspective as a financial cooperative, whereas Dale is here joining me today and will

be able to answer any questions that may be related to a broader Manitoba perspective.

First, let me start by telling you a little bit about the Assiniboine Credit Union. Like most credit unions, we were started by a small group of people who wanted to help themselves. In 1943, 15 electric company employees formed a credit union where they could save their money and, most importantly, get access to loans when they needed them. In those days, there was no safety net when it came to unemployment insurance, social assistance, or medical care.

At the first credit union meeting, members invested \$100 in the new cooperative. The first loan underlined the credit union's social mission. A member at that time borrowed only \$50 to pay an outstanding medical bill. Over the years, Assiniboine attracted more members and grew through both sound financial performance and a series of amalgamations with other credit unions here in Manitoba. But we never lost sight of our commitment to our members and to our communities. Today we're one of the largest credit unions in Manitoba and the eighth largest credit union outside of Quebec by asset size. Assiniboine holds over \$3.2 billion in assets and employs more than 570 people to provide financial services for more than 108,000 members through 23 branches in Winnipeg and 2 additional branches in northern Manitoba.

As a financial cooperative, we are owned by those who use our products and services. Our member-owners elect, from among themselves, representatives to the board of directors. Each member has one vote when it comes to the board elections and voting on important matters put before the membership. As we are a cooperative, profits may be reinvested into the credit union, distributed to members in the form of patronage dividends, and/or shared with the general community. While it's important for us to be profitable to be sustainable over the long term, as a socially responsible cooperative, our core purpose is to provide financial services for the betterment of our members, employees, and communities.

In March of this year, Assiniboine joined the Global Alliance for Banking on Values, or GABV as it's known, which is a membership organization of 19 financial institutions from around the world who share a genuine commitment to build a more sustainable future for underserved people, communities, and the environment. We have in common a business model that measures success by a triple bottom line approach. That is, measuring people, profits, and the planet in our decision-making. We are proud to be one of three Canadian credit unions to be accepted for membership in GABV. The other two Canadian members are Vancity, based in Vancouver, and the Affinity Credit Union in Saskatoon.

Like other Global Alliance for Banking on Values members, and like many credit unions, we stretch to provide access to financial services for people and communities not well served by the mainstream. That includes financing for community projects and business start-ups delivering social, environmental, and economic value to our communities. We know that financing can be the bridge between people who want to do something and having the resources to actually make something happen.

I'd like to give you a few examples of how we at the Assiniboine use our skills and resources as a financial cooperative to make good things happen in our community.

First, we bring financial services to an underserved neighbourhood. In January of this year, Assiniboine opened a branch in the north end of our city. The north end is a lower-income neighbourhood that has seen the closure of 10 bank branches and the rise of 16 financial outlets—for example, payday loans and cheque cashers—since 1996. We are working with community partners in the north end of our city to open accounts for unbanked, as well as underbanked, residents through our new branch, which is at the corner of McGregor and Mountain here in our city.

Another example of how we use our skills is through our asset-building programs.

We are one of the founders of the growing network of asset-building programs in Winnipeg as well as the northern community of Thompson. People living on low income receive money management training from non-profit partners and their saving is supported using our specially designed matched savings account. Savings are matched 3:1 by the United Way as well as by other funders. Since 2000, participants have purchased over \$2.4 million in assets to improve their lives.

Another example of how we use our resources is through an Islamic financial product.

Several years ago, we were approached by leaders from within the Islamic community here in the city and asked if we would consider developing products for their community, as there was a lack of acceptable financial services. We worked closely with the community and an advisory board to design a home-financing arrangement that would be acceptable to members of the Islamic faith. We're proud that our Islamic mortgage is the first of its kind in Canada.

We also use our resources to deliver community financing. Through our community financial centre, we provide financing specifically dedicated to non-profits, social enterprises, and cooperatives so they have the resources they need to carry out their social or environmental mission. We also provide microcredit for business start-ups that would otherwise not qualify for conventional financing. We offer loans and mortgages and bridge financing, whether the latter is to bridge grants, pledges, or accounts receivables, as well as letters of credit and construction financing. We often work with community and government partners to reduce barriers to making financing available.

I would like to focus specifically on how our credit union supports the development and success of non-financial cooperatives. Like credit unions, they were formed by people who came together to address a shared concern. Owned and democratically controlled by

their members, cooperatives play an important role in Manitoba's economy. Beyond simply creating jobs, they collectively address important social and environmental issues and ensure affordable access to essential goods and services in many sectors. Many serve the needs of specific, economically marginalized groups, such as aboriginal people, immigrants, as well as youth. In 2007, there were over 260 non-financial cooperatives in Manitoba. Of these, 70% were providing housing, daycare, and other important services.

Recognizing the important contributions that these cooperatives make to the local economy and to our communities, Assiniboine looks for opportunities to support their success.

I'm going to quickly cover some of the barriers to financing cooperative development that we've observed at the Assiniboine Credit Union, as well as summarize and conclude by giving specific examples and suggestions of how we think the Government of Canada can support cooperative development.

While Assiniboine supports cooperatives in a variety of ways, I would like to share our experiences when it comes to financing and suggest ways that the government can help to strengthen the sector and facilitate access to credit. Recognizing that there is a wide range of cooperatives, including those that are well established, such as Red River Co-op here in Manitoba, I would like to focus on financing smaller, early-stage co-ops, including those at the start-up phase.

The role of any lender is to assess the risk associated with a financing request, taking into account the strength of the cooperative's management and governance, the capacity to repay, as well as the adequacy of collateral security. In our experience, there are two significant barriers we've observed to financing small and early-stage cooperatives—first their internal capacity, and second their lack of assets for security.

In terms of internal capacity, as in any organization, strong management is vital to the overall success of cooperatives. Having the right skills and systems in place, whether it's financial, marketing, human resources, or inventory management skills, is essential to a cooperative's long-term viability. It gives us confidence, as lenders, to know that the cooperative's ability to manage and repay the debt is viable and tested through some of these criteria. However, we find that many small and start-up cooperatives lack these technical skills.

The Government of Canada could address this barrier by providing capacity-building grants or other support for cooperatives to acquire the technical skills or to establish the management systems necessary to be successful in achieving their social, economic, and environmental mission.

The second barrier we see to cooperatives accessing financing is their lack of assets to provide as collateral. It is difficult for the Assiniboine to provide financing when there are no assets to pledge as collateral. For example, many non-profit co-ops, such as day care centres, are limited in their ability to secure financing because they do not have adequate assets on their balance sheets that would be deemed acceptable for security purposes.

● (0915)

In the absence of these tangible assets, such as real estate, and with their break-even budgets, which are often necessary and are dictated by the funding agreements—

● (0920)

The Chair: Pardon me, Mr. Mohammed, but the time has lapsed. I will give you about 30 seconds to wrap up briefly.

Mr. Nigel Mohammed: Okay. Thank you very much.

The one point maybe I would finish on is that one of the areas we think would be important for the government to support cooperatives in accessing financing has to do with section 95 co-ops. These are co-ops, particularly in the social housing area, whose funding agreements are expiring and who are limited in their ability to refinance their existing mortgages with CMHC due to penalties when they refinance those mortgages. The Assiniboine Credit Union would like to be able to support and assist the financing needs of these co-ops, bearing in mind that if they're able to refinance their mortgages in the absence of any penalties—ordinarily charged through CMHC—it would make it easier for the financing arrangements and would assist these credit unions' capacity to refinance and meet their capital requirements as these housing stocks become older and require more maintenance.

Thank you very much for this opportunity. We are certainly in a position to answer any questions you may have.

The Chair: Great. Thank you very much for your presentation, and we certainly will look forward to hearing some of your responses to some of the questions.

We'll move next to our other video conference witness, the Red Hat Co-operative, coming to us from Medicine Hat.

Our folks joining us from the Red Hat Co-operative, would one of you just say a word or two so we can get you on the video screen.

Mr. Albert Cramer (Chairman, Red Hat Co-operative Ltd.): Yes, good morning.

The Chair: Good morning. You have 10 minutes to make opening remarks, so I will turn the floor to you now and you can make your opening presentation.

Mr. Albert Cramer: Thank you.

Good morning, panel. I'll give you some history of the Red Hat Co-operative. It will give you some idea of what we're about.

The Red Hat Co-operative grades, packages, distributes, and markets greenhouse-grown vegetables for grower members. At present, Red Hat Co-operative Ltd. has 52 shareholders. It represents greenhouse owners and operators in southeast Alberta.

In 2012, Red Hat Co-operative will market over five million cases of greenhouse vegetables, representing over \$55 million in annual

sales. Each year our growers produce over 20 million cucumbers, 14 million pounds of tomatoes, and four million pounds of peppers. Within our packaging facility, we employ over 200 employees. As well, an additional 600-plus work in the greenhouses.

Red Hat Co-operative was established in 1966 by 10 growers who saw the importance of coming together as producers and of sharing resources. Not only have they been able to jointly operate a 100,000-square-foot packaging plant, but they have been able to invest in grading and handling equipment that is the first of its kind in North America.

This ability to grow together has also helped in marketing to large national retailers that demand quality and service. Today, Red Hat brand products can be found in Safeway, Loblaw's, Costco, Sobeys, Overwaitea, and many other grocery chains.

The success of Red Hat Co-operative can be attributed to our providing value to our grower shareholders. In addition to providing an efficient method of marketing the produce, Red Hat also purchases bulk inputs for all of its members. It trains people, monitors food safety programs, and supports research projects to drive innovation in our industry.

Over the last five years, the greenhouse industry has seen extensive growth and competition from domestic producers as well as from the U.S. and Mexico. Because of the increased competition, it is important that co-ops similar to ours be given all the opportunities traditional companies are granted.

One example of where we see an unfair advantage for our competition within Canada is in temporary foreign worker programs. These programs have proven critical for our industry, since we are faced with seasonal labour demands as well as a hot and agriculture-based working environment.

Our competitors that operate similar packaging facilities on their farms are able to hire temporary foreign workers under the farm program, whereas Red Hat is unable to apply, since our operation is not considered farming, even though we can argue that our growers cannot market their produce unless it is graded and packaged. This process is considered agricultural, and is thus farming. So in this case, we feel that we are being penalized for forming a cooperative to collectively grade and market our agricultural product.

In conclusion, we continue to be strong advocates for cooperatives and the value they provide for smaller producers in marketing their goods in a market dominated by large retail buyers. We ask that the committee not restrict cooperatives but give them the same opportunities traditional companies get.

Agriculture cooperatives have been the backbone of our nation for many years, since they place ownership and control with the producer. We ask that policies that encourage and strengthen cooperatives continue to be a priority for the federal government in the future.

That's a bit of the history. We want to stress the part about the cooperatives not being considered farms and not being able to hire foreign workers. That's probably our biggest issue as a co-op, and it is quite substantial.

We were a little unprepared for this whole meeting, so we don't have a whole lot more. We're relying more on your questions for us, if that's what it takes.

That's probably one of our biggest issues. I don't know if Doyle wants to add to that.

• (0925)

Mr. Doyle Brandt (Red Hat Co-operative Ltd.): Yes. Our industry relies heavily on the foreign labour program. Basically, without the foreign labour, we wouldn't have an industry.

I'm not sure what you guys are looking for, but we would like support for the cooperative in this manner. If there's anything relevant you can help us with....

It would be interesting to know what more we could utilize as a collective group. Other than this one small issue, the Cooperatives Act works really well for us so far. It would be nice if we could get some direction from you people, as well, today.

Thank you.

The Chair: Thank you very much for your presentation.

We'll now move to the Federation of Alberta Gas Co-ops Ltd.

Mr. Harty, are you making the presentation? Okay.

You have 10 minutes to make your opening remarks.

Mr. Peter Harty (Director, Federation of Alberta Gas Co-ops Ltd.): Thank you.

Good morning, Chairman Richards, and members of the committee.

Thank you for allowing us to make a presentation today on behalf of the Federation of Alberta Gas Co-ops. We are excited to be here because we want to demonstrate for you what cooperatives are able to achieve.

Alberta is a great example because we have something that is virtually unheard of anywhere else in the world. Anywhere you live in Alberta, whether it is a farm, a town, or a cabin by the lake, a flick of a switch brings natural gas heating to your home. There are parts of our country where to get this service you have to be living in a city or be lucky enough to have a major natural gas pipeline running past your yard. Having heating fuel or propane trucked in to have heat is the norm in much of rural Canada. Rural Alberta is different. Over the past 50 years a spiderweb of low-pressure natural gas pipelines has been constructed throughout all inhabited parts of the province. Just about any Albertan has the ability to have natural gas piped directly into his or her home. Indeed, it is almost considered to be a right by Albertans.

The reason Albertans enjoy this privilege is that 50 years ago this year a group of farmers south of Calgary got together around a kitchen table and decided to build the very first gas co-op. They were tired of natural gas companies saying it was uneconomical to build a pipeline to a farmer's house. They were tired of seeing small communities die because their kids wanted to live where they could have city comforts, like easily accessible heating. Instead, they built the Meota Gas Co-op for themselves.

What they started became the gas co-op movement. Natural gas co-ops began forming across Alberta for the very same reason that prompted the farmers at Meota. Volunteers signed up customers, they got an administration running, and they started constructing pipelines. A decade later, the province got involved, and since 1973 they have been providing grants to offset the costs of installing and upgrading pipelines. They even made it law that gas co-ops and private gas companies in rural areas had a duty to provide natural gas to anyone who asked for it within a franchise area. Today, what started from a kitchen table has evolved into the world's largest rural natural gas system, with over 100,000 kilometres of pipeline—enough to circle the earth almost eight times.

The federation, as an umbrella organization overseeing Alberta's gas co-ops, now includes 53 gas co-ops, as well as 22 municipally owned gas utilities and six first nations systems. We have over 115,000 services spread from the B.C. to Saskatchewan borders, and from the Dene Tha, in far northern Alberta, right down to the American border. In fact, we even serve just south of the border at a U.S. crossing point. We estimate that between 350,000 and 400,000 Albertans young and old are kept warm by our gas co-ops.

Just as important, our gas co-ops have been a key instrument in the economic development and sustainability of rural Alberta. We have kept people in their homes, we have made it possible for people and businesses to move into rural communities. Gas co-ops have made it possible for grain dryers to operate more economically and for farms in arid areas to survive because gas powers their irrigation pumps.

Collectively, our co-ops directly provide approximately 850 jobs based in rural communities. Our offices and workshops are in the very communities that our co-ops serve. Their corporate structure is that they are locally owned by their own neighbours. These are workers who shop locally, live locally, and play locally. Their presence helps sustain Alberta's rural communities and keeps them vibrant.

Our co-ops invest \$12 million to \$14 million in construction in Alberta's pipeline infrastructure every single year. Our gas co-ops alone, not including the municipalities and first nations, possess over \$243 million in assets. In 2010 these co-ops sold over \$112 million in gas and another \$32 million in secondary services such as furnace installations. Our utilities also own a gas brokerage firm called Gas Alberta Inc., which buys and sells gas for our member utilities. Each year they sell 25 million gigajoules of natural gas to Albertans.

• (0930)

Some of our co-ops have taken the original goal of the gas co-ops to help rural communities one step further, by expanding into providing Internet. Their wireless broadband Internet company is following the goal that rural residents deserve similar services as urban residents and are bringing high-speed Internet to regions where it was either not available or not reliable.

These are progressive co-ops. We're looking forward to the future, with projects such as taking 50 years of infrastructure history and moving it on to a web-based geographic information system database.

In 2011, we were one of the first in Canada to gain approval to install wireless meter reading devices. After just over a year, we are now able to read approximately 40,000 gas meters from remote readers. We are collecting these readings by driving, by flying over, or through wireless Internet. We have eliminated thousands of kilometres of driving on the road every month, thereby reducing pollution, time, accidents, and helping to prevent the spread of agricultural diseases.

The federation remains the only gas utility in the country to have Measurement Canada accreditation to inspect and re-verify RMO station meters in the field. Every other utility must send its station meters to a meter shop to have them re-verified.

What the gas co-ops have been able to achieve is nothing short of remarkable. We have helped to build a better Alberta and created a system that people elsewhere envy.

To be fair, we did it with help from the Alberta government. In the 1970s, when most of our co-ops were formed, we needed that help to get us started. Its rural gas program grant, which today is worth \$3 million per year, has been instrumental in offsetting the cost of installing new pipeline and upgrading old systems to handle larger populations.

We believe our gas co-op system can be emulated in other parts of Canada, giving more Canadians the same privileges that rural Albertans enjoy, while reducing their energy costs and giving them a cleaner alternative than some of the options they currently must use. We believe the cooperative model is the best option to help build gas systems, as there is little economic benefit for private companies to take on the expense of servicing rural customers.

But just as the gas co-ops in Alberta required help, so too would other areas of the country. We believe the federal government can play a powerful role in the formation of not just gas of co-ops but any kind of cooperative.

The federal government needs to recognize that the cooperative sector is a sustainable and viable economic model with the potential for economic growth, diversification, and community sustainability. The federal government should take a more active role in the formation and development of cooperatives.

Staff at the regional economic diversification offices should be trained on the nature of the cooperative sector, including their economic potential. This training should also include how to form a cooperative. This knowledge can then be used to help establish cooperatives across Canada, or connect fledgling co-ops to existing cooperatives that provide a similar service.

A fund should be started to help initiate co-ops, potentially through the regional economic diversification offices. Seed funding is often difficult to gather, but once a co-op has begun then its economic potential will be a benefit to its community. These steps would allow the federal government to help the Canadian cooperative sector grow.

As you can see from the example of Alberta's gas co-ops, allowing co-ops to thrive can create achievements that can't be accomplished any other way. With the assistance of the federal government, we truly believe co-ops can help to build a better and stronger Canada.

Thank you.

● (0935)

The Chair: Thank you very much.

That concludes all the opening remarks. I appreciate the contribution of all of our witnesses from all the groups this morning.

We'll move now to the questioning. In the first round, first up, we have Mr. Harris.

You have the floor for the next five minutes.

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

And thank you to all the witnesses for coming in today via video conference and in person.

It was interesting to hear the witnesses this morning talk about the role the federal government can play in helping new cooperatives start up and in helping with mentoring and training so that they know what they're doing so that they'll be successful. We think that was a product offered through the CDI and that we would have liked to have seen renewed and possibly expanded or modified to meet some of the growing needs.

I just want to commend the Alberta Gas Co-ops for bringing high-speed Internet access to the rural areas. That is absolutely the greatest barrier to business and economic prosperity that rural regions face. Congratulations, and keep up the good work.

I wanted to actually speak to Assiniboine.

First off, near the end of your presentation, Nigel, you were talking about two of the barriers for smaller and early start-up co-ops. One is internal capacity, and of course, the second is assets. That's where you talked about federal government capacity-building grants, potentially. Perhaps you could expand on that.

As well, a really important issue for me, being in an urban area, is that I have over 600 co-op housing units, and many of those buildings are in that 30- to 35-year range, where they're facing some rather hefty infrastructure needs and are having troubles refinancing their mortgages. It's exactly what you were saying about the issues to do with CMHC and perhaps excessive penalties.

Now, I believe that the co-ops all expect to pay some form of penalty, but I think they're looking for middle ground. Do you have any suggestions with respect to how we can work with CMHC to get that done?

● (0940)

Mr. Nigel Mohammed: It's really this—

The Chair: Pardon me, Mr. Mohammed. There was a little bit of technical difficulty. Could you maybe start over?

We'll give you an extra 20 seconds or so, Mr. Harris.

Mr. Nigel Mohammed: Thank you.

On the first question, around the grants and capacity-building, one of the things we've observed in financing co-ops is this imbalance, if you will, between some of the senior leaders within the co-ops tending to have more of a focus on the cooperative values and principles as opposed to having some of the core business acumen that's needed to develop or make an enterprise viable.

The grants that I referenced that may come from the federal government would be to provide the training and the technical assistance needed to ensure that the right skill sets are developed, trained, and identified within the credit unions and cooperative sector so that they can recruit the right sort of management to develop and make these enterprises viable, both at the management level and the governance level. It's important, with the structure of the co-op, that the governing body or the board of directors also understand the limitations as well as the opportunities that govern co-ops, in terms of the act and so on, for them to be able to take decisions to be able to take advantage of the market opportunities.

The federal grants that I referenced are really to provide technical assistance and training, to balance the management skills and acumen that's needed to make an enterprise viable, rather than simply just focusing on cooperative development information and technical assistance.

On the other issue, the co-op housing and the expiring subsidies, we have a few co-ops in Winnipeg that are section 95 co-ops that are going to be having to deal with infrastructure maintenance issues. The 30- and 35-year maturity dates on these CMHC mortgages is making it a challenge for these co-ops to come to a credit union like ours, for example, to, number one, pay off that penalty to be able to refinance, and then take equity out to be able to do the upgrades and capital requirements. I think the hope here is that if those penalties could be eliminated to give those social housing co-ops more capacity to take on debt to deal with the capital requirements, the capital upgrades, rather than adding those penalties in there...or to your point, to find some way of determining what is a reasonable, affordable, and viable debt level that they would need to take on that may incorporate some level of penalties.

We've already had preliminary discussions that having to deal with the entire penalties associated with those CMHC early renewals would make it prohibitive for them to take on the level of debt they need to deal with their capital improvement requirements.

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

We'll move now to Ms. Rempel for the next five minutes.

Ms. Michelle Rempel (Calgary Centre-North, CPC): Thank you, Mr. Chair.

My questions are also for the Assiniboine Credit Union.

As a proud former Manitoban and a once member of your illustrious cooperative, I'm really glad to see you here today.

It's interesting to note that your net income—I have your figures from 2007 through to 2011—has actually increased. My understanding is that in 2007 your net income was \$11.7 million, and as of last year you were up to \$17.4 million. Is that correct?

Mr. Nigel Mohammed: I'm going to have to trust those numbers. I don't have the financials in front of me. My apologies.

Ms. Michelle Rempel: Looking through your annual reports, I also noted that your assets in the same time period increased from \$2.1 billion to \$3.1 billion. Is that correct?

Mr. Nigel Mohammed: Yes, that is correct.

Ms. Michelle Rempel: That's a really great success story, especially for an organization in Manitoba, and you're to be congratulated for that.

Since we're talking about government assistance, was the Assiniboine Credit Union ever given federal funding to support your asset or income growth?

● (0945)

Mr. Nigel Mohammed: I can't think of that offhand in terms of federal funding to support our assets or growth. What I can say is that we have had support from the federal government related to specific programs and partnerships that we deliver. For example, the asset building program that I mentioned was a 3:1 match. That program started initially with federal dollars and we've now expanded to include the United Way, for example.

I am stretching to think specifically, in our history, whether there have been federal dollars to assist our overall growth and assets.

Ms. Michelle Rempel: It would be fair to say that the Assiniboine Credit Union story, which is a great story, is one that's really a build-your-own success story. Correct? It's a made-in-Manitoba success story?

Mr. Nigel Mohammed: Yes, yes.

Ms. Michelle Rempel: Absolutely. Some of the things that we try to do as a government to encourage the further development of these build-your-own success stories is to look at things like the tax rate for small business. Were you aware that since our government has come into office, we've increased the income limit to which the small business tax rate applies from \$300,000 to \$500,000?

Mr. Nigel Mohammed: Yes.

Ms. Michelle Rempel: Have you had any feedback on that from some of your clients, as far as that impact on their competitiveness is concerned?

Mr. Nigel Mohammed: Actually, we have not. One of the things I can say is this: our standard to provide financing for small business really would be to those businesses that have a hard time getting conventional financing. So the financing that we deliver to our small business members quite often would be supported through loan guarantee programs. We have special partnerships with the province or, in the case of Western Economic Diversification formerly, to support business start-ups as well as expansion. So the individuals whom we serve through the centre of small business really are those who really have a hard time to begin with in getting financing through conventional means.

Ms. Michelle Rempel: On that note, were you aware that our government invested an additional \$75 million in the Business Development Bank of Canada to support the formation of a late-stage venture capital fund in Canada? As well, in 2009 we invested \$450 million in the Business Development Bank of Canada to support small and medium sized enterprises and firms. In fact, since 2009 our country has seen the growth of jobs by over 750,000 new jobs.

Do you think that Canada is well positioned now in terms of global competitiveness, especially for small business growth?

Mr. Nigel Mohammed: Yes, and I'd like Dale to step in here as well from a more provincial perspective. But what I can say from what we've seen in terms of financing small business, certainly the demand for small business, whether it's home-based or otherwise, has been growing, so we have been having a lot more requests for small business financing to be able to start and expand businesses.

I don't know if Dale wants to make any comments about what he has observed through Credit Union Central of Manitoba, from a Manitoba perspective. That might shed some more light on that.

Mr. Dale Ward: I don't know that I could connect the dots between these specific programs that you're referring to, but in terms of the Manitoba marketplace and the economy, small and medium sized enterprises are clearly a backbone piece and a real driver of our province. In Manitoba—

Ms. Michelle Rempel: I'm sorry to interrupt you. I just want to get one more point in before my time expires.

I wanted to ask if you were aware that Canada's small business financing program is celebrating its fiftieth anniversary as of 2011. Since 1999 we've seen loans totalling about a billion dollars each year. Do you think this program has been helpful to some of your clients?

The Chair: The time has expired, so I'll just ask that you keep your response as brief as possible. Thank you.

Mr. Nigel Mohammed: The answer is yes. We continue to use the small business financing program as one of the tools, one of those loan guarantee programs, to be able to provide access to financing. So that program certainly, I would say, has been important, together with the formerly mentioned Western Economic Diversification microloan fund. They have been important in allowing us to be able to support the financing needs of our members.

The Chair: Okay. Thank you very much. I appreciate your brevity there.

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

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

Gentlemen, thank you for being here, and thanks to the panellists on the video conference.

Indeed, I've had the pleasure of meeting representatives of the gas federation and rural electrification and water, and that's a phenomenon unique to Alberta, unfortunately. It speaks to a will to make sure that the rural communities can thrive.

Technology changes, as you mentioned, and you're now having your meters read by wireless technology. I believe the same is true of the electrification, the REAs. However, no government in Canada has managed to go completely to wireless, high-speed, throughout the country. Rural communities are still waiting for that to come to them.

Is that part of the business plan of your federation to perhaps eventually offer the wireless capacity to clients in rural Alberta? I know that *La Coop fédérée*, which operates in four eastern provinces, is indeed interested in doing just that, and they're investing a substantial amount of money.

• (0950)

Mr. Peter Harty: No, it's not through our gas co-op federation. We looked at the possibility and put it forward to our members. The members turned it down. Then a group of our members formed a private company called Corridor Communications Inc. They are putting that wireless broadband Internet in place as a private company. But it's not part of the co-op. The idea started there. But as a co-op, it's one member, one vote. Not enough members agreed. So a minority of our membership took it upon themselves to form a company and go ahead with that incentive.

Hon. Mauril Bélanger: Are they being profitable?

Mr. Peter Harty: They're still in the expansion stage. They have 147 300-foot towers up and they're going forward.

Hon. Mauril Bélanger: All right.

I have only five minutes, so I'm going to direct a question to the Assiniboine Credit Union.

Yesterday the matter of the section 95 co-ops came up. I'm of the view that when a business arrangement is made, only if it's beneficial to both parties should it be broken. We found out in one instance yesterday that the mortgage rate for four years outstanding was at 1.2%. In that case I would have thought that the CMHC could easily arrange for a small penalty, or even no penalty, so that the co-op could borrow more, do the repairs required, generate more economic activity by doing that, and at the same time get a higher than 1.2% return by just buying a Government of Canada bond, for instance.

Would you agree that where there's a lower mortgage rate, and basically the loan that's being repaid could be reinvested at a higher rate, that is the circumstance where, indeed, there should be flexibility?

Mr. Nigel Mohammed: Yes, I would agree with that argument for sure.

The other advantage, if I can say, in terms of the wider co-op development impact, is that many of these housing co-ops probably... Certainly in Winnipeg the Assiniboine Credit Union has been the first choice for these co-ops to look at getting that refinancing done. More than simply being able to benefit the housing co-op by allowing it access to the financing required to do its capital improvements, it is also about being able to get that financing secured.

Hon. Mauril Bélanger: I have to stop you there. I have a question.

Did your co-op, your credit union, make use of any of the \$125 billion that was made available to the financial institutions? And \$67 billion of it was mostly taken up by banks. Did your co-op make use of that government assistance through CMHC?

Mr. Nigel Mohammed: I have to say that I'm not familiar with our credit union accessing or taking advantage of that. I'm not able to respond.

Hon. Mauril Bélanger: Would you also have a sense of the percentage of the money that we just heard about, the \$450 million being made available to small businesses in this country, that has been taken up by small business co-ops? Or have they been excluded in any instances from accessing those funds?

Mr. Nigel Mohammed: Again, I'm sorry, but I'm not familiar with the level of our access and utilization of those funds you referenced.

Hon. Mauril Bélanger: Thank you.

The Chair: Thank you.

Do you have something to add there very briefly, Mr. Ward?

Mr. Dale Ward: I was just going to add that in trying to determine the level of uptake there may have been of these various programs, it might be a question that could be addressed through some of the associations, the Canadian Co-operative Association or the individual provincial co-op associations that may attract that money. But from Assiniboine's perspective or from Credit Union Central of Manitoba's perspective, we wouldn't have that data.

• (0955)

Hon. Mauril Bélanger: We could also ask our analysts to do that.

The Chair: Thank you very much.

We'll now move into our second round of questioning, and up first is Mr. Payne.

You have five minutes.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Mr. Chair. And I want to thank all the witnesses for coming today.

Certainly I want to talk to a few of my constituents, the Red Hat Co-op, surprisingly enough, and I want to welcome Doyle and Albert to our video conference on cooperatives.

I know you talked about the 52 shareholders, but maybe you could give us a brief outline of the kinds of assets that the Red Hat Co-op currently has?

Mr. Albert Cramer: That's a question we weren't thinking about either.

This year alone we put up a new facility. We doubled our size. We spent \$4 million on a new building. We spent \$2 million on new equipment to package our cucumbers. It's all done robotically now, so it's a pretty neat piece of equipment. As a co-op, of course, we can do that collectively. So in terms of assets, I would say \$10 million, maybe more.

Mr. LaVar Payne: Did your membership add additional funding in that, or did that come right out of the general reserves of Red Hat?

Mr. Albert Cramer: The way the cooperative runs, of course, we don't have a whole lot of reserve in the co-op. The banks fund it. We

just get loans for it, and it's paid for with every packaged product that goes through there.

Mr. LaVar Payne: Just in terms of your packaging, I know you must have started out trying to sell your products to some of the local grocery stores. Could you just tell us what your process was to expand that, and how far do you reach across western Canada?

Mr. Albert Cramer: Our product goes a lot further than locally. We're into Saskatchewan, Manitoba. We go into British Columbia also, but not as much, because they have their own cooperatives and greenhouses there. But it goes all over western Canada. With that type of product and that volume, the odd time we even go into the U.S.

Mr. LaVar Payne: So you actually have been very successful. I'm certainly glad to hear that. I knew of the expansion. Of course, I've been able to talk with some of you folks over the last couple of years.

One of the things I understand is that you have a certified safety program, a traceability program. Maybe you could tell us a bit about that and how it has impacted your business.

Mr. Albert Cramer: Right now, with the traceability, if I pick a cucumber out of my greenhouse and it goes to Manitoba, they can link it right back to my greenhouse. That's how far the traceability has gone. We needed to do that for the stores and for all our customers, but it's come at a huge cost to us, too. We've probably spent \$300,000, \$400,000 to put this all into place, and I don't believe that we had a whole lot of federal or provincial funding to do this. So it's been at a huge cost to the co-op, yet by the same token, with the food safety that's in place now, we need to do that. I think we're probably right up to anybody's standards.

Mr. LaVar Payne: Was that a requirement of the grocery stores—the Loblaws, the Safeways, the Costcos, or the other co-ops that you may sell to?

Mr. Doyle Brandt: Yes, especially Costco. They're actually coming out with their own audit. Through the CanadaGAP program we are being compliant and meeting the recommendations. Every year the recommendations are pushed to a new level for food safety, and, of course, if we don't comply with the retailers' demands, they just don't buy from us. So we do comply, because we need the market. At the same time part of the problem is that we can't pass on the cost to the consumer, because the competition in the marketplace is quite stiff. We have lots of competition from B.C. so—

• (1000)

Mr. LaVar Payne: I'm sorry to interrupt, Doyle, but I have only about 30 seconds left and I just wanted to get another question in.

You talked about temporary foreign workers. I understand that is an issue. On the farm, labourers can be hired, and as I understand it, certainly the greenhouses are considered under farm labour, so you are able to bring in temporary foreign workers to help in the greenhouse.

How would you see that benefiting the Red Hat Co-op if it were available?

Mr. Doyle Brandt: Was the question about how the foreign workers benefit the greenhouse?

Mr. LaVar Payne: I know that temporary foreign workers are brought into the greenhouses under the farm labour. How would temporary foreign workers help the Red Hat Co-op in terms of their employee base and being able to continue to produce and grow?

Mr. Doyle Brandt: We are actually bringing foreign workers into the Red Hat Co-op now, but the problem is we can't bring them in under farm status, so there are different rules and regulations. What we want to see as a cooperative is that Red Hat Co-op is recognized under farm status, the same as our greenhouses, because it's an extension of our greenhouse. We're just not being recognized at the Red Hat as farm. That's what we'd like to see, because the Red Hat Co-op is farm, but they won't allow us to bring in workers under the farm status. They consider it a packaging facility and they consider it to be commercial. That's the concern we're having right now.

The Chair: Okay, thank you very much.

We'll now move to Madame Brosseau.

You have five minutes.

Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP): Great.

I would like to thank you all for being with us this morning. It's always a pleasure.

I guess a recommendation of the Red Hat Co-operative would be to have recognition under farm status so that you could have temporary foreign workers working in your greenhouses. Is that correct?

Mr. Doyle Brandt: Yes. We would like them to recognize the Red Hat Co-op as a farm entity, because co-ops for farmers are farm entities. That's our concern. Make the cooperative recognized under farm status. That would alleviate a lot of our problems right now.

I hope that answers your question.

Ms. Ruth Ellen Brosseau: How many workers do you have come in to work in your greenhouses?

Mr. Doyle Brandt: We have roughly 105 acres of greenhouses here. There are at least two workers per acre. In some of the greenhouses, such as Albert's greenhouse, they actually have about three to four per acre, because they grow under lights. We have well over 200 workers in our greenhouse industry, and we have probably 200 in our packing facility right at this moment.

Ms. Ruth Ellen Brosseau: Okay, thank you very much.

I just wanted to speak with the Federation of Alberta Gas Co-ops.

On the Government of Alberta website, it states:

Grants are provided to rural gas co-ops to help defray the cost of installing natural gas services. These grants can be related to the installation of individual gas services on existing infrastructure, upgrading of the infrastructure to maintain gas supply or for the securing of a new gas supply and related facilities.

I'm just wondering how you assist in administering these grants.

Mr. Peter Harty: Each co-op has its own administration. If they take on new customers, they have to submit an application to the government saying how many new customers they expect to install that year. The government then monitors it. At the end of the year, they have to submit their final numbers showing how many they installed and what the cost was. There's a base price a co-op has to absorb, and then the amount in excess of that is split on a 25%-to-75% basis. Once all your paperwork is completed and all your easements are in place, they issue a cheque for that portion of your costs for the year before.

Ms. Ruth Ellen Brosseau: I imagine that you have a good relationship on the municipal and provincial levels. What is your relationship with the federal government? Do you have a lot of dealings with the federal government?

Mr. Peter Harty: Not very much, no.

Ms. Ruth Ellen Brosseau: No?

Are there any programs supporting co-ops? It seems as if the gas co-ops in Alberta are really thriving. There was a need. You guys have just expanded and are doing amazingly well.

What kind of relationship do you want to see in the future between the federal government and co-ops?

● (1005)

Mr. Peter Harty: We did receive one grant through the CCA to do a study on—

Mr. Kevin Crush (Manager, Communications, Federation of Alberta Gas Co-ops Ltd.): It was on the GIS. That was actually through the CCA. The CDI grant was for our geographic information system feasibility study. We got \$51,000 to help out with that study. To date, that's been our only other previous dealing with the federal government. There's really nothing available for us, as gas co-ops, from the federal government.

As far as moving forward, as we mentioned previously, economic diversification offices are probably the best way to have either mentorship programs or funding. We really see ourselves as being small businesses. We're often not classified as small businesses, but we see ourselves as that. We believe that these diversification offices can probably go a long way toward helping support new co-ops throughout the country as well as the gas co-ops. We can always use mentorship in our own programs as well, as we are constantly having new people coming on board.

Ms. Ruth Ellen Brosseau: It being the International Year of Cooperatives, the federal government does have a role to play. We are meeting with people from across Canada and are getting amazing testimony on how co-ops are thriving. I'm really hoping that something comes out of this report. It's not the ending of the CDI. Maybe we'll find something new. We're looking for recommendations on what you see the relationship with the federal government being with respect to cooperatives.

I was wondering if the Assiniboine Credit Union has any more recommendations. Would you have any recommendations on the future of the relationship between the federal government and the cooperatives?

Mr. Nigel Mohammed: Yes, thank you.

One thing I didn't mention in my delivery was that within the co-op sector, there are both for-profit and non-profit co-ops. One very important role that the not-for-profit co-ops have besides their economic impact is in their social impact as well.

One example that comes to mind would be the programs available for for-profit enterprises, such as loan guarantees. These guarantee programs can be accessed through a lender to provide access to financing to support for-profit enterprises; the same isn't true for non-profit co-ops or non-profit organizations generally.

If, for example, a non-profit organization or co-op wants to build assets—they want to buy a building, a day care wants to relocate or to expand spaces in its own building—they have no assets so they can't access financing to get the capital they need to build that building. My suggestion is a loan guarantee much like Canada's small business financing program that was alluded to earlier, but that would be specifically for not-for-profit co-ops to help them build assets and capacity and to access financing so they can then develop their planning and programming to strengthen their internal capacity.

The Chair: Thank you very much.

Mr. Dale Ward: If I could add—

The Chair: Oh, sorry. If you have something you want to add, I ask that it be very brief, Mr. Ward.

Mr. Dale Ward: To raise awareness, understanding, and appreciation of the breadth of the co-op sector, having the placement of co-ops and the responsibility for co-ops within the federal government moved over to Industry Canada would be, I think, an important recognition of the spectrum of impact that the co-op sector has in this country. I think that would be a good first move by the federal government.

The Chair: Thank you very much.

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

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

I'd like to thank the witnesses for joining us. This has been a very informative study we're doing, and I appreciate your participating in it.

I wanted to follow up with the Assiniboine Credit Union about the CMHC mortgage loans. It's not my area of expertise, but my understanding is that a long time ago, the CMHC approved certain projects and funded the building of these social housing projects. I consider that to be a high-risk endeavour just because, as you were mentioning, there was no capital you could actually put your hands on. Indeed, it hadn't been built yet. They then built the loan into a long-term mortgage to perhaps reduce the cashflow burden on the social housing cooperatives. Then you made a recommendation that CMHC should negate the penalties when the social housing co-ops ask to break the terms of their mortgage.

As a financial institution, you've got clients who hold mortgages with you. If your clients came to you and asked to break their existing mortgages with you, would you negate the penalties?

• (1010)

Mr. Nigel Mohammed: That's a valid question. I think the point with the social housing co-ops, the whole section 95 discussion, is the recognition that these co-ops serve a much bigger purpose than the for-profit enterprises. If one of our members who has a social good, in this case that of social housing, were to come to the Assiniboine Credit Union and ask for some flexibility around penalties, fees, conditions, and we recognized that our decision was going to have an adverse or negative impact, restricting or limiting that member in fulfilling its social mandate, we would certainly be flexible and open to looking at alternatives and solutions in working with that member. We recognize that this is not simply a financial relationship or a financial transaction, but there's a very real, practical social impact—

Mr. Pierre Lemieux: I do hope your socially minded clientele is paying attention, because what you're saying is important.

There are also sound business decisions that come into effect. Just as you must borrow money from other institutions, other people—bond-holders, etc.—so does the CMHC. If they break their terms with them, there are penalties involved.

I understand what you're saying, but from a business perspective, Canadians expect CMHC to operate under sound business principles, just as your members would expect you to operate. I wanted to make that point.

The other one I want to pursue is the access to financing by co-ops. Over these three days, we've heard generalities that co-ops feel they are somewhat biased against when it comes to accessing financing. But it's hard to determine whether it's the nature of their project, that is, because they're a co-op, or if it's.... As I've asked this question, I've received different responses.

Let me give you the scenario you brought up, of a day care, for example. You have a co-op day care that doesn't have a lot of assets. You're quite right that because they don't have assets or capital as collateral, they're considered perhaps to be a high-risk loan so it's hard for them to seek financing. I see that.

I'm thinking, too, that there are non-co-op day cares that are in exactly the same position. It's not really the fact they would do it for the non-co-op but not for the co-op; I think it's in the nature of the field in which they are operating. Whether or not you're a co-op, you're going to have a struggle finding financing in that field.

I've also made this point with previous witnesses with respect to new businesses. They don't have a lot of collateral either. Finding financing is probably the number one challenge of any non-co-op business as well.

Am I correct in what I'm saying, in that, as a lending institution, there isn't a built-in bias against co-ops but it very much depends on the nature of their business? If they were compared to a non-co-op business in the same type of scenario, they would be treated equally.

Mr. Nigel Mohammed: Yes, I think you're right. The fundamentals of financing, of credit decision-making and adjudication, comes down to the three c's of credit: it's the collateral, it's the capacity to repay, and it's the character of the borrower.

The challenge that co-ops perhaps may have, which is unique compared to other structures of enterprises, is that there's still a lot of education that's needed, both, as I mentioned earlier, within the co-op sector—the leadership itself—and also with conventional financial institutions.

With regard to this notion that you need to call a meeting to make a decision, that you need to pass certain resolutions before you make certain decisions based on the bylaws of the co-op, there's that risk to a lender or a potential investor that decision-making is slow, or not efficient or timely. It affects the viability or effectiveness of that organization.

You're right: the fundamentals of lending and credit risk are really no different for a co-op and a non-co-op. I think maybe where we fall short, or where there may be perceived bias in co-ops accessing financing, is that traditional lenders—and I hope credit unions are a bit ahead of the curve on this—are not sufficiently aware of that environment, whether legislative, or the act, which is sort of the enabling environment for co-ops in terms of decision-making and opportunities and so on.

•(1015)

Mr. Pierre Lemieux: You're making a valid point.

Mr. Nigel Mohammed: I think quality education—do you know what I mean?—to us, the lenders in the marketplace, is also important, so we're able to integrate co-ops like any other business enterprise and access forms of financing that would not make it restrictive for them.

Mr. Pierre Lemieux: It seems always—

The Chair: Sorry. We'll have to stop it there.

Mr. Pierre Lemieux: That's fine.

The Chair: We've gone significantly over.

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

Mr. Dan Harris: Thank you.

It's interesting, of course, that we've had some discussions now this morning about the Business Development Bank of Canada. That's an institution, of course, that does a lot of lending to small and medium enterprises, start-ups, and small businesses. But what I'd perhaps like, through the chair, to ask the analysts is whether cooperatives have access to that money in the same way that a sole proprietorship or a traditional business, because that could be one of the barriers. When we speak about cooperatives being misunderstood, and the education required around it, they are a viable alternative business model. And that needs to be recognized throughout our financial systems, as well as in the general public, so that more people perhaps look to that avenue when they're

looking to start up a small business or to engage in community endeavours.

In community economic development, especially in rural areas, co-ops have been critical in fulfilling that need, and the Alberta gas co-ops would be an example of that.

Mr. Ward, I noticed right at the end of one of your statements a few minutes ago you spoke about the broadness of cooperatives and how perhaps they should be moved over to Industry. As we know, they're currently under the purview of Agriculture, and that made a lot of sense when cooperatives were first founded. They were largely in agriculture areas, but we've heard from several witnesses now that perhaps while there is still a very strong agricultural component within many co-ops, there are many other cooperatives that have outgrown that. They also feel that Industry would be the appropriate place for them to fall under.

Could you perhaps expand upon your statement earlier in regard to why you think that change should be made?

Mr. Dale Ward: Yes.

In terms of the rationale, as you heard from many of the individuals appearing before your committee, the spectrum of organizations, the spectrum of industries that co-ops are engaged in is extremely broad. It's no longer rural-based or agricultural-based. There are still very deep roots that go into that area, but in terms of the financial cooperatives or credit unions across the country—including caisses populaires—they're deeply immersed in the cities.

In terms of looking at raising the recognition and essentially, maybe, the integration and understanding of the co-op business model throughout government, I think that placement in Industry Canada would make greater sense than saying that co-ops are only small, rurally based organizations. That is truly no longer the case.

You spoke earlier about the Business Development Bank and a general raising of understanding of co-ops. I would argue that they're not just an alternative business model but a preferable model for so many organizations like day cares and so forth, a model whose start-ups have proven to be, I think, statistically more sustainable over time.

It is a matter of raising the awareness and the profile that would be served by moving them under Industry Canada.

Mr. Dan Harris: Thank you very much for that.

That they are a preferable business model is certainly something that I'd be interested in saying but perhaps have held back from saying that because I don't want to be pejorative in any way. Studies have shown that five years out, half as many co-ops fail as regular businesses. Certainly, I think the business case is made right there that they are more economically stable.

The Alberta gas co-ops, in their opening remarks, had mentioned that as well, that the federal government needed to recognize that fact. Do you believe there is a disconnect currently, such that perhaps the federal government doesn't understand the power of co-ops?

•(1020)

Mr. Kevin Crush: I think it's more to say in general.

I'm not sure that most organizations out there really understand what cooperatives are, how they work, or that they are a viable alternative. I'm not going to say it's just the federal government. It's just about everybody.

An example, because we're talking a little bit about financing, is one of our gas co-ops. A couple of years back a private company that ships gas out past them—they tap into their pipeline—abandoned that pipeline, and this co-op, as well as the town, had to essentially plough 80 kilometres of pipeline to make sure that the towns and the communities had heating for the winter.

That's about a half million dollar project. No bank would give them money, and the reason was that if the co-op defaulted on the loan, what bank would call that in? That pipeline goes to their neighbour's house; they're not going to say no more gas. So it's very difficult for us to get financing as well.

We've had a number of issues where, yes, we would like to get financing, but it's just not happening. We're not considered to be a traditional business model.

The Chair: Thank you very much.

We'll move now to Mr. Boughen.

You have the next five minutes.

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

Let me welcome our guests here this morning and thank them for sharing their expertise with us.

Listening to what you've shared with us earlier, Peter, can you put a little more meat on the bones about how the kitchen table evolved into the organization it is today, the ups and downs, and certainly the successes?

Mr. Peter Harty: The first co-op that I spoke of, south of Calgary, had a pipeline going through the area that actually exported gas to California. The local farmers wanted to know why, if we're exporting Alberta gas, they couldn't have access to it. Some of the people who actually worked for the companies and had some experience in pipeline construction got together and said that if they could get a contract with a company that would buy their gas, they could distribute it to the people in the area. It took a while, but they were able to get it started. In fact, at that time, some of those original people had to put up personal guarantees. For example, on a \$10,000 project one of them put up a \$5,000 personal guarantee to get money to get that started.

After the first one got started, their neighbours would say, hey, you guys got gas and we want it too. They'd go to them for advice and over the first eight or nine years they formed up to about 25 co-ops basically in southern Alberta, mainly in the Calgary east area. They formed small co-ops but for a lot of them, when they went to the government, the latter would say that's too big an area and that they couldn't service it. So their franchise area was cut in half from what they were applying for. It took time to get even the government on board, but eventually there were enough of them going that they said it looked viable and they'd help.

Mr. Ray Boughen: Since then you've moved into the electronic game with the reading of metres with no wires attached?

Mr. Peter Harty: Yes.

As I mentioned, a year or two ago we got approval to do the wireless reading of the metres. Right now we're reading about 40,000 metres.

Some of the co-ops have a hand-held device whereby they can drive down the road and the operator can push a button and read the metres, say, two miles on each side of that road and it goes onto his laptop. Others are flying over their area in a plane and reading the metres from the plane. Then there are others who have the wireless Internet system whereby they obtain the readings of the metres through the Internet.

• (1025)

Mr. Ray Boughen: Neat stuff.

Thank you.

Nigel and Dale, how do you measure success? You started as a small organization and you've grown. What factors do you look at to say that you're a success here but not a success over there, that you should be putting more money into other credit unions or co-ops that may be struggling? Could you let us know what your views are on that?

Mr. Nigel Mohammed: I mentioned earlier that within the mission of the Assiniboine Credit Union there are really three key stakeholders that we use to measure our success. That comes down to our members, our employees, and the community that we serve.

The way we measure our success as a financial cooperative is by using, what we call internally, "a balanced scorecard approach", where we have a number of indicators, with the financial one being only one of those indicators, whereby we would establish targets and set objectives for achieving everything from growth to profitability, efficiency, and delinquency asset quality—all of the usual financial indicators. But we also have a mandate and a responsibility to ensure within the organization things like employee satisfaction and whether our employees' profile represents the community that we serve in terms of diversity. We also want to measure our carbon footprint as a company, the type of branches that we build, whether in fact they are environmentally efficient, using recyclable materials, and so on. And in terms of our procurement policies, we want to measure whether we're purchasing from socially responsible vendors, using local resources, and so on.

A very short answer is that our balanced scorecard approach looks not only at indicators, including financial ones, but also at how we make a difference in the community through our partnerships, as well as within the company in terms of our employee engagement and representation reflecting the community demographics. As well, we look to ensure that how we lend our money—in terms of my specific goal—is making not only an economic impact but also a positive social and environmental impact in the communities we serve.

The Chair: Okay, thank you very much.

That's the end of that round.

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

Mr. Malcolm Allen (Welland, NDP): Thank you, Chair, and thank you to all.

To Mr. Harty and Mr. Crush, do you have competition in Alberta for gas in the rural areas? We end up with Enbridge in my neck of the woods—not my favourite guy in the world. But are you competing against any of them in rural areas? Where I live in the city, I have Enbridge. I have a rural property, and Enbridge won't give me the time of day. It's a long pipeline from Alberta to my place in southern Ontario, so I'm not going to be your customer, unfortunately.

Mr. Peter Harty: Well, 50 years ago the private companies of the day picked the small towns, the cities, the concentrated areas that were close to their pipelines. They served them. The areas that were uneconomical, they didn't serve. So when the co-ops were formed, the Government of Alberta gave franchised areas. Where the ATCO of the day was serving, they got a franchise for that area, and then the co-ops were beside them. If a load is over 10,000 gigajoules, even if it's in their area, we can bid on it; if it's in our area, they can bid on it. But for loads below that amount, we have a franchised area that we have to serve, and they have their franchised areas.

Mr. Malcolm Allen: You're a federated system, so below you are individual co-ops.

Mr. Peter Harty: That's correct.

Mr. Malcolm Allen: I was looking at you on the web, where I see there's a large number of them. I didn't get a chance to count them all, but just flew through them very quickly. There's a fair number of them. So when you look at that infrastructure that's in the ground—because clearly, some of it's been in the ground now for 50 years—what is the model you use for financing, when it comes to renewing or repairing or doing that? Is each individual co-op responsible for its area, or do we do it in a large scale under the umbrella of the federation?

• (1030)

Mr. Peter Harty: Each co-op is responsible for their area. They set their own rates. They carry their own reserves. They have a limit. If somebody wants to build a new house and have gas to it, they have an amount that they pay for a connection. If the service is more than that, as I said, the government has a grant that splits the cost above that basic price, which is now about \$5,500.

For expansion, we have reserves and we can get sharing grants. But it's limited to the amount that's available each year. If the amount that is applied for is greater than the amount available, then it's proportionate to what there is.

Mr. Malcolm Allen: There still is today this combination of the co-op working with the provincial government—to certain limits and levels, but there is still this financial tie between the two.

Mr. Peter Harty: Yes.

Mr. Malcolm Allen: Mr. Mohammed—and I'm going to use Mr. Harty as an example—I refer to the comment you made earlier in response to Mr. Lemieux's question about financing in sole-proprietor enterprises or even small incorporated businesses versus the co-op model. You talked about how in the co-op model, the decision-making process is spread out, if you will, because it's a democratic process with the co-ops, and if I'm a sole proprietor, I make the decision. If want to go ahead, I go ahead.

I'm not picking on you, Mr. Harty, but I'm using the example of you and your group when your decision-making body said no to wireless Internet. Now, if the board had thought that folks were going to go for this and had come to you for money and said, "We want to do rural wireless broadband—we want to follow the model that we were successful with in the co-op in gas distribution," when you're looking at that, you have two things to consider, isn't that right? You have a board, and you probably would ask them, "Have you made the ultimate decision or are you simply out there looking for something?"

Is that part of the process that you would look at as a lender, as to what happens? Clearly, if you'd said yes to their suggestion, you'd have found out later on that actually their members had said "No, thank you".

Mr. Nigel Mohammed: It's a good example. It's a classic example of what we said earlier about almost normalizing this structure, called the co-op structure, within the financial sector. There seems to be such ambiguity about the decision-making process and how decisions are made within co-ops that traditional banks or lenders, and even some statutory government boards, such as the BDC, because of their unfamiliarity with the decision-making process, may feel that there is more risk attached to it.

If a business, as you've just expressed, comes to us for financing, we focus on two things. One is the viability of that business idea and whether the numbers make sense. The other important aspect, of course, is security.

Peter mentioned earlier, in his example, that one of the individuals has to provide a personal guarantee for \$5,000. If a lender is satisfied with the viability issue and the business case, then the question is about security. Lenders want to tie in someone or something, in terms of a guarantee, even if it's an unincorporated company. With a co-op structure, there are a number of owners. Therein lies the challenge for a traditional lender, who says, "I'm going to have a hundred personal guarantors, because they're all legally owners of this co-op".

That is a role that perhaps the government can play. In the absence of having each individual personal member provide a guarantee for security purposes, perhaps that's the role the government can play. It can provide a loan guarantee to negate the need for individual members providing personal guarantees for a start-up or for an expansion project.

To your question, we would assess the viability, the business case, and of course, the collateral. But before any decision were made and executed legally, in terms of a document, we would need to know that resolutions to enter into that legal contract with the co-op had been passed appropriately. That would mean a board decision in most cases.

The Chair: Thank you very much.

That concludes that round. It also will conclude our panel this morning. We appreciate all three groups for your contribution. It's been very informative. We appreciate your testimony and your answers to the questions.

I'll now suspend the meeting.

•(1035) _____ (Pause) _____

•(1055)

The Chair: I call the meeting back to order.

I apologize that we're a little late getting started, but we're having some technical difficulties with our video conference. It's being worked on as we speak. We're hopeful that by the time the other witnesses are required, they will be available and there will be no further difficulties with the audio.

We have with us Ms. Jodie Stark, the vice-president at Concentra Financial Services Association. Then, if we're able to get the technical difficulties worked out, we'll have the Community Health Co-operative Federation Ltd., with Mr. Tim Archer and Patrick Lapointe. Hopefully, we'll be able to get this sorted out and have their testimony as well.

Ms. Stark, you have up to 10 minutes.

Ms. Jodie Stark (Vice-President, Legal and Corporate Affairs, Concentra Financial Services Association): Thank you.

Mr. Chair, committee members, my name is Jodie Stark, and I'm vice-president of legal and corporate affairs at Concentra Financial. Our head office is located in Saskatoon, Saskatchewan. I'm please to have the opportunity to present to all of you today.

Concentra Financial is a successor of the Co-operative Trust Company of Canada, which has been operating since 1952. Concentra Financial is the only federal retail association in Canada operating under the Cooperative Credit Associations Act. Concentra has the broad powers of a national bank and is federally regulated by OSFI, CDIC, and FCAC. Concentra was designated as one of Canada's 50 best managed companies for the ninth consecutive year in 2012, and employs 287 staff across Canada.

Concentra exists to enable credit unions to optimize their financial performance and to provide full service offerings to their members. Recently, the federal regulators have expressed concerns that regionally based credit unions may be at greater risk than banks, as their operations are local and subject to the economic conditions within that region. Concentra is able to mitigate that risk, by acting as a financial intermediary through offering syndicated loans and investment opportunities for mortgage pools to credit union partners, which in turn diversifies their investment portfolio. In addition, Concentra offers advisory services to assist our credit union partners in managing their operations. We also operate a liquidity bulletin board, which allows credit unions the ability to post and acquire liquidity when it is available within the system.

Concentra Financial's wholly owned subsidiary, Concentra Trust, provides trustee services to almost 80% of Canada's credit unions outside of Quebec, so that registered-plan programs can be offered to credit union members. The credit union system supports the initiatives of the federal government in developing these savings programs so that Canadians can save for the future and be self-sufficient. Concentra enables credit unions to service these registered programs. Concentra Trust also provides trust and estate services to members of credit unions. Concentra's profits are returned to the system through charitable donations to community-based initiatives

across Canada and through dividend payments to its owners, who are credit unions, centrals, and other cooperative entities.

SaskCentral has provided to you a brief that outlines the statistics showing the strength of the credit union system in Saskatchewan. I'd like to take this opportunity to share with you the importance of credit unions and cooperatives to Saskatchewan residents.

Before the formation of our province, our land was populated by first nations, Métis, and Inuit. These cultures were governed primarily by the same principles as today's cooperatives, with an emphasis on self-government and self-sufficiency. It has been said that they were the first cooperators to exist in North America.

By 1910, the first credit union in western Canada was developed in Wapella, Saskatchewan. From there, the cooperative movement blossomed and provided insurance, financial services, and retail products. Throughout the Great Depression and the drought of the 1930s, consumer and producer cooperatives ensured the survival of many Saskatchewan communities.

In 1928, the Saskatchewan Co-operative Youth Program was formed. Remarkably, that youth camp continues even today, and my daughter attended their program just last summer. The Federated Co-op was also formed that same year, and is now one of the most profitable businesses in Saskatchewan.

One of the advantages that cooperatives and credit unions have over larger traditional institutions is the ability to be innovative and creative in finding solutions. The Co-operative Commonwealth Federation, or CCF party, formed in the 1930s, was instrumental in the development of the universal medicare program, which was launched in our province in 1962. Coincidentally, my family was one of the first in Saskatchewan to be issued a health card at that time.

The Centre for the Study of Co-operatives was established at the University of Saskatchewan in 1984. In 1985, the first debit card in the world was piloted in Swift Current, and I recall my father explaining to me how to use the new ATM machine at our local credit union. He told me that electronic banking would change the way we do business, and how true that is. Three years later, my father walked me down the aisle, and I was wearing a wedding gown purchased from our local Pioneer Co-op.

Credit unions and cooperatives not only provide innovation to benefit Canadians, but, for many communities, they also provide the infrastructure. From gas stations to grocery stores and retail outlets to credit unions, cooperatives are the very heart of so many communities. Many of my friends graduated from college and went on to be employed by cooperative entities, enabling them to remain in their home province. I do my banking at a credit union that is managed by people I personally know and trust. My groceries and fuel also come from co-ops. In Saskatchewan, credit unions build buildings and operate the only financial institution in many communities. They sponsor sports teams and arenas, and almost every major centre has a credit union name attached to it.

● (1100)

It is no wonder that 5.2 million Canadians are members of credit unions, which represent community, giving back, and a sense of belonging.

Not only have credit unions been instrumental in establishing an infrastructure in developing nations, along with the early settlers in western Canada, they have also survived and flourished in the face of economic crises. From the stock market crash in 1929 to the recent economic crisis in 2008, banks and shareholders suffered great losses. However, credit union members took comfort in knowing that their money was safe and being managed locally by people they know and trust.

Scandals continue to erupt, involving executives of large banks and investment firms, something that is unheard of in the credit union system. Saskatchewan credit unions do not rely on government funding or bailouts, and these credit unions provide a 100% guarantee on members' deposits. Credit unions also offer financing to farmers and small business owners when traditional banks turn them away.

Cooperatives ensure that cultural traditions are sustained, while still engaging the youth, and they provide opportunities for development of first nations communities, small towns, and large urban centres. They are all encompassing and are embedded in the very fibre of what makes Saskatchewan the successful province it is today.

It is no coincidence that Saskatchewan has grown stronger in the last few years while many other provinces have struggled to survive the crippling economic crisis. Our reliance on our own people—our greatest natural resource—guarantees resilience in the face of diversity. It is our spirit of co-operation and self-sufficiency that creates our own success.

On behalf of Concentra and our partners in the credit union system, I ask the federal government to support the unique governance principles that make up the framework of credit unions. Now that we have the ability to form federal credit unions, I ask that the government refrain from considering and treating these credit unions simply as banks. To do so would be to threaten the very structure that has provided members with stability in the system for the last century.

I also ask that the government consult with the credit union system on all matters relating to financial legislation. Although we have 5.2 million members, we are not always recognized as having a

collective voice. However, we do have trade associations that represent us and are available for consultative purposes.

It is critical that we be considered when legislation is being developed or amended. I will provide a more detailed brief for this committee's review, which is being prepared.

Mr. Chair, Concentra Financial wishes to thank this committee for undertaking this study in recognition of the International Year of Cooperatives.

In conclusion, I want to thank you for this opportunity to provide a Saskatchewan perspective, and I would be happy to respond to any questions you might have.

● (1105)

The Chair: Thank you, Ms. Stark. I appreciate that presentation. We look forward to giving you the opportunity to answer some questions in a few minutes.

Hopefully our technical difficulties have been worked out. We believe that they have.

Can you hear us, Mr. Archer, and Mr. Lapointe?

Mr. Tim Archer (Executive Director, Community Health Co-operative Federation Ltd.): Yes. Can you hear us?

The Chair: We certainly can. That's great. We're glad to have you with us.

From the Community Health Co-operative Federation, we have Mr. Tim Archer and Mr. Patrick Lapointe. Thank you for joining us.

You have the floor now, for 10 minutes, to make an opening presentation to the committee.

Mr. Patrick Lapointe (Member, Community Health Co-operative Federation Ltd.): Thank you for the opportunity to present to you.

We're representing the Saskatchewan Community Health Co-operative Federation. We're a federation of Saskatchewan's four cooperative community health centres.

The community health centres are not-for-profit, citizen-owned health centres. We provide multi-disciplinary primary health care services to about 70,000 people in the province of Saskatchewan. We have a particular focus on the vulnerable in our society: the poor, first nations persons, the frail elderly, and persons with disabilities.

We've been in operation since the introduction of medicare in Saskatchewan.

We're not only here to talk about the cooperative health centres in Saskatchewan but also about cooperatives in Canada that provide health care services. There are about 117 cooperatives in Canada offering services that range from health centre services like ours to home care service delivery and paramedic services. About 65% of these organizations operate out of Quebec.

There are three provincial federations of health care cooperatives. Two of them are centred in Quebec. One represents home care service delivery. The second represents paramedic services in Quebec. And then there is our federation, representing the health centres.

We believe that the cooperative model has great potential for the provision of health care services across Canada. In Canada and other countries, cooperatives have had great success in the delivery of health care services.

While there are only 117 cooperatives in Canada, in other countries in the world, such as France, Japan, Spain, Scandinavia, and in South America, they are very involved in the delivery of a broad range of services. I'll give you a sense of the breadth of the services that health care cooperatives are engaged in.

There are professional group cooperatives where groups of physicians are involved in the direct delivery of planning health care services through the cooperative model. In Spain and Japan, there are hospital services delivered through the cooperative model. In Scandinavia, there is often long-term care delivered through the cooperative model. There are other multi-disciplinary health care centres in other countries of the world like ours. There are holistic health centres. Frequently, health insurance is provided in the cooperative model, and in fact, in Canada, The Co-operators market a multi-dimensional health insurance that people purchase across Canada.

Finally, cooperatives are very much involved in special needs housing, including housing for the elderly, long-term care, and housing for low-income persons.

We believe the cooperative model is an ideal vehicle to help health care delivery into the next millennium. And Tim is going to talk to you a bit about what kinds of opportunities and strengths we bring to the table in the delivery of health care.

•(1110)

Mr. Tim Archer: Essentially, we believe that what health care is looking for and what the cooperative model is so strong at providing is a patient and family-centred approach. Based on the core values and principles of cooperatives, organizations that offer health services through cooperatives are inherently patient-centred because they are member-owned. Our members actually have a vote and take part and are engaged in providing services based on what they feel are needs.

This is creating a buzz in health care organizations, be they regional health authorities or local health integration networks in Ontario, that patient and family-centred care is what we should be operating. Cooperative health organizations have actually been doing that for years.

Secondly, the citizen ownership is, again, by definition, a way of participating in the design and delivery of health services. We have built-in mechanisms to make sure that we're engaging our membership on a regular basis and responding to their needs.

The cooperatives also have increased capacity to engage citizens to take responsibility for their own health, which is an inherent part of improving the health of our population.

We have a great capacity to creatively respond to unique community needs. We are often filling in the cracks in the system. So for the cracks that are not addressed through other formal health care processes, cooperatives are able to address more nimbly and devise programs and services to address those needs.

And of course, we are supportive of the cooperative family, so cooperatives help support other cooperatives, both in development and in sustenance.

We have a strong organizational capacity due to the various governance models involved in setting up and establishing co-ops. We also have a great capacity to support various health disciplines to form effective working relationships in the delivery of health services. So for instance, physician group practices that are remunerated on a salary basis reduce some of the competition that is often inherent in a fee-for-service model and allow us to work more collaboratively with other disciplines to provide the care that people need to address the social determinants of health.

I want to shift now and talk a little bit about what the federal government can do to support health care cooperatives, because this is essentially why we're here, to try to give you some ideas or some food for thought about what the government can do to support cooperatives, because we see this as an efficient and effective model.

First of all, work toward ensuring education about the cooperative model is in the curricula of law, commerce, business schools, and even right down to basic public education. We are publishing a graphic novel, also called a comic book, about the birthplace of medicare, but also about the creation of community clinics 50 years ago in Saskatchewan as a way of getting that information out to youth.

Secondly, we want to ensure that the cooperative model is considered and advocated for in federal and provincial economic development and health service delivery initiatives.

Thirdly, we believe it's important to support provincial and federal cooperative associations to educate the public about the advantages of cooperative model, and to assist groups to form cooperatives through the development of business plans, incorporation, and through access to developmental funding.

Finally, we believe it's important to sponsor the study and dissemination of information about successful cooperative health delivery in other countries, because there are lots of excellent examples out there that we can emulate and we have much to share and much to learn in terms of the development and sustenance of cooperatives.

I want to thank you for the opportunity to address the committee. We'd be pleased to answer questions.

•(1115)

The Chair: Thank you very much. I appreciate your opening remarks.

We'll move into questioning. Just for the information of the committee before we do, we're currently having some technical difficulty with the broadcast being fed to CPAC, so as we stand right now, we're not being televised. They're working on it. They believe they should have it fixed shortly. Unless I hear any serious objection, I think it's best, as we do have witnesses here, that we proceed. We do believe the broadcast will be up and running shortly.

Mr. Dan Harris: Are they still at least getting a recorded feed?

The Chair: For the purposes of the blues and all the rest, that is all happening. It just isn't being fed through to CPAC at this point in time. So "technical difficulties" would appear on the screen as far as CPAC's broadcast is concerned, but everything else is functioning as per normal.

Mr. Bélanger.

Hon. Mauril Bélanger: I have two questions: since when did that happen, and will you advise us when the system is back on?

The Chair: Absolutely. My understanding is it began just a few minutes ago during the presentation from our video conference witnesses, and they expect it will be very short. I will certainly advise the committee as soon as that does happen.

In the meantime, we'll move to our first round of questioning.

Madame Brosseau, you have the first round. You have five minutes.

Ms. Ruth Ellen Brosseau: I would like to thank all three witnesses for being with us. I'd just like to thank the clerk for the timing of the two, because they go hand in hand. You mentioned the CCF and how instrumental it was for universal health care, and then we have this co-op also. It's shedding light—

The Chair: Sorry, Madame Brosseau, I'll just interrupt here.

Just to inform the committee, we have corrected the difficulties and are now being televised once again.

Ms. Ruth Ellen Brosseau: Perfect.

I would like to thank the three witnesses today for their testimony.

It is great to have the pairing here. Ms. Stark, you touched on the CCF and how important it was for universal health care. Then we have a cooperative here talking about their work in cooperative health care in Saskatchewan right now.

I would like to start with you, Ms. Stark. Given the social and democratic mandates of cooperatives, could you talk about the importance of credit unions and how they are different from regular financial institutions?

Ms. Jodie Stark: Certainly. Thank you for the question.

The main difference between credit unions and traditional banks or other financial institutions is in their governance model itself. Credit unions, generally speaking, have a membership within a certain region or area. Because of that, the people who work in the credit unions generally know their clients much better than they would in a banking system. That gets into things like the initiative to stop money laundering and that sort of thing. It certainly has an advantage that way, because they know their clients a lot better.

The governance of a credit union is done locally, with a board, so that the decisions made are made in the best interests of the people within that community. There is some assurance of accountability between the members and the people governing their credit union. That's opposed to a traditional bank, where shareholders are usually great distances from their boards and have very little or no say in how their money is being used and managed. Because of that, the credit unions more often support local initiatives and community projects. In fact, based on 2010 statistics, they actually donate about

four times as much of their pre-tax earnings to community-based initiatives and charitable matters.

Those are some of the differences between a credit union and a bank.

Ms. Ruth Ellen Brosseau: You also said in your opening statement that scandals that often involve executives at large banks and investment firms are completely unheard of in credit unions. They're really community based. You get to know the people at your credit union. It's very personal, and it's very different from big financial banks.

Could you explain what kind of role the federal government can play in cooperatives and in helping them from the ground up? It's not about just giving them money. They need follow-up. It starts with education and kind of following through.

Ms. Jodie Stark: I certainly applaud the government's initiatives with regard to financial literacy.

I would like to see more consultation with the credit union system. On the first go-round, there wasn't the opportunity for credit unions to be consulted on financial literacy models. Yet that is certainly an initiative we've seen specific credit unions across Canada take an interest in. They have come up with some very innovative ways of offering financial literacy programs to their membership, and to youth and young people, to encourage them to save for the future for their education and for retirement.

We'd like to see the government perhaps allow a little bit more dialogue between our trade associations and the government so that we have some input. Sometimes the way we look at those issues is different from the way other traditional financial institutions look at them.

• (1120)

Ms. Ruth Ellen Brosseau: Consultation is very important. We don't see that very often, especially lately.

Could I talk with the Community Health Co-operative Federation? We know that about five million Canadians don't have access to family doctors. I find these health care cooperatives absolutely amazing and maybe the future of how we can do things.

Do you think it would be important for this committee to go to the international meeting in Quebec City in October to meet with players to find out best practices in other countries and how we can apply them here?

Mr. Patrick Lapointe: There's a tremendous amount to learn about how to provide health care from the Japanese experience at serving people who are underserved. For instance, cooperatives in Japan started because people in the fisheries industry didn't have access to health care service delivery and they formed these cooperatives to make sure that people had access to that kind of delivery.

In Canada, in particular, the focus tends to be on access to physician services. In the cooperative model we've tended to focus on interdisciplinary approaches to health care. For instance, we've really engaged nurse practitioners as often being the first point of contact and the ongoing point of health service delivery for people, particularly those with chronic diseases. We think there are other disciplines that need to be active parts of the health care, particularly in primary health care, that can give people access to the health care they need.

We're also finding in the work that we do in health promotion and disease prevention that the engagement of nurses, health educators, and dietitians can have people more actively participate in supporting their own health so they don't need to have as much access to physician services.

We don't think in Saskatchewan, for instance, we'll ever be in a situation where there will be enough doctors to serve everybody who wants to have access to a doctor. So we need to bring into play other health-care professions to make sure that people get the quality of health care they need.

The Chair: Thank you very much. I appreciate that.

We'll now move to Mr. Payne for the next round.

You have five minutes.

Mr. LaVar Payne: Thank you, Chair.

I'd like to thank all the witnesses for coming today. It's important that we hear your stories and get the information. That's important for this committee's work to be done.

I'll have a number of questions and I think I'll start with the community health folks, if that's okay with you.

Maybe you could tell the committee how in fact your co-op works within the provincial system. Does it contradict anything or conflict with anything in terms of the provincial legislation or requirements under the province?

Mr. Tim Archer: I can address that.

We have a formal partnership agreement with the Ministry of Health. We actually get the majority of our core funding through the ministry, about 72% of our funding. We also have a strong partnership with the local regional health authority. We are surrounded, in fact living within, that regional health authority of Saskatoon, and we have a very strong and positive relationship with them. They contract with us to provide certain services and we partner with them in many ways. So we actually have a very strong relationship both provincially, through our core funding from the ministry, but also through the local health region, and that relationship is vitally important to maintaining what we do and our ability to do it effectively.

Because we are a separate organization, this actually gives us some autonomy to address the cracks in the system, as I would put it, as there are a lot of underserved populations. We have the ability because our staff are salaried to direct the services where they're needed. Most of the primary-care physicians in the city are funded and paid through fee-for-service and can set up their shop where they choose. We have made strategic decisions to set up a clinic in the

core neighbourhoods of Saskatoon, for example, to address the underserved population, where there's essentially a ghetto of physician access. In that way we're able to address an epidemic of HIV that has established itself in Saskatchewan.

• (1125)

Mr. LaVar Payne: Sorry, but I have limited time and I need to ask a couple of more questions.

You said that you had some core funding from the province. Where does the rest of the funding come from?

Furthermore, do your health professional provide services through any other types of organizations, through their own clinics or that sort of thing?

Mr. Tim Archer: We also generate some revenue through partnerships. We have a federal grant to address diabetes prevention, through the aboriginal diabetes initiative, for example. We generate some revenue through a pharmacy that we own and operate. We also generate some revenue through some membership services. That's addressing the funding piece.

What was your second piece of that?

Mr. LaVar Payne: Do your health professionals provide services outside of your co-op, maybe in their own clinics or that sort of thing?

Mr. Tim Archer: A vast majority of our health professionals are employed just by us, but we do have a few physicians who work part time and provide services through other programs.

Mr. LaVar Payne: I understand that you don't have to be a member to get services from your organization, so why would you become a member? I don't quite understand.

Mr. Tim Archer: That's a good question.

The biggest reason to become a member of the co-op is that you believe and ascribe to the philosophy of a cooperative, and you would have a say. If you're a member, you have a vote on who sits on the board. You have a say in how we offer our services, which doesn't mean we don't ask non-members who are clients what they believe.

Essentially, it's a belief in the philosophy of cooperatives and the concern for the community and having an integral voice in how the services are offered.

Mr. Patrick Lapointe: We serve 35,000 people, and 10,000 people choose to be members of our organization in order to support it.

Mr. LaVar Payne: If I could ask one final question, does your membership get profit returns or dividends from the federated co-op?

Mr. Patrick Lapointe: All they gain is a little advantage on the cost of pharmaceuticals if they purchase drugs from us.

Mr. LaVar Payne: All right. Thanks very much.

The Chair: Thank you very much.

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

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

Following up on the sources of revenue for the community health co-op, I would point out that in the film industry, product placement is a fairly substantive way of getting revenue. I was wondering if you are getting revenues from the product placement of your coffee cup in front of you.

Mr. Patrick Lapointe: I was going to put that away, actually.

Voices: Oh, oh!

Hon. Mauril Bélanger: Mr. Chairman, I want to use some of my time here for a business matter.

I was the instigator of this motion in the House, and I have to admit that the last four days—five, if you include July 10—have been rather instructive in our getting a better understanding of the breadth and importance of co-ops in our country.

I want to raise a couple of questions, which may be addressed later, dealing with the draft report. One is about its timing. Since the resolution, we've adopted calls for the final report to be finalized in the week of August 28. I am hoping that we could confirm that the draft report will be available the week before, perhaps no later than August 22. I've had discussions with the analysts to that effect, and they'd be prepared to do that. I'd like confirmation of that.

Second, in terms of the structure of the report, there are two things I would say. One is that I would hope it would contain—and I would imagine this wouldn't be of any controversy—a very thorough reporting of what we've heard, and perhaps a reflection of the submissions we'll have received by August 7. The document itself would become a sort of reference document for anybody who may have an interest in cooperatives.

It would also address the five items that were itemized in the resolution that Parliament unanimously adopted on May 30, which are the following: identifying the strategic role of cooperatives in our economy; outlining a series of economic, fiscal and monetary policies for strengthening Canadian cooperatives as well as for protecting the jobs they create; exploring the issue of capitalization of cooperatives, its causes, effects and potential solutions; exploring whether the Canada Cooperatives Act of 1998 requires updating; and identifying what tools the government can use to provide greater support and a greater role to Canadian cooperatives.

Finally, I would hope that we will also include the recommendations we've heard. Whether, as a committee, we agree with them or not is something else, and I respect that.

I just wanted to make those points.

I have a quick question for Madam Stark. You mentioned in your statement, and I quote you here, that “the federal regulators have expressed concerns that regionally based credit unions may be at greater risk than banks...”. Can you comment a bit more on that, in maybe a minute?

• (1130)

Ms. Jodie Stark: From reading the information that's gone around, I believe that some of the regulators involved with the federal trust legislation may have been speaking in British Columbia, though I could be wrong. I think I've heard on a couple of occasions the question posed to credit unions, what are you doing to mitigate

your risk and diversify when all of the mortgages you provide, for example, are all in one particular city or area, which could get hit particularly hard? Say, it's an agricultural community that gets hit hard, and then you see a lot of defaults—

Hon. Mauril Bélanger: That's strange, because everything we've heard points to the opposite. That's why I was wondering about it. Could you give us the reference on that? That might be very useful.

Ms. Jodie Stark: We can submit that to you.

Hon. Mauril Bélanger: Thank you.

I just need to understand how you structure it or how you work. Am I to understand that an individual cannot do business with Concentra Trust? Or can they?

Ms. Jodie Stark: Yes, they can. We do have the federal power—

Hon. Mauril Bélanger: Even if they're not a member of a co-op?

Ms. Jodie Stark: That's right. We have the federal power to do anything. Now, initially, we were doing a lot more work directly with consumers, and what we've done in the last couple of years, at the request of credit unions in the system, is moved away from that and become more of a financial intermediary—

Hon. Mauril Bélanger: Yes, concentrating on servicing co-ops....

Ms. Jodie Stark: —servicing credit unions in particular. But certainly, a lot of our trust work is still directly with members or directly with people.

Hon. Mauril Bélanger: Thank you.

I'll go back to the community health co-ops, if I may, in the very short time left. Are you aware if the 116 other health co-ops in the country also have agreements with the provincial authorities and the local health integration networks and so forth? Would you be willing to send us a copy of those agreements so that those of us who are not really familiar with the health co-ops can get a better sense of how they work?

Thanks.

The Chair: Okay, thank you very much.

Hon. Mauril Bélanger: Could I have a quick answer to that?

The Chair: Did you have a response? Make it brief, please, because Mr. Bélanger's time has expired.

Mr. Patrick Lapointe: We'd have to contact the federations and other...in Quebec, for instance, to see if they'd be willing to give us examples of the contract that, say, their paramedic services or the home care services have with the provincial government. We can't necessarily say that they would provide you with that.

We'd have to consult our board, but it could be that we could provide you with a copy of the partnership agreement that we would have with the provincial government.

Hon. Mauril Bélanger: Thank you.

The Chair: Thank you very much.

That concludes the first round of questioning. We'll move now to our second round, and first I have Mr. Preston.

You have the floor for the next five minutes, Mr. Preston.

Mr. Joe Preston (Elgin—Middlesex—London, CPC): Thank you very much, and I thank our witnesses for coming today.

Mr. Bélanger is right: we've learned a lot in these days, and today I think I'm going to learn something new. I think you fit a different role from anybody we've had before us. We've heard from credit unions, both small and large, and the great job they do. We've heard them talk about centrals and the job they help credit unions do.

Where do you fit in this? I'm trying to make it hierarchical in some way—but maybe it's not that way at all.

Ms. Jodie Stark: I wouldn't suggest that we fit within a hierarchy. Basically, most of what we do at Concentra is to act as an intermediary or a wholesale provider. So we are the intermediary between the credit union and the credit union's members. So if a credit union member comes forward and needs, say, a large commercial loan exceeding the capacity of that credit union or its regulatory capacity, then they can come to Concentra and we can help fund that through a participation or a syndication.

• (1135)

Mr. Joe Preston: So the member would come to you, or the credit union would come to you. We've heard many of the credit unions say there's a seamless process in place if the loan is bigger than the capability of a single credit union. They would go to their central or bring other partners to the table, but the member or the person applying for the loan wouldn't really see that. It would just happen above and beyond the credit union. So are you doing that?

Ms. Jodie Stark: Yes. Most of the transactions we do are set up that way so that the ultimate client doesn't see our involvement in it, and the agreements and the relationship are between us and the credit union and sometimes other credit unions. There might be a consortium of various credit unions that are involved in the lending.

Mr. Joe Preston: I recognize that we're dealing with a system that is one person, one vote, and even yours is a cooperative with that type of system. We've heard from many of the groups that this is a risk averse type situation or that it helps to manage risk. I won't say risk averse; rather, it helps manage risk, because there are more minds, if you will, looking at a problem. That may be the best way to put it.

How does that happen, then, when you're bringing together five or six groups of members where it's one person, one vote? Do you have to get consensus, or can you at a management level assume a consensus that includes the members of all the attached organizations?

Ms. Jodie Stark: We don't consult with the members on the various specific transactions that we do. It's more on the overall strategy—what strategy and how we position ourselves in the credit union system—that the members consult with us on, through our board.

The board is structured such that there is representation from the various regions across Canada, and that's how you bring that in. We have people from one end of the country to the other. They vote in who they want representing their region, and various regions have

certain numbers of representatives on our board. We do have 164 members all together, and that's growing all the time.

Mr. Joe Preston: Okay. I get that, and we've heard a lot, certainly, about the credit union system, and we recognize.... Even you mentioned that your profits go back to your partners, to people who are members of Concentra, or back to community projects. I think in your speech you talked about how on-the-ground cooperatives, whether they're credit unions or not, tend to be so grassroots and involved in their communities. That's who is involved. I recognized it from who the sponsors are of baseball teams and those types of things in all of our own communities. That's what happens. Whether it's a local business or a local cooperative, it's far more likely to be involved locally, because that's where they make their....

You talked about your profits also going back down to that level from a community project point of view. Can you give us some examples of that?

Ms. Jodie Stark: Sure. For example, have restructured our social responsibility platform at Concentra over the last year and a half, and we set aside a certain amount of money each year and then allow credit unions from across Canada to submit submissions for particular initiatives that they are interested in helping their community with. If they're successful, they're awarded, I think it's \$10,000, each credit union. Then we have a ceremony to present the cheques to them.

That gives every credit union, big or small, the opportunity. When they do that, they receive our money, but we don't ask that our name be posted on anything anywhere. So it would appear as though the credit union is donating the full amount or sponsoring the full event. We just felt that it wasn't necessary to have Concentra's name everywhere. It was more important for us to have the credit unions get the exposure that they need in their own home communities.

Mr. Joe Preston: I have one other really quick question, if I can do it. I meant to get it in the last panel but I didn't have any time.

We've learned a lot, that cooperatives are maybe a more secure level of business. They're more likely to survive at every benchmark we can come up with—

The Chair: Mr. Preston, your time has expired. If you have a question, I'll let you put it very briefly.

Mr. Joe Preston: Yes.

Do you give favourable lending to cooperatives because of that success rate, versus to a sole proprietorship or corporation? Would it be easier for a cooperative to get a loan through any credit union because of that success rate? Is that taken into account?

The Chair: I'll ask that the response be as brief as possible as well, please.

Ms. Jodie Stark: Thank you, Mr. Chair.

We don't do direct lending to cooperatives so much. We have provided lines of credit to cooperatives, and have been involved in social housing projects in Toronto to a great extent, because we partner with the credit unions on that. So I can't really speak to the credit unions' credit risk policy, but we do partner with them. We trust that they know that the cooperatives they're going to provide financing to are worthy projects.

• (1140)

The Chair: Thank you. I appreciate the brevity. That was good.

Mr. Harris, the floor is now yours for the next five minutes.

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

Thank you to the witnesses.

Ms. Stark, at the beginning of your opening remarks you mentioned that a more detailed brief is being prepared. Will that be ready to submit to the committee before August 7, which is the deadline for submissions?

Ms. Jodie Stark: The brief was submitted to your clerk approximately two days ago, so I imagine it's just in the translation process right now.

Mr. Dan Harris: Okay, so it has been submitted. Great, thank you. That clears that up.

Following on Mr. Preston in terms of the reinvestments made, I believe you said that the credit unions in partnership with you are reinvesting approximately four times as much into the communities. Now, is that compared to the traditional commercial banks?

Ms. Jodie Stark: That's correct.

In the 2010 numbers I have, I believe it's around 4% of pre-tax earnings of credit unions nationally that is given to the community as compared to 1% for traditional banks.

Mr. Dan Harris: That's phenomenal. That's how you build, grow, and strengthen communities, which in turn helps to make the credit unions themselves more stable financially.

You also mentioned that you were happy to see more financial literacy programs and initiatives coming from the government, but that credit unions had not been consulted in that. I personally hope that one of the recommendations we see coming out of this committee based on what we hear would be for a co-op literacy program to inform banks and lenders and the general public about the strengths and the alternative and possibly preferential business model that co-ops offer.

I did want to ask, following up, about consultation. In your recommendations, you said you would ask that the government refrain from considering and treating credit unions simply as banks. This is with respect to the framework for federally chartered credit unions.

How much were you consulted in that process when those rules and regulations were being made up?

Ms. Jodie Stark: Our national trade association, the Credit Union Central of Canada, was consulted throughout the process. I was also involved on a committee that dealt with it throughout the two or three years that the development of that legislation, or regulations, was under way.

I was disappointed, personally, and taken a bit by surprise, that the decision had already been made that it was going to go under the Bank Act as opposed to the Cooperative Credit Associations Act, which is the legislation we're under. This legislation already embeds the cooperative principles right in it. They have the ability to have full retail powers, because here I am, and that's what we have.

I was disappointed by that. If the government starts treating the credit unions more like banks and moves them too far under that system, you're going to lose that stability, because it is, in fact, a system. If you start peeling away the layers of that system, you could affect the stability of the credit union system nationally, and even at the provincial level.

Mr. Dan Harris: Great. Thank you.

Mr. Archer and Mr. Lapointe, I'll follow up on questions from Madame Brosseau. She was, I believe, just getting to the part where you were talking about some of the preventive initiatives you're engaged in.

We know, as time goes on, that if we can prevent people from getting sick and showing up at emergency rooms or doctors' offices that it's going to save the system a whole lot of money. And it will give us more flexibility to actually provide more programs and services and to maybe actually move to the next phase, where we might offer prescription drug programs, dental coverage, and things like that.

Could you expand a little bit on the preventive component your co-op health model offers to help keep people from getting sick?

Mr. Patrick Lapointe: I can give you an example related to diabetes. In our organization, we assess an individual's risk factors for diabetes. If in your regular contact with your doctor you start to ring bells for risk factors related to blood sugar, activity level, and these kinds of things, and it looks as though you may potentially, in the future, be at risk of diabetes, then we get you hooked in with a nurse practitioner, a health educator, or a dietician who will work with you to develop a plan to manage your risk.

The same thing can be said, for instance, for cardiovascular disease. If it looks as though there's some kind of family history, or if there are some indicators now that you may develop cardiovascular disease, we want to work with you early to address those issues.

• (1145)

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

I'm going to try to not look at the chair and see if I can get another question in.

Thank you very much for your answers.

The Chair: It was a nice try, but not this time.

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

Mr. Pierre Lemieux: Thanks very much, Mr. Chair. And thank you for being here today.

As I mentioned to our last group, this has been a really valuable couple of days. We've been able to really focus on co-ops and their role in Canada. And I must say that it's really encouraging to see the strength of co-ops on the ground. We've heard, from numerous co-ops that have come in front of us, about their growth, their strength, how well they're doing, and how they're contributing to the economy. I'm glad to hear that this is continuing in the discussions we're having now.

I wanted to make a comment to Jodie about the financial co-ops and the federal regulations. The regulations have been gazetted. There's a 30-day comment period. Your comments are welcome. Of course, they'd have to be filed through the gazetting process. The point is that there's a 30-day window open as of July 6, when they were first published, and all feedback is welcome.

I am interested in the Concentra model or the model of co-ops that basically offer more than just financial services. They offer financial services, groceries, gas, and a number of different things. What's the general business model they're using? In other words, is it just one co-op offering a number of services? Or is there an umbrella co-op with sub-co-ops underneath, each one specializing in a particular area, particularly given the difference between, let's say, financial services and goods and services such as gas and groceries? Could you comment on the business models and what you've seen?

Ms. Jodie Stark: Certainly. Thank you for the question.

One of the models I'm a little more familiar with is the Arctic Co-operatives model. I believe that they might be one of your witnesses.

Mr. Pierre Lemieux: Yes. They were here.

Ms. Jodie Stark: That's one model. They are an umbrella organization. Underneath them are the hotels, gas, telecommunications, grocery stores, and so forth.

They don't have a financial co-op model up there, but they are looking for ways to do that. Unfortunately, there are some legislative restrictions that make it difficult for credit unions to get up and running there. I believe that they lack the credit union legislation up there at this time, because they're new. These are new regions.

There's that type of model, with an umbrella organization that oversees a number of different co-ops in different areas.

The Federated Co-operatives is another model that's been very successful in Saskatchewan. That model has been around for about 90 years. In that one, the individual co-ops are managed under general managers in various areas and have their own governance schemes. But the Federated Co-op provides the wholesale distribution, whether it be for fuel, groceries, or whatever.

Mr. Pierre Lemieux: Do you never see a co-op model where goods and services, including financial services, are offered under a single co-op? In other words, their membership is not that of other co-ops, with each one providing a service? Rather, their membership is people generally and one co-op is offering them financial services, and goods. Do you ever have that kind of model?

Ms. Jodie Stark: That's one thing I had suggested Arctic Co-op consider doing because they were in such desperate need of financial services up in the northern areas. The model I suggested was that they incorporate, that they have a fund to create a retail association so that the money would flow in and out through their own retail association, which would have federal powers. We wouldn't have to wait for legislation, then, because it exists now. ATM machines could be located right in their co-op store for when people do their grocery shopping. That way, they don't have to deal manually with a lot of cash, which was one of the issues for Arctic Co-op, dealing with the cash inflow and outflow. That's one model that could potentially work.

Mr. Pierre Lemieux: Has it been used elsewhere?

Ms. Jodie Stark: Not that I'm aware of. That's not to say that it hasn't been. I'm not certain that it has; I'm not aware of it.

Mr. Pierre Lemieux: Okay.

On the state of financial cooperatives in Canada, certainly the impression we've received from the witnesses come is that, first of all, financial cooperatives are successful. Second, they seem to be responsive to financing requests from other co-ops partly because they're a co-op and partly because they try to find innovative solutions to barriers, I suppose, that might exist to co-ops seeking financing.

Would that be the experience here?

• (1150)

Ms. Jodie Stark: I see a lot of the work. The work that we've done in Concentra Trust, for example, offering corporate trustee services to new co-ops starting up somewhere in the country, which need to issue debentures and a trustee for that. It's that kind of thing. We will offer a helping hand.

Mr. Pierre Lemieux: You offer expertise.

Ms. Jodie Stark: Yes, expertise, a helping hand, and reduced rates usually to our cooperative partners. Our fees are usually reduced just because they're part of the cooperative system. In particular, we look at our registered plan program in Canada. Our credit union partners get a significant discount in the fees we charge, compared to the market rate.

Mr. Pierre Lemieux: That has been my sense, that financial cooperatives help other cooperatives.

The Chair: Thank you.

Your time has expired. I didn't hear a question in there.

[Translation]

Ms. Blanchette-Lamothe, you have five minutes.

Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP): Thank you.

I will, of course, be asking my questions in French.

My colleague said that he was pleased to see that our cooperatives are doing well. I find that interesting, but I think that we have to be careful not to take it for granted. One of the functions of this committee is to ensure that the federal government is proactive, that our cooperatives remain healthy and that they become strong.

Mr. Lapointe and Mr. Archer, could you tell us what obstacles stand in the way of starting cooperatives in the area of health, for example?

[English]

Mr. Tim Archer: If we talk about our own federation and our own individual cooperative health centres in Saskatchewan, they are very strong financially. They've been around for a long time and have built that maturity over time through very strong relationships with the Ministry of Health as well as with the local regional health authorities. We consider our relationships strong, but because of the provincial nature of health funding, I think initiating new health co-ops—building, forging, and nurturing those relationships—is a difficult task indeed. Health ministries are basically the largest ministries in all the provinces and are highly complex. Grassroots organizations who are trying to fill cracks in the health system, to address a community-based need, face a significant obstacle in navigating those organizations. I think they could use additional support federally and provincially to actually get rolling and get initiated.

Mr. Patrick Lapointe: The other part of this is that provincial governments, which have the mandate for health care, have been forming health regions or health districts and have a tendency to want to own, operate, and deliver their own health services.

[Translation]

Ms. Lysane Blanchette-Lamothe: I just want to make sure that you are answering my question.

Are there additional measures that could be taken at the federal level to support emerging cooperatives in the area of health, for example. Are there obstacles?

[English]

Mr. Patrick Lapointe: Not at the federal level. It's mostly at the provincial level that it's challenging to get to support, because it is the provinces that have the mandate to deliver health-care services. In fact, the federal government has less and less of a role, as you can see in the *Globe and Mail* this morning.

Mr. Tim Archer: But I think the federal government does have a responsibility to support co-op development by making sure there's a model in place to support education about and awareness of it, and to promote it, even through start-up grants and start-up opportunities. Even though they don't directly control how the health dollars are spent, I think they can be a model and/or good stewards of the co-op model.

[Translation]

Ms. Lysane Blanchette-Lamothe: What effect would the support from the federal government that you just mentioned have on cooperatives?

[English]

Mr. Tim Archer: I think it's really a way of showing leadership to say that this is an important model in delivering health care in this particular instance. It's really a way of showing leadership to say this is important and you should be paying attention to it. Exactly the format of how that's governed and divvied out, I don't have the answer to that.

• (1155)

Mr. Patrick Lapointe: But the federal government has provided funds for the development of cooperatives. It has channeled them to the Canadian Co-operative Association and then down to the

provincial level. That's been an advantage for young cooperatives to get access to funds to develop business plans, to put together proposals, to help them incorporate. It's that initiation of cooperatives so they can get their feet underneath them that requires the most support.

[Translation]

Ms. Lysane Blanchette-Lamothe: Do you think that this funding is still relevant or do you think that it is no longer needed and could be done away with?

[English]

The Chair: The time has expired for the round of questioning, but I'll ask that the response be very brief.

Mr. Tim Archer: Yes, we believe that is a critical part to the development of new co-ops especially. Once they get established they are very much self sustaining. But it's that initiation support to get them rolling that's critical, to build the business plans, and to get some start-up funds to get rolling. That's the part, I think, that's really hampering new co-ops from getting established.

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

We'll now move back to the government side.

Ms. Rempel, the floor is yours for the next five minutes.

Ms. Michelle Rempel: Thank you, Mr. Chair.

I'll direct my questions first to Mr. Archer and Mr. Lapointe.

In 2003, the Alberta government launched an initiative called the primary care initiative, with the goal of bringing together the primary care service providers operating in individual clinics to better deliver services for primary care by coordinating care with some of the services you've mentioned already today, including dieticians, mental health services, counselling, etc., for patients with complex and chronic conditions, because it was recognized that primary care providers are front-line providers of health care.

I think, at this point, the primary care initiative, through over 40 primary care networks in Alberta, encompasses over 2,500 primary care practitioners in Alberta. So this is a model in which physicians have come together to deliver services in a coordinated way that doesn't utilize a cooperative model.

Perhaps you could speak to some of the advantages and differentiation that you see between that model—which is working—and the cooperative one.

Mr. Tim Archer: I'm not as familiar with the primary care development model in Alberta. Certainly there's been a similar push in Saskatchewan towards development of primary care teams. Historically they have tended to focus on physicians being paired up with nurse practitioners, and it's really still quite physician driven. The cooperative model is somewhat distinct from that in that the physician is an integral component of the primary care model, whereas in the cooperative model the physician is only one of several providers. In the cooperative model, the physician is not higher in the hierarchy than nurse practitioners, RNs, community mental health nurses, counsellors, outreach workers, physiotherapists, and on and on. Physicians are important, but they are only one of a number of different team members who are integral in providing the whole circle of care that's—

Ms. Michelle Rempel: It might be interesting to look at the primary care initiative model, because it does, at its core, have the principle of integrating different service providers. There are chronic-care clinics that have been established, urgent-care centres, to bring together those specialists, but also to reduce the burden of administration on some of these providers, be they physicians, etc. So just of note, there is another model that's being developed in Canada that I think is quite innovative and worth attention.

The rest of my questions are for Ms. Stark. Perhaps you could very briefly, as I don't have a lot of time, describe some of the key points that your organization uses in underwriting loans to your clients.

Ms. Jodie Stark: Thank you for the question.

Our loans are basically now facilitated through the credit unions themselves, so the credit union may have a client who is interested—whether it be a cooperative or a commercial client or whatnot—in having a loan put in place, but it's a loan that might be, say, \$50 million or \$90 million, and far exceeds what their regulatory capacity will allow. So what they'll do is come to Concentra, and we'll offer the additional funding, or we'll coordinate the effort between other credit unions, or we'll fund it and then syndicate the loan out so that we can actually spread the risk among various credit unions across Canada.

•(1200)

Ms. Michelle Rempel: Would you say that the credit unions that are utilizing these principles favour credit union governance? Would they use that as a criterion in evaluating loans preferably, perhaps, over other small businesses using different models of governance?

Ms. Jodie Stark: I don't think I can speak personally to what the credit risk policies are for specific credit unions, since they are all individually—

Ms. Michelle Rempel: In general.

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

Ms. Michelle Rempel: Perhaps as a generality it wouldn't be accurate to characterize the credit union governance as an across-the-board preference in funding or allowing loans to businesses.

Ms. Jodie Stark: I think cooperatives probably would be able to communicate their programs and the way they're governed much better to a credit union than they would to a traditional bank.

Ms. Michelle Rempel: Great.

The point I'm trying to make is that governance structure, while there are merits to different ones, is perhaps not a key factor in assessing loan viability.

Ms. Jodie Stark: I would agree with that.

Ms. Michelle Rempel: Great.

I have another question. Regarding the growth of your clients or members over the last few years, obviously we've seen some recessionary times in Canada and we're starting to recover from that, but do you feel that those who operated without government assistance still saw that growth that you spoke about earlier, that credit unions have been successful in this country over the last few years, and that the growth was consistent across the board?

Ms. Jodie Stark: I think it really depends on which pockets of Canada you're looking at. Speaking from what I've seen in Saskatchewan, I'd say yes, in 2009 there were a lot of success stories with credit unions. But it depends on...because if it's a farming community and grain prices are high that year, you're going to see the credit unions having a lot of deposits. It's the same thing with potash and natural resources. When those prices are high and things are going well in the economy, you're going to see more deposits in credit unions in that particular region.

So I don't know that I can speak about what it would be nationally overall, but generally we saw an influx during that time. Also, we saw people leaving banks to become credit union members just because of the publicity about banks in the United States capsizing and going into bailout positions. People were angered by that, the consumer movement. Quite often they would take their money and go to a credit union instead, and keep it local.

The Chair: Thank you very much.

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

Mr. Malcolm Allen: Thank you very much, Chair, and thank you to our witnesses for being here.

I'll start with Mr. Archer and Mr. Lapointe. The health networks or health teaming or cooperative teaming has been tried across the country in numerous provinces. As Ms. Rempel said, in Alberta they actually have a team approach to health care, which might not be a cooperative per se, but it takes on another form. And you're correct that it's a provincial mandate in the sense of those who run the health care dollars.

Can you give us a sense of how in Saskatchewan, specifically, you've attracted health care professionals to give up fee-for-service, in the sense of accepting a salary and wanting to do that? What's attractive to them? From your perspective, have you heard anything from health care professionals saying that it's an attractive model for them to come into, rather than staying in a traditional model? I believe Saskatchewan still has health care professionals who are fee-for-service. They aren't all in cooperatives, I would assume.

Mr. Tim Archer: You're absolutely correct.

We've actually had some great success in recruiting physicians into our model of care. I think one of the great attractions is the opportunity to work in a team environment. It's the opportunity to work with a number of other professionals of similar and different disciplines to address the whole person. It's not being driven by the number of patients you're seeing in a given hour to make sure you can bill what you need to pay your bills. They can spend more time with patients to address the chronic disease issues, which are becoming paramount in our country, and make referrals appropriately, without feeling that they're losing revenue.

We don't solicit a cooperative way of doing that as the only way. There are certainly other models. There are many community health centres in Ontario, and Alberta as well, that provide an excellent model of care, with salaried physicians who provide comprehensive care in multi-disciplinary teams.

We're not saying that we're the only way to provide that care. We're saying it is an effective and efficient way. It engages members, is very client-centred, and it works, so it should be supported.

● (1205)

Mr. Patrick Lapointe: There are two other points to that.

One, our physicians are salaried, so they don't have to worry about generating enough volume of business to make sure they have an adequate income.

The second piece is that most doctors want to deliver services to their clients, and the business of doing it—the hiring of staff, etc.—is something they're burdened with. In a cooperative environment we can offer them the opportunity of providing care to clients primarily. They don't really have to worry about the business piece of it; we do that for them.

Mr. Malcolm Allen: Ms. Stark, listening to you and reading through your presentation, I would have to say that you're unabashedly a fan of cooperatives, and from a very young age it would seem.

I, like Mr. Bélanger, am also interested in this piece about federal regulators having concerns about credit unions. I think we heard that one of their primary financial functions is placing mortgages with their members. It's a big a chunk of their business.

I live in Niagara. It's been one of the hardest hit manufacturing sectors in the entire country in terms of job losses. I haven't heard of any credit union going out of business—even some of the very smallest ones that are still basically one branch. Certainly some have moved on because they and their members have decided to, but none of them have gone out of business.

I'm curious about this piece in the way that Mr. Bélanger was. I wonder if we could—and perhaps with the analyst, as well—find out where that thought process from the regulators came from. Maybe they were just mixed up. Maybe they were looking at J.P. Morgan and some of the folks in the States. It seems to me that they weren't looking at credit unions in this country. Based on the statistics I've heard, credit unions have been growing. I know my own credit union, FirstOntario, just surpassed the billion-dollar mark in assets, I think two months ago. That was a one-branch place at one point in time.

From your perspective—because not all credit unions are members of your organization yet—do you see that type of growth? Are they looking to you as they get bigger and saying, “You know, we may need to syndicate some of these loans that we're doing.”

Are you seeing any uptick in the last couple of years as to the number of folks who want to join your organization?

Ms. Jodie Stark: Thank you for the question.

With the systematic approach we have, if a credit union starts to run into problems, they'll be absorbed by the system and another credit union will come in to assist. That's the cooperative nature of the system. That doesn't exist between competitive banks to the same extent; it's more by way of a hostile takeover, or something of that nature.

It's more of a cooperative, a joining of an association, when the credit unions run into difficulty. They join to become a bigger credit union. We've seen a lot of that consolidation, not because of financial problems, but because in order to have a competitive balance with the banks they're finding they need to join forces with neighbouring credit unions.

The role we play in that is basically.... We do see credit unions of all sizes coming to us for help with syndicated loans because of various factors, whether it's their own internal credit risk policies or because they're a provincial insurer, or because of laws and regulations in their particular provinces. Whatever restrictions they face, we try to overcome those restrictions by offering them a partnership. They can still do the business they want to do and compete at the same level as a bank without stretching any of their boundaries.

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

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

Mr. Ray Boughen: Thank you, Chair.

And thank you to our guests for sharing their day and information with us.

First of all, Jodie, perhaps you could expand a little on Mr. Lemieux's question when he asked whether a credit union or a co-op is over more than one operation. I'm thinking of rural Saskatchewan, with co-op stores that handle hardware, fuels, liquor, and the local post office being situated in there. It's the whole ball of wax.

Can you expand a little for us?

● (1210)

Ms. Jodie Stark: That falls into one particular grouping of co-ops, which is basically the consumer co-op kind of model. I don't know how much crossover there would be, for example, between producer or work co-ops and those kinds of things. All of the things you're mentioning are more retail product oriented. There are more retail co-ops, so you do see a variety of goods and services offered within that model certainly, especially with the federated co-op.

Being from Saskatchewan, yes, I'm a fan of co-ops. It's the only model I grew up with. That's why it's embedded in a lot of my history and my reality. So that's basically where I come from on that.

Those are one type of cooperative. But I'm sure you've heard from lots of other types of cooperatives, like producers and things like that, which would possibly be treated separately or not under the same umbrella as those that are consumer-oriented.

Mr. Ray Boughen: Okay.

Perhaps you could expand for us the statement you made, Jodie, about having 164 members. Are those individual people or are those other credit unions across Canada? Where does that 164 come from?

Ms. Jodie Stark: We have the centrals as members, including the Credit Union Central of Canada, who have all helped with our formation. As well, we have a number of credit unions across Canada—and again, we're adding more to the numbers in 2012. There are people buying memberships and having a say in the governance of our company and what strategy we use to enable credit unions to service their members. So it is a wide variety in that respect.

Mr. Ray Boughen: Okay, good. Thank you.

Tim and Patrick, I have a question for you. How do you meld into your operation the existing health care programs that are in the province? Do you bill for fee for service? How do you screen out potential problems? What's your mode of operation, especially when it comes to hospitalization?

Mr. Tim Archer: We're a primary care organization. So in addition to all the other disciplines I spoke about, we have family physicians who are salaried. They're providing family physician services out of our three locations.

We do have a strong partnership, as I mentioned, with the local health region, the Saskatoon Regional Health Authority. We coordinate our care with the regional health authority so that we're not duplicating but complementing the services they offer. We certainly make referrals and receive referrals from other practitioners, and our physicians have hospital privileges within our hospitals and admit and see patients in hospital as required. So we provide that kind of comprehensive care, including on-call services and obstetrical services. We provide that full range of comprehensive care, that gamut of programs in cooperation with the health region. So it's the services that we don't offer that the health region does. We partner with them to make sure it's as seamless a process as possible.

Mr. Ray Boughen: Could you perhaps let us know where you see your operation moving? Is it going to find its way into other health regions and become the whole service, with pharmaceutical, optical, and dental services included? What do you see in the future?

Mr. Tim Archer: Well, at this point the federation has four different community clinics. They are four separate organizations, but they come together as part of the federation. There's the Saskatoon Community Clinic, which I'm executive director of. There's also a community clinic in Regina. There's a cooperative health centre in Prince Albert and there's one in Wynyard, which is a smaller rural location.

In terms of the future, we have a great opportunity to expand to meet the growing needs of certain under-served demographics within our city, which I can probably speak to most eloquently, as well as the other organizations.

I can tell you that the Regina community clinic recently got new funding for an additional physician to address new Canadians, immigrants, and refugees who are flocking to Regina now that it's part of a have province. We have a lot of new Canadians coming into the province who tend to be marginalized and struggle to get health services.

• (1215)

The Chair: Thank you very much.

Do you have just a brief addition to that?

Mr. Patrick Lapointe: Yes.

The Chair: The time has expired, but I'll allow it.

Mr. Patrick Lapointe: Aboriginal people, for instance, have difficulty getting access to the services they need. So particularly at our organization, we're expanding in that area. There are disease groups such as those with HIV. We have the potential to expand in that area to help prevent and manage HIV in that community.

The Chair: Thank you very much.

That concludes the time we have for this panel. I thank the three individuals we have had, the two groups. It's much appreciated.

We'll now suspend the meeting.

• (1215)

(Pause)

• (1350)

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

In our first panel this afternoon we have two organizations with us. From the Alberta Federation of Rural Electrification Associations, we have with us Mr. Merv Rockel, the president, and Mr. Dan Astner, the vice-president. We also have with us the Mountain View Credit Union Limited and Mr. Robert Marshall, president and CEO.

Welcome to all three of you.

We will now have opening remarks from each organization. I will first start with the Alberta Federation of Rural Electrification Associations. You have the floor for 10 minutes to make opening remarks. When each of you has about one minute remaining in your time, I'll signal to you as such. If you reach the full 10 minutes, I'll give you a signal to wrap up as well. I will give you just a little bit of leeway but not much.

Mr. Rockel, are you the one giving the remarks? Okay.

I will turn it over to you, then. You have 10 minutes to make your opening remarks.

Mr. Merv Rockel (President, Alberta Federation of Rural Electrification Associations (AFREA)): Thank you.

I'd like to thank the chair and the vice-chairs and the rest of the committee for this invitation. We really appreciate it.

Rural electrification associations, known as REAs, are unique to Alberta. The Alberta Federation of REAs represents an entity that exists nowhere else in Canada. It is one of pride, but can also be one of specialization and sometimes uncertainty.

The story of rural electrification was slow to develop in Alberta compared to other provinces in Canada. Our story begins in the mid-1940s, when 90% of the farmers interviewed were still waiting for power. Grassroots spirit and passion for a cause ignited an electrification movement. Public power was the force behind rural electrification in other provinces, but Alberta farmers had to find a way to work with the government and the utility companies. The government did not want to be labelled as a socialist government by providing public power, and the utility companies didn't see it as a way of making any money. Farmers just wanted what was an expected service by rural consumers. Electrification changed rural life.

Leaders in electrification formed a cooperative to satisfy requirements. They pooled not only their financial resources but also their human resources, working side by side in cooperative fashion to build the lines needed to bring power to the remote farms.

Many things have changed over the years, but it remains the case that a farm still requires the necessary power to operate and sustain its livelihood. In fact, in order to keep up with the growing market trends, power is even more crucial to the agricultural operation that exists today.

Cooperatives have a long-running history in Canada, building our nation and building our provinces. They were formed because there was a need, and nobody else came forward. There is a wide diversity in cooperative awareness, from those who have patronized several co-op businesses over the course of many years to those who have never heard of co-ops.

As we look ahead, as not only rural electrification associations but as every cooperative business will do, our concerns involve sustainability. We realize that our decisions of today will impact generations of consumers tomorrow. When the REAs consider our sustainability plans, it's necessary to build our future directions on the foundational pillars of society, the social, economic, and environmental aspects that create a solid base on which to build not only a business but also a better community and world.

The AFREA is proud to represent our member rural electrification associations across the province of Alberta. In 2011 we completed our own sustainability strategy document that encourages our member associations to get out into their communities and create awareness. If you combine our promotional efforts to increase our community presence alongside the historic United Nations declaration of 2012 as the International Year of Cooperatives, you have a formidable match. Replace any of the references to the rural electrification and the REA advantage sustainability document with any cooperative and you have a general plan that encompasses a business willing to incorporate community-building values.

Sustainability is cooperatives getting back to their roots. It's also creating awareness that involves education, inclusion, and encouragement. It's also about offering services above and beyond, without worry of profit. Sustainability is an acceptance that might involve redefining a purpose to ignite the passion that brought the organization to the forefront when the need arose. Rediscover that passion, and cooperatives will continue to prosper.

This International Year of Cooperatives provides opportunities for cooperative businesses to shine while in the global limelight. It brings cooperatives together, with a chance to create a common bond with themselves. It truly promotes cooperatives working together as defined in the seven cooperative principles. The year provides a means to showcase a co-op business, a product and/or service, while exemplifying the cooperative business model. The celebration encourages communities to come together as one, remembering those who led the way, but also celebrating those people who continue to make a difference in the cooperative world. The year is not a means to an end; it must be a renewed beginning.

● (1355)

As the provincial federation representing member REAs, the AFREA has a duty to explore and discover new ways to continue our own existence through the prosperity of our membership.

The demographics of rural Alberta are constantly changing. The power industry is a dynamic one. However, we do not operate in isolation. It is imperative that we work in unison with those around us. We must not only provide for today's consumers but also look ahead to the consumers of the future.

It is our belief that the International Year of Cooperatives 2012 should be just the beginning of what needs to be a renewed campaign of cooperative support. A constant program, with financial outlets, public awareness, and government support, will go a long way toward maintaining a strong cooperative movement.

Cooperatives give back to the communities where they exist, and their contribution to local economics, through job creation and community investment, sums up their value.

We applaud the federal government for the committee's mandate and the directives identified in the recent House of Commons motion. We are honoured to contribute our input to this committee through this presentation, which shares with you the story behind the REA cooperative business.

We also represent the future of all co-ops by confirming that sustainability issues, funding issues, and renewed regulatory considerations are required so that cooperative businesses continue to build a better community and a better world.

On behalf of the Alberta Federation of REAs and our member REAs, thank you.

Now, Dan is more than willing to answer any questions.

Some hon. members: Oh, oh!

Mr. Merv Rockel: I will too.

The Chair: I'm pretty sure that many members of this committee listening wish they could give a presentation and then let somebody else take all the questions for them. So lucky you, I guess.

Thank you.

We'll move now to Mr. Marshall. You have 10 minutes to make your opening remarks as well.

Mr. Robert Marshall (President and Chief Executive Officer, Mountain View Credit Union Limited): Thank you, Mr. Chair, and members, for inviting me to be part of this important study of the opportunities and challenges facing the cooperative sector in Canada.

My name is Robert Marshall, and I am the president and chief executive officer of Mountain View Credit Union. As such, I will be speaking from the perspective of our credit union and, more generally, credit unions in Alberta. Please allow me to begin by spending a few moments talking about Mountain View Credit Union.

Headquartered in Olds, Alberta, Mountain View Credit Union has assets exceeding \$550 million. Our 11 rural branches, soon to be 12, provide service to over 15,000 members. Mountain View takes great pride in giving back to the communities in which it operates. For the past five years, Mountain View has consistently contributed approximately 3.5% of its pre-tax income in scholarships, donations, and sponsorships. Our employees also show their commitment to their communities by volunteering a significant amount of their time to various local events and organizations. In 2011, Mountain View Credit Union staff contributed over 4,500 hours in volunteer time to everything from 4-H to minor hockey. We also very pleased to have paid our members over \$15 million in profit sharing since 1988.

I would now like to take this opportunity to provide the committee with further context on the credit union system in Alberta. The Alberta credit union system is an important provider of financial services to Albertans and a key contributor to the provincial economy. Today, 34 independent credit unions operate in Alberta, with over 650,000 Albertans as members. Province-wide, credit unions have over 200 branches and employ nearly 3,500 Albertans.

During the first quarter of 2012, the Alberta credit union system's total assets surpassed the \$19-billion mark, growing by \$740 million over the past year. The profitability of the Alberta credit union system remains strong, with net income of \$33 million for the first quarter of 2012.

Consistent with the national trend taking place within the Canadian credit union system, several credit unions in Alberta have chosen to consolidate in order to remain competitive. This consolidation is in response to several factors, such as: changing regulatory standards; increased competition from banks, insurers, and non-conventional financial service intermediaries; and significant technological advancements in the financial services sector.

One notable example was in 2008, when three Alberta credit unions consolidated to form Servus Credit Union, one of the largest credit unions in Canada. We expect the consolidation trend to continue in Alberta as credit unions strive to remain competitive in the rapidly changing financial services marketplace.

As mentioned by the Credit Union Central of Canada when they appeared before you on July 10, the consolidation and growth of our system has implications for the traditional scope of credit unions, which has always been provincial. For instance, Servus Credit Union, which I mentioned earlier, holds almost 60% of the provincial system's assets. Similar situations exist in other provinces.

For these credit unions the greatest opportunity for growth exists outside their provincial boundaries.

On behalf of the Alberta credit union system, I would like to thank the Government of Canada for introducing, as part of the budget in 2010, a federal credit union option. While Alberta credit unions are successful financial institutions under provincial jurisdiction, we view the option of a federal charter as another means for interested credit unions to achieve further growth opportunities and enhance services to their members.

We were pleased to see that the complementary regulations required to bring the federal credit union framework into effect were recently published in the *Canada Gazette*.

As you heard earlier from Canadian Central, credit unions are very concerned about the extensive and unbalanced competition we experience from crown financial institutions. In Alberta, we are subject to this unbalanced competition from both federal and provincial crown institutions. This is particularly evident in the agricultural lending market in Alberta. Despite the fact that Alberta credit unions have thousands of rural members and play an integral role in many rural communities throughout the province, our market share of Alberta's approximately \$15 billion in outstanding agricultural debt is only around 5%. Meanwhile, Farm Credit Canada holds approximately 25%, and two provincial crown institutions, ATB Financial and the Agriculture Financial Services Corporation, combined hold close to 20%.

• (1400)

The primary cause for low credit union market share in Alberta's agricultural lending market is the fact that crown financial institutions, such as FCC, are not subject to the same regulatory and legislative requirements as credit unions and banks. This translates into market advantages for crown financial institutions.

For example, FCC completes their own in-house appraisals and then lends up to 100% of the value of the security, which no private sector financial institutions are permitted to do. Given FCC's ability to access funds using the federal government's AAA credit rating, they are able to offer lending interest rates below what credit unions and banks can offer. In Alberta, we have heard of instances where FCC has competed with credit unions beyond the agricultural marketplace by extending favourable financing to commercial ventures that have very little involvement in agriculture.

Unbalanced competition from crown financial institutions is such a significant issue in Alberta that many credit unions are questioning whether they will play a role in the future in providing agricultural financing or services to rural communities. Accordingly, we fully support Canadian Central's position that the government amend FCC's legislation and operating principles to bring them into closer alignment with those of the Business Development Bank of Canada and Export Development Canada. Specifically, this would mean that the legislation governing FCC would be subject to a regular parliamentary review and, second, be amended to require FCC to operate in a manner that complements rather than competes with the activities of private sector lenders.

One last point I wish to raise is with respect to the ever-growing regulatory burden on financial institutions. As noted by Canadian Central, credit unions agree that a strong regulatory framework is important in protecting the savings and security of Canadians. However, we are concerned that the regulations are being applied in the same manner to all financial institutions, whether they have 2,000 employees or only 110 employees, as is the case with Mountain View Credit Union. The result is much higher relative compliance costs 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 smaller businesses, such as credit unions. We agree with that conclusion and urge the government to follow through on its commitment in Budget 2011 to require regulators to examine current and future regulation through a small business lens, to ensure that new and existing rules do not adversely affect credit unions while creating unintended advantages for larger financial institutions.

Mr. Chair, on behalf of Mountain View Credit Union, I wish to thank this committee and your colleagues for undertaking this important study.

Across Canada this year, cooperatives, including credit unions, are celebrating the 2012 International Year of Cooperatives. Cooperatives have played a vital role in building our country, and we hope the insight provided in your final report will continue to promote and support cooperatives' contributions to our communities.

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

•(1405)

The Chair: Thank you very much.

I appreciate both of your opening remarks.

We'll move now directly to questioning by the members.

In our first round we have Madame Brosseau up first, for five minutes.

Ms. Ruth Ellen Brosseau: Thank you, Chair.

I'd like to thank the witnesses for being with us today. It's always a pleasure to hear the testimony. After hearing the 10-minute presentations, I find that five minutes, by contrast, is so, so short.

I'll get right to it. To the Alberta Federation of Rural Electrification Associations, Alberta has energy needs, and they're increasing. If the provinces are importing more energy than they're exporting, I'm wondering how rural electrification associations address this issue.

Mr. Merv Rockel: We're not in the production of energy, other than microgeneration on farms and things like that. There are some farmers who have put solar panels up, and windmills or wind chargers, to produce and supplement their own energy.

Ms. Ruth Ellen Brosseau: Do you serve just rural communities, or have you expanded?

How do you become a member? Are you a member because you use the energy?

Mr. Dan Astner (Vice-President, Alberta Federation of Rural Electrification Associations (AFREA)): Alberta is kind of different from most other provinces in that it went through the deregulation process, often referred to as re-regulation, which may be a truer picture. This is where they separated out the distribution wires of anything less than 25,000 kilovolts. Then it had the transmission wires, the high-voltage lines coming from the generators. Generators are separate entities. Then the energy portion is another competitive area where the actual kilowatts you consume are sold to you, and it is handled by a separate party. So Alberta really complicated the system.

The rural electrification associations only own the rural distribution sector of it, and really are not involved in.... Well, I guess companies prior to this re-regulation actually had to put up firewalls and totally separate all those segments if they wanted to maintain their assets. They were supposed to be separate entities and, in a lot of cases, they sold them.

As consumers, we originally developed our own distribution system and deal with that—although there is room for each individual consumer to put up his own solar power or microgeneration in those areas. Any time any individual consumer wants to get into small generation, we, as the wire owners, put in the bi-directional meters that measure how much energy is consumed as well as put back into the system. That's all balanced off on their month-end bill.

•(1410)

Ms. Ruth Ellen Brosseau: So like most co-ops, there is obviously a need for energy in rural areas, and you guys banded together and formed this co-op. Is it expanding? How does it...? I don't know how...because this is so new to me.

Mr. Dan Astner: It is a unique situation, as Merv said in his original presentation. I guess, back in the 1940s, it appeared to be the only way that power was going to get into rural Alberta. In 1941, less than half of 1% of rural areas were served by the system, and they were only the ones that were able to tap off the wires running from one town to another. It became very clear that the provincial government did not want to get into crown corporations or anything along that line, so what they actually did was....

Rural co-ops are very common in the U.S., so the government of the day sent a delegation of the two private power companies in Alberta down to the States. They viewed what was down there, came back and modified it, and came up with an agreement or contract that these rural co-ops had to sign in order to energize their lines with the private power companies.

So our system in any given area is not a franchise like the gas co-ops have. It is an integrated system. In a given county, you'll have some wires owned by the investor-owned utility, and some owned by the rural co-op.

Ms. Ruth Ellen Brosseau: Are you the only electrification co-op? Do you have a lot of competition from other co-ops?

Mr. Dan Astner: Each co-op has its own designated boundaries. And that's not only the case in our situation, but with any co-op, especially if it's a not-for-profit organization. If it gets involved in an industry where it can be very profitable to an investor-owned corporation, once the infrastructure is put into place, there's a very strong desire for the investor-owned corporations to try to access those assets.

Ms. Ruth Ellen Brosseau: Co-ops are very different from businesses—

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

Mr. Preston, you have five minutes.

Mr. Joe Preston: Thank you.

I thank you for coming, and thank you for all that you do and for helping us learn another angle on what cooperatives do and how they work.

Mr. Marshall, we've heard from I don't know how many credit union-type or cooperative-type lending institutions. Each time, I learn something more. You've grown from a start-up of one to the number of branches you now have. I see that at some point you consolidated some different credit unions to become Mountain View.

You live in a province that has a lot of different cooperatives. Today, we've heard from the gas cooperative and the electrification cooperative in Alberta.

What is your credit union's involvement in cooperative businesses, either start-ups or simply businesses that are cooperatives? In a start-up situation, do you treat a cooperative business differently from any other business that comes forward looking for start-up help and guidance, and certainly on lending?

Mr. Robert Marshall: On a provincial basis, we're very involved in supporting the other co-op models that you've been exposed to or have heard about, particularly the lumber, grocery, and fuel retail distribution co-ops, and certainly the gas co-ops and rural electrification associations. I'm speaking on behalf of the provincial credit union system in that regard. We certainly look to obtain their business and have them deal with us.

In terms of whether we participate or help facilitate start-ups, absolutely we do, and I think we're probably one of the first choices for start-ups because we understand the model. But does that mean we're any more forgiving on our credit risk policies? Probably not. We still have to make sure they have a viable business case or business plan, that there is sustainability and permanency in that and that they have the cash flow to repay debt—those types of things.

So we certainly understand the models and we're there to support them, whereas I think some other financial institutions may not have that same understanding, and that helps us.

•(1415)

Mr. Joe Preston: You obviously do lending to businesses. In that way, you recognize that our government, through Western Economic Diversification, has a series of different programs, some for microloans, some for business start-ups. Does your credit union take advantage, where you can, of advising your clients to use those programs, along with your being their lender?

Mr. Robert Marshall: Yes, we do, especially if there's a way that we can complement each other. There certainly are examples of that occurring. Sometimes it's not as easy in smaller rural centres. Some will have to go into a large urban centre such as Calgary or Edmonton to get that type of expertise, but we're there, and we're there to help them and guide them and to provide whatever best solutions there are for them in that regard.

Mr. Joe Preston: I'm betting you're on the ground in Olds, and if someone came to you, you'd know where to look to find that type of information if there's a program out there through Western Economic Diversification.

Mr. Robert Marshall: Yes, and through Farm Credit Canada—those places as well, you bet.

Mr. Joe Preston: I was going to talk about Farm Credit. You said some things about them. We asked them that same question the other day. They said they're not cherry-picking the agriculture business. I'll leave it at that.

Mr. Robert Marshall: To the contrary....

Mr. Joe Preston: I recognize you're saying “to the contrary”. So I'll just leave it at that. That's something for our agriculture committee to look at, at a later date, I suppose.

We've met a lot of cooperatives, a lot of cooperative businesses, a lot of cooperative enterprises. We've heard that they have a far greater survival rate. They tend to have a far greater ability to survive over longer periods of time. If we check 10 years later, some businesses won't have made it, but cooperatives will have.

So I'm saying they have some sort of an advantage. I kept calling it some sort of magic formula. I think it's the mini-brains process: one person, one vote. You get a whole lot of people thinking about what you're doing right or wrong.

But you suggested there's really no difference in how you'd look at a lending application. I'm suggesting that if I came to you with a history that cooperatives on their own will have a far greater likelihood to survive, I think you'd be better off lending to them than to standard businesses. Do you not take that premise and run with it?

Mr. Robert Marshall: No, we'd certainly consider that and, as you say, run with it, but it comes down to whether they have a viable plan in place, especially on a start-up. Once they've been in business for 5 or 10 years, there's historical evidence to support where they're going. It's the start-up. And are the right people in the place and are they committed? And have they done the research, have they spent the necessary time and, in some cases, funds to put together that business plan? I see that's where there's a real role perhaps for the federal government in assisting those types of start-ups. We certainly do, too.

Mr. Joe Preston: Isn't that truly what we're offering through—

The Chair: I'm sorry, Mr. Preston.

Mr. Joe Preston: —Western Economic Diversification?

I did make eye contact, Chair. I don't know how you think you can speak to the process.

The Chair: You can talk all you want. I'm just going to talk over you. I'm sorry, my friend.

We will move now to Monsieur Bélanger for the next five minutes.

Hon. Mauril Bélanger: Thank you, gentlemen, for being here.

Mr. Rockel, you say you're hoping that the 2012 International Year of Cooperatives will be the beginning of a renewal and enhancement and support for cooperatives. So I hope those words come true. We certainly will do our bit to make that happen.

This morning we had the gas federation from Alberta. They were mentioning that at a certain level of servicing, they can have competition in their territory from the private sector and they can also compete in the private sector territory at that level of consumption of gas. Is the situation the same for the rural electrification associations?

Mr. Merv Rockel: No, it's not. Each REA has an area, which the Alberta Utilities Commission has said you can serve people in. You can only serve your members. We have a wire-owner to wire-owner contract with the utility companies, which defines who can serve what. Originally, when REAs were formed, back in the forties or early fifties, the agreement was that we would only do farm services, and only under 25 kVAs. Over the years, we have negotiated different agreements with the utility companies to increase what we can serve. We can now serve large farms. If a farmer has a little welding shop, and he starts making corral gates and stuff like that to supplement his farm income, that's still an REA service. But if he were to build a welding shop across the road—

• (1420)

Hon. Mauril Bélanger: Can the private sector come and compete against you in your territory?

Mr. Merv Rockel: No. There's only one other utility, and that's either ATCO or Fortis.

Hon. Mauril Bélanger: The level of growth will go with the level of development in rural Alberta, presumably.

Mr. Merv Rockel: Our latest agreement we signed with Fortis is that we can serve subdivisions. We are now serving subdivisions. We signed that agreement, and then shortly after, Alberta boomed, and all kinds of places were setting up subdivisions. So it was really a blessing for us.

Hon. Mauril Bélanger: Are there any clouds on your horizon?

Mr. Merv Rockel: Yes. Some of the smaller REAs are just like the ripest apples on the tree, and the utility companies want to buy them out. They're offering big bucks for them, too. You know the value of it. It is \$20,000 to \$25,000 because you have a transformer pole in your yard.

Hon. Mauril Bélanger: Now that you've set it up, they figure that it's profitable enough to buy them out.

Mr. Merv Rockel: Yes.

Hon. Mauril Bélanger: Hang in there, if I may suggest that to you.

Mr. Merv Rockel: Thank you.

Hon. Mauril Bélanger: By the way, Mr. Chairman, there was this matter of uniqueness. I don't want to belabour the point, but I've been advised by someone that there is such a co-op in Ontario, of all places. It's a rural electrification one. I don't know if our analyst could dig that up. It would be useful, especially with the ongoing negotiations and the discussions with the Premier of Alberta. I would like my premier to have a little leverage, at least, on the energy front.

On FCC, I found it rather untoward that they would come to us, without having consulted their board, and respond to a July 10 comment similar to one you've made. I'm of the view that any solid association should welcome a review. It was over 10 years ago that they were given the mandate they have. I hope that the Parliament of Canada will review their mandate, because we're hearing things here that I think need to be looked into.

I wanted to ask a question. I did a bit of digging. And I have to give these numbers, because I found them astounding. The top five banks in the country—we know who they are—in 2011, gave their senior staff \$8.87 billion in bonuses. It was \$8.3 billion in 2010. It was \$8.2 billion in 2009, and believe it or not, in 2008, it was over \$7 billion. That was the year we had a...

How does the credit union world treat bonuses, sir?

Mr. Robert Marshall: They exist. I certainly wouldn't deny that. They're not as profound or as substantial as what I might suggest our counterparts in the chartered banks may be privileged to receive, but they do exist. It's based, typically, on the performance of the credit union and how well it has done in a number of different areas, not just financially.

Hon. Mauril Bélanger: Is there a percentage where it is capped?

Mr. Robert Marshall: Again, with 34 credit unions in Alberta, there are 34 different plans. There may not be 34 variable plans or bonus structures. I do know that my colleagues, my peers in similar-sized credit unions, participate in a bonus program, or a variable compensation program. In size, it would be maybe 15% to 35%, depending on performance, of your base salary.

Hon. Mauril Bélanger: Thank you.

The Chair: Thank you very much.

We'll move now to our second round of questioning. First up we have Mr. Boughen.

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

Let me say welcome to our guests who are with us this afternoon. We appreciate your taking the time to share your knowledge with us. As a number of my colleagues have said, this is a learning curve for all of us in terms of what's happening with co-ops and credit unions.

Starting with Robert, I'm looking under crown corporations in your handout. I see that there are different percentages here. You have 5%. For Farm Credit, outstanding ag debt is 25%. Two provincial institutions hold another 20%, or close to 20%, for ag financial services. That's 50% of the dollar. Where does the other 50¢ go?

Mr. Robert Marshall: I would have to suggest that the chartered bank system has a piece of that pie as well—probably the bulk of that, probably 40%, and then there might be private lenders as well.

•(1425)

Mr. Ray Boughen: Okay. Good.

Mr. Robert Marshall: Just to note, the credit union system holds 5%, Farm Credit Canada 25% , and the other two provincial crown corporations 20%.

Mr. Ray Boughen: Thank you.

You mentioned that the FCC is a competitor of your operation, and I'm sure there is some competition there. We heard a number of credit unions state that people come to them to facilitate a loan when there is no one else to turn to, that the other financial institutions haven't been there for them but the credit unions have.

How do you respond to that, given what is happening with Farm Credit Canada?

Mr. Robert Marshall: I think our experience with Farm Credit Canada is more that they are out there actively seeking new business and they're approaching our members. They're offering some incredible deals, 10-year terms, at fixed rates, below market rates, with 100% financing. We just cannot with those aspects from a regulatory perspective and prudent business practices. It's not a question of our turning a farm member down; it's more that of Farm Credit Canada approaching our membership actively.

Mr. Ray Boughen: Okay.

Thank you for that.

Merv, when we talk about what's happening with rural electrification, what services do you supply that other operations in the province aren't able to supply in terms of electrical operations?

Mr. Merv Rockel: Some of the REAs buy and sell their energy. Others contract with EPCOR or Direct Energy, and they supply the energy part. The other thing is that the REA I'm with is also one of the partners in Corridor Communications. We got into it with the hope that we could read our meters using that, but because we live in hilly country, it's very hard to do. We were one of the first ones to do the airplane flyover, and we read our meters from 3,000 meters in two hours.

Mr. Ray Boughen: Wow.

Mr. Merv Rockel: The gas co-op beside us does the same thing. We actually are working with them.

Mr. Ray Boughen: How accurate is it?

Mr. Merv Rockel: It's 100%. It's the most accurate one.

As for other services, other than building the line to them, we own the line to the house.

Mr. Ray Boughen: With this high-tech and all these innovations, are you able to keep your cost per kilowatt hour down, or has that escalated somewhat?

Dan's going to tell us about that.

Mr. Dan Astner: Actually, the REA I'm in, which is different from Merv's, was the first utility in Alberta to get into the wireless reading.

Prior to that, we had contracted a meter reader, which would read a meter every other month and were about 85% to 90% accurate. Now we've replaced them with the new meters. We had a total payback within 13 months and a major cost savings. Rather than hiring the contractor and paying the cost of the meters and the investment and the interest on that investment, we read the complete REA, which is just over 8,000 services in a few hours once a month.

The members are very happy. The costs are down. Accuracy is there, as they're getting billed for what they're using, and there is no estimating being done any more. It's one of the best investments made in that area.

Mr. Ray Boughen: Who says high-tech costs too much for what it's worth?

The Chair: Sorry, Mr. Boughen, but the time has expired.

Mr. Ray Boughen: The chair says that.

Voices: Oh, oh!

The Chair: I apologize.

[Translation]

Ms. Blanchette-Lamothe, you have five minutes.

Ms. Lysane Blanchette-Lamothe: Thank you.

Mr. Marshall, you spoke about your role in supporting the start-up of cooperatives in Alberta.

In your opinion, does the federal government still have a role to play in the start-up of cooperatives?

•(1430)

[English]

Mr. Robert Marshall: Very much so. From the perspective of education, and then if there are grant programs available to assist some start-up co-ops, I think those are really two fundamental purposes that the federal government could review or look at.

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you.

What do you think of the fact that the cooperative development initiative is being done away with? Do you think that this will have an effect on the cooperatives you deal with?

[English]

Mr. Robert Marshall: I do, and to the degree, I'm not quite sure. I'm probably not the right person to ask that question of, but I could certainly table that and bring back a better response for you.

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you. That would be greatly appreciated.

You briefly mentioned grants that could make it easier to start cooperatives. Could you elaborate on that by telling us what type of grants would be effective and what impact they would have on the start-up of cooperatives?

[English]

Mr. Robert Marshall: Initially, start-up co-ops' understanding of proper governance would be the first place they could certainly improve and benefit from in that regard. Then, just as a case, by way an example, if you look at a housing co-op, they're typically looking for some type of funding to assist them, even if it's over the course of the construction of the housing units. So it may be a repayable grant, for that matter, or a repayable loan. That's where the risk is upfront, until they sell all the units and have the people with their equity in place. So perhaps there are some opportunities to assist the projects in getting off the ground, especially on a start-up co-op. If it's a co-op that has been in existence for a time, they typically have that type of capital.

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you.

Mr. Rockel, you praised the creation of this committee because you believe that it is important to take an interest in the sustainability and funding of cooperatives, as well as in the regulations associated with them.

I was wondering whether you had any suggestions to make to this committee regarding the government's policies to protect cooperatives and to promote their start-up.

[English]

Mr. Merv Rockel: If you look at some of the five factors of success for co-ops, you have leadership—and I guess we have to make sure that we have the right leaders in the community. One of the ways of doing that is by running board governance workshops for people who want to learn more about how to operate a meeting and how to operate a co-op. You have to help with clarifying the goals of people. What are you really doing with your co-op?

I also encourage business cases. If you want to borrow a whole bunch of money, you make sure you have a business case to do that, especially if you have to go to a credit union. They're very good at lending money.

Mr. Joe Preston: But they want it back.

Voices: Oh, oh!

Mr. Merv Rockel: Okay.

We had a real problem with borrowing money, because when any financial institution would look at an REA, they see a pole and a line but really didn't classify those as assets. But because an REA can

determine its own rates—you can charge \$20 a month today, but tomorrow you can up it to \$40—there is a way of doing that. But when the government comes, I think we have to make sure that the legislation does not change to the worse, making it a little harder to get started. Whether it's loans or grants, most people can try to get their own money to do something.

On their tax status, too, if they are not-for-profit, hopefully that won't change. We hear funny rumours about that. We don't want that to happen.

We want protection so we can grow and exist. Sometimes the hardest person to deal with is the government and sometimes they're the easiest. It's dependent on what they believe.

Mr. Dan Astner: If I can just add to that, the government's role is not to do the work but to create an atmosphere and a social environment that would stimulate consumers to work together for their own betterment, to help themselves and virtually create a better country and world that we all live in.

The Chair: Okay, thank you very much.

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

• (1435)

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

Gentlemen, thank you for being with us this afternoon.

I've quite enjoyed the week. I have learned a lot about cooperatives that I certainly didn't know before. I certainly knew about housing cooperatives, and credit unions a little bit, but I didn't know about.... I'm learning a lot and I'm really appreciating it.

There's one thing I am finding difficult to understand, and maybe from each of your perspectives you can explain it. We certainly have had some cooperatives making deputations today that they certainly don't view themselves as being traditional businesses. And we've heard from others, I would suggest to you, that are really no different from what I would consider to be a regular.... I was in the private sector for 20-plus years before I became a member of Parliament, in private-sector companies that were driven by lots of private-sector motives versus what the motives of cooperatives often are around social enterprise, and so on. But how do you identify yourself?

Certainly, Mr. Marshall, you talked about "competition". To me, that's a private business. That's what we deal with. We compete, and if we're the best, we're going to get the customers. So how would you say your two organizations compare with traditional business versus how you are obviously uniquely different in what you are doing?

Did you want to start, Mr. Marshall? Then Mr. Rockel and Mr. Astner can answer.

Mr. Robert Marshall: The one area that I'd suggest we're different from banks is that we are locally owned by members in our communities. We're locally governed by several of those members; in our case it's nine directors on our board. We turn around and invest every dollar that we make right back into our communities, whereas our counterparts, the chartered banks, don't have that same commitment.

Soon we'll be in five communities that have no institutions other than us. We've seen banks actually pull out of rural sectors throughout Canada just because, for them, it makes economic sense. So I guess at the end of the day, although profit is important to us, because of sustainability...

If you want to eliminate tax for credit unions, that would be wonderful. That would be one more step towards helping that. But we do pay income tax.

That being said, we're not driven by earnings per share. We're driven by what is right for our community, as long as it's a sustainable venture in that regard. That's a fundamental difference. I say this from experience. I've worked in a small chartered bank. Believe me, every quarter there was a lot of pressure on producing the appropriate EPS. In a credit union environment, you do what's right 5, 7, 8, 10 years out, whatever is right in that regard. That's the fundamental difference, if I may say, Brad.

Mr. Brad Butt: Thank you.

Gentlemen.

Mr. Dan Astner: The environment we operate in is a regulated world. Each individual rural electric co-op has its own board of directors. Under the legislature, we have our own control. We do our own regulation. That's only because we serve our own members. Our shareholders and our members are the same.

The other parties that are in the industry with us are large international corporations. They are guaranteed a 9.25% return on their investment through the [*Inaudible—Editor*]. Their incentive is to... I guess they don't have the apprehension about making the investment. The more they invest, the greater their return.

We operate on the basis of trying to supply the service to our members, the owners of the co-op, at cost. So we're seeing quite a spread in the rates for our members and the utilities. Then of course, justifiably so, that gives them a little more incentive to eliminate the local co-ops as well.

Mr. Brad Butt: Is the electricity system in the province of Alberta deregulated? Or is it regulated by the province, as it is in Ontario where I'm from?

The Ontario Energy Board, in the case of Ontario, sets those rates that I as a consumer pay, even though I can choose to have Direct Energy sell it to me or my local distribution company, Mississauga hydro in my case.

Is it deregulated? Do you have to compete with that, or do you have to work within that regulated electricity environment?

Mr. Dan Astner: Alberta is quite different from Ontario. Only the wires are regulated in Alberta, and that's to prevent duplication, so that you don't get a wire running down each side of the road. So that remains regulated.

The generation portion is deregulated. The actual retailing of the energy is deregulated. So that's open.

Our co-ops have the ability to set up an arm's-length entity of an affiliated retailer and retail to their own members only or to other REAs. But that's the only part that is not regulated there.

• (1440)

Mr. Brad Butt: Thank you.

The Chair: Thank you very much.

[*Translation*]

Mr. Ravnignat, you have five minutes.

Mr. Mathieu Ravnignat (Pontiac, NDP): Thank you, Mr. Chair.

[*English*]

I have a number of co-ops in my riding, and what has always impressed me is their resilience. It seems that the way co-ops work basically allows them to weather storms that perhaps private businesses don't.

What I want to ask you about—and, of course, I thank you for your presence—is why you think your particular institutions have been so resilient. We're talking about quite a long time.

Mr. Merv Rockel: The main reason is that they are member owners of the system. When they drive down the road, they can say, "I own that power pole." Also, the rates, in most cases, are less than what the utility company is paying. It's an investment in the future. They look back, and some of their grandfathers or fathers or uncles helped to physically build the system.

It's also self-financed. A lot of people, including, put up their own money. They lent money to their neighbours in order to start it. There's a lot of pride in it.

The only thing now, as I said before, is that they're a plum; somebody wants to buy them.

Mr. Dan Astner: The original generation not only spent the dollars in building the system, but they also built a reserve to operate the system. If there were a severe storm that came through or something that required a significant investment, the dollars were already in place for them to spend; they didn't have to get financing.

Mr. Mathieu Ravnignat: Mr. Marshall.

Mr. Robert Marshall: I think from the credit unions' perspective, and certainly from a smaller credit union's perspective, we're there to serve our local membership. We're not out in world markets trying to be creative or what have you. We understand our markets that we operate in very intimately.

What typically happens when you go through a boom and a bust cycle—when things are going south and they're not doing as well, or when things aren't so good and then other institutions start declining—is that people within our communities tend to migrate towards the credit unions.

I don't want to paint the picture that it's a lender of last resort. When times get tough, we're there. We may not be able to help in every situation, but we care about our communities and the people who make up our communities, and we want to see that everyone gets through it.

We'll certainly work with communities in that regard, but when times get a little tougher, we typically see a bit of a surge in our membership. We pick up a bit more business and so on.

It's that perseverance and intimate understanding over the last 60 years that I think has put us in the position we are in today.

Mr. Mathieu Ravignat: Mr. Marshall, you touched on this idea of innovation and how maybe one of the differences is not always trying to be innovative. I don't know if you're familiar with

[*Translation*]

the Caisses Desjardins,

[*English*]

which is one of these incredible credit cooperatives in Quebec, and really across Canada now. It's quite innovative in a lot of the financial-based products that it offers to its clientele.

What I find interesting is that we think the major driver of innovation is necessarily competition. Do you have some thoughts on that?

•(1445)

Mr. Robert Marshall: I think competition will drive that creativity or innovation.

With respect to Desjardins, they are a very significant credit union in Canada and have substantial resources to be as innovative as they are. They're very cohesive in that aspect.

I think that's one of the downfalls of the credit union system in Canada, with the exception of Quebec; we may not be as cohesive in pooling our resources to try to achieve the same types of innovation. That's a lesson we're learning as we go along. We can do a lot better job of that, too.

Mr. Mathieu Ravignat: Let's dig deeper on that point, if you don't mind.

Am I out of time?

The Chair: Sorry, your time has unfortunately expired.

Mr. Mathieu Ravignat: Already. Okay.

Thank you very much, gentlemen.

The Chair: We move now to Mr. Lemieux for the next five minutes.

Mr. Pierre Lemieux: Thanks, Chair.

And thanks to our witnesses for being here.

Actually, I want to provide a little bit of a preamble on how impressed I think each committee member is here by the strength of co-ops. We've been receiving a very positive and cohesive message from all of the different-sized co-ops involved in all of different sectors of the economy. The growth has been impressive. I'm thinking of growth in balance sheets. I'm thinking of growth in

assets. I'm thinking of growth in membership. We now have 9,000 co-ops, with 18-million members across Canada. So it's very encouraging.

Of course, I think Mathieu mentioned that a co-op is more than twice as likely to survive an economic downturn or difficult economic circumstance as a business, which is also quite remarkable when you think about it.

I just want to touch on what Madame Blanchette-Lamothe was talking about because there was tough talk about the CDI, or the co-op development initiative. Just to correct the record, it wasn't cut, it wasn't cancelled. It just wasn't renewed. It's important to understand the difference because it's been running for two terms of five years, and it simply reached its natural conclusion at the end of its second term of five years. So it simply expired, like all programming does, especially when it's achieved its goals. This is, I think, what we have heard, as a committee, in terms of co-ops. They have grown. We had a witness here just yesterday, I think, saying that in Quebec over the last five years 595 new co-ops have entered the scene. That's astounding.

The challenge we have as government is that we find ourselves in a \$23.5 billion deficit, which is roughly 8% to 10% of the revenues of government. This is a very important factor because difficult decisions must be made. I don't think anyone recommends running with a 10% deficit.

In fact, that is my question. I already know the answer, but I'll put the question to you, Mr. Marshall.

Do you operate at a 10% deficit? If you did, would your members demand that you rectify this situation, look at your expenses and balance that budget?

Mr. Robert Marshall: From a regulatory perspective, we wouldn't be able to sustain our business model in a deficit position. We have capital requirements that are actually increasing because of Basel III. We're held to those same standards in most aspects. So, no, we wouldn't be able to run a deficit at all.

Mr. Pierre Lemieux: I suspected that. I think it's the same for Merv and Dan. Your association doesn't run at a 10% deficit. My guess is that if you did, your members would demand that it be rectified.

Just as your membership has one vote per member—one member, one vote—one Canadian over the age of 18 has one vote, too. We're responsive to Canadians, and this is what they're demanding. Difficult decisions have to be made, and all three of you know about difficult decisions that have to be made throughout the life of your particular groups and associations.

I did want to touch on education because I think it is really important. We've had a number of witnesses talk about education. I'm thinking of education of the public now. Canadians have a concept of a co-op. It might not be as expansive as it should be, and they certainly might not know the successes that I was just outlining and that we've heard about from you.

I'm wondering about your work with higher level cooperative associations, for example, the Canadian Co-operative Association. Is there basically a budget for advertising education, informing Canadians about co-ops, the success of co-ops, the strength of co-ops?

Just to give an example, I'm in agriculture. I'm watching the Dairy Farmers of Canada. They're running a very strong campaign to educate people about farmers, milk production, all of those types of things. I think it's paying off, as Canadians want to know more about local agriculture. They want to know more about Canadian farmers. They're open to this. I have a feeling they'd be very open to learning more about co-ops—what you bring to the table, what your strengths are, what your successes are.

I'll start with Mr. Marshall again. Do you have a budget for that or, in your discussions with higher entities, do they have a budget for that? And what do you think about that?

• (1450)

Mr. Robert Marshall: Locally, at our own credit union, yes, we have a budget set up to educate our members and potential members within our communities about who we are. It's a very difficult task, especially with non-members, to engage them and have them start to garner a better understanding. So it's a tough road.

In terms of our provincial representation with Alberta Central and with Canadian Central, I know they have some funds set aside for that. To what degree and such, I couldn't recite any facts. But I would be happy to get back to you with that as well.

Mr. Pierre Lemieux: Okay.

I'd just be interested in knowing what the initiatives are—

The Chair: Sorry, the time has expired.

If you want to get back to us with that information, Mr. Marshall, I'd ask that you submit that through me, through the clerk. We'll distribute it that way, if you can get us that information.

We now have Mr. Allen for the next five minutes.

Mr. Malcolm Allen: Thank you, Chair.

I always love listening to my friend, Mr. Lemieux, explain about deficit financing and choice. But then again, it's about choices.

If my memory serve me right, the actual capital infusion into the CDI granting program is \$4 million. Mr. Lemieux would make it sound as if it were \$4 billion, with a *b*, rather than \$4 million, with an *m*. Quite frankly, not to be trite, \$4 million falls off the Minister of Finance's desk when he shuffles paper. So to suggest that somehow this is a driver of the deficit is a bit extreme, I think, from my friend. But he's certainly tried over the last three days to make sure that this gets inculcated into this piece, even though, for the credit unions, which are successful, to continue to be successful...

I might add, and I look to you, Mr. Marshall, that as a credit union, I think you pay income tax.

Mr. Robert Marshall: Yes, we do.

Mr. Malcolm Allen: If you were more successful, would you pay more income tax?

Mr. Robert Marshall: Yes, we would.

Mr. Malcolm Allen: You might actually offset the \$4 million dollars he's looking for. It seems that it would be a small investment if he got \$8 million back. That would help his deficit. I wasn't really sure about that, as I'm an auto worker, not a finance guy.

Mr. Rockel, I used to be an industrial electrician, so I get the wire thing. There were a couple times you said things about the apples. Just to crystallize that and make that clear to folks, you signed one heck of an agreement with, I think you said, Fortis, which said that you could actually do subdivisions. It's really unheard of for a rural operator, if you will, in the electrical system to be able to get a subdivision, because a line from house to house in a subdivision is exponentially shorter than a line from farm to farm in a rural piece.

I think you started to say things about your being like a shiny apple. Are you telling me that what's basically happening now is that the other utility companies are looking at you and saying that they'd love to pluck that subdivision back from you? And you can keep the wire out in the rural part, especially when you might be in areas where the customers are kilometres apart.

Mr. Merv Rockel: We're in the process of negotiating.

There are two major utility companies in rural Alberta. One is ATCO, and another is Fortis. ATCO has a different wire-owner to wire-owner agreement with their REAs. They can only service single acreages. They do not have the agreement to serve subdivisions.

Some of these REAs are small. There are only 150, and some are down to 80 people. The utility companies do the services for the REAs. Some REAs have bought their own equipment and diggers, and they operate just like utility companies. Others hire the utility companies to do it. Right now, some of these smaller REAs, if ATCO or Fortis were to buy them, would increase their assets and get a 9% return on them. If they have that money and put it in the bank, they would get only 1.5%. So it's to their advantage.

• (1455)

Mr. Malcolm Allen: I'm not sure if it was you, Mr. Rockel, or Mr. Astner, who talked about having a micro-generation program on a farm, whether it be solar or wind, etc. You actually have the meter that goes in both directions to make it easy for those who don't understand it. Clearly, you must have an agreement with your supplier, your generator, in the sense of allowing folks to get back in and feed the line. If I have enough kilowatts on a farm or on my property, I can actually be a generator. In fact, I am a generator. I could be a net generator if I actually produced more than I consumed.

Do you have a direct agreement? In other words, if I bought property in one of your REAs and moved to Alberta tomorrow and set up that system, could I automatically get in, or is there a longer-term process for micro-generators?

Mr. Dan Astner: There's a restriction on the size of the micro-generator in that you cannot produce more than what you will consume over a given period of time.

In Alberta, all generation has to go through the Alberta electric system operator. They're the ones they are basically selling that energy to, unless it's contracted separately to a specific firm. All agreements and all flow of electricity has to go through the electric system's operator, and it's dealt with from there.

Mr. Malcolm Allen: Not a net—

The Chair: Sorry, Mr. Allen, your time has expired.

Mr. Malcolm Allen: —beneficiary.... It's done automatically?

The Chair: Sorry, your time has expired.

Is there a yes or no response to that?

Mr. Dan Astner: I didn't quite catch that.

Mr. Malcolm Allen: Yes or no, if I consume more than I generate, do I get on automatically?

Mr. Dan Astner: You will be billed for the difference that you're consuming. That's all.

The Chair: Close enough to a yes or no. All right, thank you.

We'll move now to Ms. Rempel, for the next five minutes.

Ms. Michelle Rempel: Thank you, Mr. Chair.

Thank you again to our witnesses for being with us in Ottawa on a very lovely summer Friday afternoon while the Olympic opening ceremonies are taking place.

Mr. Marshall, you spoke a bit about Budget 2010 and the new regulations we put forward for chartered and credit unions. What is the anticipated impact on your client base? How will it positively impact your business?

Mr. Robert Marshall: For Mountain View Credit Union specifically, it's not something we're considering at this time. We serve members in a soon-to-be 12 communities in central Alberta, and we have a lot on our plate just for the next four or five years. Becoming a chartered under the federal regulations is something we're not contemplating at this time.

Ms. Michelle Rempel: With regard to these regulations, for other members you might have or other credit unions you might interact with, what has been the word on the street?

Mr. Robert Marshall: I haven't heard a lot, other than one particular credit union in B.C. I think for the one service credit union in Alberta that possibly would entertain this, one of the things they cherish quite significantly is the 100% deposit guarantee by the provincial government for any depositor in the credit union. If they were to move into the federal jurisdiction, their deposits would be under CDIC, which has a maximum of \$100,000 per instrument or plan. So that's something that they are struggling with, I think, in that regard.

Ms. Michelle Rempel: You also spoke about your asset base and your profitability. I think one of the commonalities that we've heard from the various financial-based credit unions that have appeared before this committee is the strength of assets, the strength of growth, in light of some of the economic challenges we've seen globally.

Would you say for the most part, or characterize the following statement as correct, that your growth has really occurred without federal intervention?

Mr. Robert Marshall: I'd say that on a system-wide basis. But as a specific credit union in central Alberta, where we're in 12 rural communities, we're not experiencing growth right now. The unfortunate part of that is that we serve five communities that have no institution in town, and we're finding it more and more difficult to justify our existence in those communities because they're earning below the average rate of return that we need to sustain our organization over the long term. Our competition in those areas isn't the chartered banks or other credit unions; it's the three crown corporations we're facing. That's the unfortunate part. If crown corporations would complement, as opposed to compete, with us I think the long-term benefit for our rural constituents would be a lot better.

• (1500)

Ms. Michelle Rempel: You noted in your presentation that your assets grew in 2012. Is that correct?

Mr. Robert Marshall: They grew in 2012, but only in deposits, not in loans, and loans are our most productive asset. In fact, our loan portfolio has been diminishing.

Ms. Michelle Rempel: You stated in your presentation that your income for Q1 of 2012 is \$33 million. Is that about average for your cooperative?

Mr. Robert Marshall: That's on a system-wide or provincial basis. It's not ours, I wish it were ours.

Ms. Michelle Rempel: Okay. So you might say that \$4 million is something of significance, then.

Mr. Robert Marshall: Yes, it is very significant.

Ms. Michelle Rempel: That's excellent.

You talk about loans being a key part of your business. When you're looking at your underwriting, or the process by which you're making an assessment of the risk associated with a loan and whether or not it's a viable business opportunity for you, would you characterize the governance structure of a business as a key determinant in that assessment? Specifically, do you give preference to those organized in a cooperative fashion?

Mr. Robert Marshall: Yes, we would give preference to that. Again, we understand the model, we understand the direction, we understand that it's member owned and that there is some continuity on a long-term basis versus a single owner business where the governance is one person basically, or a family in that regard.

No, there is consideration in that aspect. Again, one of the most fundamental things we look at, though, in assessing credit is if they have the ability to repay the obligation. We have to take that approach because it's our members' deposits that we're turning around and investing in these companies or cooperatives. That's probably one of the most critical criteria, the ability to repay the loan in the time.

The Chair: Thank you.

I'm sorry, your time is up.

Ms. Michelle Rempel: I looked at you; that's the problem.

The Chair: Yes, never look.

Anyway, we will now move to your friend, Mr. Payne.

You have the floor for the next five minutes.

Mr. LaVar Payne: Thank you, Chair.

I thank the witnesses for coming. It's important that we hear your testimony, and certainly we've heard a lot of really positive testimony, as my colleagues have said here today.

I do have a number of questions.

First of all, Mr. Marshall, just to let you know, I happen to be a member of Servus Credit Union, and I was quite delighted with its expansion. I see that they have almost 60% of the Alberta market. Do you see further expansion of, say, the Servus Credit Union or other credit unions merging with some of the smaller ones to become bigger and stronger?

Mr. Robert Marshall: That's a great question. Yes, I do see that in time for some credit unions. There are probably one or two a year that may occur in Alberta, typically small credit unions that one or two people are employed in, or that are open 12 hours a week—that type of thing.

I know there was one credit union that experienced some difficulties and merged with Servus. So certainly those will continue. I'm not sure at what rate.

The other interesting aspect, though, that we've worked on with the three credit unions that are similar in size to us—we're \$500 million, and Servus is \$11 billion—is that rather than merging we have set up a subsidiary funded by all three of us. We're starting to run all of our back office aspects through that. It's a collaborative initiative as opposed to a merger in that regard.

Mr. LaVar Payne: My other question is whether you co-share loans with other credit unions or other financial institutions.

Mr. Robert Marshall: Yes, we do with other credit unions and then with Concentra as well. So we'll get involved with either buying tranches of mortgage pools or we'll participate in a syndication on a large funding arrangement.

Mr. LaVar Payne: Okay.

I did note that you did talk in your opening remarks about your contribution to the community. I wonder if you could give us a little more information about your investments in the community and how they have helped. I don't know if it's all the communities that you serve or just portions thereof.

•(1505)

Mr. Robert Marshall: We have a number of different initiatives that we get involved with on an ad hoc basis. In the small town of Beiseker, for example, we donated \$25,000 I believe to part of a building project that they were doing for the community. Every year we commit to funding or sponsoring and bidding on 4-H sales, so we'll be there and we'll pay double what a calf is worth. But that's okay, as we're doing it for all the right reasons.

We have an annual charity golf classic, where just the other day we were able to donate \$18,000 to a local hospice in one of our communities. It's those types of things that we're continually doing each year. Some of it's ad hoc, and some of it is certainly planned and prepared for.

Mr. LaVar Payne: Certainly we've heard those kinds of things from other credit unions and cooperatives that I think are really helping all the communities they serve throughout the various parts of the country.

I'd just like to go to Mr. Rockel, or Mr. Astner, on something.

You did say that you could only service farms, so there are no small hamlets or villages or anything that might be part of your district that you can serve?

Mr. Merv Rockel: You're right. In our agreement, we cannot serve hamlets or small towns. But we can serve subdivisions and, hopefully, they don't become hamlets or towns.

Voices: Oh, oh!

Mr. LaVar Payne: That's a good way to get around that I think.

Potentially you could grow your business.

Mr. Merv Rockel: To some extent, yes we can.

Mr. LaVar Payne: Okay.

What percentage of the grid does the federation own or operate overall?

Mr. Merv Rockel: It's 3% of the people, or 1% of the consumption of energy. As for the number of miles of line, I haven't got those figures.

Mr. LaVar Payne: Okay. I know there's a bit of a controversy going on about the expansion of the grid, so to speak, in Alberta. I'm just wondering whether you are involved at all in that process or are having input into it.

Mr. Merv Rockel: We did a presentation to the transmission committee, and our philosophy is that we have to have a reliable system, that it's really important. In rural Alberta, if a storm comes through, the last people who will get hooked back up will be those in rural Alberta. Therefore, we rely much more on a reliable transmission system than maybe the people in the cities.

Mr. LaVar Payne: Okay.

Go ahead.

Mr. Dan Astner: Just further to that, the federation has asked for representation on a lot of government committees. Currently, we sit on a cost-monitoring committee of the transmission system—on the expansion of that. The Alberta government looks at the federation for input from a consumer's voice, and the rural electric associations have a voice. They probably have more knowledge of the electrical system than the average consumer. So even though we're a fairly small number, they recognize that we are the end users and they listen to what the impact is on us.

Mr. Merv Rockel: We're knowledgeable end users.

The Chair: Thank you very much.

That concludes the second round of questioning. We do have a little bit of time remaining, so we can move into a third round.

First up there, I have Mr. Preston, and you have the floor for the next five minutes.

Mr. Joe Preston: Thank you very much. I don't often get two chances. This is great.

I'm going to talk a little bit about governance. I'll leave it open to both of you.

Mr. Marshall, you said you have 11 units and are about to have 12. I take it you're opening in a new community.

Mr. Robert Marshall: Yes, we are, in Langdon, a town of 3,400 people just outside of Calgary, which has no financial institution today.

Mr. Joe Preston: When you go to make an expansion like that, I'm sure it's relevant even to your group, as a one member, one vote type of group. How do you get to a new place? You probably don't have many members in Langdon. Or do you have members in Langdon who are driving to one of your other branches, and are members somewhere else? How do you convince the people at Olds, for example, to say, "That's a great idea. Let's open up in Langdon and spend a whole pile of money building a new branch."

Mr. Robert Marshall: Well, this is where we come back to our governance model. It's really our board of directors, who represent our members, whom we sit down with. We collectively build out our strategic plan and understand where our growth opportunities are. Are they things that we really want to go after? If it is something that's near and dear to our heart and we see it as a good decision, then how do we go about doing that?

• (1510)

Mr. Joe Preston: I would assume that occasionally the answer is no.

Mr. Robert Marshall: Yes, it is.

Mr. Joe Preston: Obviously, in the one person, one vote system, for us, there were enough yeses so we're here. But one day maybe that will be the opposite and we might not be. The same happens in your business decisions.

Mr. Rockel, Mr. Astner, is it the same thing in your business? When you put forward something, how often does the membership just say, that's just too big of a risk for us, or we're growing too fast?

Mr. Merv Rockel: I'll tell you about an incident. We got involved in the meter reading and we thought we'd have opposition to it.

People came to us and said, "Thank God we don't have to...". The member would read the meter and send the information to the office.

Mr. Joe Preston: Right, send the little card in.

Mr. Merv Rockel: You fill out the little form, or whatever you had.

They said, "Thank God we don't have to do this any more. It was well worth the—"

Mr. Joe Preston: But I bet there was some resistance to change when you first brought it out: "Are you going to read my meter by an airplane?"

Mr. Merv Rockel: Well, we did the airplane afterwards. It was going to be a drive-by.

The other thing was Corridor Communications. We got involved in that. We had annual meetings and we had people who were mad because they couldn't get it because they lived in a valley or a subdivision in the valley. They were really mad: "Why don't I have it? You have it."

Mr. Joe Preston: Tell them to get a shovel and we'll take the hills down.

Mr. Dan Astner: I think it's also a matter of the level of due diligence that the board has demonstrated over the years. We'll get the members saying, "If the board has looked at it, and you've done a business case study on it and it's a good move, we trust you. That's why you're there."

Mr. Joe Preston: I was going to move to that one next.

Mr. Rockel, you talked about that leadership training, how you train the next person. Well, I bet I'm looking at three people who've done a lot of training with the next set of board members, or the next group of persons in an associated co-op or on boards of directors—on governance and that type of thing.

I know that's how it happens in rural Ontario, whether it's the manager of my local credit union and the other boards he may sit on, and the training that happens—because it happens.

I bet I'm looking at three of you who have done a fair bit of that. It may not be organized, but I bet in some cases it is. I know we have mentoring programs for business and for not-for-profit boards, and I bet you've done the same thing.

Would that be true?

Mr. Robert Marshall: In our situation, we have an excellent resource with Canadian Central. I think they have a very good program for a director that's coming into our system.

I really commend them for the effort they've put into developing that program over the last 10 to 15 years.

Mr. Merv Rockel: Rural Utilities in Alberta has taken a leadership role. They have brought in a guy by the name of Jim Brown.

Have you ever read *The Imperfect Board Member*? It's one of the best selling books on board governance. He's done workshops. He comes to our AGM, and he'll spend a number of hours talking.

Rural Utilities is the one that has really.... We've had workshops all the way across the province, and we get a number of people. I really commend Rural Utilities for doing that.

Mr. Joe Preston: I commend all of you for what you do. I'm sure the knowledge that's shared is invaluable.

Mr. Merv Rockel: It's our job to make sure that our board members and directors go to these meetings.

Mr. Joe Preston: That's exactly right.

The Chair: Thank you very much.

We did start a couple of minutes late, so I think we have time for one more round of questioning.

That will go to Mr. Allen for five minutes.

Mr. Malcolm Allen: Thank you, Chair.

I want to go back to Mr. Marshall and the FCC. One of the things you said that has not been said before referred to the other pieces about FCC and credit unions and the competing part. One thing that you said that struck me was that because of the competition in some of the areas where you have a branch and where you're the only institution in that particular town, you may actually have to leave because of the lending going away.

If memory serves me right, when FCC was here they stated they don't do other financial products. In other words, they're in the business of lending in the agricultural field, so they're not a service provider; they don't take chequing accounts.

I am paraphrasing, but they said they don't poach your customers. They said if it was your customer and you offered them a deal, they wouldn't undercut you. Is there truth to that?

Farmers are a pretty cagey bunch. If they know the FCC offers a better deal and they know that if they ask you first, FCC won't give them a better deal, they'll go to the FCC first, even though they might be your customer, as a member.

Is there any truth to any of any of that, or is it completely different from that?

• (1515)

Mr. Robert Marshall: I'd suggest there is some truth to that. To give you a for instance—farmers are very astute business people, absolutely—in our rural community, there are no businesses. There are some streets that have three businesses on them and that's it. There's the local petroleum dealer, a restaurant, and maybe a hardware store and a grocery store, if they're lucky. That's not enough to sustain our business model. We need small business and agricultural lending.

What will happen in the farming community or the agricultural sector is that a farmer will approach two or three institutions, including Farm Credit, at the same time. In that situation, we're competing with a number of institutions where we always come up short. The deal is competing on rate or that we require an appraisal to validate the value of the security. FCC always beats us on the rate

and it doesn't require an appraisal. They use their own land value system, which is an average across the province.

I can certainly say there is risk to anyone, if you're using an average. One section of land adjacent to another section of land can be completely different in value.

They tend to always win the business based on rate, on term, 100% lending value, and no appraisal requirements. We can't do that in our world—our regulators will not allow it—and I don't think prudent business would dictate that either.

Mr. Malcolm Allen: You also talked about how when there is a bit of a downturn in the general economy, quite often folks will move to you as a lender because their traditional lender, if they've been using a traditional bank for a long period of time, might now be saying no. I agree with your comment that you're not the lender of last resort. Folks just ask, "Oh, where else can I go?" Then they finally find you.

Do you have any sense of how many of them you keep after that? Do you keep that client longer term after they have seen how much they like your service or appreciate what you've done for them, and now want to become a longer-term client?

Mr. Robert Marshall: Absolutely, that's exactly the case. In those situations they're actually a really good ambassador for their credit union because they're out there telling people of their situation and then we'll have others who will come in as a result. It's not necessarily within a month or two, but over time it pays dividends in that regard.

Mr. Malcolm Allen: From your perspective, you'd like to see us take a look at the FCC in whatever committee it happens to be, whether it be the ag committee or another one. And you want us to do it from the perspective not just of the damage it's doing to your institution—because you could probably pull back a bit and still do okay.... In fact, by being forced you out of a place you might actually be better off in some sense, because there's an inherent cost to being in a small place beyond the fact that your members want you to do it.

That is different from what I'm hearing from the others. So do you suggest that we do that?

The Chair: Make the response brief if you can.

Mr. Robert Marshall: To reiterate what Canadian Central is saying, what we'd like to see is a parliamentary review of the FCC's mandate on a regular basis, similar to the BDC and Export Development Canada, and that the FCC complement our business rather than compete with it. I think we exist well with those other two crown corporations. I guess the message we'd like to send is that we'd like to see the FCC in the same aspect.

The Chair: Thank you very much.

With that we will now conclude this panel. Thank you all very much for your testimony today and for taking the questions from members. It's very much appreciated. You were very helpful to the committee in our work, so we thank you all very much.

I will now suspend the meeting until 3:30 p.m.

• (1520) _____ (Pause) _____

• (1530)

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

We have a fairly full panel down there, I see, for our last panel of the day. We're looking forward to that.

We have with us, from the United Farmers of Alberta, Mr. Bob Nelson, the president and CEO, and Mr. Bill Dobson, who's one of the directors. We have the Canadian Worker Co-operative Federation. Ms. Hazel Corcoran is executive director, and Mr. Peter Hough is the financial officer. And then we have with us from the Manitoba Cooperative Association, Vera Goussaert.

[Translation]

Mrs. Vera Goussaert (Executive Director, Manitoba Cooperative Association): In French, it is pronounced "Goussart"

[English]

and in English it is "Goussard".

The Chair: Thank you.

What we'll do is give each of you an opportunity to present opening remarks for 10 minutes. Because we have a full panel, I'll try to signal to you when you have about one minute remaining, and as such, when it's time to wrap up.

I will give it first to the United Farmers of Alberta.

Mr. Dobson, you have 10 minutes to make your opening remarks.

Mr. Bill Dobson (Director, United Farmers of Alberta): Good afternoon, Mr. Chairman, and members of the special committee on cooperatives.

My name is Bill Dobson, and I am a member of the board of directors of United Farmers of Alberta Co-operative Limited, also known as UFA. With me is Bob Nelson, president and chief executive officer of UFA. I will be skipping over some of the things in the original brief that may have been sent to you, so it will cut some of the fluff out to make the timeline.

Thank you very much for the opportunity to address this special committee. We consider your work critical, and we both look forward to answering your questions after our presentation.

The Government of Canada has always taken a keen interest in the role of cooperatives. Co-ops are supported and utilized by people from all parts of Canada, regardless of their political interests or economic status. Those of us who spend a lot of our time in the cooperative sector greatly appreciate the relationship that has existed for so many years.

This year has been a time to celebrate and showcase cooperatives and credit unions around the world, as the United Nations has designated 2012 as the International Year of Cooperatives. It has also been a time of reflection and self assessment. It is very appropriate that the federal government also take this opportunity to examine their role in assisting the cooperative sector to flourish. Cooperatives and credit unions provide economic activity and employment throughout all of Canada. Having the most effective and efficient business environment ensures the financial health of the sector.

Today, UFA is a well-established cooperative that serves nearly 120,000 members through an extensive network of 113 petroleum agencies, 35 farm and ranch supply stores, and 25 outdoor adventure stores operating under the wholesale sports banner. We have grown from a small-scale local cooperative into a comprehensive enterprise, with \$2.1 billion in sales in 2011.

Improving the economic and social well-being of our agricultural owners and their communities is our core purpose. Every day we work toward enabling rural success by supplying agricultural products and services, by protecting our members' investments in the cooperative, and by championing and supporting local causes, rural programs, and job development.

Currently, UFA proudly employs almost 1,200 people, and 65 independent petroleum agents. Approximately 500 people are further employed by the UFA petroleum agents.

UFA probably has the most interesting evolution story of any business in Canada. A look at our history provides living proof of the agility and the endurance of a cooperative enterprise. We take great pride in learning from our heritage, but we are cognizant that we will only be viable in the future if we are relevant to the needs of our owners and customers.

We say that we have been around for over 100 years, which is true, but we have not actually been a cooperative for over 100 years. Formed in 1909, UFA's core purpose was to improve the livelihood of farmers in the province of Alberta. That purpose remains much the same today, although it is met in a much different manner than at that time.

Originally, UFA was a rural social and lobby organization. In 1918, UFA began to purchase farm supplies collectively, to distribute to community locals. As a farm organization, United Farmers of Alberta was seeking the most effective way to lobby the provincial government. They felt it would be a good idea to elect some members of the legislature to have direct access to the governing Liberals.

Thus, in 1921, UFA ran candidates in 45 out of 61 ridings. Before they realized what had happened, they had elected 38 MLAs and formed a majority government. I'm sure everyone would like to get a hold of their campaign manager.

Voices: Oh, oh!

Mr. Bill Dobson: UFA governed Alberta until 1935, at which time they were defeated. During this period, UFA's farm supply business was also flourishing. In 1932, it was felt that the formation of a centralized cooperative would be the most effective way of serving the needs of agriculture in Alberta. Today, the political involvement and farm lobby efforts are long gone, but the cooperative business continues to grow and improve the livelihoods of rural Albertans.

The UFA sees three areas of focus, quite distinct from one another, that should be of significant interest to the federal government: the business environment for larger existing cooperatives; support in rural Canada for emerging cooperatives; and cooperative-based foreign aid.

Of most significant interest to UFA is the business environment for larger existing cooperatives, and therefore today's comments will be largely directed towards this point. However, we'll make a few observations on the other two at the end of our presentation.

It is certainly our belief that being a cooperative should provide neither an advantage nor disadvantage to a Canadian business. Co-ops have a unique way of operating that needs to be recognized and respected. UFA operates through its own, specific provincial charter, but federal taxation rules have a profound influence on our business. Also, the raising of capital in a cooperative structure continues to be a significant challenge.

• (1535)

Historically, cooperatives started small, from a common need, and gradually grew over a long period of time. In today's corporate world, it is vital that a business quickly be of a certain scale to be competitive and relevant. This is true in the cooperative world. We would like to see the federal government re-establish a permanent interdepartmental cooperative committee. The unique nature of cooperatives needs to be understood and leveraged so that rural communities succeed. We would also recommend that a small group of financial experts be assembled to determine if there are areas of inequity that could be rectified to ensure that cooperatives and corporations operate on a level playing field.

Our chief financial officer offered us the following suggestions as to how tax rules might be modified to simplify and clarify reporting.

First, exempt cooperatives from part VI.1 tax. Part VI.1 tax tends to be an additional tax burden for most cooperatives that are carrying on business in limited or constrained jurisdictions. It is based on an assumed combined federal and provincial tax, which deviates from the specific provincial tax rate where the cooperative is doing business. In addition, paying out this extra tax reduces the ability of the cooperative to pay out more patronage dividends to its members, whom it is mandated to serve. And it is an added burden when co-ops are operating at a loss.

Second, classify the cooperative as a unique business model, for tax purposes. We would recommend that cooperatives be uniquely defined to avoid having to amend sections of the tax laws where there is an intention for a cooperative benefit.

Finally, extend the tax deferred cooperative share, the TDCS. The TDCS was set up by the 2005 budget reforms to assist agricultural cooperatives in their capitalization needs by deferring patronage dividends paid by way of the TDCS to the members. This program is scheduled to end in 2016, but we believe that it is worth extending, as capitalization remains a crucial challenge in the coming years. We also request that other measures be considered to ensure that there are no barriers for cooperatives that are seeking capitalization outside of their member base.

Hopefully these ideas could be given consideration and discussed with other cooperatives across Canada.

UFA is concerned not only about the cooperative but about our member-owners, as well. The third of seven International Co-operative Alliance principles is entitled "Member Economic Participation". We feel that it's vital that we live up to that obligation. It is very important that our members receive fair tax

treatment in regard to patronage allocations and that they also have the ability to invest in their own cooperatives.

The third point, regarding co-op shares, is advantageous both for the cooperative and the member. We would recommend working with our national cooperative associations to ensure that together we create the optimum environment for member support and investment in the co-op sector.

On emerging cooperatives, UFA has not always been a large, successful co-op. Like any other business, we had a beginning. That start was, at many times, challenging and difficult. Through experience, we are confident that the cooperative business model is a very effective way of doing business. It creates a good working atmosphere for owners and employees. There is a sense of loyalty among members, who are also customers.

There is certainly a public interest and benefit in maintaining a strong rural Canada. We would hope that your committee will examine ways the federal government can assist in stimulating growth in rural communities through the development of the cooperative system. Although the cooperative development initiative, CDI, was designed to foster this type of partnership, we understand the need for fiscal restraint and the efficient use of tax dollars. We are not here to complain about the end of that program but rather to encourage an examination of just what the role of the federal government should be in the future. We would be pleased to further discuss ideas on how government and industry could partner in the development of emerging cooperatives, especially in rural Canada.

Also, our membership in the Canadian Co-operative Association is an avenue that we utilize to forward our ideas for such initiatives.

Although cooperative foreign aid may not be the primary focus of this committee, we feel that it is worth briefly mentioning. Canada has a proud history of providing foreign aid to those who are born into circumstances beyond their control. We are probably all in agreement that the wisest use of aid money is to help people help themselves. Canadian cooperatives and credit unions fund several international development programs that partner with others, including CIDA, to provide funding for people who face extraordinary challenges. Cooperative enterprises definitely help people help themselves. We are willing to do our part, and we invite you to work with us. We encourage you to continue partnerships that will provide cooperative-based foreign aid programs.

In conclusion, we thank you for the opportunity to address this special committee on the future of cooperatives. We are pleased to answer any questions you may have.

• (1540)

The Chair: Thank you very much.

I think you must have practised that, because you were pretty much bang on 10 minutes.

We'll move now to the Canadian Worker Co-operative Federation.

Who's giving your presentation?

Mrs. Hazel Corcoran (Executive Director, Canadian Worker Co-operative Federation): I'll start. We will both present, though.

The Chair: Okay, that's fine. It's 10 minutes, and you can use it as you see fit between the two of you, but I will turn the floor to you now for 10 minutes.

• (1545)

Mrs. Hazel Corcoran: Thank you very much for inviting us to appear before the Special Committee on Co-ops to represent the worker cooperative movement.

[Translation]

Thank you for inviting us to appear before this committee.

[English]

And that's the last French I'll speak.

My name is Hazel Corcoran, and I am executive director of the Canadian Worker Co-operative Federation.

Worker cooperatives are employee-owned businesses, and generally small businesses that operate according to the cooperative principles. Worker co-ops are a form of collective entrepreneurship whereby people come together to become entrepreneurs in a co-op framework. They are present in many different industry sectors, such as forestry, IT, food production and services, fair trade, and more. Examples include: Taxi Co-ops; the Multicultural Health Brokers Co-op of Edmonton; the Big Carrot Natural Food Market in Toronto; La Siembra Co-operative in Ottawa, which makes Cocoa Camino chocolates and is one of our most popular members; Promo-Plastik of St. Jean-Port-Joli, Quebec; and Just Us! Coffee Roasters Co-op in Wolfville, Nova Scotia.

Today, there are about 350 worker cooperatives in Canada employing over 13,000 people. An estimated two-thirds of these are in Quebec. The Canadian Worker Co-operative Federation is their national, bilingual federation and it includes many members in Quebec. CWCF provides services, including support for start-up and ongoing management, a small worker co-op investment fund called the Tenacity Works Fund, research, and an RRSP program that allows our members to invest in their own businesses.

We have four main points to present: first, the distinction between the established and emerging sectors; second, the challenge of capitalization; third, the problematic changes in the RRSP rules; and fourth, worker co-ops and succession planning.

Our first point is that the co-op sector is neither monolithic nor homogeneous. There are the large, well-established parts of the

sector, such as the credit unions, the large consumer co-ops, agricultural co-ops, UFA, etc. In contrast, worker co-ops and other emerging-sector co-ops are basically small business start-ups or conversions that have no operational ties to the established cooperatives. These two broad categories bring completely different sets of needs and present distinct opportunities to Canadians and warrant a different understanding by government.

To become involved with a credit union or large consumer co-op, one simply has to take out a membership and start using their services and buying their goods. To start a worker co-op, one must develop a market-driven business, develop the legal structure, and help develop the worker-members all at the same time. This is not an easy task and is best accomplished with the support of an experienced co-op business developer.

It is also important to note that many of the larger and very successful co-ops did receive this kind of support at their start-up stages 40, 50, or even more than 100 years ago. The challenges for emerging co-ops are exacerbated by the fact that lawyers, accountants, and others are usually not familiar with this business model. In parts of the world where knowledgeable support is made available for worker co-op start-ups through direct government support or favourable regulatory environments, the sector has hundreds of thousands of employees and tens of thousands of worker co-ops. So although our sector has been one of the fastest growing co-op sectors in Canada, we think it still has huge potential for employment creation in the future.

I would now like to have our financial officer, Peter Hough, present about our second point, capital.

Mr. Peter Hough (Financial Officer, Canadian Worker Co-operative Federation): Thank you.

One of the key differences between cooperatives and conventional corporations is the role of capital within the enterprises. In a simplistic but accurate description, in a cooperative the capital serves an instrumental function. It is one of the many tools required to achieve the goals of the co-operative. Under most cooperative acts and in conformity with cooperative principles—

Ms. Lysane Blanchette-Lamothe: I have a point of order.

The Chair: Sorry, we have a point of order here.

Madame Blanchette-Lamothe.

Ms. Lysane Blanchette-Lamothe: I am sorry to interrupt you, sir, but in French it's taking a bit longer, so maybe the chair will give you one more minute just to make sure that both languages are accessible. Thank you.

The Chair: You're just having a little trouble keeping up with it? Okay.

If you would try to slow down just a little bit, that would be appreciated.

Mr. Peter Hough: Under most cooperative acts, and in conformity with the cooperative principles, capital receives a limited financial return. Most shares have a par value, that is, the value of the share is the same on the date of purchase and on the date of redemption. So there is no potential for capital gains. In a corporation, the primary goal is to maximize return on capital for the owners and to generate an increase in the value of their shares. In many cases, on the selling of these shares, the small business owners are eligible for the capital gains exemption, which encourages them to invest retained earnings in their enterprise.

In seeking capitalization, emerging cooperatives have two barriers that conventional corporations do not face. First, the democratic structure of one member, one vote, and the limited returns on capital mitigate against the usual sources of venture capital, which require high returns and significant control of the enterprise. Second, because co-op par value shares do not generate capital gains, members do not receive the same tax incentive from the government to reinvest in their enterprises.

There are various approaches that are designed to address these barriers.

The Canadian Co-operative Association is currently leading an initiative to develop a national co-op development fund to invest in cooperative expansions, conversions, and in the emerging cooperatives as a legacy project for the international year. The fund to attract co-op sector capital is designed to provide a market rate to its investors. Hence, it will have to manage its portfolio risk carefully. This means that it will have to limit its involvement in the emerging co-ops and focus primarily on expansions and conversions. Because of this limitation in the fund's ability to address the needs of the emerging co-ops, the CCA had discussions with the Government of Canada requesting a \$70-million contribution, which would give the fund, in combination with its sector investments, the capacity to meet the needs of the emerging co-ops in Canada, and in the long term to generate a constantly growing pool of capital.

With the wish to return to a balanced budget after the recent recession, such a large investment is now unlikely. However, I would urge this committee to recommend to the government a more modest investment of at least \$20 million. This contribution by the government would eventually be returned to the government treasury through increased employment via personal and corporate taxes. As one of the key legacy projects for the International Year of Cooperatives, this is an opportunity for the Government of Canada to invest in the future of cooperatives all across this country.

Another opportunity to support the development of co-ops is to balance the capital gains exemption with a cooperative investment program. This would be essentially an investment tax credit for the investment into equity shares in the cooperatives.

Hazel will now speak about the RSP issue.

• (1550)

Mrs. Hazel Corcoran: Thank you.

Unfortunately, there's been one recent change that has hurt the capacity of worker co-ops to capitalize themselves through member investment. The measures regarding self-directed RSPs in the 2011 budget have rendered co-op shares ineligible for RSPs for members

who hold more than 10% of any class of shares issued by the cooperative. This has eliminated a pool of members' capital that used to be available to help capitalize their co-ops. Many worker co-ops have fewer than 10 members. Whereas it used to be perfectly fine to hold more than 10% of a class of shares in a co-op within an RSP, if under \$25,000, it is no longer acceptable. If an individual is affected, there are very high penalty taxes—even higher than for deliberate fraud in some cases. We believe these provisions are putting jobs at risk.

CWCF objected strongly last summer to the Ministry of Finance regarding these changes, as did CCA, CCCM, the Canadian Institute of Chartered Accountants, and the Canadian Bar Association. We implore the federal government to revoke these measures enacted in the 2011 federal budget.

Our fourth and last point is business succession using worker cooperatives. As we are sure you understand, there's a wave of business-owner retirements coming. The Canadian Federation of Independent Business has estimated that number to be 200,000. Although the process is already under way, we are currently witnessing only its earliest beginnings, and retirements should reach their peak between 2017 and 2020. This phenomenon will also likely manifest itself earlier in rural areas.

The social and economic risk is substantial and many companies risk closure, as a result of which tens of thousands of jobs could disappear. However, we also know that a solution is available, namely, that the employees of these companies can mobilize to save their jobs and communities by creating worker cooperatives. In Europe, this process is already well under way. The European Commission, and particular countries within the European Union, are actively encouraging the cooperative solution in the transfer of companies to their employees.

We strongly feel that the Canadian government needs to develop programs and approaches similar to those elsewhere so we can maintain locally owned jobs and services. Specifically, any development in this area should ensure that employee-owned co-ops are included and supported as one of the key options.

I will now turn it back to Peter Hough to give an example of a conversion and to conclude our presentation.

Mr. Peter Hough: The Careforce Home Care Worker Cooperative is a good example of the potential in rural areas for worker co-op successions. This small business provides market-based home health-care services in the Annapolis Valley region of Nova Scotia.

At the time the owner decided to look at the options for succession, it was providing modestly paying employment to about 20 people. With support from the owner, and resources provided by the CWCF and the co-op development initiative, a worker co-op of employees was formed to purchase the business. I would like to emphasize the importance of the support this co-op received from the co-op development initiative.

It is now over three years since the transition was completed. As well as being profitable every year, the co-op now has 65 employees and has received a number of business awards, including the Eastern Kings Chamber of Commerce outstanding new business award. It is also close to being debt free, having repaid most of the debt financing required to purchase the business. This is an example of how employees with little or no ownership experience, but with the right supports, can not only take over an enterprise but make it grow and thrive, benefiting themselves and their community.

In closing, we would also like to say that we support the submissions of the CCA and the CCCM, and we appreciate being invited. We also appreciate the work of this committee.

Thank you very much.

●(1555)

The Chair: Wow. That was two presentations in a row that were bang on 10 minutes.

The pressure is now on you, Ms. Goussaert.

You have 10 minutes, give or take a second or two. The floor is yours for 10 minutes.

Mrs. Vera Goussaert: Thank you, Mr. Chairman.

Mr. Chairman and members of the special committee, thank you for the opportunity to speak to you today. I compliment you for your efforts to review and explore the important role of cooperatives in this International Year of Cooperatives.

My name is Vera Goussaert, and I am the executive director of the Manitoba Cooperative Association, or MCA. The Manitoba Cooperative Association is a provincial association of cooperative organizations, created by our members to enhance and support the development of a united, growing, and influential cooperative movement in Manitoba.

MCA has been around, informally, since the 1970s and 1980s, when a small group of cooperators would meet to discuss issues of importance to the cooperative movement. However, MCA formalized in the late 1980s and early 1990s, with the creation of two key programs that are still in existence today: the Manitoba Cooperative youth leadership program and the Manitoba Cooperative awards program.

While MCA has been around for a number of years, it was not until 2005 that the organization was able to hire its first full-time executive director and begin delivering cooperative development services. This was thanks to the federal co-operative development initiative advisory services funding that was received by our association.

With increased capacity at the association, in 2007 MCA entered into partnership with the Government of Manitoba and

[*Translation*]

le Conseil de développement économique des municipalités bilingues du Manitoba.

[*English*]

Along with this partnership, the Government of Manitoba announced \$1.25 million to be spent on cooperative development

over five years. What followed was the co-creation of a vision and a strategy for the cooperative community in Manitoba.

The implementation of this strategy is ongoing today, but we are very proud of the work we have already accomplished.

Some of the initiatives include, for one, the introduction of resources on cooperatives for high school teachers, in both French and English. These resources, known as the All 4 Each program, were developed by the Ontario Co-operative Association in partnership with provincial associations across Canada.

We've also been successful in the introduction of a course on the management of cooperatives at the University of Winnipeg's Faculty of Business and Economics. We are continuing to work with the university to strengthen our relationship and to pursue other activities to enhance cooperative education at the post-secondary level.

We also have been successful in the creation of an interdepartmental co-op group within the provincial government, recognizing that cooperatives operate in many industries and within many sectors of our economy and should not fall under the responsibility of just one government department.

We have seen changes to our Manitoba Cooperatives Act to allow for the creation of multi-stakeholder co-ops. And we've seen some other changes to our act that have made it easier for existing cooperatives to operate.

Finally, one of the more notable initiatives that resulted from the strategy was the creation of a co-op development tax credit, the first of its kind. It allows co-ops and credit unions across Manitoba to make contributions to a fund managed by MCA. In turn, they receive a substantial tax credit. MCA then uses the funds we receive from these co-ops to deliver technical assistance and to offer small grants to new and existing co-ops.

MCA has been actively working with groups and providing technical assistance to co-ops since 2005. In that time, capacity at MCA has increased. We now have a full-time co-op developer on staff who works with groups to help them develop their co-ops.

MCA also delivers small grants for co-op development. They come from three pools of funding. The first is CDI advisory services funding. The second is co-op tax credit funds, and the third is co-op assistance funds, which we receive from the Province of Manitoba. These grants assist with things such as group development, technical expertise, incorporation fees, the development of business plans and feasibility studies, and small capital expenses.

One of the groups we have been able to assist is the Peg City Car Co-op in Winnipeg. This co-op has been operational for just over one year. They received grants and technical assistance from MCA. They also received a large grant through the cooperative development initiative innovative cooperative projects program. Peg City currently has over 80 members, three vehicles on the road, and employs two people. This co-op is growing and has visions of operating across Winnipeg, with numerous cars and serving numerous members.

•(1600)

Another example is the Western Manitoba Seniors Non-Profit Housing Co-op in Brandon. It received small grants and some technical assistance from MCA. It is currently under construction, building a 34-unit, mixed-income housing complex for seniors.

The Mondragon Worker Co-op in Winnipeg is another example. It received small grants from MCA to expand its business into a restaurant, bookstore, and organic grocer. This co-op has been operating since 1996 and employs 16 to 20 youths in downtown Winnipeg.

Finally, another example is the Compo-stages Manitoba Services Co-op out of La Broquerie, which received small grants and technical assistance. It is currently in development to provide composting consultancy and services to livestock operators and municipal waste departments.

As you can see, there's a variety of areas in which these cooperatives are starting.

We encounter many challenges working with groups trying to start and grow cooperatives. First and foremost, there's a general lack of understanding of the cooperative model. Economic development officers, lawyers, accountants, and the people who generally assist in business start-ups, are not familiar enough with the co-op model and often discourage groups from pursuing that model of incorporation, even though it might be the most suitable for the project.

Also, given that co-ops are groups of people working together for a common purpose, typically a lot of time needs to be spent on group development, and this can take a lot of patience and resources.

Finally, access to capital has been a long-time struggle of cooperatives. We have seen some co-ops dissolve in order to meet the capital requirements needed to grow their businesses.

Moving forward, we would like to build on the success and momentum we have achieved in Manitoba. This work has been a direct result of working in partnership and having ongoing and open dialogue between government and members of the cooperative community. Working in partnership, we can develop strategies to address the needs of the co-op sector, as well as the needs of government.

We also need to see that co-ops can access relevant programs at all levels of government. Co-ops are often excluded from the vernacular of government programs. But even if they are included, sometimes they are discouraged from accessing programs due to lack of understanding and awareness of the co-op model.

Finally, we would like to see the creation of a national co-op development fund, developed by the sector in partnership with government. This could address some of our needs for access to capital.

I want to thank you again for giving me this opportunity to be with you today. I am open to any questions you might have.

The Chair: Thank you very much for all of your presentations. They were very informative.

We will move to questions from members.

Up first in our first round is Madame Brosseau. You have five minutes.

Ms. Ruth Ellen Brosseau: Thank you, Mr. Chair.

Thank you, everybody, for being here this afternoon.

Ms. Goussaert, what programs do cooperatives have access to at the federal level?

Mrs. Vera Goussaert: Certainly, there are a lot of business development programs and things of that nature that co-ops can access. However, it's not commonly known that they are accessible to co-ops, and that's where I spoke about the vernacular. Co-ops are not included in the language of these programs, and that is seen as a big barrier.

Ms. Ruth Ellen Brosseau: So the government has an opportunity to raise awareness about these programs—

Mrs. Vera Goussaert: Yes, absolutely.

Ms. Ruth Ellen Brosseau: —and make them more accessible. So it would be a red tape issue, a reduction kind of... Advertising.

•(1605)

Mrs. Vera Goussaert: Perhaps, yes.

Ms. Ruth Ellen Brosseau: Okay. The justification given for ending the CDI is that it has fulfilled its mandate and that the cooperative sector is healthy. For the last few days we've heard that it's very healthy. It's thriving. But I don't think that's a good reason to just end it. There needs to be a renewal, or something, on the horizon.

What do you foresee?

Mrs. Vera Goussaert: There's a lot of opportunity within our economy to grow cooperative enterprises. Because of the track record of cooperatives—and we've seen their success rate—and the strength of the movement, we know it is a successful model that works in our economy.

That being said, co-ops take a lot more support to start up. If we want to grow the sector, we need to see ongoing support for the development of new cooperatives. That's what we would like to see.

Ms. Ruth Ellen Brosseau: I know that in my riding—it's a rural riding and very agricultural—we see a lot of students and young people leaving. We want to try to keep them here. It's very expensive to take up a farm. It can be complicated.

Do you do a lot of education with youth?

Mrs. Vera Goussaert: As an organization?

Ms. Ruth Ellen Brosseau: Yes.

Mrs. Vera Goussaert: Yes. We've been running a cooperative youth leadership program since 1985. Historically, most of the youth who attend our program are from rural Manitoba. It's basically a leadership program, promoting leadership skills. We also teach, of course, about the cooperative model. But we're working in groups, and things of that nature. We recognize, and have recognized for years, the importance of having leaders within our communities who are able to take on the governance of our cooperative organizations. Our cooperative organizations will remain long after we are gone—that is the nature of the cooperative model—as long as there are new members able to fulfill the roles and the governance roles within that organization.

So youth leadership has been a very important thing. We've strengthened our youth leadership activities, as I said, with launching the all for each program in high schools, and also by having a relationship with the University of Winnipeg in their Faculty of Business and Economics.

Ms. Ruth Ellen Brosseau: The Province of Manitoba has clearly shown its appreciation of and support for cooperatives with the co-op development tax credit fund. What would you like to see from the federal government to show its commitment to the International Year of Cooperatives?

Mrs. Vera Goussaert: This committee is a good start, in terms of it opening up the dialogue. It's important that our federal government hears from the cooperative sector and understands the needs of emerging co-ops. From my perspective, I mentioned a few things in my comments about ongoing support for start-ups, and the special needs they have in terms of group development, bringing awareness to the cooperative model, and making sure that co-ops can access all programs. I think capitalization is another big issue that needs to be addressed.

Ms. Ruth Ellen Brosseau: Bill Dobson, I was wondering if you could add to what you have recommended as key steps. I know you have them listed. I think you have about six bullets here. But what would be your top three most important steps for the federal government to play in supporting cooperatives?

Mr. Bill Dobson: Well, it's the dialogue that we discussed. It's about having a dialogue about what's the best business atmosphere—not just for our cooperative but for beginning cooperatives as well—that there's not a disadvantage to being a cooperative, and the understanding of that. Certainly, that dialogue is quite important.

The taxation issue is quite important to us. I'm not saying that we have all of those answers, but taxation is always of interest to every business. We just want to make sure that the taxation is right, fair. We need to pay our portion.

The capitalization needs are certainly important as well.

So it's probably just about examining those to make sure those these are in our best interests as a cooperative, and to be fair to other corporations and the government as well.

The Chair: Thank you very much.

Now we'll move to Mr. Preston. The floor is yours for five minutes.

Mr. Joe Preston: Thank you.

And thank you all for coming. It's great to have you here today, too.

As I've said to other panels, I'm learning something from each panel. So thank you again for helping an old guy like me still learn.

Ms. Goussaert, you mentioned teaching high school teachers and teaching about co-ops from a knowledge point of view even at that level, preparing kits and so on. You said it was the Ontario cooperative group that brought that together. I would love to see one of these kits. If you have one, I honestly would love to see it.

And I'm not going to hand it out to high school teachers. I think we'll go and hand it out to banks. We keep saying that the knowledge of what a cooperative is or why the structure is the way it is what's maybe getting in the way of some of this working.

I might also suggest—in your case, the western economic development that the federal government offers to business, from microloans to help for start-ups—that you were right about it not always being there in the vernacular in the programs. We need to make sure that cooperatives are included and recognize that this is available to them, too. That would be a huge part. So it's some of that education, whether it's the federal development agency in Ontario, FedDev, or Western Economic Diversification, or any of those.

There are programs out there for business start-ups. We don't have to put a new head on this horse. We already have this. We need to make sure people know where it is and where to go to get it. Would you agree with that?

•(1610)

Mrs. Vera Goussaert: I would agree with that, but I'd also comment that in addition to having the business element of a co-op, there is the whole other piece around the governance.

Mr. Joe Preston: At this point I'm talking about that part.

Mrs. Vera Goussaert: But business development, absolutely.

Mr. Joe Preston: You've hit on another great one having to do with cooperatives, with the youth leadership model. I recognize that it's probably happening in each of the other groups too, and the other groups we've talked about, but you've hit on it today.

Certainly in the other world, if you will—and I hate comparing cooperatives to everything else, but it seems to be happening today—we have things like Junior Achievement. In the summertime, we have youth mentorship programs for the entrepreneurial side, funded by our government and other governments. Those programs are out there.

You've hit on something that's directly about cooperatives and the building of those. That's a fantastic piece that should be added to groups like Junior Achievement, because it isn't only about individual entrepreneurship. That's the right answer.

I sure would like to see it. I'm coming to visit, I guess. That's going to be the easiest way.

Mr. Dobson, your cooperative group is very big, right? You weren't always big—and it's good to see you again, by the way.

But is it different? Does a big established co-op need to be treated differently than...? Obviously, start-up businesses need to be treated a lot differently than big businesses that are well established. We're talking about a wide range and a wide scale of things here, are we not?

Mr. Bill Dobson: That was the reason that we had the two points in there, the business environment for the existing cooperatives and then the new ones. We recognize that there are new emerging cooperatives.

This is personal, but I think you have an obligation when you've reached success—whether it's as a business person or an MP, or whatever you are—to mentor someone and to try to assist them. It's certain that we need to look after our own business—there's no doubt about that—and we do. We want the proper environment for that, and we have that stewardship.

I also think there's an obligation on the other two points that I brought up. As far as new emerging cooperatives are concerned, they have special needs, and we are willing to do our part. We're willing to do our part on international development, but we certainly think there's a public good in that too, which we need to partner with. To me, that would seem suitable.

But there's no doubt that there's a difference. We started very small. I brought up the history of the UFA on purpose. You learn so much from your history. We were a struggling small cooperative at one time. But over the evolution, we've learned that the cooperative model was really going to bring the most benefit to our members.

It's different, but we all start somewhere.

Mr. Joe Preston: Here is where I am afraid to look at the chair.

The Chair: Well, you know you can right now. You still have about 30 seconds.

Mr. Joe Preston: Fantastic. There's at least one question in there.

Vera, I think you talked about a research chair at the University of Manitoba. We heard from the Saskatchewan group earlier today, where's that's happening.

Is anybody approaching the business schools? There are some well-known business schools across Canada. Are we approaching Ivey, those types of places, to make sure they're understanding and throwing their expertise behind helping this model?

Mrs. Vera Goussaert: Certainly there are a number of educational institutions that do offer cooperative education. The relationship we've forged with the University of Winnipeg is with their faculty of business and economics. So it is within the business school.

We've also established relations with the Asper School of Business at the University of Manitoba, where they've introduced some cases in their MBA program on cooperatives. There is some of that happening, certainly.

The Chair: Thank you very much.

Next we have Mr. Bélanger for five minutes.

The floor is yours.

Hon. Mauril Bélanger: *Merci, monsieur le président.*

Since this is likely my last chance to speak in the public session, I want to take this opportunity to thank all of the witnesses we've seen this week and on July 10, and those I've had a change to meet privately with, and also my colleagues from the House for having supported the motion that led to the creation of this committee. I hope we will continue some level of cooperation and come out with a report that will prove to be useful, just as the hearings have themselves been on their own part.

Mr. Chair, could I ask our analysts to look into three of the items mentioned: the interdepartmental committee and its makeup in Manitoba; the changes to the cooperatives act in Manitoba, on which I think it would be useful to have a bit more information on; and the co-op development tax credit? I think that might be useful in our deliberations.

● (1615)

[*Translation*]

Last Tuesday, we were told unequivocally that the cooperative movement and cooperatives were even more important in official language minority communities—an important community in Manitoba—than in majority communities.

I would like to know whether you agree with that statement and, if so, whether you can provide us with an example or two.

[*English*]

Mrs. Vera Goussaert: I don't work a lot with the francophone municipalities in Manitoba. Our partner, CDEM, does the work in the francophone communities. That being said, certainly some of the francophone co-ops do come to MCA for some of the grants that we administer in partnership with CDEM, and one of the examples that I gave, the Compo-Stages Manitoba Services Co-op, works in the francophone community.

Hon. Mauril Bélanger: I'll follow up then. I can get a sense from them.

[*Translation*]

Ms. Corcoran, you were awarded the Ordre du mérite coopératif et mutualiste canadien in June. Congratulations. I believe that it is a well-deserved honour.

Mrs. Hazel Corcoran: Thank you very much.

[*English*]

Hon. Mauril Bélanger: I've taken very good note, and I think most of my colleagues have, of the first three points: large versus small, the capital, and the RSP 10% issue, which has come up a few times and I hope we'll look at.

The item that you brought up, which perhaps has not been delved into at any great length, and which I suspect is an important one, is the ability to use the worker co-op model to transfer the ownership and not lose the ownership of small businesses in the next few years. I'm not going to ask you to elaborate in great detail, but if you could send us material, from either Canada or abroad.... Because I believe in Italy, for instance, when a company is looking to be sold, one of the rights that its workers have is to, perhaps, consider acquiring it through such a co-op model. I'm not sure if it's Italy or another country.

If you have some literature that would help us ascertain the importance of that and how it's done elsewhere, it would be quite useful.

Mrs. Hazel Corcoran: Yes, we have a lot of literature. In fact, we've been involved in a research project that addresses your prior question because it was focused on official language minority communities and using business succession in those communities. But we also have access to other things going on in Europe through our international collaboration. So, yes, we will.

Hon. Mauril Bélanger: I'd be interested in hearing about the minority language communities as well.

Mrs. Hazel Corcoran: Okay.

Hon. Mauril Bélanger: Finally, I want to thank the UFA for your very specific recommendations. I think, or hope, those will be very useful. We'll have to debate them.

I want to thank you, Mr. Nelson, for the book. This is the centennial book, and I've just got to the chapter about 1921, when the UFA became the government, and I'm looking for nuggets of information that might prove useful for 2015, I'm thinking.

Voices: Oh, oh!

Mr. Bob Nelson (President and Chief Executive Officer, United Farmers of Alberta): I certainly have no aspirations.

Voices: Oh, oh!

Hon. Mauril Bélanger: If any of them do prove useful in providing the results that I'm hoping for, I'll only give you credit if you want.

Sorry, I just couldn't resist saying that.

One thing that has not been mentioned very often—I think I brought it up once or twice—is the federal government's program for executive interchange or exchange. You have people in the higher echelons of private sector corporations exchanging positions with public servants, and vice-versa, with senior managers in the public service going to work in the private sector.

Would the UFA have ever participated in that program?

Mr. Bob Nelson: To my knowledge, we have not participated in it. In fact, my experience with UFA has been for about eight years, and we certainly haven't done so in that timeframe. I wasn't aware of the program, nor was I in my past life at a publicly traded organization.

Hon. Mauril Bélanger: Might I invite you to look at that—and perhaps we could as a committee include that in our report—because I think it might be a way of bridging the chasm between...or the apparent lack of understanding in the federal public service about co-ops.

• (1620)

Mr. Bob Nelson: We'd very much like to participate, yes.

Hon. Mauril Bélanger: Thank you.

The Chair: Thank you very much.

We'll now move to our second round of questioning, and we have Mr. Boughen first.

You have five minutes.

Mr. Ray Boughen: Thank you, Chair, and thanks to the panel for appearing this afternoon and sharing your thoughts with us.

You heard from the Chair that we have five minutes. You each had 10 minutes. That gives you 30 minutes. I now have 5 minutes to work out some questions, so—

The Chair: It's four now.

Voices: Oh, oh!

Mr. Ray Boughen: You'll pardon me if I cut you off and try to move on.

Bill, you talked about start-up funds, the idea being to get credit unions or co-ops up and running. What are you thinking about in terms of dollars? Are you thinking in terms of x number of dollars, a percentage of the start-up? Are you thinking of whether it should be a grant, or should it be a loan to be repaid to the feds? What are your thoughts on that?

Mr. Bill Dobson: I should come clean that I'm actually the vice-president of the Canadian Co-operative Association, as well, so I don't....

In my remarks, I said that we're not here to talk about the CDI. I understand the theory that these programs come to a conclusion and that it's time to assess whether it's a good idea to start a new one.

In terms of money, I don't think we really would be asking for the type of funds that would capitalize a cooperative. That's not the issue. The issue is that when you start a business, and someone mentioned this, maybe a cooperative is even more difficult to understand. First, you have to have the entrepreneurial spirit of someone to actually lead the cooperative. Quite often, those people, if they have that ability, go and have their own businesses somewhere else.

You need some money at the beginning, and I think that's where we can play a role. Your question was bang on. When we're talking about mentorship, whether it's business as business or personal mentorship, we could play that role.

We can put some money into capitalization. The kind of money CDI, realistically.... It's a lot of money, sure, anytime you're talking about \$1 million. But overall, it's just seed money to give people that little boost to get started.

I don't know whether to say that those kinds of dollars are small or large. But it takes some money. I think some of those grants were \$75,000, or maybe they were loans, or whatever. They're small numbers that give people at least a little bit of a start. So many of these cooperatives that try to begin, by the time they get the business plan and get their structure in place and then raise all the capital, they're burned out. It's not just about money. It's about a program that cooperates. If we can come up with something together that's better than CDI, I'd certainly be in favour of that.

Mr. Ray Boughen: Okay, thank you, Bill.

Turning to Hazel and Peter, you talk about putting together a new organization. An organization already exists in the trades; it's the unions. How do you see the blend of your operation and the idea of a co-op interfacing with the existing unions in the various trades and occupations?

Mrs. Hazel Corcoran: Are you talking about starting up a new cooperative?

Mr. Ray Boughen: Yes.

Mrs. Hazel Corcoran: Okay. Well, I would say just a couple of things. The vast majority of the worker co-ops in Canada are not unionized. But where there's a conversion to an existing entity, most of the time, whatever it was before, it is later. So if it was a unionized entity before, typically it stays unionized, though every now and then either the union or the co-op says, "we don't need you", and they part ways.

In any case, that's sort of the quick answer to your question. Is that enough?

Mr. Ray Boughen: That's fine.

Vera, we were talking about a new complex in Brandon of 34 units. Are you looking at that as a co-op housing project? Can you help us understand where that is starting from?

Mrs. Vera Goussaert: It is a non-profit cooperative housing project primarily being financed with help from the Province of Manitoba.

I'm not up on all the details, because it is a bit of a moving target. But I believe that there is going to be a portion of mixed equity. Some will be equity units and some will be non-equity, to have the mixed income. So a variety of seniors could benefit from those units.

Mr. Ray Boughen: Okay, thank you.

How are we doing, Chair? I have 25 seconds left. There's time to reconquer the earth or something.

Bill, maybe you can tell us again what you think is reasonable. Is a percentage reasonable, or is a number reasonable? I know that I'm kind of putting you on the spot, and I knew of your involvement with CDI before we started. I have to level with you.

•(1625)

Mr. Bill Dobson: I don't really have a number. I think the number of \$4 million or something a year to me is a very reasonable number. In reality, I don't know whether it's going to break the budget one way or the other.

I'm putting it back down to the project rather than the overall number that would be required from the government. I think for a project, it needs to be enough money to help them get started with their seed money. If it's \$20,000, \$25,000, \$50,000 or whatever, I think those are reasonable numbers. It's about as small as you can get and still get that start.

We could certainly forward a recommendation, but I don't think that was the purpose of being here talking about CDI. It would be a CDI-like program. Something along those lines would be what I would see.

The Chair: Thank you very much.

[*Translation*]

Ms. Blanchette-Lamothe, you have five minutes.

Ms. Lysane Blanchette-Lamothe: Thank you.

We heard from many people this week. Today was the only day I was able to be here, but I want to share one of my concerns.

I am concerned about the fact that the report indicates that the cooperative sector is flourishing and that things are going well. Many cooperatives have been created and have been successful. This could provide justification for the federal government to withdraw its support for cooperatives.

What do you think about this type of statement being made in a committee report. I am putting the question out there. Do not be shy about providing your comments.

Mrs. Hazel Corcoran: I would like to respond.

[*English*]

One of the things that goes on as well is that certain provinces—Quebec being by far the strongest, but Manitoba as well and Nova Scotia—are actually doing quite a bit to support co-op development. So if you see the co-op emerging sectors doing well, a very big percentage of the new co-ops are in the provinces where the province has been doing something. I think, by and large, the other seven provinces are not doing very much. So that is part of the answer.

Of course, to some degree, I think we've seen some failures in the other more conventional business models, and so people are tending to look for different solutions. So they're finding the co-op model, even if the government isn't doing what it could be doing to meet them, as well, along the way.

Those are a couple of responses, and there might be others.

Go ahead.

Mr. Bob Nelson: If I may, I'm actually going to go back to one of the recommendations that we talked about. It was the tax implication, but I want to extend it more broadly. It was in relation to private versus public treatment in terms of taxation. Here, cooperatives fit nicely in that category called "other"—neither here nor there, with a lot of ambiguities, etc.

To your question, as I understood it, of the government opting out from supporting cooperatives, I would actually come right back and say that this would, in my view, be very much the same as the federal government saying that it wished to opt out of creating an environment to stimulate growth and development, or growth and development in rural communities. I would almost make those two statements in parallel.

Again, I certainly would have significant difficulty with that.

Mrs. Vera Goussaert: From the Manitoba Cooperative Association's perspective, we do have a very supportive and good relationship with our provincial government, as we've seen increased support for co-ops at the provincial level. That being said, it only came about because of the increased capacity that the sectors saw with the announcement of the CDI and its launch back in 2003 and subsequent funding flowing to Manitoba in 2005. That was really critical to the growth of our movement in Manitoba. It has given us the capacity to mobilize on a lot of initiatives. If we want to see continued growth, I think it is critical that there be support, in some way, from all levels of government. I think all levels of government need to be at the table.

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you.

A little bit earlier, we spoke about the fact that the government provides assistance to small business support programs.

Do you think that the government is justified in improving a small business loan program and thereby potentially doing away with support programs that are specifically designed for cooperatives?

Could all cooperatives benefit from a program for small businesses? Is there a gap that needs to be filled? Do other programs have to be maintained in order to support cooperatives specifically?

•(1630)

[English]

Mrs. Vera Goussaert: I think co-ops are businesses at their core. So they need to access the same programs that businesses access.

But in addition to the whole business element that co-ops have, they also have this whole governance and social development and community development aspect. That's where we need to see specific supports to cooperatives to assist that kind of development. We've talked about and have heard from all the panellists about the needed extra supports for start-ups, whether it's because there's burnout and you need to find the right entrepreneur, the right champion to champion your project.... There are all kinds of dynamics at play when you're working in a group and trying to develop a collective enterprise. So that's something in addition to what I think co-ops need to be able to access. And they need to be able to access existing business programs, as well, absolutely.

Mr. Bill Dobson: I'm a farmer and I live in rural Alberta. I certainly see the stress that exists in rural Canada. I think everyone in this room, regardless of other thinking, needs to think of ways whereby we're going to sustain rural Canada.

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

The Chair: Thank you very much.

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

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

I want to thank the witnesses for coming today.

There's more and more information, and in some cases it's almost an overload, but we really appreciate the input you're providing us.

First of all, Bill, you talked about challenges with raising capital. I'm assuming that you're a bigger organization and require bigger dollars to raise.

I'm not sure what that looks like in terms of numbers. Is it a million, or \$10 million, or is it \$100 million? What are the difficulties that UFA is having?

Mr. Bill Dobson: We just went through a capital structure review, and I was part of the committee. Part of it is internal, maintaining your cooperative identity and perhaps going outside of a traditional model, finding something that preserves your cooperative identity and yet lets you access capitalization.

I'm going to turn it over to Bob to talk about the one specific item. But when you talk about magnitude, it's all about the magnitude of the cooperative. For our cooperative, depending on our strategy, our movement to be competitive in the future, we could be looking at \$100 million, \$200 million, \$300 million. Other cooperatives are bigger and they might need a billion dollars.

There's lots of money. We hear these billion-dollar figures that are being invested in private companies. Cooperatives need to have a way of accessing that type of funding as well, if they're going to be competitive.

I'm going to turn it over to Bob about the one item that I think is important, and that is the tax deferral item. We want to make sure we drive that point home.

Mr. Bob Nelson: I think we simply wanted to add on to that. This is the TDCS program that is scheduled to end in 2016, and it does reference patronage to our members. What it effectively does is to enable the issue of eligible shares that defer members' obligations to the time of the actual cashing of those shares. In our case, that could be any time subsequent to 65, or exiting the business, or any number of other triggers.

It would encourage our owners, our members, to leave their capital in the cooperative rather than pulling it out at the first opportunity. As a business, we obviously need to be generating returns on those invested shares, and that becomes a management challenge.

When you talk size and order of magnitude, in terms of Bill's comments, we're actually in a very unique position as a large cooperative. We are a cooperative with in excess of \$2 billion. We're too large to be small and too small to be really large. We're kind of in a no-man's land and looking to try to compete with some very large global players, which requires some very significant investment. The past investments that we've talked about, of \$20 million or \$30 million annually, are the tip of the iceberg. We're thinking in terms of multiples of 10 of that now.

Mr. LaVar Payne: Okay.

I'm assuming you've got machinery and equipment and there are tax rules so you can write these off, as with any other organization.

Mr. Bob Nelson: Yes.

Mr. LaVar Payne: Okay.

One of the things I'll maybe touch on with all of the organizations is about investments in terms of training and helping out other organizations.

Bill, I think you said your organization is prepared to step up. What about the central credit organizations in each of the provinces? Are they putting any funding into training programs to help in governance or start-ups?

I'll let Bill start, and we'll work our way across.

• (1635)

Mr. Bill Dobson: Very quickly, we certainly invest in cooperative management programs. There's the CMEC program in Dalhousie, I believe. We have a co-op chair in Alberta. We have a Goldeye Centre's program for youth. We have been doing that on an ongoing basis. We're always trying to develop at that level. We invest in all of those programs.

I'll turn it over to Peter.

Mr. Peter Hough: One of the things that a number of us at the table here have emphasized is the need for supports in the development of cooperatives. A key person in that development is somebody who has the background, skills, and knowledge of how to do that. One thing we've done, through the support of CDI, is develop an online training program. We trained 17 developers across Canada in the past year, and we expect somewhere between 20 and 30 people in our training program again this year. So that's one aspect of training, in this case training co-op developers to work with groups.

The challenge for small groups and training is that large organizations focus on the training that's going to move their cooperative forward. Just as we don't go to a typical small business and say, "We should all get together, and you should provide funds to train other small businesses you're going to compete with", I don't believe we should expect large cooperatives to be funding the development of new businesses that don't directly benefit them, any more than we expect other large corporations to provide that kind of funding for businesses they're not related to.

So although we share very common value and principles, I think sometimes there's a misunderstanding of the cooperative sector in seeing it as monolithic. Each one of our cooperatives is an autonomous, independent business that is responsible to its members. So our training is often focused on our membership, on that management side. We do collaborate with Master's programs and those kind of things to enhance management training, but there is still a huge gap in resources for the kind of training really required at the start-up level.

The Chair: Thank you.

Next up is Monsieur Ravignat, for five minutes.

[Translation]

Mr. Ravignat, you have five minutes.

Mr. Mathieu Ravignat: Thank you, Mr. Chair.

I would like to thank you for coming. I enjoyed spending the afternoon with you. It gave me the opportunity to learn many things.

[English]

My first question is directed to the Canadian Worker Co-op Federation.

I guess I'd like to dig a little bit deeper with you. All of us here are in the business of improving public policy. When public policy gets in the way of actions that might help local workers and local industry, I think we all need to ask ourselves some questions about why that is. I'm particularly interested in getting your opinion on the legislative framework, which discourages the formation of the Canadian worker co-op federations. I'm thinking particularly about bankruptcy rules.

A number of sawmills in my riding have been bought by foreign companies. Seemingly, their only interest is stealing pensions from workers, taking off and selling the assets, and opening sawmills somewhere else.

What are the built-in impediments, from a legislative and a policy point of view?

Mrs. Hazel Corcoran: The biggest impediment has been capital. We've been involved in a few cases of attempted buyouts of sawmills by the workers and find that the legislative environment is actually reasonable. I would say that some 20 or more years ago it wasn't, but that's one area where we have done quite a bit of work with government. At least the cooperative legislation is reasonable for worker ownership in a way that it wasn't previously. The stumbling block we most hit on is capital, and that's not a legislative issue, so it doesn't directly answer your question.

The other issue, frankly, is that it's so much easier to deal with orderly business succession and transitions to worker cooperatives that we've begun to focus more on that crises or "save the plant" sort of situations—although sometimes that does work, as long as you can make the business at least break even. Sometimes you can't do that, and so it's not a good idea for anybody to own it. It's just going to have to go under.

Anyway, I'm not sure what else to say on that.

Do you have anything to add, Peter?

• (1640)

Mr. Peter Hough: I think what you're alluding to, perhaps, is that if the workers had some sort of rights within that context, then they could actually look at the worker co-op as an opportunity. I think that legislative changes relating to workers having more rights within those kind of bankruptcy situations may at least encourage the exploration of employee ownership in those situations.

Mr. Mathieu Ravignat: Let's talk about the access to capital issue then. Is that risk averse? Is it because there's risk averse reactions to providing capital to this kind of initiative?

Mr. Peter Hough: There are a number of reasons. Basically, initially, you're not starting with a large corporation with a capital base. If we're talking about buying a significant enterprise from the beginning, that's who buys them. If you're on the financial end of things, you suddenly have a group of a hundred employees in a sawmill in front of you who want to take over the business. Their personal assets are probably relatively limited, and certainly in terms of the scale of what the alternative would be. And so they have to be able to find some of their own resources and there's not a pool of capital backing them up.

From a risk profile from a conventional financing point of view, that really becomes a problem. When we're talking about creating a national co-op development fund, the point of the fund is not to provide 100% financing for any enterprise. The point of that particular fund in the kind of proposal that we've talked about is that we would basically create subdebt, basically meaning quasi-equity capital for those kinds of employees.

The employees would come up with, say, 15% or 20%, and the fund would be able to come up with another 20% to 30%. Then you'd be able to get the rest of the financing in a conventional way because there would be enough assets to actually mitigate the risks so that whether it's a credit union, or the Royal Bank, or whoever it happens to be, they would come to the table.

That would address the gap in those kinds of situations, as well as start-ups, by really helping people have enough equity or patient capital at the beginning of the development process so that they can get over that obstacle, and have positive cash flow and get their business rolling.

The Chair: Thank you. Your time is up.

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

Mr. Pierre Lemieux: Thank you very much.

Thank you for being here and adding to the great story of co-ops that we've been hearing. Certainly, just to follow up on what Mathieu was saying, financing has certainly been a key issue that's come up over the past three days. I think we've been trying to probe that a little bit because there is a difference of information depending on who is giving the information.

I'll just give you an example. Sometimes when we're talking with co-ops, we'll hear that start-up co-ops have difficulty accessing financing, which I believe to be true.

I also think, though, that small businesses face the same types of challenges. They're high risk. Access to capital is very much a challenge for them. They're in their infancy, really. I'm sure there are many small businesses that are just ready to launch but they can't get the capital funding.

We've had a number of financial institutions here, including the Bankers Association, the FCC, and a number of credit union and credit co-op types of financial institutions, too. I've been asking them this question consistently throughout our meetings, and the answer we've been receiving from them is that although co-ops have certain challenges, when it comes to applications for financing certainly, whether they're a co-op or a business isn't part of the lending institution's decision-making. It seems to be more about the specific

type of risk analysis that a lending institution does. Whether you're a small business or a co-op, you will be evaluated based on what you're asking for and what you're offering. That is very much a factor and plays a role in whether they can access credit financing when they're in their infancy.

So I'm wondering if you could comment on that.

Vera, I don't know if you see the business side of that and if you can make that kind of comparison. Is that accurate, what we've been told by financial institutions, including co-ops?

Mrs. Vera Goussaert: For sure.

Certainly, I think that when you go to a lender, they're going to look at the business case and they're going to analyze it based on the business case. Certainly, that does exist. Where I think the difference lies is when you have a conventional small business starting. Whether it's a single entrepreneur or a collection of entrepreneurs, they will put all their assets into it.

Sometimes in a co-op setting, it's a small group of people who, for instance, when you look at rural communities, maybe want to build a hotel in their town, and they want to own it as a community enterprise. All the farmers from the nearby communities are not going to put their livelihoods on the line, if you will. There's a need for this equity financing. I think that's the key difference, and that's where co-ops have a real struggle accessing that equity financing.

• (1645)

Mr. Pierre Lemieux: Okay, go ahead.

Mr. Peter Hough: I just want to make a comment as well.

From the straight getting of a loan, the process is somewhat the same when the institution looks at the financials. One of the differences comes down to the fact that they're actually collective entrepreneurs, but bankers and credit union managers as well—indeed, this happens in the credit union system as well—are used to dealing with one individual who will put a personal guarantee and sign off their house to take that risk. They are not used to dealing with a collective group of 5 or 10 people, with a start-up.

The other thing is this. I've seen some situations in which a bank will accept everybody basically taking a portion of their [*Inaudible—Editor*]. Generally, they want everybody to sign for everything. Now you're in a collective situation in which you now have 5 or 10 houses on the line—

Mr. Pierre Lemieux: What we've heard from the co-ops, though, is that the cooperative lending institutions understand the co-op model better. So they understand what you're proposing to them. Certainly the information we've received is that they are more willing to find solutions. You're pitching one solution that might not be palatable. But they seem to be more dedicated to finding other solutions that would work.

Let me just ask one more thing. In my riding, we have a Community Futures Development Corporation. It's not a great big regional development agency. It's a small but effective organization in my riding. They provide funding for things like what you're talking about—a business case or something that defines their mission statement and what they're all about—so that they can actually hire some help to get those fundamental documents that they would take to seek access to funding.

I'm assuming that it must be the same in your areas, as well. There is federal funding available to both businesses and co-ops that are seeking help with those primary steps, which they would then use to seek funding.

Mrs. Vera Goussaert: Yes, there is. But again, it comes back to that whole vernacular thing. It's not often in the language of business developers. They don't understand the co-op model, so they won't recommend it. They won't advise people that it might be the most appropriate model for them to use. So they then get swayed or pulled in a different direction, and co-ops do not get formed because of that.

You know, you go to the lawyer in town. The lawyer has never worked with a co-op and doesn't understand the model and is going to say that it's much easier to incorporate this as a conventional business.

Mrs. Hazel Corcoran: Plus, the Community Futures aren't in the cities. You can't go to Community Futures if you're in Calgary, as I am.

The Chair: Thank you.

Do you have something to add, Mr. Hough?

Mr. Peter Hough: Yes. I used to be on the board of Community Futures in Nova Scotia and on the local business development corporation. We did make some loans to cooperatives.

I've forgotten what I was going to say.

Mr. Joe Preston: It was a good thing.

The Chair: Well then, I guess we'll have to leave it at that.

Mr. Peter Hough: The point is that each Community Futures designs its own programs. Our Community Futures didn't provide any grants to anybody. There were no grants whatsoever for anybody. In our Community Futures, if you wanted to, you could borrow money from us. But there were no grants being provided for anything.

My point is simply that it's not the same across the country. It's quite different, depending on where you are.

The Chair: Thank you very much.

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

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

Let me thank folks for being here this afternoon. And of course, to be on the record, I thank all the folks who have come here over these five days of testimony. Indeed, as many of my friends across the way have said, it's been a learning experience for some, and maybe less for others, depending on one's experience with cooperatives and credit unions, etc. Some of us have been around them a lot longer.

Mr. Nelson, if I could, there are some rather specific things you and Mr. Dobson have in your package. My friend, Mr. Lemieux, has been talking about the financial end, back and forth, trying to find a reason for saying, aren't they just the same?

It seems to me that near the end of your piece, you talked about classifying cooperatives as a unique business model for tax purposes. Let me just read the entire paragraph, because I know that Mr. Dobson paraphrased some of it, realizing that his 10 minutes was about to end:

Co-operatives are currently not defined as private corporations for tax purposes, but are allowed certain deductions and credits available to private corporations. We would recommend co-operatives be uniquely defined to avoid having to amend sections of the tax laws where there is an intention for a co-operative benefit. Currently, when tax rules change, there are significant uncertainties for how those rules are intended for cooperatives.

If I'm reading that correctly, when I listen to myself say that, you're suggesting that cooperatives don't quite fit exactly the same way, in the tax code at least, as something that would define itself as a corporation, per se.

Perhaps you could speak to that, because there's some significance, at least for me, in what that piece says.

• (1650)

Mr. Bob Nelson: That is absolutely correct.

As I mentioned earlier, co-ops are neither public nor private, by definition, and there are certain exemptions that take place. Really what we're talking about there is that certain parts of the tax act are applicable or exempt, and the waters are really quite murky. What we're really talking about there is simply calling it out as a distinct business model and taking out the ambiguity. Where that ambiguity exists today actually creates opportunities for us to misinterpret or be offside, totally unintentionally.

The other thing it does, with that simple clarification in the act, if it were to take place, is actually raise the awareness and the relevance of the cooperative business model, right there in that one singular thing. That is without changing anything within what is contemplated by the tax act as it exists today. So it does remove ambiguities, and it creates clarity for us.

Mr. Malcolm Allen: If I can be so bold as to say, I think regardless of the size of the business, whether you are a small start-up with a couple of folks, say, 10 or 12 members, or a large cooperative similar to the United Farmers of Alberta, or others that are significantly large, one of the things they need when they're planning is clarity. It's very difficult to figure out what you should plan, if you're taking all of the aspects into consideration, if you're uncertain what indeed those pieces are.

As you said, it could be murky. It's like putting mud in the water and waiting for the mud to settle to the bottom to see if there's any clear water on top to drink from.

Mr. Bob Nelson: That's absolutely right. We've gone through tax audits in the past, and as we work our way through those audits, we can actually talk to three different people in a tax department and get three very distinct and different interpretations of what's there and being stated.

Again, anything that can be done to clarify, to eliminate that murkiness, is hugely helpful.

Mr. Bill Dobson: I'll just add that for us at UFA, we have dedicated accountants at an accounting firm who certainly understand cooperatives. But in my farming other life with other cooperatives, some of the accountants who you might have in a local accounting firm, for instance, struggle with some of these interpretations of exactly how cooperatives could be....

It seems to me that it would make sense to just have a distinct set of rules and regulations on identification of a cooperative. It would certainly simplify things for them as well, because I think there are lost opportunities.

Mr. Malcolm Allen: It certainly seems so. I mean, clarity helps planning.

To Ms. Goussaert, you mentioned earlier—and I agree with Mr. Preston on this one—that you have this training program for high schools or for kids from the province of Ontario, and I happen to see it in my local high school. As much as we run cooperative programs in the sense of having kids in co-op programs, it really is about “Go work for someone”.

Do you see a need to find a way to have a co-op program that actually deals with a cooperative?

Mrs. Vera Goussaert: Oh, absolutely, and that's the awareness-raising. We feel that if we can educate our young people from a very early age about what a co-op is, maybe they'll pursue careers in cooperatives and learn about cooperatives. They might become lawyers and accountants who know about cooperatives.

Mr. Malcolm Allen: Or tax experts.

Mrs. Vera Goussaert: Or tax experts—the whole realm of things, right? They might become leaders within their own cooperatives, or politicians.

So there is definitely value. It is a stand-alone program. It's a series of five lessons, and at the end they've actually built their own co-op. That's the process they go through. It's a really great program to engage young people.

•(1655)

The Chair: Thank you very much.

We now go to Ms. Rempel for five minutes.

Ms. Michelle Rempel: Thank you, Mr. Chair.

To Mr. Hough and Ms. Corcoran, perhaps you can very succinctly summarize the differences, if there are any, between a worker cooperative and a regular cooperative.

Mr. Peter Hough: Cooperatives are generally defined by their membership bases. In a consumer cooperative, basically the consumers are the members of the cooperative. They elect the board of directors, and the board of directors then manages on their behalf.

Then there's the worker co-op. For instance, a grocery store in Cape Breton is a worker cooperative. The members of the cooperative are the employees in the grocery store.

Ms. Michelle Rempel: Oh, okay.

Mr. Peter Hough: Basically a worker cooperative is an employee-owned enterprise that is democratically operated following the cooperative principles incorporated under the cooperative act.

Ms. Michelle Rempel: Out of curiosity, because we're talking about raising awareness, does that create any issues with regard to governance, or hiring, or management issues? How does the cooperative model deal with hiring and firing employees?

Mr. Peter Hough: One of the first things you learn when you join any cooperative is that you're there based on responsibilities and obligations to the cooperative. Anybody in any kind of cooperative, whether it's a credit union or a worker cooperative, can be kicked out of the cooperative.

So you separate out the governance functions from management functions and your work functions. However, I might be working as a meat packer in the grocery store and I might actually be the chair of the board of the worker cooperative. Within that cooperative development process, people really have to learn how to take hats off and on and understand the roles and responsibilities and those sorts of things.

When we say it's a more complicated structure, we all know.... It may not be pleasant, but it's simple to work with a boss who tells you what to do. But in terms of a worker cooperative, you'll have bosses and you'll have very different kinds of management structures within worker co-ops. Some are very horizontal and some are very conventionally hierarchical.

Ms. Michelle Rempel: So in that situation, if someone were to exit—they were terminated or whatnot—would they retain their membership in the cooperative or would the cooperative buy it out? How does that work?

Mr. Peter Hough: Essentially what happens is that when you join the cooperative, you make an investment into the cooperative. Basically you do that with par-value shares. You then get your profits built up over the year, which are, I would note, taxed as earned income. Unlike a corporation, when I get my profits from the worker co-op I'm actually paying earned income tax on it. It may be retained as shares in the cooperative, and then when I leave the cooperative the cooperative buys back all of my shares that I've built up through my initial investment and my profit-sharing.

As I said earlier, there's no capital gains because they're par-value shares when they're issued to you. You purchase them after tax, and you receive them without any tax benefit.

Mrs. Hazel Corcoran: I would just add that if you are fired, essentially then you would be removed from the membership at the same time. If you quit, then you would also be removed from the membership. You have to be working in the worker co-op to be a member.

Ms. Michelle Rempel: I'm not sure if you spoke to this already, but do you see examples of unionized worker cooperatives?

Mrs. Hazel Corcoran: There are some, although not a very high percentage.

Ms. Michelle Rempel: How does that work?

Mrs. Hazel Corcoran: In Quebec there are paramedic cooperatives. I think there are eleven of them around the province, and they're all unionized. They were previously a different kind of enterprise and they were unionized. Now they're unionized worker cooperatives.

Are there any others we can think of?

Mr. Peter Hough: There are not many in Canada.

Mrs. Hazel Corcoran: There are not very many in Canada. In the U.S. there are more. It's more common there, for some reason.

Here, I don't know if I can think of other examples.

Ms. Michelle Rempel: No, I was just curious. I think it's a business model that not a lot of people are familiar with.

Mrs. Hazel Corcoran: Definitely.

Ms. Michelle Rempel: Ms. Goussaert, you had spoken earlier about group development sometimes being an impediment to the development of cooperatives or their ongoing maintenance, and you mentioned the patience and resources that are needed to do that. How do cooperatives overcome that barrier when they're being formed?

Mrs. Vera Goussaert: There have been a lot of resources available. There's support from their co-op associations. Co-op federations sometimes will assist. There's a lot in terms of setting up your governance model, training on what a co-op is and what your roles and responsibilities are.

Peter talked about it really well in terms of separating the functions. Often co-ops will start in small communities where you have somebody who owns one business down here, and another business, and they're all on the same board. How do you reconcile that for the betterment of the co-op as opposed to your own personal interests? That's what it is to govern, right?

That's the piece that takes a lot of time, and it is a time thing. That's where co-ops perhaps have not been as quick to move on a lot of initiatives, because they have to take the time to build the group dynamic before launching.

• (1700)

Ms. Michelle Rempel: Just in closing—

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

Ms. Michelle Rempel: Everyone else got two minutes. Come on.

The Chair: Unfortunately, that's also concludes our time.

Ms. Michelle Rempel: He's from my neighbouring riding, too, you know. There's no love.

The Chair: I would like to thank all of the witnesses for their contributions.

The meeting is now suspended.

[Proceedings continue in camera]

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