



Harnessing the co-operative model for Canada's economic growth

Written Submission for Pre-Budget Consultations in Advance of the
2020 Budget

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List of Recommendations

1. Change tax policies to allow co-operative shareholder investments to be eligible for RRSP/TFSA contributions.
2. Enable contributions and investments under the Co-operative Development Foundation to be eligible tax-free contributions, encouraging co-operative and community-led solutions that support economic development in Canada and globally.
3. Modernize the out-of-date *Canada Cooperatives Act* and work towards the harmonization of provincial acts to create a pan-Canadian act that supports a level-playing field for co-operatives across Canada.
4. Ensure all government programs supporting businesses are developed in a simplified, partnership-driven approach that supports the co-operative stream – including support systems for SMEs, from Regional Development Agencies, and any new multi-year innovation and trade diversification strategies. An immediate review of available programs is requested.
5. Make the co-operative business model a priority by adding a co-op lens to any Cabinet discussions and decisions at relevant Cabinet committees, especially around rural economic development, innovation, competitiveness and SME growth.
6. Improve access to natural gas, electricity and basic utilities for rural businesses, many of which are co-ops.
7. Prioritize funding to rural water and waste management facilities to support the expansion of current manufacturing or attract new manufacturing to rural areas.
8. Review carbon and environmental initiatives to ensure they do not negatively impact rural businesses, especially co-operatives.



Introduction

After 60 years as a leading Canadian co-op, Gay Lea Foods knows the great things that can be accomplished, both locally and nationally, within a co-operative framework. Our experience has also given us keen insight into the obstacles that currently prevent co-operatives from realizing their potential as drivers of economic growth, both domestically and internationally.

We're pleased to participate in the Budget 2020 process that will support Canada's co-operative sector contribution to our country's social fabric, economic prosperity and environmental consciousness.

Co-operatives play a key economic role in Canada, providing goods and services to more than 31.8 million member owners, while supporting over 666,146 direct and spinoff jobs across the country. With \$503 billion in assets and \$85.9 billion in business volume, co-ops contribute more than 3.4% annually to Canada's GDP. In Canada, co-operatives provide key services and products in a variety of fields, including agriculture, food and farm, tourism, art and culture, child care, affordable housing, retail goods, education, renewable energy, transportation, social services, natural resources, financial and insurance services, and even funeral services.

Contributing to climate change solutions and rural economic development

Co-operatives are one of the most exciting and powerful vehicles through which societies can confront climate change. With more than 31.8 million members in Canada alone, they are an important network that can play a valuable role in cutting carbon emissions. At the same time, co-operatives advance values such as the importance of dialogue and solidarity, while leading societies towards a democratic, people-centred economy.

As a food processor in Canada, and as a co-operative owned by dairy farm families, Gay Lea Foods understands the importance of protecting our natural resources and being responsible stewards of the environment. Gay Lea Foods is committed to conducting our business in a way that minimizes our environmental footprint and, most importantly, meets the needs of the present without compromising the ability of future generations to meet their own needs.

A co-operative is a different and extremely effective way of doing business. In a co-operative:

- Business decisions are guided by principles that keep the need for profitability balanced with the well-being of communities and needs of members.
- The empowerment of member-owners who lead, invest and direct the business is prioritized.



- Profits are distributed to members, keeping dollars circulating within the local economy and helping revitalize, build and sustain healthy communities.

The co-operative sector revolves around a simple model: a need is identified, and a given community comes together to create a solution leading to increased opportunities, innovation and growth. Fundamentally focused on long-term success and sustainability, these co-operatives play a critical role in communities both rural and urban, and across all industries, contributing to our economy and standard of living projections, education, skilled labour and, if allowed to reach their full potential, leadership beyond our borders. Co-operatives are positively contributing to Canada's environmental, economic and social priorities and could do more, including contributing to the National Housing Strategy to build and sustain community co-operative housing.

In our experience, however, there are several barriers preventing co-ops from reaching their full potential, among them a lack of understanding about co-operatives in general, and the socio-economic features that differentiate us.

Refined business taxation policy

Co-operatives have a proven track record of sustainability, distributing profits to members and keeping dollars circulating within the local economy while helping to meet the complex needs of a rapidly changing society.

Unfortunately, co-operative shareholders and investors do not have access to the same tax benefits as shareholders in other types of businesses. This is because the *Canada Cooperatives Act* is based on the *Canada Business Corporations Act*, which fails to consider the structure of a co-operative business.

Co-operative shareholders are also limited in how they can invest and re-invest their shares compared to other business shareholders. This discourages investment in co-operatives and represents a missed opportunity to support broader social interests both domestically and globally. Shareholders of co-operatives are more likely to be long-term investors, investing not only for a financial return, but to support a community need. It goes further: co-operatives support auxiliary needs in communities that are often overlooked, like local transportation services for residents with mobility needs or community housing.



Recommendations:

- 1. Change tax policies to allow co-operative shareholder investments to be eligible for RRSP/TFSA contributions.**
- 2. Enable co-operative contributions and investments under the Co-operative Development Foundation to be eligible tax-free contributions, encouraging co-operative and community-led solutions that support economic development in Canada and globally.**

Removing barriers to economic growth

Governments and Canadians, in general, have a very limited understanding of what a co-op is or how the business model can contribute to economic development. In order to maximize its potential for all Canadians, the co-operative business model should be embedded as an economic and social model in business, finance and social programs across academia and government.

Often, co-operatives fail to fit program or policy criteria as a “business” or the criteria doesn’t provide the necessary flexibility to allow for the timing and approvals required within a co-operative management and governance structure.

Even within the co-operative sector, there are diverse business models and requirements that need to be addressed. Many face the same hurdles as small- and medium-sized enterprises (SMEs) — access to capital, opportunities to scale-up, international market access — but are not treated as such for the purposes of government policy or programs. In this regard, understanding the model and having a central government department or agency to focus on supporting the sector is crucial.

One of the greatest benefits of a co-op business, the focus on bolstering local communities, also contributes to some of the barriers preventing co-ops from scaling up and reaching their full potential. This includes a lack of affordable business development and management skills, and a lack of access to services or consultation. Co-ops have the potential to increase export opportunities, but knowledge about international business development opportunities is scarce and there is a gap in resources to support development.

Finally, the *Canadian Cooperatives Act* should be modernized to encourage and support the growth of co-operatives across more than one province or territory. Many of the provincial co-operative acts are more progressive than the federal act, which results in inequities among co-operatives depending on where they are based and where their members reside. Incorporation under the federal act, as an



alternative, mandates specific and dated requirements for the co-operative’s governance structure, ruling this out as an option for many co-operative businesses. This disparity affects the ability of co-operatives to raise capital, scale up and create jobs nationally.

Recommendations:

- 3. Modernize the out-of-date *Canada Cooperatives Act* and work towards the harmonization of provincial acts to create a pan-Canadian act that supports a level-playing field for co-operatives across Canada.**
- 4. Ensure all government programs supporting businesses are developed in a simplified, partnership-driven approach that supports the co-operative stream – including support systems for SMEs, from Regional Development Agencies, and any new multi-year innovation and trade diversification strategies. An immediate review of available programs is requested.**
- 5. Make the co-operative business model a priority by adding a co-op lens to any Cabinet discussions and decisions at relevant Cabinet committees, especially around rural economic development, innovation, competitiveness and SME growth.**

Rural economic development

Rural Canada is more than a place or a region; it is people, communities, innovation, ingenuity and perseverance. It is home to many co-operatives, a testament to the shared values of cooperation, caring, collaboration, inclusiveness and democracy. Infrastructures in rural communities, however, are a major barrier to growth.

Access to and/or access to sufficient volumes of natural gas, electricity and basic utilities continues to be a limiting growth factor for food and beverage manufacturers in rural Canada – as does the price of these utilities. Rural municipalities are underfunded and often unable to make the investment to increase their water and waste management facilities to support the expansion of current manufacturing or attract new manufacturing to the area. They are also frequently unable to provide timely approvals due to multiple levels of government involvement in permitting, regulatory reviews, environmental reviews, etc.

Rural Canadian businesses are reliant on transportation infrastructure and functioning trade corridors to procure inputs and get finished goods to market. This added cost of doing business (increased



transport and fuel consumption, fewer options for the transport of goods, etc.) should not be further negatively impacted by the costs of carbon and environmental initiatives.

Recommendations:

- 6. Improve access to natural gas, electricity and basic utilities for rural businesses, which are often co-ops.**
- 7. Prioritize funding to rural water and waste management facilities to support the expansion of current manufacturing or attract new manufacturing to rural areas.**
- 8. Review carbon and environmental initiatives to ensure they do not negatively impact rural businesses, especially co-operative model businesses.**

Conclusion

Co-operatives come in all sizes and operate in all sectors. They connect Canada from coast to coast to coast. Co-operation among co-operatives is more than a principle, it is a smart way of doing business and a platform for realizing a circular economy in Canada. We bank at credit unions, we source insurance, energy, utilities, beer, and food from co-operatives, we grow northern and rural communities with co-operatives. Young business leaders should be given the opportunity to learn how co-operatives support every part of Canada's economy and social prosperity through the creation of a co-operative program that supports high school/post-secondary development of co-op businesses in partnership with some of Canada's leading co-operatives and credit unions.

To those of us who live it every day, it is abundantly clear that the co-operative business model holds a key to ensuring our country remains competitive and prosperous in a rapidly changing global economy. With the right education, understanding and resources, there is no better sector to meet Canada's needs around innovation, diversity, youth, climate change, standard of living and rural and indigenous economic development. There have been many achievements and success within the sector - but there are still barriers that need to be addressed for our country to truly tap into the economic and innovation potential of Canadian co-operatives.



About Gay Lea Foods Co-operative Limited

Gay Lea Foods is a leading co-operative renowned for its co-operative-inspired values and high-quality, innovative and award-winning dairy products. With members on more than 1,400 farms across Ontario and Manitoba, and more than 4,320 producer and investor shareholders, Gay Lea Foods' farmers, shareholders and employees have proudly collaborated for more than 60 years to meet member needs, contribute to the development of communities, and ensure the co-operative is well positioned to lead as a thriving and innovative Canadian foods business.