



The co-operative business model for Canada's economic recovery

Written Submission for the Pre-Budget Consultations in Advance of
the 2021 Budget

By Michael Barrett, President and CEO
Gay Lea Foods Co-operative Ltd
August 6, 2020

List of Recommendations

1. Ensure that a co-operative voice is represented on all Economic Strategy Tables to support economic recovery and help maintain Canada's global competitiveness.
2. 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 regarding rural economic development, innovation, industrial strategy, competitiveness and SME growth.
3. Optimize the *Canada Cooperatives Act* to remove barriers to economic growth and maximize opportunities for further socio-economic solutions to benefit Canadian communities and international development.
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. Remove barriers to growth with strategic amendments to the Income Tax Act to put co-operatives on a level playing field with other businesses to access capital for reinvestment and scaling-up opportunities.
6. Update tax policies to allow co-operative shareholder investments to be eligible for RRSP/TFSA contributions.
7. 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 recovery in Canada and globally.
8. Renew the successful Tax-deferred Co-operative Share Program to support the continued growth and sustainability of Canada's agri-food co-operatives.
9. Implement full and fair processing compensation for dairy and poultry processors as promised in response to concessions the Government of Canada made in the CUSMA and CPTPP trade deals.



Introduction

We are pleased to participate in the Budget 2021 process that will support Canada's recovery from what is anticipated to be the deepest global recession since the Second World War. In public policy terms, we are focused on the co-operative sector's contribution to our country's social fabric, economic prosperity and environmental consciousness.

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. 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.

A recent study by Abacus Data indicated that "nearly half of Canadians say the country would be better off if more co-operatives were in operation." However our experience has given us keen insight into obstacles that are preventing Canadian co-operatives from realizing their potential as drivers of economic growth.

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 approximately 1,400 farms across Ontario and Manitoba, and more than 4,200 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.

Canadian co-op voices essential for economic recovery

Co-operatives are one of the most exciting and powerful vehicles through which societies can contribute to economic recovery in a post-pandemic world. With more than 31.8 million members in Canada, co-operatives are an important network that can play a valuable role in ensuring Canadians and businesses remain successful. At the same time, co-operatives advance values such as dialogue



and solidarity and can help lead us toward a sustainable, green, and people-centred economic recovery.

The co-operative sector is based on a simple model: a need is identified, and a given community comes together to create a solution leading to increased opportunities, innovation and growth.

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

- Business decisions are guided by principles that keep the need for profitability balanced with the well-being of communities and needs of members.
- Member-owners are empowered to lead, invest and direct the business.
- Profits are distributed to members, keeping dollars circulating within the local economy and helping to revitalize, build and sustain healthy communities.

Fundamentally focused on long-term success and sustainability, co-operatives play a critical role in rural and urban communities, across all industries, contributing to our economy and standard of living, education, skilled labour and, if allowed to reach their full potential, leadership beyond our borders. For these reasons, it is critical that the federal government ensure co-op voices are represented in public policy decisions and are a central plank in Canada's post-pandemic economic recovery strategy.

Recommendations:

- 1. Ensure that a co-operative voice is represented on all Economic Strategy Tables to support economic recovery and help maintain Canada's global competitiveness.**
- 2. 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 regarding rural economic development, innovation, industrial strategy, competitiveness and SME growth.**

Ensuring co-op businesses can grow and remain competitive

Several barriers prevent co-ops from reaching their full potential and making a larger contribution to economic development and recovery. Among them are a lack of understanding about co-operatives in general, and the socio-economic features that differentiate us.

Many co-ops across Canada 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 is the focus on community. Unfortunately, this focus on community contributes to some of the barriers preventing co-ops from scaling up. This includes a lack of affordable business development and management skills, and a lack of access to services or consultation. While co-ops have potential to increase export opportunities, knowledge and resources supporting international business development opportunities are scarce.

Additionally, many of the provincial co-operative acts are more progressive than the federal act, resulting in inequities among co-operatives depending on the location of the co-ops and their members. This affects the ability of cooperatives to raise capital, scale up and create jobs. The Canadian Cooperatives Act should be amended to encourage and support the growth of co-operatives across more than one province or territory.

Recommendations:

- 3. Optimize the *Canada Cooperatives Act* to remove barriers to economic growth and maximize opportunities for further socio-economic solutions to benefit Canadian communities and international development.**
- 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.**

Making tax policy more fair for the co-op sector

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 and investors do not have access to the same tax benefits as those in other types of businesses

Co-operative shareholders are limited in how they can invest and re-invest their shares, which significantly discourages investment in co-operatives. This represents a missed opportunity to support local economies and initiatives, as well as broader social interests domestically and globally.

Shareholders of cooperatives are more likely to be long-term investors, investing not only for financial return but to support community needs and community initiatives in housing, transportation and more. This is critical for economic recovery. Changes to the Income Tax Act and other tax policies need to be addressed quickly in order to maximize the co-op sector's contribution to Canada's post-pandemic economy.

Recommendations:

5. **Remove barriers to growth with strategic amendments to the Income Tax Act to put co-operatives on a level playing field with other businesses to access capital for reinvestment and scaling-up opportunities.**
6. **Update tax policies to allow co-operative shareholder investments to be eligible for RRSP/TFSA contributions.**
7. **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 recovery in Canada and globally.**

Enabling agri-food co-operatives to lead and succeed

The Agri-Food Economic Strategy Table Report, *Positioning Canada's agriculture and agri-food sectors for long-term growth*, has set ambitious targets for the sector to achieve by 2025 based on the Minister of Finance's Advisory Council on Economic Growth (2017) having identified Canada's agri-food sector as having great potential to be a driver of economic growth for the nation.

COVID-19 has already had a measurable impact and continues to be a disruptive reality on the agri-food sector and its focus on achieving the targets of \$85 billion in agri-food and seafood exports and \$140 billion in domestic sales of agriculture and food processing products by 2025.

Equipping the sector with the right tools such as the continuation of the Tax-deferred Co-operative Share Program, which is due to expire in 2020 and has been a crucial capitalization and resilience mechanism, Canada's 100,000 agribusiness co-operatives would be well placed to help keep Canada on track to meet the 2025 targets.

The Government of Canada also needs to move on its commitments to fully and fairly compensate processors and producers in the supply managed sectors as a result of the Canada-United States-Mexico Agreement (CUSMA) which is already in years 1-2 of the dairy concessions and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which is in years 3-4 of the dairy concessions.

Recommendations:

8. **Renew the successful Tax-deferred Co-operative Share Program to support the continued growth and sustainability of Canada's agri-food co-operatives.**



- 9. Implement full and fair processing compensation for dairy and poultry processors as promised in response to concessions the Government of Canada made in the CUSMA and CPTPP trade deals.**

Conclusion

Co-operatives come in all sizes and operate in all sectors. They connect Canada from coast to coast to coast. 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 this challenging economic and public health environment.

With the right education, understanding and resources, there is no better sector to meet Canada's needs in 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 remain barriers that need to be addressed for our country to truly tap into the economic and innovation potential of Canadian co-operatives. Canada's post-pandemic recovery depends on it.