

**Capitalization and Fiscal Considerations for  
Agricultural Cooperatives in Canada**  
**Brief on behalf of Canadian Agricultural Cooperatives and submitted to the  
House of Commons Standing Committee on Finance**

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First and foremost, ladies and gentlemen, members of the Standing Committee on Finance, please allow me to thank you for this opportunity to speak about an issue that is a primary concern for all Canadian agricultural cooperatives. As you will see in the upcoming presentation, agricultural cooperatives in Canada are currently facing significant challenges and must overcome constraints that call upon the intervention of government authorities.

Following customary introductions and throughout the next few pages, we will take this time to be specific about our requests and their driving motives.

**1. Introductions**

- **Canadian Co-operative Association (CCA).** CCA represents more than 10,000 cooperatives involved in their communities and in every area of daily life: banking, finance, insurance, health, funerals, retail trade, food and agriculture. These cooperative businesses have combined assets of \$168 billion, employ 150,000 people and benefit from the support of more than 100,000 volunteers. These cooperatives contribute to the growth of their communities thanks to donations, sponsorships and education grants approximating \$60 million (2001). The main goal of the CCA is to promote the cooperative formula in Canada and throughout the world. The cooperative movement with more than 10 million members is intrinsic to Canadian culture.
- **Conseil canadien de la Coopération (CCC).** Founded in 1946, the *Conseil canadien de la coopération* is a national organisation grouping together eight provincial councils on cooperation and representing more than 8 million francophone co-operators from more than 3,402 cooperatives, for which consolidated assets approached \$100 billion as of December 31, 2003. The CCC's mission is to promote cooperation through its role as spokesperson for the francophone cooperative movement in Canada and the socio-economic development of francophone communities. Moreover, CCC works closely with cooperative associations and organizations throughout the country, such as the Canadian Co-operative Association (CCA). In partnership with CCA, we provide support to the organization representing cooperatives as a whole on an international scale, Alliance Coopérative Internationale (ACI).
- **La Coop fédérée.** Founded in 1922, the CF is a federation comprised of 99 regional agricultural cooperatives located in Quebec, New Brunswick and Ontario. Today, CF is the property of 62,000 men and women agricultural producers. Sales for CF and its network are \$4.6 billion. Its farm procurement, processing and exporting activities play a major role in regional economic

development. CF and its network employ over 13,000 people in Quebec, which places the company at number 8 among the largest employers in this province .

- **Saskatchewan Wheat Pool (SWP).** The Pool is a publicly-traded cooperative created by Saskatchewan farmers in 1924 and is a leading service provider in the province. The Pool's primary businesses are grain handling and marketing supported by western Canada's largest agri-products retail marketing operations. Its annual sales are more than \$1 billion per year. The Pool has more than 70,000 members across Canada and its facilities are located in 100 rural communities.
- **United Farmers of Alberta (UFA).** Founded in 1909, UFA now has over 110,000 members and its sales are nearing the one billion dollar mark. It provides a wide range of farm procurement services and products by way of its 34 stores and 120 service stations spread all over Alberta, Saskatchewan and British Columbia. Without its efficiency and diversity of activities in addition to its large number of members, the mad cow crisis could have had far greater impact on cooperative performances.
- **Co-op Atlantique.** Founded in 1927, Co-op Atlantique is the second largest wholesale cooperative in Canada. It supplies 135 member-cooperatives, which then supply a variety of general merchandise, grocery, farm procurement and oil products to some 200,000 member-families. These cooperatives are located in the Atlantic provinces and Quebec. Co-op Atlantique has sales over \$500 million and employs more than 600 people.
- **Agropur cooperative.** Founded in 1938, the Agropur cooperative is a leader in the Canadian dairy industry with sales of \$1.9 billion. It has 4,400 members, 3,000 employees, 20 plants and several distribution centres all over the country, it processes almost 2 billion litres of milk per year and provides consumers with an impressive range of products with renowned brands, such as Oka, Québon, Sealtest, Natrel and Yoplait.
- **Société coopérative agricole de l'Île aux Grues.** Founded in 1976, this small dairy cooperative from Isle-aux-Grues is the economic driver for this island where 100 people reside. Two highly prized cheeses are produced here, *Le Mi Carême* and *Riopelle de l'Isle*, named after the celebrated Canadian artist, not only is this island delightfully charming it also attracts more than 55,000 visitors each year. The cooperative has invested \$1.2 million over the past three years. It operates with a dynamic team of 12 employees and 5 members. Three new jobs were created in the last two years and a new producer has joined the co-op. Business is good, current sales have reached \$2.3 million, twice that of 10 years ago.

- **Peace Country Tender Beef Co-op (PCTBC).** In development for the past two years, it was founded in March 2004 to respond to the hegemony of three slaughterhouses belonging to multinational corporations that dominate the Canadian market. The mad cow crisis was in fact a catalyst for this project that joins together 600 producers. The goal is to sell beef that has been raised free of hormones, medicated feed and animal proteins. This 'new generation' cooperative requires an investment of \$7 million to build a multi-species (beef, bison, deer) slaughterhouse with BSE testing capabilities. The cooperative also needs a \$6 million investment to build a biodigestion unit to process its waste. This ecological approach will also be used to promote the marketability of meat that can be traced directly from the producer to the consumer. Ground meat sold on supermarket shelves will have been made from a single animal.
- **Alberta Value Chain Cooperative Ltd.** In development since 2000, this other 'new generation' cooperative was officially born in 2004. It represents 110 bison, ostrich, and deer farmers and is aiming to introduce 500 more members to its group, such as horse farmers to develop the lucrative European market. The goal of this group is to develop niche markets with high added value and operate a franchise. The investment required to start this project is \$4.5 million and is financed in part by the purchase of shares. These shares are in fact meat hooks sold for \$150 each in view of the future construction of the slaughterhouse.
- **AgriEst, centre agricole Coop, CO-OP AG Center.** Revived in April 2001, with the assistance of La Coop fédérée, AgriEst is located in eastern Ontario. The cooperative was reborn thanks to the persistent desire of dairy, poultry and grain farmers to keep their cooperative heritage. It is comprised of nearly one hundred members and provides its community with animal feed products, crop inputs and farm related hardware products. In addition to negotiating grain purchases for its members, AgriEst has created a strong connection with its community and with several agricultural organizations. Its sales have grown from \$11.5 million in 2002 to \$13.1 million for 2004.

As we've stated, the economic and social contribution of Canadian agricultural cooperatives does not vary according to size. Whether they are large or small, they have always been and are now more than ever a critical player in regional development in a world that is often described as a global village and where capital is in constant flow.

However, all of these cooperatives, and without exception, large or small, traditional or 'new generation', face the same challenge, a challenge that hinders their full potential: capitalization for their projects

The presence of the CCA and the CCC, which represent the whole of Canadian cooperatives, no matter what their field of activity, as well as the most representative agri-food cooperatives of the Canadian agricultural sector, bear witness to our desire and will to find a solution. In short, the Canadian agricultural cooperative movement needs tools, implements that are relatively inexpensive for the government, to adjust to globalization and ensure its sustainability.

## **2. Agricultural Cooperatives: A Well-Kept Secret**

"If cooperatives have long tradition going back to the industrial revolution, they shouldn't be considered as antiquated and a leftover from the XIX<sup>th</sup> century. Today, the Commission recognizes the wide-ranging diversity of cooperative businesses within the EU and are an asset to its economy. Cooperatives are modern and dynamic businesses that offer great potential. They represent 83% of the Netherlands' agricultural production and 50% that of France, 37% of Cyprus' banking services, 35% of Finland's retail food trade, 21% of Spain's health care services and 60% of Sweden's forestry. That's why the Commission will support the efficient promotion and development of cooperative businesses in the European Union and candidate countries."

[Translation]

COMMUNICATION FROM THE *COMMISSION AU CONSEIL*, TO THE EUROPEAN PARLIAMENT, *AU COMITÉ ÉCONOMIQUE ET SOCIAL ET AU COMITÉ DES RÉGIONS*  
*SUR LA PROMOTION DES SOCIÉTÉS COOPÉRATIVES EN EUROPE*  
Brussels, February 23, 2004

Cooperatives today are developing in highly competitive markets and though they don't seek to exploit the full potential of benefits yielded from their invested capital, they have been able to gain a remarkable market share in areas usually dominated by business corporations, areas such as banking, insurance, retail food trade, pharmacy and agriculture. Agricultural cooperatives exist on an international scale. In fact, a recent study (Patisson, Agricultural co-operatives in selected transitional countries, 2000) found that more than one third of the world's food production is under the control of agricultural cooperatives. And for most European countries and Japan the percentage increases to more than 50%.

This is, most assuredly, one of economy's best kept secrets as well as one that Canadian society has yet to discover. For almost one hundred years now, Canadian agricultural cooperative businesses have been core elements in the development of one of the most significant manufacturing industries in Canada. Simply mention Saskatchewan Wheat Pool, United Farmers of Alberta, Co-op Atlantique, Agropur, Gay Lea, Lilydale, to name just a few, and you can begin to grasp the extent and scope of this nearly one-hundred-year-old movement.

In fact, there are more than 1,300 agricultural cooperatives across Canada. They collectively represent 400,000 independent member-farmers and employ more than 36,000 people. Finally, agricultural cooperatives possess between 15% and 20% of the market in regards to farm procurement, processing and marketing farm products. It's important to note that in Quebec, agricultural cooperatives embody nearly 60% of the farm input market and more than 50% of agricultural product processing.

Agricultural cooperatives work with and for the interests of their members, who are their primary users and cooperatives are not administrated for the benefit or the profit of outside investors. The benefits are collected by its members in proportion to their transactions with the cooperative, and reserves (surpluses) and assets are commonly held and are dispensed for the common interests of the cooperative's members. Agricultural cooperatives operate in the economic interest of their members while devoting a number of their activities to the pursuit of social or environmental objectives, as well as working for the greater interests of the collective.

### **Cooperation in Canada**

- Cooperatives are important players in the agri-food business. There are 1,300 agricultural cooperatives in Canada that employ over 36,000 people and generate over \$19 billion per year in revenue.
- Cooperatives are made up of farmers to meet their common needs and are in fact a means in which farmers can become involved in added value activities.
- Cooperatives also channel and re-invest member-farmers' investments back into the industry, evidence of which are the 1.6 billion dollars invested by farmers
- Cooperatives also have deep roots in the community and are a reliable presence. According to a recent study conducted in Quebec, the cooperative survival rate is nearly double that of any other type of business. This fact serves to demonstrate the sustainability of cooperatives pursuing goals that correspond to the needs of their members.
- Finally, cooperatives are, for farmers, a means of exerting local control. A distinctive and significant element is that any and all surplus generated by cooperative activities are re-invested locally. Cooperatives contribute to the economy and employment of rural communities.

### **3. Agricultural Cooperatives: A Formula for the Future**

We are currently witnessing a renewed interest in favour of the cooperative formula. In this regard, we wish to emphasize the recommendation of promoting cooperatives through the Governing Body of the International Labour Organization, in 2002, or more recently, a communication from the European Commission dealing with the promotion of cooperative enterprises in Europe (*Promotion des sociétés coopératives en Europe* - Brussels, February 23, 2004), in which the main elements speak to:

- promoting cooperatives as a recourse in Europe through the improved visibility, characteristics and understanding of the sector;
- the continued pursuit for the improvement of legislation in matters of taxation and financing tools as they pertain to cooperatives in Europe;
- the maintenance and improvement of taking greater consideration of cooperatives within community objectives as well as their contribution to these same objectives.

The role of agricultural cooperatives is explicitly acknowledged as a preferred means to reach a number of social and economic objectives in modern societies. Cooperatives are even introduced as “the perfect example of the type of business that can simultaneously pursue entrepreneurial and social objectives, within a context of complementarity”<sup>1</sup>.

More specifically, they noted the major role played by cooperatives in the agricultural economy as well as in the development of areas suffering certain economic difficulties, and that their structure is “ideal to increase employment and social cohesion”<sup>2</sup>. As an organization focused on its members, agricultural cooperatives are entrenched in their community and contribute to maintaining jobs in the area, all the while providing local services within a context of economic globalization. In this respect, users of cooperative services, whether they are farmers, consumers or workers, demonstrate a greater geographic stability. There’s no doubt that “this local entrenchment may constitute an efficient barrier against the desertification of the countryside and contribute to the development of disadvantaged regions and localities”<sup>3</sup>.

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<sup>1</sup> Report from the European Commission regarding Promoting cooperative businesses in Europe, Brussels, February 23, 2004, p. 16

<sup>2</sup> Ibidem.

<sup>3</sup> Idem., 17

The issue is also being dealt with by our neighbours to the South. Thus, in 2003, Congress held important hearings on the future of agricultural cooperatives in the United States. In the fall of 2003, over 60 representatives joined the Cooperative convention caucus for the purpose of finding solutions to help agricultural cooperatives. Once again, the essential role of these businesses is recognized and acknowledged: *"One thing everyone seemed to agree on : if we take steps to strengthen producer-owned co-operatives, we also strengthen the nation"*<sup>4</sup>.

As you can see, cooperative businesses and especially agricultural cooperatives are at the heart of strategic economic and social development in a large portion of the world's countries, whether they are countries in development or developed countries like the U.S. and those within the European Union.

#### **4. The Cooperative Difference**

Ladies and gentlemen, members of the Standing Committee on Finance, if we are before you today, it isn't to ask for charity. We speak on behalf of responsible businesses that are the property of independent agricultural producers, which are entrenched in rural communities, and play a determining economic role in addition to fulfilling an equally significant social mission. Year after year, cooperatives re-invest tens of millions of dollars to their members and to their communities. In many rural communities, they are in fact the last frontier of active economic development (too often they become the town's last supermarket, service station or hardware store). If they listened to what their competition had to say, several cooperative outlets would have been sacrificed, at all cost, for the greater good of cost-effectiveness.

In fact, it's important to note that in France, Prime Minister Jean-Pierre Raffarin recently confided to a former minister of Agriculture (Mr. François Guillaume) the mandate of producing a white paper for the purpose of "clarifying the cooperative status".<sup>5</sup> The motives behind this decision are simple "this status is maladapted to the needs of cooperatives in the global market."<sup>6</sup> Among the questions to be dealt with is the interest of society's appraisal as an assessment tool for cooperatives. This is something that must be closely watched. The acknowledgement that cooperatives, particularly that agricultural cooperatives are more than strictly economic businesses, and this fact could be used by the French government as the basis for redefining the cooperative status, which then sets forth an important message on the international stage. In fact, for almost two years now, La Coop fédérée has produced a social audit. You will then be able to fully comprehend the cooperative difference and the role that we play within our communities.

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<sup>4</sup> James Haskell, Acting Deputy Administrator, USDA Rural Business-Co-operative Service, Rural Co-operative, November-December 2003, p. 2.

<sup>5</sup> Transrural, June 15, 2004, p. III.

<sup>6</sup> Idem.

### **Profiting from the Cooperative Advantage**

1. Cooperatives have deep roots in their community and know it well.
2. They make a connection between economic and social requirements.
3. They have the ability and capacity to gather together local interveners from various sectors of activity.
4. They possess an excellent capacity for evaluation and risk management based on their knowledge of the community and its environment.
5. They invest in their community and maintain their citizens' loyalty, which very few large privately-owned corporations can even hope to do.
6. they are a niche based organization focusin on specific goals.
7. They are networked laterally with their community, vertically with secondary and tertiary organizations, and horizontally with other cooperatives in Canadian and elsewhere.
8. they are already in partnership with the government.

### **5. The Capitalization Challenge: The Achilles Heel of all Cooperatives**

Agricultural cooperatives are confronted with the evolution of the business environment, characterized by rapid changes and by the evolution of the needs of its members. Among the determining aspects of the current agri-food system are globalization and added value processing that is very demanding investment-wise. It is a well-known fact that cooperatives face a significant capitalization constraint as compared to their competitors in the agri-food sector. Recent studies have indeed confirmed this fact<sup>7</sup>. Capitalization is the central challenge facing agricultural cooperatives.

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<sup>7</sup> For the situation of Canadian and Quebec agricultural cooperatives, refer to Ernst & Young, Canadian Agricultural Co-ops Capitalization Issues and Challenges: Strategies for the Future, November 2002. And more recently for American agricultural cooperatives, refer to Fabio R. Chaddad and Thomas Heckelei, Department of Agricultural and Resource Economics, Washington State University, Access to Capital and Firm-Level Investment Behavior in Food Industries: A Comparison of Co-operatives and Publicly Traded Firms, Selected paper prepared for presentation at the Annual Meetings of the American Agricultural, Economics Association, Montreal, Canada, July 27-30, 2003.

The capitalization issues facing agricultural cooperatives can be primarily explained by the following factors:

- If a cooperative is to be cost-effective, its primary mission and reason for being hinder its actual level of potential (smaller production unit, maintaining local jobs, the town's last service station/hardware store, etc.)
- Contrary to privately-owned businesses, member held share capital does not appreciate, thus limiting the incentive to increase investments.
- Cooperatives have very little or even no access to outside sources of capital, notably venture capital.
- The ageing agricultural population poses another significant challenge related to capitalization. The median age is 47 (in Quebec) and 52 (B.C.). Farmers will be taking their retirement and withdrawing their capital shares thus adding to the already existing constraints.

The capitalization sources available to agricultural cooperatives are in fact limited. They can be summarized as follows:

- Undistributed benefits in the form of dividends and paid into the general reserve.
- New contribution from members (but this creates a conflict with farm investment needs for all members).
- Loans from financial institutions (limited by debts to individual assets ratios).
- There are some institutions that provide a type of venture capital (in Canada there is Financement agricole canadien and on the Quebec level there is Investissement Québec, Capital régional et coopératif Desjardins).

In the context of a global market and increased competition, the consequences of the capitalization issue can be summarized as limiting agricultural cooperatives in their strategic investments, thus making them vulnerable to competition. Taking into account their economic and social importance for a large number of rural communities in Canada, this vulnerability does not reflect well for those who have chosen rurality.

The financial difficulties encountered by western Canada's big grain pools serve to prove how frail these pillars of the Canadian agricultural cooperative model truly are.

The more recent studies on the subject insist on the fact that public authorities should become involved in developing solutions for which the objective would be to level the playing ground between agricultural cooperatives and other businesses in this industry regarding access to capital. It is in fact with this objective in mind that address the issue of capitalization and agricultural cooperatives, and more specifically to reveal the truth about this now familiar capitalization challenge that former minister of Agriculture and Agri-Food Canada, Mr. Lyle Vanclief, rendered public in February 2002, granting a budget allowance for which, and I quote the then minister: *"the funds will be used to find, to identify solutions to the capitalization challenge facing cooperatives"*. The Ernst & Young firm was awarded this mandate.

In their report submitted in November 2002, experts from Ernst & Young proceeded with an in-depth analysis of the situation and risks faced by cooperatives in Canada, in the U.S., in Europe and in Australia. They described and confirmed the existence of the capitalization challenge afflicting agricultural cooperatives, and listed a series of recommendations on fiscal issues of Canadian agricultural cooperatives, which are included in the requests being submitted before you today.

Obviously the report produced by this accounting firm, which is highly reputed for the accuracy and excellence of its professional services, goes on to explain in detail the motivations of each recommendation, the evaluation of related costs for the federal Treasury, and also includes the persistent question of fiscal equity.

In their report, Ernst & Young specifies that the fiscal path is the preferred path<sup>8</sup>. In fact, after studying the situation of agricultural cooperatives all over the world, the authors of the study formulated a series of recommendations, two of which invite the federal government to implement:

- a cooperative investment plan inspired by the Quebec experience and including agriculture corporations<sup>9</sup> ;
- a fiscal measure authorizing a member-taxpayer of an agricultural cooperative, who will receive an eligible dividend in the form of a preferred share, to benefit from a tax allocation equal to the value of the preferred share until the said share has been finally disposed.

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<sup>8</sup> Please find in appendix 1 an executive summary of this important report.

<sup>9</sup> Please be advised that the Quebec government, having completed an in-depth evaluation, has renewed the Cooperative Investment Plan in its latest budget statement, thus acknowledging its merits

## 6. Our Requests and Their Related Costs

Ladies and gentlemen, members of the Standing Committee on Finance, what we want is a little support to facilitate the capitalization of agricultural cooperatives. The type of assistance we request, which would serve as recognition from Canadian society as a whole for the fundamental role played by agricultural cooperatives, would take on two structures: **a tax allocation for dividends farmers choose to keep invested in their cooperatives, as well as the implementation of a cooperative investment plan that would encourage members and workers to invest in their cooperatives**<sup>10</sup>. To make this possible, the fiscal course is the preferred method<sup>11</sup>, as stated in the recommendations the firm Ernst & Young set forward through their study.

In short, the measure dealing with tax allocation means that the dividend, in the form of a preferred share, received by a member of a cooperative would not be immediately taxed. Taxation would occur at a later date when the cooperative would buy back the said dividend or when the member would dispose of it.

As for the cooperative investment plan, this means that a tax deduction would be granted to members and employees who invest in their cooperative's preferred shares. This fiscal advantage granted to members and employees would represent the necessary incentive to interest investors since cooperative shares never increase in value.

We wish to remind you that these two measures have been in existence in Quebec since 1985 in the case of the CIP, and since 2002 in the case of the tax allocation. When Jean Charest's liberal government was elected in 2003, the fiscal measures aimed at businesses (including two measures specific to cooperatives) were the subject of a complete review. These two cooperative measures were the only ones that "survived" this taxation *clean-up*, and minister Séguin affirmed that they weren't very costly and were very efficient in promoting regional development.

The cost to the Quebec government is \$15 million per year (\$11 million<sup>12</sup> for CIP and \$4 million<sup>13</sup> tax allocation). These sums include those allocated to worker cooperatives. If an equivalent program were implemented in Canada for the exclusive benefit of agricultural cooperatives, we believe that it would cost the

<sup>10</sup> For your information, we've included in appendix 2 a comparative analysis of varying taxation plans for agricultural cooperatives in the European Union.

<sup>11</sup> According to section 4: *Impact financier des mesures fiscales et budgétaires des Renseignements additionnels sur les mesures du budget* re: Quebec Budget 2004-2005.

<sup>12</sup> According to section 4: *Impact financier des mesures fiscales et budgétaires des Renseignements additionnels sur les mesures du budget* re: Quebec Budget 2002-2003

<sup>13</sup> Appendix 1.

Canadian government somewhere between \$18 and \$20 million<sup>14</sup> per year. Through its leverage effect and its complementarity with other financing sources, these sums would enable agricultural cooperatives to invest **several hundred million dollars** in the country's regional economy.

We therefore invite you to follow up on these recommendations, and more specifically on those dealing with the issue of tax allocation for dividends farmers choose to maintain in their cooperative for capitalization purposes, as well as the implementation of a cooperative investment plan encouraging farmers and employees of cooperatives to invest in their own cooperative.

With these measures, the federal government could reach a certain number of objectives that are a priority, of which is a solid contribution to the well-being of rural communities in Canada and acknowledgement of how important family farms truly are as the driving forces behind Canada's agriculture and agri-food business.

Ladies and gentlemen, members of the Standing Committee on Finance, we wish to thank you for your attention and invite you to ask any questions you may deem pertinent thus allowing us to thoroughly explain our request and allow you to understand its significance and end results.

Thank you.

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<sup>14</sup> We've attached to appendix 3 all of the relevant analysis we have conducted in the past two years as they pertained to these two proposed measures.

## **APPENDIX 1**

### **COST ESTIMATE FOR A CANADIAN COOPERATIVE INVESTMENT PLAN (CCIP)**

## COST ESTIMATE FOR A CANADIAN COOPERATIVE INVESTMENT PLAN (CCIP)

We've prepared an estimate that takes into consideration an allowable deduction for an investor to be 125% of his or her investment, as is the current case in Quebec. We've also prepared an estimate using a rate of 100% and taking into consideration the fact federal and provincial governments could both allow for a deduction, somewhat similar to Worker Funds

### **Base Case:**

- 1- The CCIP would work according to the same rules as the Quebec CIP.
- 2- Total cost to the Quebec government of the Quebec CIP in 2000: \$6 million of which \$2.9 million devoted to farming cooperatives. This cost is based on 9,693 investors divided among 188 cooperatives that have each invested on average \$2,614. As for farmer cooperatives included in the preceding numbers there are 66 cooperatives (with a possibility of 320 farmer cooperatives which is equivalent to 20.6%) for the 4,169 investors (2,692 members and 1,477 employees). Thus an average of 63 investors per cooperative. (1)
- 3 - There are about 1,110 farmer cooperatives in Canada. By applying the Quebec ratio of 20.6%, we can suppose that 229 cooperatives would participate. And with an average of 63 investors per cooperative, this represents a potential 14,464 investors at \$2,999 each. (2)
- 4- Many years were necessary for the Quebec CIP to reach its current rhythm. We can suppose that the CCIP will also take several years to reach a similar level. Nonetheless, for estimation purposes we adopted the hypothesis that the CCIP would in fact reach the same level.

### **ESTIMATE**

14,464 investors at \$2,999 each:	\$ 43,377,536	\$43,377,536
Rate of deduction:	125%	
Average rate of taxation (hypothesis)	20.00%	20.00%
Potential of Annual Cost	\$ 10,844,384	\$ 8,675,507

To this cost, we must add an undetermined number of investors from agricultural corporations who are members of a cooperative and adds to the pool of the abovementioned determined investors. As per the hypothesis, if we add an equivalent number to these people to that of unincorporated members established above, this increases the number of potential investors to 9,340 ( 2692/66 x 229)

9,340 investors at \$2,999 each:	\$	28,011,932	\$28,011,932
Rate of deduction:		125%	
Average rate of taxation:		20.00%	20.00%
Additional Potential Annual Cost	\$	7,002,983	\$ 5,602,386
<b>Potential Total Annual Cost</b>	<b>\$</b>	<b>17,847,367</b>	<b>\$14,277,894</b>

**VALIDATION:**

In 2000, the Quebec ministère des Finances estimated that the Quebec CIP had cost \$6M, of which \$2.9M pertained to farmer cooperatives which is a proportion equal to 48.33%. (3)  
 When the Québec 2004-2005 budget was submitted, the total cost of Quebec CIP for one full year was evaluated at \$11M (4). By applying the ratio of 48.33% as it pertains to farmer cooperatives, we arrive at a potential cost of

		\$19,880,000	
(((\$10,844,384/\$2.9M) x ( \$11M x 48.33% ))	\$	19,880,000	\$15,904,000

**CONCLUSION:**

**the CCIP could cost between \$17.8M and \$19.9M as it pertains to** farmer cooperatives. To this number, we must add worker cooperatives for which we have no data on the Canadian level and it would not be prudent to extrapolate according to Quebec numbers since this type of cooperative does not seem to have a large presence elsewhere in Canada.

- (1) Web site for the *ministère du Développement économique et régional et Recherche du Québec*.
- (2) Ernst & Young Report, p. 157.
- (3) Idem to (2) , p. 158
- (4) Section 4 , p. 1 of the Quebec Budget for 2004-2005.

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## **APPENDIX 2**

### **COMPARATIVE ANALYSIS OF FISCAL PLANS FOR COOPERATIVES IN THE EUROPEAN UNION**

**Summary prepared by  
Mario Hébert, senior economist  
La Coop fédérée  
Septembre 2001**

**COUNTRIES****FISCAL PLAN**

Germany	No specific legislation. Cooperatives are submitted to taxation on corporate benefits.
Austria	No specific legislation. <b>Certain agricultural cooperatives (CUMA or raising cattle) are exempt from taxation on corporate benefits.</b>
Belgium	<b>Certain fiscal advantages granted to cooperative businesses certified by the <i>Conseil national de la coopération</i>.</b>
Denmark	<b>Danish cooperatives possess tax benefits that are specific to them, under certain conditions:</b> <ul style="list-style-type: none"><li>▪ <b>The business must have a least 10 salaried employees</b></li><li>▪ <b>The portion of capital that comes from non-members must not exceed 25%.</b></li></ul> <b>What is particular to Danish co-ops is the calculation of taxable income equivalent to:</b> <ul style="list-style-type: none"><li>▪ <b>4% of the difference between figures from cooperative members and global figures for the cooperative;</b></li><li>▪ <b>6% of the remaining amount.</b></li></ul>
Spain	Cooperative businesses pay taxes on their businesses, however, they are fiscally protected. <b>This is particularly the case of agricultural cooperatives that possess a status deemed as cooperatives (with special protection).</b>
Finland	No specific legislation. Cooperatives are submitted to taxation on corporate benefits.
France	<b>Agricultural cooperatives are the only ones benefiting from total exoneration from Business taxes and Real property taxes.</b>
Greece	<b>Agricultural cooperatives benefit from an exception to the general income tax code. They are completely exonerated from corporate taxes for transactions involving members.</b>

Italy	<b>Agricultural cooperatives benefit from a complete exemption of regional business taxes for benefits allocated to the reserve..</b>
Luxembourg	Cooperatives have no fiscal advantages.
Netherlands	<b>Cooperatives benefits realized through member activities are exempt from business taxes.</b>
Portugal	<b>Cooperatives possess a tax plan that is specific to them (tax rate of 20%, compared to 34% for other businesses) for transactions executed by their members. Please note that agricultural cooperatives are completely exempt from business income tax.</b>
United Kingdom	<b>Cooperatives business possess financial advantages such as government assistance and fiscal advantages.</b>
Sweden	Cooperatives have no fiscal advantages.

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Source: Report from the *Conseil supérieur de la coopération* 2000. *Le mouvement coopératif en France et dans l'Union européenne*. January 30, 2001

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