

**Brief for prebudget consultations in anticipation of the
next federal budget**

Sollio Cooperative Group

August 7, 2020

RECOMMENDATIONS

- Recommendation 1: That the government invest in digital platforms to better adapt to producers' business practices;
- Recommendation 2: That the government facilitate infrastructure automation and robotization to alleviate labour shortages;
- Recommendation 3: That the government establish an agrifood innovation zone to ensure food self-sufficiency;
- Recommendation 4: That the government support food exports to contribute to economic growth;
- Recommendation 5: That the government set up agricultural sectors, from production to processing, to promote the creation of redistributable wealth;
- Recommendation 6: That the government invest in food processing to develop a line of prepackaged products;
- Recommendation 7: That the government deploy telecommunications infrastructure so the regions can act as economic drivers;
- Recommendation 8: That the government facilitate the takeover of farms by the next generation to maintain a presence in the regions;
- Recommendation 9: That the government facilitate the redistribution of wealth in the regions;
- Recommendation 10: That the government accelerate the digitization and performance of agriculture to increase productivity;
- Recommendation 11: That the government support short, local supply chains to benefit the local economy;
- Recommendation 12: That the government promote the cooperative model to meet specific regional needs;
- Recommendation 13: That the government amend the *Income Tax Act* to ensure the continuation of the Tax-deferred Co-operative Share Program;
- Recommendation 14: That the government recognize the importance of unskilled workers in adding value;
- Recommendation 15: That the government support the development of attracting workers to the regions to offset demographic decline;
- Recommendation 16: That the government support immigration regionalization to meet labour needs.

INTRODUCTION

We would like to thank the members of the Standing Committee on Finance for giving to Sollio Cooperative Group (SCG) the opportunity to present its priorities for the next federal budget.

We are a federation of cooperatives with 122,000 members, agricultural producers and consumers, comprising 50 traditional agricultural and consumer cooperatives in several Canadian provinces. Our activities are split among three divisions: Olymel LP, Sollio Agriculture and Groupe BMR inc.

Sollio Cooperative Group, formerly La Coop fédérée, is well known in Quebec since it has been supporting its member agricultural producers since 1922. In 2019, SCG posted revenues of \$7.3 billion, with more than 15,000 employees in Canadian provinces, thereby contributing more than \$4 billion to the agrifood GDP and generating nearly \$1 billion in tax benefits. In fact, we are the only Canada-wide agricultural supply cooperative and the 27th largest agricultural cooperative in the world.

Through our Olymel division, we export agrifood and agricultural expertise as the leading producer and exporter of pork in Canada. In the most recent year, pork exports amounted to \$1.5 billion.

SCG is also active in the retail sector through BMR in Eastern Canada. Groupe BMR is both a leader in supplying multiplex housing construction sites and the Quebec leader in the retail sale of building materials and hardware. SCG's core business is farm procurement throughout Canada, under the Sollio Agriculture banner. This makes it the Canadian leader in procurement for animal production, crop production and grain marketing.

It should be borne in mind that even before the pandemic, our supply chains were hit hard by the Canadian National strike in the fall of 2019 and last winter's rail blockades. However, agricultural producers and food processors are now feeling the impact of the pandemic, which must be limited to protect the supply chain.

The government must not assume that we will be able to withstand a second wave of the pandemic if the recently exposed pressing needs have been ignored. Long-term planning must take into account areas that were hardest hit in the first wave of COVID-19.

ECONOMIC RECOVERY

With the unpredictable costs we assume in full rising, significant pressure is being placed on our organization's ability to make short- and medium-term investments. In this context, we have defined areas for action aimed at helping the agrifood chain meet current and future challenges.

Increasing productivity

1): Invest in digital platforms

The recent surge in online sales is forcing local retailers to adapt their business practices to improve the customer experience.

2): Automate and robotize infrastructures

Modernizing processes in plants makes it possible to alleviate some labour shortages in frontline trades and increase production rates and capacities, in a context of physical distancing.

3): Establish an agrifood innovation zone

With 5.4% of Canada's land under cultivation (2 million vs 37 million hectares), the Netherlands generates 11.2 times more production value. If Quebec's food self-sufficiency truly is desired, producers must be helped to access innovation. With easier access to new technologies, the productivity rate in Canada's agrifood sector will not remain at its current level of stagnation.¹

Advancing food autonomy and exports

4): Support food exports

Experts generate regional benefits, and the agrifood sector contributes to Canada's economic growth. Canada's share of international exports has been cut in half since 2000, whereas China, Indonesia, India and Brazil produce and export more.²

5): Set up agricultural value chains, from production to processing

Lengthening value chains promotes the creation of wealth that can be redistributed to all the links in the regions. The establishment of an agricultural value chain would allow for the development of a vegetable-protein section (soy and tofu).

¹ "Farmer 4.0; How the coming skills revolution can transform agriculture." *RBC Thought Leadership*. August 2019.

² *Ibid.*

6): Invest in food processing

The food processing sector is Canada's largest manufacturing employer. A \$100 million investment in this industry generates \$18 million in wages and salaries.

Developing regional vitality

7): Deploy telecommunications infrastructure

The current situation shows that access to reliable high-speed Internet service must be available throughout the country. Accelerating projects to connect all regions would enable them to act as true economic drivers.

8): Make it easier for the new generation to take over farms

The owners of farm businesses contribute to their region's vitality by maintaining an economy of owners rather than employees. Relief measures would be needed to encourage the presence of young producers in the regions.

9): Redistribute wealth in the regions

By making the awarding of government procurement contracts more flexible, local SMEs would gain easier access to government contracts, while maximizing regional spinoffs during economic recovery.

Supporting a more sustainable economy

10): Accelerate digitization and performance in agriculture

Precision agriculture makes it possible to determine which parts of a tract of land require which type of operation so that the necessary product can be applied locally. This reduces GHG emissions from agricultural production, since field operations are more targeted and of shorter duration.

11): Support short, local supply circuits

In addition to benefiting the local economy, short, local circuits help avoid GHGs associated with long-distance transportation.

12): Promote the cooperative model

Co-operatives are difficult to "relocate," since they respond directly to a need and are rooted in their community. Strategic decisions are made locally by directors to diversify revenue sources in their regions.

13): Ensuring the continuation of the Tax-deferred Co-operative Share Program

The economic and social reasons that justified the adoption of this program in 2005 still exist. Cooperatives make an important contribution to regional development and the rural economy, are an important part of Canada's agricultural sector, and provide support to family farms and small agricultural businesses in all rural areas of the country.

The Tax-deferred Co-operative Share Program (TDCS) makes it possible to synchronize the taxation of the patronage refund with the redemption of tax-deferred shares. This allows agricultural cooperatives to finance themselves without imposing an additional burden on their members. The fact that the tax is payable by the member when the shares are redeemed rather than when they are issued avoids the members having to pay the tax when they have not yet cashed in the patronage refunds paid in shares..

We distribute our profits primarily to our member cooperatives in the form of patronage refunds. We estimate we will pay out approximately \$35 million annually over the next few years. Currently, 70% of our patronage refunds paid out are in TDCS and 30% are in the form of cash. For example, without this measure, if we pay out \$35 million in patronage refunds, taxes will total \$9.3 million and will be payable by our members during the year, giving them access to net cash of \$1.2 million. With the TDCS program, their net cash would have been \$7.7 million. Not renewing the measure will immediately impact our members, since a decline in liquidity significantly limits the possibility of investing in the midst of an economic recovery.

According to the latest Federal Tax Expenditure Report, the projected annual dollar costs for the TDCS program are \$5 million for the years 2017 to 2020. It also notes that “the cost of this tax expenditure is fairly stable and not expected to increase over the forecast period.”³

Withdrawing capitalization support would undermine the survival of agricultural cooperatives as independent Canadian or Canadian-controlled entities. In a more pessimistic scenario, the absence of support could lead to their outright disappearance, with members deciding to sell assets to a Canadian or foreign corporation..

For these reasons, we are asking that you not just renew the measure, as in the past, but that you ensure the continuation of this program. This would be the optimal scenario, as it would facilitate long-term planning and help us contribute to economic recovery.

³ *Report on Federal Tax Expenditures – Concepts, Estimates and Evaluations*, Department of Finance. February 2019.

Enhancing the value of frontline trades

14): Recognize unskilled workers

There are limits to the automation and robotization of some activities, which means the unskilled workers we train are needed to add value.

15): Develop the appeal of working in the regions

In many regions, efforts to counter population decline need to continue and even increase.

16): Support immigration regionalization

Immigration (permanent and temporary) is one of the essential solutions to meet the need for unskilled labour in the regions.

CONCLUSION

We have provided you with our recommendations so that your support can be targeted in implementing the next federal budget while protecting our supply chains. This is necessary so that Canada can increase its food self-sufficiency, as well as protecting the cooperative agricultural model, an important component of Canadian agriculture. The continuation of the tax-deferred share program would help protect Canada's ability and reputation as a world-class exporter, as it facilitates stable, long-term planning.

We thank you for your interest in our proposals and will be happy to answer any questions you might have.