

Sydney there is the Bras d'Or Co-Operative. All of these are direct charge co-operatives.

Not only do they operate in this way in meeting the overhead charges through weekly payment, but they also build up their capital through a weekly share purchase. Apparently it is a satisfactory system.

The brief of Co-Op Atlantic explains quite clearly how the GST treats this direct charge co-operative. Stores which are not direct charge co-operatives recover their overhead completely through shelf markups. If they sell a \$10 non-taxable item there will be no tax on the markup. If the direct charge store sells the same item, consumers will pay GST on that part of the overhead which was collected by the direct overhead charge. This would amount to a significant level of unfair tax.

In 1989 direct overhead charges amounted to \$5.6 million. This is in the system that is serviced through Co-Op Atlantic, which is the wholesale owned by the consumer co-operatives which are distributed throughout the Atlantic Provinces. In 1990 those direct overhead charges will amount to \$6.3 million, and in 1991, \$7 million. A review of direct charge store sales shows that in 1989, 56 per cent of the goods they sold would not be taxable under the GST. This means in effect that if the GST had been in place in 1989, direct charge consumers would have paid \$222,000 more in tax than if they had purchased their products elsewhere. Assuming that the percentage of taxable goods does not change and past sales growth continues, the additional and unfair tax paid by direct charge co-op consumers would grow to \$246,000 in 1990, and \$274,000 in 1991.

The simplicity of the injustice is very clear. The direct charge which is paid by members of direct charge co-operatives does not take into account that portion of the overhead charge which relates to non-taxable merchandise in which they deal. So that in a conventional co-operative, and any other consumer operation, the consumer escapes that portion of the tax which is imposed upon the customer at the direct charge co-operative.

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I believe that the case made by the co-operatives is unanswerable. The case could be dealt with easily by the proper tax changes. It amounts, certainly in Co-op Atlantic, to several hundred thousand dollars a year. The same argument was made by other co-operative submissions, including the Canadian Co-operative Association, which speaks for all English-speaking co-operatives in Canada, and also by the Federated Co-operatives Limited in Saskatoon, Saskatchewan. The same point is made and clearly requires some correction. That is the first problem with the GST with respect to co-operatives.

The second problem has to do with the unnecessary administrative burden displaced on the co-operative system in Atlantic Canada. Co-op Atlantic is the wholesaler which is owned by the member co-operatives located throughout the Atlantic provinces. The GST is levied upon Co-op Atlantic when it purchases merchandise for distribution throughout its network of retail outlets. Of course, the tax is paid, and there is a

rebate or an input tax credit, whichever is the correct designation. Then the merchandise is delivered to the local co-operative, let us say the Brador Co-operative just outside Senator MacDonald's city. At that point the GST is charged to the local co-operative which then seeks a rebate. The final product is sold to the consumer who bears the tax as it is intended, because it is a consumption tax. There is a two-stage tax charge and a two-stage tax rebate or tax credit. That is the situation in Co-op Atlantic.

Let us take one of the co-op's main competitors in Atlantic Canada, Sobeys. Sobeys operates as a wholesaler with retail outlets throughout the communities of Atlantic Canada, but its tax treatment is different. Sobeys will pay the GST on the original merchandise which it purchases, and a rebate is then granted. Then the product is delivered to the retail outlet, but no tax is charged, and no rebate is granted. Naturally the consumer will pay the tax. Why is there a two-stage tax collection system for the co-operative family and a single-stage system for the competitors like Sobeys? I believe it is because the Department of Finance officials still don't understand the nature of the co-operative movement in Canada.

Senator Simard: I think the Prime Minister will know. He went to see Levesque.

Senator MacEachen: If they do know, then the injustice is even more indefensible.

Senator Simard: No, your system will be more complicated.

Senator MacEachen: The interesting point is that the system which is supplied to the co-operative movement does not yield any more revenue for the government. All that happens is in addition to the administrative burden, both of the co-operative movement and of the government itself, because in tracking this two-stage collection and tax rebate system the additional tax burden or the additional administrative expense is about \$300,000 for the co-operative system in Atlantic Canada.

That is manifestly unfair. It is manifestly unnecessary, because there is no reason why Co-Op Atlantic, for example, or a co-operative wholesaler, is not given the same treatment and the same opportunities or the same system as big business, or Loblaws, or Sobeys—all the more because the government does not collect any more revenue. All the government does is impose additional administrative costs on itself and on the government itself, because the paper trail, the transaction trail, has to be followed by the government and by the co-operative wholesaler. It is mystifying that such a system is proposed in this particular bill.

I believe it would be interesting for honourable senators who are concerned about the impact of the tax, and whether it is just or unjust, to read the briefs which have been submitted to the committee. Do not take my analysis; make your own analysis. Read the briefs and conclude for yourselves whether there is not a case crying out for corrective action.

Honourable senators, there is another aspect to which I should draw your attention. The Co-op Atlantic, which is a wholesaler—and no doubt other co-operative wholesalers