



# REFERENCE PAPERS

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NO. 57 CO-OPERATIVE BUSINESS IN CANADA

(Based on material supplied by the Economic Division, Marketing Service, Department of Agriculture, Ottawa)

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Co-operative Business in Canada

Origins

Because of the community life of the pioneers, instances of co-operation can be cited from a relatively early period in Canadian history, but there was no concerted effort towards an organized movement until about 1870. In a country where agriculture was, and still is, one of the most important occupations of the people, it was to be expected that the first organizations developed among farmers. A Canadian farmers'

organization, known as the Dominion Grange, was organized under Federal Charter in 1877. It established quite a number of co-operative enterprises in Ontario and Manitoba, none of which was conspicuously successful. However, organizations of grain growers appeared in the West in the years after Confederation, and in other parts of Canada organization along provincial lines was evident in the first two decades of this century.

In 1861 a co-operative store was opened at Stellarton, Nova Scotia, by coal miners. Ten other stores were opened in that province prior to 1900 but only one survived beyond that date. A new and continuing vitality was given to co-operation in Eastern Canada about 1930 when the first directed effort towards the organization of small study groups to discuss local economic problems was made by the Extension Department of St. Francis Xavier University at Antigonish, Nova Scotia. From these discussions came the establishment of credit unions, co-operative buying clubs, consumers' co-operative stores and wholesales, and poultry pools. Other Canadian provinces, especially Manitoba, Quebec and British Columbia, have since drawn on the Nova Scotia experience and much of the recent development in co-operative endeavour in these provinces can be traced to the Antigonish Movement.

On March 6, 1909, at a conference of representatives of Canadian Co-operative Societies held at Hamilton, Ontario, the Co-operative Union of Canada was formed as an educational body similar to the Co-operative Union of Great Britain. It is governed by a Congress made up of delegates from affiliated organizations.

### Volume of Business

Co-operative associations in Canada are now rapidly assuming larger proportions in the economic life of the country, especially in the field of agriculture. For the year ending July 31, 1949, the number of co-operative associations, and their total membership and volume of business, were the highest ever reported. Over 1,200,000 members owned and controlled 2,637 co-operatives of all types, which did a volume of business in 1948-49 amounting to over one billion dollars.

Some comparisons between Canadian co-operative enterprises and similar activity in the United States and Denmark might be of interest. Such comparisons can probably best be made by using as a basis the average co-operative business per capita of rural population and per occupied farm. Using the latest figures available, for 1947, this business per occupied farm in Denmark was \$2,178.14; in the United States \$1,214.50; and in Canada \$972.36. Co-operative business per capita of rural population was \$216.00 in Denmark; \$129.81 in the United States; and \$124.20 in Canada. Taking into account the difference of population between the United States and Canada, the national average of the two countries shows a very close correspondence. While the volume of co-operative business in Canada in 1947 was about \$700 million, that of the United States was about \$7½ billion. Co-operative business in Canada and the United States has progressed approximately at the same rate over the past fifteen years, since figures for 1935 show almost exactly the same ratio.

It is possible to estimate from available figures the place of co-operatives in the commercial structure of Canada. On a basis of returns received from co-operatives, it is calculated that almost 33 per cent of the main farm products which enter commercial channels of trade is handled by the co-operatives; co-operatives handle 80 per cent of the wool, 55 per cent of grains and seeds, 25 per cent of dairy products, 27 per cent of fruits and vegetables, 18 per cent of livestock, 18 per cent of poultry products and 27 per cent of maple products.

The total value of farm products marketed by co-operatives for the crop year ending July 31, 1949, was over \$783 million, an increase of more than \$166 million over the previous year. Although the sales of farm co-operatives for this year just barely kept pace with the increase in the total cash returns for farm products, some co-operatives managed to improve their position over that of 1947-48. Dairy products co-operatives made substantial gains, while grain co-operatives showed a small advance.

The sales value of merchandise handled by purchasing co-operatives during 1948-49 was \$191.8 million, representing an increase of \$33.9 million over 1947-48. This amount, although a very small proportion of the total retail and wholesale trade in Canada, is increasing each year. Purchasing co-operatives are being organized at a greater rate than marketing co-operatives and the business of the latter is now only four times as great as the purchasing co-operatives, whereas in 1940 it was ten times greater.

#### Co-operative Wholesaling

Eleven co-operatives mainly engaged in wholesaling farm supplies and consumer goods reported their activities to the Federal Department of Agriculture in 1949. These eleven wholesales had 24 places of business and were owned, through federation, by 1,829 local co-operatives. Canadian co-operative wholesales are joined together into Interprovincial Co-operatives Limited, which serves as a central agency to co-ordinate purchases of member regional wholesales. Its purpose is to consolidate the buying of the member wholesales, and it also has the authority to acquire and operate productive and manufacturing facilities and to act as distributor for co-operative processing and manufacturing plants. Co-operative wholesaling in Canada, however, has not as yet reached the point where it can serve in full the local co-operatives.

#### Service Co-operatives

The number of co-operatives offering such services as telephones, housing, transportation, and medical care, is increasing. Membership in 156 service type co-operatives in 1949 amounted to 58,714 and total revenue from services rendered was \$2.5 million.

There are two life insurance companies in Canada which operate as co-operatives. Co-operative Life Insurance Company, chartered in 1947, had insurance in force of \$25.8 million in 1949, and reported coverage on the lives of 38,000 Canadians. It operated in six provinces, and may soon expand into a seventh. The Assurance-vie Desjardins, with headquarters at Levis, Quebec, has been incorporated for some years but only started actual writing of business late in 1949. Various other co-operative companies provide bonding, faithful performance and

burglary insurance to co-operatives and credit unions. A beginning has also been made in providing automobile insurance for members of co-operatives and credit unions in Ontario. In British Columbia fishermen and their equipment are insured co-operatively through a mutual marine insurance company which was established recently under the auspices of the Fishermen's Co-operative Federation. In addition, there are over 400 farmers' mutual fire insurance companies which, during 1948, carried \$2 billion of insurance.

In British Columbia there are numerous transportation co-operatives which have reduced transportation costs for employees of certain industrial plants in the interior. Over 75 rural electrification co-operatives have been organized in Alberta in the last few years. Groups in Saskatchewan have been pioneering in co-operative farming and there are a number of these farms now in operation in that province.

A number of rural medical co-operatives are functioning in Ontario. With the aid of the Ontario Federation of Agriculture and the Ontario Co-operative Union, 41 plans for prepaid hospital care on a co-operative basis have been established. These are all similar in structure and operation and arose partially as the result of the successful working out of such a plan by members of a credit union in Toronto. Officers of this urban group co-operated with the Federation of Agriculture in the promotion of the rural schemes.

Co-operative housing enterprises have been successful in Nova Scotia and Quebec. There are 21 co-operative housing groups in the former province and nearly 80 in the latter.

#### Fishermen's Co-operatives

Over 100 fishermen's co-operative associations were reported in 1949. Total membership was 16,300 and total business was \$16.7 million. The inclusion of seven associations in Newfoundland increased the number of such co-operatives in Canada. Although the greatest number of fishermen's co-operatives is in Newfoundland, the Maritime Provinces and Quebec, the largest volume of business was reported by the seven fishermen's co-operatives in British Columbia. The first fishermen's co-operative on the Great Lakes was organized in February 1949.

#### New Enterprises

The expansion in co-operative business in Canada is not only reflected in the increased number of such enterprises, in marketing and volume of business, but also by the fact that co-operatives are entering new fields, such as manufacturing and the extraction of coal and oil. Interprovincial Co-operatives Limited, which is a federation of all Canada's provincial co-operative wholesales, purchased a bag factory in September 1948, which is now in operation. Regional wholesales and the many co-operative mills and feed plants are being supplied with bags made in this factory. The Saskatchewan Wheat Pool recently opened a flour mill and vegetable oil plant at Saskatoon. Built at a cost of \$3½ million, this mill will have a capacity of 1,000 barrels of flour per day. Flour from the mill will be distributed by Interprovincial Co-operatives Limited and part of the production will be sold under the "co-op" label.

Some of the Canadian co-operative wholesales also own and operate coal mines in Alberta. Three western co-operative wholesales joined in the search for oil in Western Canada and were successful in 1948 when the first co-operative oil well in Canada was brought in. Since that time several more successful drillings have been made. Oil from these wells will supply the co-operative refinery at Regina, which was the first co-operative oil refinery in North America.

Canadian Co-operative Implements Limited, dealing in farm machinery, was incorporated in 1940 with the aim of mobilizing the purchasing power of the farmer and reducing prices. This co-operative initially secured 20,000 members throughout the three western provinces and acquired \$250,000 in share capital. Early efforts to secure machinery failed and wartime restrictions on the supply of materials postponed the development of the project. In 1944, with the assistance of the governments of the three prairie provinces, a small implements factory was purchased at Winnipeg and a start was made in the distribution of sleighs, wagon boxes and small tools and implements. Assured of the support of the three provincial governments, the wheat pools and the co-operative wholesales, a new drive was launched which raised the subscribed capital to \$1 million and the membership to 50,000. In December 1945, with the aim of providing western co-operative farmers with a permanent supply of such machines as tractors, harvesters, combines, swathers and tillers, a contract for the supply of machinery was signed with a Canadian farm machinery company. Supplies under this contract, first received in 1946, were doubled in 1947 and quadrupled in 1948.

One of the oldest farmers' co-operatives in Canada, the United Farmers' Co-operative Company Limited, organized in 1941 at Toronto, has undergone a complete re-organization, which became effective in 1948. Prior to this, the company was organized on a direct individual member-shareholder basis but with a number of local co-operatives holding shares as well. Re-organization took the form of placing ownership and control within the hands of the local co-operatives and gradually absorbing the shares of the individual farmers. In conformity with the new structure the name has been changed to United Co-operatives of Ontario.

#### The Canadian Wheat Pools

There are three wheat pools in Canada with a combined membership of over 175,000. These pools handle almost 35 per cent of the annual grain crop of the Canadian west, and operate 1,893 country elevators with a capacity of 99 million bushels and eight terminal elevators with a capacity of over 30 million bushels. Almost 4,000 people are employed by the pools with an annual payroll of approximately \$7.6 million. Members' equity in assets amounts to over \$36 million and the pools have paid back to members in cash patronage dividends since 1924 a total of \$26½ million.

During the year 1947-48 the three wheat pools handled 176.5 million bushels of wheat and coarse grains which was approximately 44 per cent of the total wheat and coarse grain marketings in western Canada for that period.

In 1930 the Canadian pools, having made an initial payment of \$1.00 a bushel in 1929, found that sales of wheat during the season had netted an average of 85 cents per

bushel. This resulted in a deficit of \$22,324,000. An appeal was made to the governments of the three provinces concerned. The provincial governments decided to support the pools financially by issuing bonds to the banks and in return each government took bonds from the pool in its province. In 1947 the Alberta Pool, and in 1949 the Saskatchewan and Manitoba Pools, completed payment of their debts to the provincial governments.

### International Trading

Canadian co-operatives are interested in international co-operative trading but at present there are many difficulties to be overcome in building up any substantial volume of trade between marketing co-operatives in Canada and purchasing co-operatives in other countries. However, a start has been made. All of the provincial wholesales are members of National Co-operatives in the United States and have invested \$13,000 in shares of that co-operative. Purchases by Canadian co-operatives from National Co-operatives during 1948 amounted to \$328,000.

The new flour mill co-operative, the fishermen's co-operatives and Interprovincial Co-operatives Limited are exploring the field of international trading. They have been in touch with overseas buying agencies and have taken membership in international co-operative trading associations. Interprovincial Co-operative Limited has also commenced importing, on a small scale, various items from abroad.

### Supervision and Direction

There are good indications that in Canada co-operative leaders are combining a philosophical with a business-like approach, which in turn is fortified by a sound educational background. Such an approach is indicated in a unity of purpose and thought which, co-operative leaders believe, will be of considerable benefit to the future of co-operation in Canada. There are many examples of this unity: the President of the Co-operative Union of Canada is a representative of one of Canada's great wheat pools; the Vice-President is an urbanite and the manager of a regional wholesale; the Board of Directors includes representatives of credit unions and of consumers', marketing, farm supply, service, and fishermen's co-operatives; United Co-operatives of Ontario counts among its members consumers' stores as well as farmers' marketing groups, farm supply and service co-operatives. Producer and consumer co-operation in Canada is indicated by the handling of flour by Interprovincial Co-operatives Limited. The flour is produced in the Saskatchewan Wheat Pool Mill at Saskatoon and sold by Interprovincial to the regional co-operatives and eventually to the local associations and the consumers. It is evident that a high degree of co-operation exists among various co-operative businesses in Canada. City dwellers, farmers, members of credit unions and labour unions are to be found at every major co-operative gathering in every province.

All provincial co-operative wholesales in Canada have adopted the policy of aiding local associations. These larger and better-equipped central organizations maintain qualified auditors in the field doing continuous audits and making monthly reports to Boards of Directors. One central organization has an income tax service by which the returns of local co-operatives are scrutinized for error prior to filing. Another has agreements whereby the business affairs of the local are managed under direction of the wholesale.

The great majority of Canadian co-operatives are registered or incorporated under provincial authority. In view of the recent rapid growth of co-operatives in Canada, provincial governments have expanded their staffs and services in order to assist and supervise all co-operatives within their jurisdiction. Eight provinces now have officials directly responsible for administering co-operative legislation and supervising co-operative activities. In Prince Edward Island, however, this task is performed by the P.E.I. Co-operative Union Limited, aided by a grant from the government to which a report is submitted annually. In March 1949, a Director of Co-operative Services was appointed in Manitoba. Newfoundland has a Department of Fisheries and Co-operatives with a Minister in the Cabinet. In 1944 a Department of Co-operation and Co-operative Development was established in Saskatchewan, which encourages, organizes and inspects co-operative associations, and also conducts economic research studies on the problems of co-operatives in all fields.

#### Financing <sup>A</sup>

While Canada has not witnessed any phenomenal growth in co-operatives since 1944, progress has been steady. One of the significant features of this growth has been an increasing realization among Canadian co-operatives of the necessity of farmers' financing their own associations. Reports received by the Canadian Department of Agriculture show an increase in liabilities to members of co-operatives each year since the Second World War. Liabilities to other than members have been decreasing since 1944 and now stand at 45 per cent of total assets. The plant value of co-operatives in Canada has increased by almost \$44 million since 1946 and much of this has been financed directly by the members. Only a small proportion has been financed by conversion of working capital.

An example of this trend is the financing of the recent acquisition of expanded facilities by Manitoba Pool Elevators. In December 1947, negotiations opened between a private grain company and Manitoba Pool Elevators for the purchase by the Pool of certain grain handling facilities in Manitoba and at the head of the Great Lakes. The proposition involved the purchase of a  $3\frac{1}{2}$  million bushel terminal at Port Arthur, 20 country elevators throughout Manitoba and a feed grain plant at Portage la Prairie. The amount required to finance the undertaking was \$2 million. The decision was made to issue bonds and offer them to farmer members of the Pool. Without any sales cost, the issue was over-subscribed in a few weeks. This example is being repeated in many co-operative enterprises across Canada.

Credit unions are a part of co-operative business in Canada, and over 2,800 co-operative credit societies are in operation with assets of over \$280 million. In some rural communities credit unions have helped to solve the problem of cash trading at the co-operative farm supply store. Also, where arrangements have been made between the credit unions and the banks, chequing privileges have been extended and payment for supplies has been made easier, and an increased volume of business for both the co-operatives and the credit unions has resulted.

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<sup>A</sup> See Appendix III

Taxation

Prior to 1947 most Canadian co-operatives were regarded as being exempt from the payment of federal taxes on income providing they complied with certain sections of the then existing income tax legislation. A Royal Commission on the taxation of co-operatives conducted hearings throughout Canada in 1944 and 1945; as a result of its report, new legislation respecting the taxation of co-operatives was brought before the Federal Parliament in 1946.

In brief, new co-operatives only are exempt from taxation and then only for the first three years after the commencement of business. All other co-operatives are taxable but their taxable income may be reduced by the amount of the patronage refund paid, providing certain conditions are fulfilled. \*

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\* See Appendix IV.



APPENDIX I

Growth of Marketing and Purchasing Co-operatives in Canada

1932 - 1949

Crop Year Ended	Associations	Total Business Including Other Revenue	Marketing	Purchasing
	No.	\$'000	\$'000	\$'000
1932	795	145,303.9	134,611.1	10,665.5
1933	686	115,849.9	106,804.2	8,779.1
1934	690	136,411.5	128,909.0	7,389.0
1935	697	130,384.9	120,853.6	9,241.8
1936	781	158,165.6	144,962.6	12,788.2
1937	1,024	173,927.1	157,031.4	16,363.9
1938	1,217	155,080.4	134,493.7	20,091.9
1939	1,332	201,659.9	180,747.5	20,400.0
1940	1,151	236,322.5	214,293.4	21,129.8
1941	1,395	242,158.3	215,030.4	25,895.4
1942	1,722	257,090.4	214,762.9	42,327.5
1943	1,650	352,785.6	295,499.3	55,689.1
1944	1,792	527,855.5	459,798.8	65,508.7
1945	1,824	585,650.1	500,481.6	81,360.9
1946	1,953	554,329.7	454,564.9	95,603.3
1947	2,095	712,583.2	578,638.2	127,001.5
1948	2,249	780,085.0	616,347.5	157,874.0
1949	2,378	982,232.0	783,293.2	191,804.6

APPENDIX II

Co-operatives in Canada, by Provinces, 1949.

Province	Marketing and Purchasing Co-Operatives	Member-ship	Fisher- Men's Co- Operatives	Member-ship	Service Co-Oper- atives	Member-ship	Total Member-ship <sup>1/</sup>
British Columbia	121	44,687	7	8,539	16	4,464	57,690
Alberta	206	217,737	1	25	30	6,517	224,279
Saskatchewan	565	401,391	-	-	18	5,327	406,718
Manitoba	145	162,253	-	-	9	1,471	163,724
Ontario	382	82,946	-	-	52	26,425	109,371
Quebec	713	82,848	38	3,205	30	14,496	100,549
New Brunswick	63	13,187	16	1,699	1	14	14,900
Nova Scotia	121	22,090	22	1,191	-	-	23,280
Prince Edward Island	28	8,305	12	624	-	-	8,929
Newfoundland	28	5,074	7	1,018	-	-	6,092
Interprovincial	6	104,180 <sup>2/</sup>	-	-	-	-	104,180
<b>Total</b>	<b>2,378</b>	<b>1,144,698</b>	<b>103</b>	<b>16,300</b>	<b>156</b>	<b>58,714</b>	<b>1,219,712</b>

Total number of co-operatives - 2,637

<sup>1/</sup> Membership figures are subject to duplication since persons are often members of more than one association.

<sup>2/</sup> Both co-operative associations and individual.

APPENDIX III

Financial Structure of Co-operative Marketing and Purchasing Associations, by Provinces  
Crop Year Ended July 31, 1949.

Province	Total Assets	Value of Plant	Liabilities to the Public	Liabilities to Members	Net Worth	Members' Equity
British Columbia	24,637,511	9,884,312	14,914,703	3,004,608	6,718,200	9,722,808
Alberta	29,098,737	9,074,248	12,209,637	11,268,989	5,620,011	16,889,100
Saskatchewan	70,237,408	26,907,192	26,810,696	32,835,188	10,591,524	43,426,712
Manitoba	20,908,973	7,601,978	8,379,928	6,780,207	5,748,838	12,529,045
Ontario	18,649,051	7,158,737	8,230,372	4,259,787	6,158,892	10,418,679
Quebec	40,650,498	16,556,187	20,989,139	3,909,092	15,752,267	19,661,359
New Brunswick	2,687,102	970,257	1,337,995	40,713	1,308,394	1,349,107
Nova Scotia	7,398,321	3,053,311	3,407,960	612,350	3,378,011	3,990,361
Prince Edward Island	814,029	258,165	339,271	102,596	372,162	474,758
Newfoundland	972,473	188,655	225,264	47,790	699,419	747,209
Interprovincial	20,908,821	8,179,866	9,754,723	1,317,822	9,836,276	11,154,098
<b>Total</b>	<b>236,962,924</b>	<b>89,832,908</b>	<b>106,599,688</b>	<b>64,179,142</b>	<b>66,184,094</b>	<b>130,363,236</b>



## APPENDIX IV

### TAXATION

Under the 1946 Act a corporation, incorporated under provincial legislation respecting co-operative associations for marketing, purchasing or service, is exempt from taxation for its first three taxation years providing it commenced business on or after January 1, 1947.

To qualify for this exemption, however, a new co-operative must comply with certain additional provisions:

- (1) Each member must have one vote, and one vote only;
- (2) A prospect to pay patronage dividends must have been held forth;
- (3) 90 per cent of the membership must be individuals and 90 per cent of the shares must be held by individuals;
- (4) The rate of interest on capital or dividend on shares must not exceed 5 per cent;
- (5) There must not be more than 20 per cent non-member business;
- (6) The co-operative may not be a continuation of a previous business in which the members had a substantial interest.

All Canadian co-operatives must file income tax returns. If they can comply with the regulations outlined above, they are able to claim total exemption. If they cannot thus qualify, patronage refunds are allowable by Section 68 of the Income Tax Act as a deduction in computing income, providing the following conditions are fulfilled:

(1) Co-operatives must have "held forth the prospect" of paying patronage refunds and this prospect must have been announced prior to the taxation year by an advertisement in a newspaper, by contracts, or explicitly set forth in the charter, by-laws, articles of association or in the Act under which they were incorporated or registered.

(2) The co-operative must, within 12 months after the taxation year, allocate the refund to all customers at the same rate except for non-members, who may be credited with a different rate. There may be different rates also for different commodities.

Payment of refunds must be made within the taxation year or within twelve months afterwards, to be deductible in the taxation year. Otherwise such payments are deductible when paid. Payment includes the following five methods:

- (1) By cash;
- (2) By certificates of indebtedness or issue of shares of capital stock; provided an amount of money equal to the certificates or shares issued has been disbursed in redeeming previous issues;

- (3) By applying the refund against a debt of the customer providing the co-operative has statutory or written authority from the customer to do so;
- (4) By retention by the co-operative as a loan from a member providing the member or customer has given a written authority to the co-operative for this purpose;
- (5) By applying the refund on account of a loan or purchase of shares pursuant to a by-law which requires the member to make a loan or purchase shares and authorizes the application of the patronage dividend thereon, if the statute under which the co-operative is constituted provides that all by-laws of the co-operative are binding on all members.

There are, however, limitations on the amount of refund which is allowable as a deduction from income. A co-operative, having complied with the requirements as set forth above, cannot claim as an allowance a refund to members which is greater than the income arising from member business. All refunds paid to non-members may be deducted from income.

Furthermore, the amount of refund cannot reduce the taxable income below 3 per cent of the capital employed in the business, with the exception that such capital includes all borrowed money other than money borrowed from chartered banks and credit unions. However, the 3 per cent of capital employed may be reduced by any interest paid on money borrowed from sources other than chartered banks and credit unions.

December 7, 1950.

RP/A