 **Canadian Worker Cooperative Federation**

**Fédération Canadienne des Coopératives de Travail**

How Worker Co-operatives Can Help Address the

Climate Emergency and Canada’s Economic Challenges

by the Canadian Worker Co-operative Federation

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The Canadian Worker Co-operative Federation (“CWCF”) is pleased that the theme of the 2020 pre-budget consultation is **Climate Emergency: The Required Transition to a Low Carbon Economy**. Climate change unequivocally threatens not only sustainable development, but the survival of millions of people around the world through undermining food security, extreme weather events, sea level rise, ocean acidification and other impacts. CWCF is therefore mandated on behalf of our members to advocate for meaningful action on climate change according to the co-operative values of **self-help**, **self-responsibility**, **democracy**, **equality**, **equity** and **solidarity**.

Many worker co-operatives in Canada are working toward sustainability and climate justice. The list includes Sustainability Solutions Group, la Forêt d’Arden, EnerGreen Builders, SunCertified Builders, Aster Group Environmental Services, Vancouver Renewable Energy Co-op, and more. Yuill Herbert, CWCF Director and Principal of Sustainability Solutions Group, has stated, “The unique value proposition is that co-operatives, unlike many other models of enterprise, can enable the transition to a fossil fuel-free society while combating inequality, enhancing democracy and ensuring local involvement and control, thus simultaneously achieving different aspects of the sustainable development goals: a win-win-win solution.” (See recommendation 1, below, for the most relevant priority regarding the climate emergency.)

There are other social and economic challenges, many of which will be exacerbated by climate change, that must also be addressed. Worker co-operatives, including multi-stakeholder co-operatives with substantial worker control and worker-shareholder co-operatives, can contribute to solutions for many of them. The remaining recommendations are on other challenges, but by addressing these CWCF believes that the climate emergency can also be addressed.

At this time of growing inequality, many Canadians are in precarious work including in the gig economy with low pay and benefits and little job security. Further, the continuing wave of retirements including among small and medium-sized business owners means that many jobs and businesses are at risk, as owners often lack a succession plan and it is expected that as retirements accelerate, there may not be enough buyers for all businesses especially in rural areas. The employee buy-out option is not well known.

Employee ownership through the worker co-operative model can help to meet the need to create and maintain living-wage, stable employment in sustainable, co-operative enterprises, which would be facilitated by the measures proposed here including for climate justice, fair taxation, an improved environment for worker co-op capitalization, and development support programming.

Over 100 studies across many countries indicate that employee ownership (in co-operatives and other legal forms) is linked to :

1) increases in firm performance / productivity,

2) greater job stability with fewer layoffs in recessions,

3) significant potential to alleviate income inequality, and

4) improved quality of work life due to workers having greater control and more aligned incentives, and where ownership includes increased participation in decision-making, increased skills development.[[1]](#footnote-1)

In order to unleash the potential of the worker co-op model across Canada to help address both the climate emergency and significant economic challenges, CWCF seeks the following from the Government of Canada, with the relevant departments noted.

1. **Implement the Recommendations in CWCF’s Climate Change Statement**[[2]](#footnote-2) These recommendations call on the Government of Canada, and others, to focus on an integrated and cross-departmental regulatory approach to reducing greenhouse gas emissions. (Environment Canada, etc.)
2. **Ensure Tax Fairness in Forestry Co-operatives** (Supporting the advocacy work of the *Fédération québécoise des coopératives forestières*)

Amendments to the Canadian *Income Tax Act* in 2016 negatively affect forestry worker and producer co-operatives with respect to the small business deduction for business income. Prior to December 15, 2016, a Canadian-controlled private corporation (“CCPC”) was entitled to a small business deduction of $500,000 per taxation year. Since December 15, 2016, each CCPC is entitled to a business limit of $500,000 unless it is associated with another CCPC. If CCPCs are associated under the Act, they are entitled to only one $500,000 business limit, which they must share. Accountants have been measuring the scope of the change that has been introduced and notifying forestry entrepreneurs that they are losing their tax deduction because they are members of the co-operative that employs them. These amendments could have affected agricultural or fishing co-operatives, but Finance Canada provided tax relief so that the 2016 amendments do not apply to these co-operatives; therefore, their members continue to be entitled to the full small business deduction. The amendments conflict with internationally recognized co-operative principles and jeopardize the survival of the co-operative model in the sustainable use and management of forest resources. Forestry co-op members should be entitled to the same tax relief as members of agricultural and fishing co-operatives.

(Finance)

1. **Fair Tax Treatment for Worker Co-ops which have Indivisible Reserves**

An indivisible reserve in a worker co-op is property owned by the co-operative which cannot be divided among members. It is permanent co-operative capital, and is notionally seen as the value of the common effort of the members. As long as the co-op is operating as a co-op, it can use the indivisible reserve like other retained earnings. This reserve can be controlled by the members, but not accessed by them for distribution to themselves individually. “Indivisible” means that if the co-op ceases to exist as a co-operative (e.g., because it is wound up or sold), the reserve will go to a co-op development fund or another co-operative organization and not be available to the individual members.

Because indivisible reserves cannot be cashed out by individual members, they provide long-term investment capital that supports longevity of the co-op, across generations. The indivisible reserve is a means by which worker co-op members can demonstrate strong commitment to the worker co-operative movement and its values.

The indivisible reserve can be created either because it is required by legislation (as in Quebec or Newfoundland – for all co-op types), or because the co-op decides to adopt it (possible in other provinces and under federal legislation).

Co-ops which have indivisible reserves through legislation or which chose this option irrevocably in articles of incorporation would be mirroring a non-profit society to the degree that they make their reserve indivisible. The reason is that it’s not the members’ money anymore, just as the reserve in a non-profit society is not the members’ money. Thus it would be fair that any surplus or profit which a co-operative puts into an indivisible reserve would be exempt from corporate tax, as this reserve is no longer for private, personal benefit but for collective, public benefit. (Finance)

1. **Improve Environment for Worker Co-op Capitalization**
   1. **Grow CWCF’s *Tenacity Works* Fund** with a significant investment from the Social Finance Fund. (ECSD)

The *Tenacity Works* Fund is an investment fund whose purpose is to create new and to expand existing worker co-operatives in all regions of Canada. *Tenacity Works* is owned and operated by CWCF. Funds are used to invest in worker and multi-stakeholder co-ops across Canada. The main purpose is to allow worker co-operatives to leverage a *Tenacity Works* loan to obtain additional financing from traditional lenders, to enable workers to create and maintain jobs. To date, *Tenacity Works* has approved more than 35 loans. Loans have been available for amounts between $15,000 and $50,000, and at times higher. CWCF has operated the Fund since the year 2000, and it is currently valued at just under $450,000. Worker coop-friendly financing to help grow and maintain employment through worker-owned enterprise is critical. A significantly larger fund would help CWCF meet far more Canadians’ needs for living-wage jobs and enable increased collaboration with the Canadian Co-operative Investment Fund.

* 1. **Restore the Pre-2011 Rules Regarding Self-directed RRSP’s in Co-ops**

In 2011, Finance Canada changed the self-directed RRSP regulations such that, in summary, individuals cannot hold 10% or more of any class of shares in a co-op and also hold RRSPs in that co-op. These new rules make it impossible for smaller co-ops to use RRSP’s as a way to facilitate member financing of co-ops. This has significantly decreased the number of worker co-ops, and some other co-ops, which can use a self-directed RRSP program.

Previously, the criteria for eligible investments was either to own less than 10% of the shares of the co-operative or if owning higher than 10% of the shares, that the shares eligible for inclusion in the holder’s RRSP be restricted to a maximum value of $25,000*.* It is this cap, eliminated in 2011, that we would like to see reinstated. Given inflation since 1992 when this $25,000 limit was set, we would suggest that the cap be increased to approximately $37,500 or another appropriate amount, with indexing every three to four years.

For consistency and equity reasons, we also believe that this fiscal measure should apply to both RRSP’s and TFSAs to broaden the capacity for co-operatives to use these programs. (Finance)

1. **Worker Co-op Development Support Programming, led by CWCF** (ISED, etc.)
   1. **Worker Co-op Business Succession Program**

A program to promote and provide advisory services for business succession to worker co-ops would assist business owners of small and medium-sized enterprises (“SME’s”) in converting to worker co-ops, as a business succession strategy.

* 1. **Worker Co-op Development Support Program**

A strong eco-system for worker co-operative development, including technical assistance and training, would provide the tools needed to grow and sustain worker co-operatives.

1. Does employee ownership improve performance?, by Douglas Kruse, Rutgers University, 2016,

   <https://wol.iza.org/uploads/articles/311/pdfs/does-employee-ownership-improve-performance.pdf> [↑](#footnote-ref-1)
2. <http://canadianworker.coop/climate-change/> [↑](#footnote-ref-2)