



2009 federal budget: highlights for co-operatives and credit unions

January 28, 2009 - The [federal budget](#) that was tabled on Tuesday brings Canada into a new period of deficit spending and increased economic stimulus. This represents a 180-degree turn from the approach taken by the government in its November 2008 Economic Statement.

The budget contains new stimulus expenditures of some \$18 billion, including:

- \$12 billion over two years for infrastructure;
- \$2 billion for income tax relief.

In addition, the government has committed to borrow funds to provide:

- Another \$50 billion to purchase mortgages from banks and credit unions on top of the already committed \$75 billion;
- \$12 billion to purchase vehicle and equipment loans and leases in an effort to free up credit for new auto purchases;
- \$13 billion to increase the capacities of Crown Corporations such as Canada Mortgage and Housing Corporation, Export Development Corporation and the Business Development Bank of Canada; and
- Nearly \$3 billion in loans to auto companies.

Many of the budget measures will directly benefit co-operatives and credit unions:

Credit Unions

The budget contains a large number of measures to increase credit, as well as some tax reductions and depreciation changes which will generally have a positive impact on credit unions. The Credit Union Central of Canada has done a comprehensive analysis of these measures which is available at www.cucentral.ca/Policy_budget_27jan09.

Social housing

Another area of interest to the co-op sector is the promise to invest more in social housing, which would include housing co-operatives. The budget commits the federal government to provide:

- \$1 billion over two years for renovations and energy retrofits for up to 200,000 social housing units on a 50–50 cost-shared basis with provinces;
- \$400 million over two years for the construction of social housing units for low-income seniors;
- \$75 million over two years for the construction of social housing units for persons with disabilities;
- \$400 million over two years to new social housing projects and to remediation of existing social housing stock on First Nations reserves; and
- \$200 million over two years for social housing in the North.

The Co-operative Housing Federation of Canada (CHF Canada) has been requesting the funding for renovations and energy retrofits and CCA is pleased with this new commitment. The funding for new social housing is targeted toward the groups with highest needs, e.g. seniors, people with disabilities, First Nations and those living in the north. There is, however no new money for families and singles in Canada's urban areas, except that which was previously announced in the fall. CHF Canada's comments on the housing provisions of the budget are available on their web site at www.chfcanada.coop/eng/pages2007/news_2009_02.asp.

Agriculture

In the Agriculture section of the budget there were three announcements of interest to co-ops: proposed amendments to the Farm Improvement and Marketing Cooperatives Loans (FIMCLA) Act , a new investment in slaughterhouses and a five-year, \$500 million agricultural flexibility program.

- The FIMCLA changes are long overdue and CCA has mentioned this in several pre-budget submissions. The FIMCLA program provides loan guarantees to financial institutions, including credit unions, to enable them to lend to co-operatives that are involved in the processing, distribution or marketing of farm products as well as individual farmers for farm improvements. The current Act will be amended to “make credit available to new farmers, support inter-generational farm transfers, and modify eligibility criteria for agricultural cooperatives”. We are hopeful that the amendments will allow for non-farmers to be members of eligible co-ops and raise the loan limits to enable co-ops to undertake construction and purchase of value-added processing facilities. The current loan limit for co-ops is \$3 million.
- The Government will invest \$50 million over the next three years to strengthen slaughterhouse capacity in various regions across Canada as a measure to support beef, dairy and other livestock producers. This investment appears to be aimed at existing slaughterhouse operations that represent “sound businesses,” not new and emerging abattoirs that need funding to develop. The government will make contributions available to match private sector investments in order to “reduce costs, increase revenues and improve existing meat slaughter and processing in Canada”. The spending will be over a three year period: \$20 million for 2009-10; \$15 million for 2010-11; followed by another \$15 million for 2011-12. We will continue to

monitor the developments of this investment plan and its specific budgetary details to gauge how slaughterhouse co-operatives may benefit from this fiscal stimulus.

- The budget also included a five-year, \$500 million agricultural flexibility program that will facilitate the implementation of new initiatives, both federally and in partnership with provinces, territories and industry. The plan, proposed last fall in the Conservatives election campaign platform, is aimed at helping the sector adapt to pressures and improve its competitiveness. In a media conference last week Minister Ritz said that the Ag flex program is “a standalone pool of money that will drive innovation, environmental change, and marketing opportunities. He also said that “we're looking for new and better ways to control input costs”

Support for business

Like all businesses, co-operatives need credit, and Budget 2009 promised to improve access to credit through a variety of means. Specific measures include:

- \$13 billion in additional financing for national Crown corporations, as previously outlined. This includes at least \$5 billion in new financing under the new Business Credit Availability Program.
- Increasing the maximum eligible loan amount a small business can access under the Canada Small Business Financing Program.

The tax and tariff relief measures to “stimulate business investment” also apply to co-operatives. They include a temporary 100 per cent capital cost allowance (CCA) rate for computers acquired in the next two years, extending generous tax write-offs on new machinery and equipment and permanently eliminating import tariffs on a range of machinery and equipment purchased by Canadian industry over the next five years.

This latter measure will lower costs for Canadian producers in such sectors as forestry, energy and food processing, which must purchase specialized equipment from overseas to modernize their operations and enhance competitiveness. This measure will affect close to \$2 billion in annual imports of machinery and equipment and provide over \$440 million in savings for Canadian industry over the next five years.

Other general measures for business include freezing Employment Insurance premium rates, investing in municipal infrastructure, and \$225 million over three years to develop and implement a strategy on extending broadband coverage to unserved communities.

Environment

The 2009 budget provides \$1 billion over five years to support clean energy technologies. This Clean Energy Fund is primarily targeted at the research and development of large-scale technologies that can achieve a 20% reduction in greenhouse gas emissions by 2020. This package includes \$150 million over five years for research and \$850 million for the development and demonstration of the most “promising” technologies. The projects most likely to receive the most attention will be large-scale carbon capture and storage projects. Once the specific budgetary details are release, we will have a better sense of how this will impact Canadian co-operatives that are involved in the research and

development of environmental technologies. To date, it appears the funding will be targeting large projects both advanced in their research and project scale.

The budget is generally disappointing in its lack of specific measures to support green businesses and its failure to mention such renewable energy sources as wind, solar and geothermal, while setting aside \$351 million on a cash basis to strengthen the Canadian nuclear industry. There will also be \$10 million in 2009-10 to sustain the Government's annual reporting on environmental indicators

Co-operative Development Initiative

While the Budget did not specifically mention CDI renewal, CCA is confident that this program will be renewed and we hope to be able to update you soon on this issue.

International Development

Canada's commitment to international development did not rate a mention in the February 27 budget. On the surface, that is positive in that the commitment made to in the 2008 budget, "to double international assistance by 2010-11 from 2001-02 levels", is still in effect. However, the international development community will be watching closely for changes in that position as historically, development spending has not fared well during times of recession and government deficits.

Can this Budget work?

For this budget to be enacted, the stability of the government in a minority situation is, of course, a crucial factor. As of today, the Liberal Party has committed to support the government as long as the government accepts some measures mandating greater accountability in terms of the actual use of the allocated funds.

While this stimulus is large by past budget standards, at less than 2 per cent of Gross Domestic Product, it pales in comparison to the 5 per cent of GDP that the U.S. government has promised to spend.

While at first glance, the budget deficit of \$34 billion would seem to indicate to many people that most of this money is being spent on stimulus, this is in fact not the case. With the downturn in the economy and tax cuts (such as the GST cut) in previous budgets, tax revenues have declined. Thus, a large part of this year's deficit is the result of a \$16 billion shortfall in regular program budgets. The government forecasts deficits totalling \$85 billion from now until 2013 when we will finally be back with a modest surplus of \$700 million.

Will the increased spending in this budget be enough to turn the tide of recession in Canada?

Unfortunately there is no clear answer on this question. Firstly, Canada is influenced by many global factors such as the state of the US economy which buys 85 per cent of our exports. Secondly, as layoffs mount, tax revenues decline rapidly and effect government expenditure plans. The American, British and German governments have already revised their initial stimulus packages upwards by very large amounts and it is possible that Canada will be forced to do likewise.

There are many good initiatives in the budget, such as the increases for social housing, skills development, the Working Income Tax Benefit and some increases to the National Child and Child Tax Benefits, as well as increase of five weeks in EI coverage. But many of these initiatives, while laudable, fall short in the amount of money necessary needed to make a real change on these issues. For example new spending for Aboriginal housing, at \$400 million, is welcome but this will not be enough to really put a dent in the housing problems on the 600 reserves across Canada. The EI changes, while positive, do not help more people who need to access EI in many provinces nor equalize the regional differences in the total number of weeks people can receive EI benefits.

The infrastructure spending will deliver a much-needed boost to the economy, but we are concerned about the speed at which this money can actually roll out on shovel-ready projects. We are also concerned about the extent to which much of the increased spending is contingent on matching provincial and or municipal funding. We know from past experience that difficulties in obtaining funding from other levels of government can hold back federal initiatives.

We would also have liked to see measures aimed not only at hard infrastructure projects and credit but also measures aimed at social infrastructure such as health, seniors' services and a national child care program. Stimulating these areas also can provide more immediate jobs and services, particularly for women. Once again, there is no commitment to the development of a national anti-poverty strategy. Four Canadian provinces have either set or are committed to setting up provincial anti-poverty strategies.

Finally, we would have liked to have seen a more complete outline of government spending in the budget. Aside from the specific stimulus measures, there was no detail provided on program spending in such key areas as industry and agriculture, and no reference at all to international development.

Meanwhile, CCA will keep pressing on issues such as the Co-operative Investment Plan and the creation of a Co-operative Development Fund, which we believe would be particularly useful during this period of economic downturn.

For more information about the federal budget and its impact on co-ops, contact John Anderson, Director, Government Affairs and Public Policy, 613-238-6711, ext. 228 or john.anderson@coopscanada.coop.