Recovery Through Co-operation:

A plan for jobs, growth and manufacturing

Pre-Budget Submission 2020-21

August 2020

Image courtesy of CBH Group

BUSINESS COUNCIL OF CO-OPERATIVES AND MUTUALS

About this submission

This submission is made by the Business Council of Co-operatives and Mutuals (BCCM), the peak body for Australia's member-owned firms across all industries.

Co-operatives and mutuals operate in a diverse range of sectors of the economy including agriculture, manufacturing, finance and banking, insurance, mobility services, health services, aged care, disability employment, education, Aboriginal services, housing, retail and wholesale. The top 100 Australian co-operative and mutual enterprises (CMEs) have a turnover of $31.9 billion.

The members of the BCCM collectively have 11.5 million members. They represent the leading co-operative and mutual firms operating in the Australian economy.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between CMEs and other business models, including implementation of the recommendations of the Senate Economics References Committee report into "Cooperative, mutual and member-owned firms", and the Hammond Review recommendations to improve access to capital for co-ops and mutuals.

From 2016-2019 the BCCM coordinated industry action to work with Government to bring forward the first enabling legislation for co-operatives and mutuals in 18 years.

About co-operatives and mutuals

Co-operative and mutual enterprises, or CMEs, are businesses that are owned by members rather than shareholders. Their members can be their customers, as in the case of a mutual bank, their policy holders, such as a mutual health insurer, their suppliers, as in a farmer owned co-operative or their members can be small or medium enterprises themselves.

They are shared business ventures that enable individual entrepreneurs or businesses to work together for a common purpose. As a collaborative business vehicle, co-ops and mutuals facilitate the pooling of capital and business expertise so their members can compete in markets suited to larger entrants. They enable bulk purchasing and group marketing activities, collectively invest in infrastructure and R&D, promote education, training and skills development and bring independent businesses together for business acceleration and scale.

Eight in 10 Australians are members of at least one co-operative or mutually owned organisation.

Because of their shared local ownership, CMEs are domiciled in Australia, distribute wages and profit back into their community and are taxed in Australia.

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Business Council of Co-operatives and Mutuals

Members

Recovery Through Co-operation: A plan for jobs, growth and manufacturing

Introduction

Australians are pioneers. Our nation's wealth has been built from the ground up through our ingenuity and resilience.

Co-operatives and mutuals embody that pioneering spirit. That's why they are the natural partner of government in times of economic recovery.

They have played a pivotal, nation building role since the beginning. Co-ops and mutuals were the first instigators of self-help, building the first social infrastructure to support communities in need. Throughout the economic development of our country they have been there for Australians through the highs and the lows.

They were the first home lenders to ensure key workers like teachers, nurses and police could afford a home, and they are still making sure Australians get access to ethical banking services.

They opened the first public health institutions. They devised the first workers compensation schemes and they provided the first rural stores to serve remote and regional centres.

They built the first roads and installed the first street signs. They are pioneers in customer technology; the first banking sector to install ATMs and today, mutuals are building the electric vehicle infrastructure and driverless mobility of the future.

A recovery plan without co-operatives and mutuals leaves a large chunk of Australian ingenuity out of the picture.

Throughout the pandemic, they have kept their doors open and their phone lines answered by their Australian call staff. They have kept their employees in work redeploying them into other roles rather than sacking them.

They have kept meat on the table and milk in the fridge. They have even kept "prawns on the barbie".

They helped before and they can help now.

Built by Australians for Australians, in times of crisis, co-operatives and mutuals embody:

- Self-help.
- Australian ingenuity, and
- Mateship.

"Recovery Through Co-operation" is a plan for a co-operative-led recovery to scale businesses and create high quality employment in regional centres. The program consists of a 'business activation' workstream and a concurrent 'access to capital' workstream to commence immediately, accelerating business opportunities and mobilising investment capital into regions.

It is estimated the program will cost $5 million to deliver hundreds of new **manufacturing jobs**, two or more **regional growth clusters**, and the enabling legislation and regulatory guidance for continuing economic recovery based on the know-how, track record and investment of Australian co-operatives and mutuals.

It is vital that it is industry-led and that co-operative and mutual businesses directly invest in new business ventures. The BCCM has the business knowledge, networks and credibility to lead this project on behalf of the sector contingent on the Commonwealth match-funding the industry contribution.

Given an enabling environment for accessing capital, co-operatives and mutuals can be encouraged to leverage their balance sheet even in a downturn. Importantly, the plan is for more domestically owned and controlled economic activity to deliver long-term prosperity for communities here .

During the COVID crisis much has been made of the need to reanimate manufacturing capacity for reasons of sovereign capacity. It is timely for government to explore the strategic ownership of supply chains in the national interest.

The co-operative model allows business ventures to attract external investment without exporting profits and to scale smaller firms into larger businesses like Germany's 'Mittelstand', Spain's Mondragon Consortia and Italy's Emilia Romagno region, which all support globally competitive advanced manufacturing in sectors like food, appliances, medical technology and automotive engineering.

As we gradually emerge from the pandemic, government has rightly encouraged collaborative efforts aimed at the recovery: The more Australians able to 'lift', the lighter the load.

Co-operatives and mutuals can contribute to this effort by incentivising self-help. They remind Australians that problems can be solved by working together and they reduce reliance on government handouts over the longer-term.

A survey of members undertaken by the BCCM to measure COVID-19 impacts on the sector found just one in five CMEs were receiving JobKeeper. The group structure of mutuals has meant many have cross subsidised severely impacted parts of the business from their more profitable centres; a self-help response of which they are proud but one that has ultimately hollowed out their reserves.

Government and industry have recently worked together to reduce impediments to business investment in the sector with the passing of the Treasury Laws Amendment (Mutual Reforms) Act 2019, the first enabling legislation for co-operatives and mutuals in 18 years.

We welcome the opportunity to partner with government again to ensure this watershed legislative reform can be used by CMEs to access much needed growth capital for the benefit of the Australian economy at this critical time.

In partnership with the sector, government can leverage the knowledge and experience of co-operatives and mutuals to:

- Scale domestic manufacturing firms and boost SME competitiveness.
- Unlock new capital for investment in Australian jobs and growth.
- Give more Australians the chance to invest in this growth.

adjective: **pioneering**

“involving new ideas or methods.”

Norco Co-operative ice cream factory, Lismore

CONTENTS

1. Summary 8
2. Co-operatives and mutuals are key players in the Australian economy 9
3. Co-operatives and mutuals can contribute to a growing mid-sized business sector 10
4. Capital investment in co-operatives and mutuals delivers economic growth across Australia's Regions 18
   - 4.1 Growth through diversification 18
   - 4.2 Growth through expansion 21
   - 4.3 Growth through co-operative consortia 24
   - 4.4 Growth through new co-operatives 26
5. Recovery Through Co-operation: A Proposal to the Federal Government 28

Appendix 35

Growth workstreams 35

1. Summary

Australia's recovery from the pandemic requires economic growth and high-quality jobs to be spread equitably across the nation's regions.

There is a way to retain and grow Australian business so that we can increase our self-reliance and create new employment, particularly in manufacturing and value-added processing.

By building on the bedrock of existing Australian owned firms, we have the opportunity to make lasting positive changes to our economy, creating resilience and strength for the future.

Australia needs to facilitate the expansion of its manufacturing base. Across the world, many countries benefit from strong and growing medium and larger-sized manufacturing sectors such as in the German Mittelstand, which is a significant engine of economic growth – domestically owned and controlled and benefitting local economies.

> *Co-operatives and mutuals can directly contribute to such a mid-sized business sector in Australia through the scaling up of existing businesses and facilitating new co-operation between firms to increase the number of medium and larger-sized enterprises.*

An Australian version of the successful co-operative business clusters in Spain's Mondragon consortia and Italy's Emilia Romagna could provide a rapid boost to regional economic growth.[1]

Government can act to leverage co-operatives to increase the scalability of domestic manufacturing firms and can boost small and medium sized business competitiveness by:

- Building regional clusters for economic development around groups of strong co-operatives and mutuals.
- Growing medium and larger-sized co-operative firms, particularly in manufacturing and finance.
- Assisting SMEs to be more profitable and competitive through existing and new co-operatives.
- Facilitating access to investment finance.

By assisting co-operatives and mutuals to achieve these objectives, the Government will deliver the following benefits for Australia:

- Australian owned manufacturing business will grow.
- Larger and more profitable co-operatives will create new, high quality jobs in the regions.
- Independent small businesses will be helped to secure local ownership, competition and choice.
- Tax revenues and export earnings will increase.

[1] In Italy, CFI estimates that investment in co-operatives as part of such clusters has generated an economic return of 6.8 times the capital invested

2. Co-operatives and mutuals are key players in the Australian economy

Eight in 10 Australians are members of at least one co-operative or mutually owned business. Co-ops and mutuals provide competition in agriculture, manufacturing, banking, insurance, health, housing, retail, transport, tourism and motoring.

Co-operatives and mutuals have shown through their longevity that they are resilient businesses, equipped to negotiate difficult economic conditions. They have acted ethically and responsibly for their communities in the crisis. This must be preserved for the future strength of the Australian economy.

Co-operatives and mutuals:

- Bring corporate diversity to business.
- Facilitate competition and choice in markets.
- Enable smaller independent businesses to compete in many markets.
- Create medium and larger-sized firms in the economy.
- Are particularly important to the regional Australian economy.

Co-operative and mutual enterprises (CMEs) touch the lives of most Australians

- 230 agriculture and fishing co-ops are part of the nation's food infrastructure, and major export earners. They support 24,000 primary producers and mass regional employment.
- Mutuals provide tourism, travel and holiday services which are significant local income earners.
- Mechanics, plumbers, liquor retailers and butchers are among 140,000 small business members of retail and marketing co-ops that support their business viability. Community-owned supermarkets, service stations and hardware stores provide important amenity in many Australian towns.
- Mutual banks provide banking services to millions of Australians. In the recovery, they are important partners in financing investment and maintaining service and competition in regions.
- Mutual health and aged care services are at the frontline of dealing with the health emergency and continue to care for vulnerable citizens in a responsible and caring way.

3. Co-operatives and mutuals can contribute to a growing mid-sized business sector

Many countries benefit from a strong and growing mid-sized business sector.[2]

Across the world, mid-sized businesses are seen as significant engines of economic growth, domestically owned and controlled, and benefitting local economies.

Many international examples of medium and larger-sized businesses concentrate on value added manufacturing, creating high quality jobs and focussing on export earnings.

- Australia needs to retain and grow its mid-sized business sector, particularly in value added manufacturing.
- Australia can aspire to the example of Germany's mid-sized business 'Mittelstand' sector.
- Australia's small and medium sized business sector is characterised by a much larger proportion of micro-enterprises than many other countries.
- Co-operatives and mutuals can provide a significant contribution to the growth of medium and larger-sized business.
- An Australian version of the successful co-operative business clusters in Spain's Basque Region and Italy's Emilia Romagna could provide a rapid boost to regional economic growth and prevent leakage of value out of these communities.
- Hunternet is a homegrown example of a co-operative business cluster that has demonstrated success in scaling small firms for pioneering advanced defence manufacturing capacity in Australia.

hunternet
The power of many

HunterNet has safeguarded the Hunter region's SME manufacturing sector since it formed in 1992 in response to the shifting economic climate which saw many of the smaller manufacturing and engineering companies competing in a more limited market.

Local businesses needed to create new opportunities for themselves and the region in order to survive so they formed a co-operative to focus on competing globally.

Today it involves over 200 small and medium-sized manufacturing, engineering and consulting companies active in national and international markets in defence, power generation, mineral processing, transportation and major resource projects. HunterNet markets the combined capability of the members, provides business development and training opportunities, and promotes the Hunter as a manufacturing and engineering region of excellence. It Manages 140 apprenticeships and trainees across its business members which represent a combined 70,000 jobs in the Hunter.

The success of HunterNet winning work in areas such as ship building, aerospace, rail and mining will be a key factor in achieving future success for the region as the Hunter gears up for its next stage of industrial development.

[2] In Australia, the ABS defines such firms as those with 20-199 employees.

ACCI supports our plan for co-operative clusters in their Pre-Budget Submission 2020-21 (page 13):

> *There is also an opportunity for government to assist in leveraging existing sectoral and placed-based clusters to increase the scalability of domestic manufacturing firms and facilitate the development of high-performing and cooperative clusters. Cooperatives can boost SME competitiveness and support Australia's locally owned manufacturing base.*

Clusters of co-operative businesses can help build rapid economic growth in regions

Successful co-operative business sectors show that a supportive eco-system that nurtures and values co-operative business for the benefits they bring to the economy, can help to facilitate significant economic growth.

The examples of the 'Corporation' at Mondragon and the clusters of co-operative business in Emilia Romagna shows the value of strong business support systems that are allied to the provision of investment capital. Individual co-operatives can flourish, but larger firms can also be developed, particularly in manufacturing.

In Australia, little support is given to the creation of new, vertically integrated, co-operatives as well as a scheme for supporting the conversion of conventional businesses where business succession issues would otherwise lead to closure.

There is an opportunity to grow and develop co-operatives and mutuals further, existing co-ops can be expanded, or co-ops can be newly established by groups of privately-owned small firms.

Co-operative business is key to the effort to grow a successful, sustainable and domestically owned manufacturing sector. This can be achieved by assisting small producers to work together to grow existing medium-sized firms and create new ones.

In agriculture, fishery and food production, vertically integrated co-operatives enable significant export and manufacturing businesses to be created.

Co-operatives in Australia and across the world have led value driven food production. There are many successful co-operatively owned Australian food manufacturers.

Co-operatives handle and store 40 per cent of our grain, package and export 40 per cent of our blueberries, process and market 60 per cent of our almonds and process and export most of our Western Rock Lobster fishery. In dairy and meat processing, co-operatives represent the remaining Australian producer-owned firms.

In the past, co-operatives were a bigger contributor to regionally based manufacturing. Areas of manufacturing vulnerability that have co-operative antecedents include but are not limited to:

- Refrigeration and compressors.
- Computer aided manufacture software and equipment.
- Commercial food equipment such as vacuum packers and scales.
- Farm equipment and transportation (harvesters, truck trays/trailers, tractors).
- Vet supplies including animal medications (particularly if food security is threatened by a disease like swine flu).
- Fertilizers.
- Packaging materials.
- Energy infrastructure.

A long-term supportive regime for the establishment of new co-operative businesses in food-processing and manufacturing more generally will help protect the strategic ownership of assets in the national interest.

Australia can learn from Italy's Emilia Romagna and the Spanish Basque region for examples of how co-operatives can be part of creating high quality, domestically owned, manufacturing businesses, both as individual firms and through co-operative groups, which help to foster exponential growth.

Emilia-Romagna – Italy
Regional clusters rapidly building co-operative growth

The experience of the region of Emilia Romagna in northern Italy demonstrates that co-operatives can be a major contributor to economic growth and can rapidly help to build quality jobs and prosperity in disadvantaged areas.

At the end of the Second World War, Emilia Romagna was economically ruined, with their co-operatives damaged from decades of dictatorship.

Today, Emilia Romagna is home to a population of around 4 million people, with thousands of co-operatives of all types. Together they make up over 30 per cent of the region's GDP and average per capita income income is 50 per cent higher than the national average.

The region's co-operatives produce world famous agricultural products, including world famous DOP Parmigiano and Grana Padano cheeses.

This globally renowned turnaround in fortunes owes its success to a number of factors:

The policies of the regional government: The region has a diverse entrepreneurial structure, as well as systems for supporting co-operative relations among small firms in local production systems serving global markets.

Active clustering bringing together co-operatives to work together: Co-operatives are expected to cluster together to derive the highest return.

The business support system of organisational advice and investment finance improves opportunities for growth among the groups of co-operatives.

Confidence created by Italian law: Co-operatives pay 3 per cent of annual surplus into a national fund for co-operative development. This enables direct investments back into the region to finance co-operative development. In addition, legacy assets are protected from demutualisation by law, providing longevity and stability to co-operatives.

Mondragon Corporation – Spain
Enterprise built on regional identity

Mondragon is Spain's tenth largest business group. It operates in the industrial, financial and retail sectors and also develops initiatives in education. The Mondragon Corporation has 264 businesses and co-operatives employing 81,000 workers with a total revenue of EUR 12,215 million.

Its well known brands include Orbea bikes, Ulma Group (packaging and construction) and Danobat (machine tools). It is a highly internationalised, competitive and successful co-operative group with over 50 years of history.

Factors for success:

Financial investment and technical business support: Laboral Kutxa provides banking services to the industrial co-operatives. Technically, it promotes co-operatives and coordinates them within the industry. It created its own insurance co-operative, which eventually evolved into Lagun Aro.

Mondragon's member businesses are known for innovation, research and development, and the Corporation built its own university and business incubation institutes.

One of the successes of Mondragon has been its ability to create a sense of regional identity amongst the conglomerate. This has been shown where one part of the business has supported less well performing units within the group during crisis.

The Mittelstand – Germany
Medium and larger-sized enterprise as engines for growth

Family-owned businesses form the bulk of the Mittelstand, a unique piece of Germany's industrial landscape that drives a significant share of the country's economic activity. Ranging from 100 to 499 employees, these medium-sized firms employ 22 per cent of all workers and account for more than a fifth of Germany's total revenue.

These firms are known for a sense of responsibility towards the local community and region: 70 per cent of firms are based in regional towns.

Mittelstand firms:

- Provide skilled work outside of main urban centres.
- Are competitive based on offering superior value not lower costs.
- Are strongly export focused.
- Are regionally owned.
- Have high levels of innovation.

Typically, firms concentrate on profitable niche markets often in engineering for which high quality and customer-specified products are demanded.

Factors for success:

Mittelstand firms succeed because of the enabling ecosystem of finance, training and policy.

Regional ownership: Business leaders have credibility and status in their communities and long-term ownership.

Technical support: Germany's Fraunhofer institutes provide research to develop new technologies and the advice to help firms apply these technologies to their work. As they are highly decentralised, they are particularly effective at catering to the industrial and business strengths of each region.

Investment finance: Mittelstand firms can access the Kreditanstalt für wiederaufbau (Kfw), Europe's largest 'promotional' bank with a balance sheet of nearly EUR 450 billion. The Kfw assists firms across Germany with a mix of traditional loans, investments, mezzanine and export finance.

Co-operatives succeed and the sector grows fastest when they can access a positive business environment. This varies from country to country, but each share some common factors:

- A positive policy and fiscal environment.
- Legislation that supports co-operatives.
- Supportive business regimes.

A positive policy and fiscal environment

Political recognition that co-operatives have a different business purpose, and one with particular economic and social benefits, is an important first step. In some countries, such as Italy, this recognition is formalised in their national constitution. In others, such as Spain, the different business purpose of co-operatives is recognised in a range of distinct legislative and fiscal rules, supported by co-operatively owned financial institutions.

Legislation that supports co-operatives

Further legislation protects legacy assets from the threat of demutualisation where co-operatives are prohibited from distributing reserves to members. Indivisible reserves can only cover losses after all other reserves and resources utilised. Therefore, there is no motive for asset-stripping and cashing out in these co-operatives, which supports stability and longevity; and the intergenerational mindset.

Supportive business regimes

Access to business expertise is critical to the supporting the success of clusters. Alongside the availability of investment finance, a business ecosystem exists to provide support to small businesses that wish to come together through their co-operatives.

This ranges from peer support to the encouragement of joint ventures and the shared responsibility for innovation and training.

Access to investment finance, is critical for co-operatives to succeed. In Italy, this has been formally available for many decades.

US Farm Credit Co-operative

In the United States, the US Farm Credit Co-operative, established by Act of Congress in 1916 and funded through bonds issued on Wall Street, has provided billions of dollars of investment funds to agricultural businesses for their growth and development. It has also facilitated the establishment and growth of many co-operatives for food processing and manufacture. Farm Bureau Insurance, another institution of similar age, has provided further finance infrastructure to insure agricultural businesses from the risks of trading.

All of these factors help to create a business environment where co-operatives can grow, often through the production and distribution of high-quality products, which are successfully traded across the world.

4. Capital investment in co-operatives and mutuals delivers economic growth across Australia's regions

Co-operatives and mutuals are very effective at maximising the value from capital investments. They create long term jobs, innovate and provide growth, particularly to the regional economy. The value of this enterprise stays entirely onshore, with co-operatives remaining Australian owned, employing Australian workers and paying taxes to State and Federal governments.

The following examples show what firms are already able to achieve within the existing limitations.

4.1 Growth through diversification:

Long established co-operatives and mutuals have diversified their businesses through new products and services.

Australian Unity Independent and Assisted Living

Australian Unity is an insurance and healthcare mutual that has diversified to also provide independent and assisted living services.

Australian Unity became a provider of retirement living through the acquisition of existing retirement communities and is now a developer of new assisted living schemes and has extended its services into aged care. It provides a range of home and disability services throughout Victoria, New South Wales and Queensland. It is the largest employer of Aboriginal people in NSW.

It has rapidly grown these businesses over the last five years and has a capital investment commitment of over $600 million for expansion.

Investment capital can rapidly expand these new business functions, creating jobs and growth. Access to additional funds is a constraint on growth and plans for increased development. This is exacerbated in COVID with millions in additional capital reserves held as a backstop

Artist impression: To be completed in 2020, the Surgical, Treatment and Rehabilitation Service (STARS) at Herston Quarter will be the first building delivered as part of the $1.1 billion Herston Quarter Redevelopment in Brisbane. The Herston Quarter project – a partnership between mutual company Australian Unity and the Queensland Government – is one of the most significant pieces of social infrastructure currently under construction in Australia.

RACQ

Creating RACQ Bank

RACQ is a motoring mutual which offers services and products, including roadside assistance, travel, finance and insurance to its members. It has been a leading advocate on transport and fuel affordability for all Queenslanders for more than 100 years

It diversified to add banking services through the successful merger with QT Mutual bank, which created the RACQ Bank, the Group has invested heavily in banking technology and systems to provide scalability that will benefit members in the long term.

$25 million of member funds was invested over the two years 2018/9. RACQ has developed and delivered a new banking app and is now developing a new core banking system, extending capabilities and strategic development opportunities

NRMA

Investing in an Electric Vehicle Fast Charge Network

NRMA has diversified into a range of new transport-tourism related businesses, whilst also renewing its commitment to core services. Investment acquisitions include Manly Fast Ferries, Travelodge Hotels, 42 holiday parks and Thrifty car rentals.

Separately, a $10 million program of investment in electric car fast charging points will see at least 40 chargers, doubling the previous provision in NSW and ACT.

NRMA believes that a lack of charging infrastructure is the single greatest barrier identified by NRMA Members to purchasing an electric vehicle.

The network will deliver significant benefits for the community, removing the barrier of fuel costs, investing in renewable energy and supporting tourism by unlocking regional locations that are currently inaccessible to electric vehicles.

4.2 Growth through expansion:

Co-operatives and mutuals grow steadily through the expansion of their existing business operations

Norco

Milk processing to manufacture ice cream and cheese

Established in 1895, Norco is a 100% farmer owned producer co-operative with nearly 850 employees, turning over more than $600 million per year.

Norco processes around 200 million litres of milk each year, with fresh milk bottling plants in Labrador (in south east QLD), and Raleigh (in Northern NSW); and an ice-cream plant in Lismore (in northern NSW). Norco produces ice cream for third parties that is sold in Australia, China, Japan, USA.

Norco also owns 30 rural supply stores in Northern NSW and South East Queensland, generating additional revenue and supporting its members with bulk purchasing arrangements.

Access to capital is the main barrier to growth and investment for Norco.

Norco has a $35m shovel ready job-creation project in Lismore to upgrade and expand its ice cream manufacturing facility.

The project has a full business case and has passed a competitive tender process to be granted $15m through the Federal Government's Regional Growth Fund. This project would provide 200-250 long-term, regional jobs.

Geraldton Fishermen's Co-operative
Fish processing for export

Established in 1950, Geraldton Fishermen's Co-operative (GFC) was formed by a small group of Western Australian rock lobster fishermen and has grown to become the largest rock lobster exporter in the world.
The co-op ensures high quality, regional employment with secure work and self-determinaton which would otherwise be lost.
GFC creates significant export earnings. It controls 64% of Western Australia's commercial rock lobster catch, 98% of which is sold into China. With an annual turnover in excess of $400m, GFC is a major exporter for the WA economy supporting more than 500 fishermen, employees, and their families along 1,000 kilometres of WA's coastline.
GFC has invested $22 million in a major export storage facility at Perth International Airport and has a major opportunity to expand its fish processing capacity beyond rock lobster, with suitable access to capital.

CBH Group
Investing in transport infrastructure

Co-operative Bulk Handling (CBH Group) was formed in 1933 and is Australia's largest co-operative. It is also a leader in the Australian grain industry, with operations now extending across grain storage, handling, transport, marketing and processing.

CBH Group has total assets of more than $2 billion , employing around 1,100 permanent employees and up to 1,800 casual employees during the harvest period.

The WA grain industry is the largest agricultural sector in the state and the fourth largest export industry overall, with CBH's grower members producing an average of 14.7 million tonnes of grain annually, about 40-50% of the entire Australian grain production depending on the season, and contributing almost AU$4 billion to the state's economy each year.

In 2019, CBH made its largest ever investment in the grain handling network, with $285 million spent on its grain transport and handling infrastructure.

4.3 Growth Through Co-operative Consortia:

Co-operative consortia enable small, independently owned businesses to grow and profit by working together.

Capricorn
Building small business profits

Capricorn Society is a co-operative of independent automotive businesses. It provides these businesses with core purchasing support of all of the supplies that car repair businesses need.

By buying collectively, small firms can make considerable savings, helping them to run successful businesses which contribute to the Australian economy through growth, taxes and employment.

Capricorn Members enjoy instant trade credit with its extensive network of automotive suppliers throughout Australia and New Zealand. The co-op also provides equipment finance to help small businesses to invest, a fuel card, travel services, risk protection and insurance.

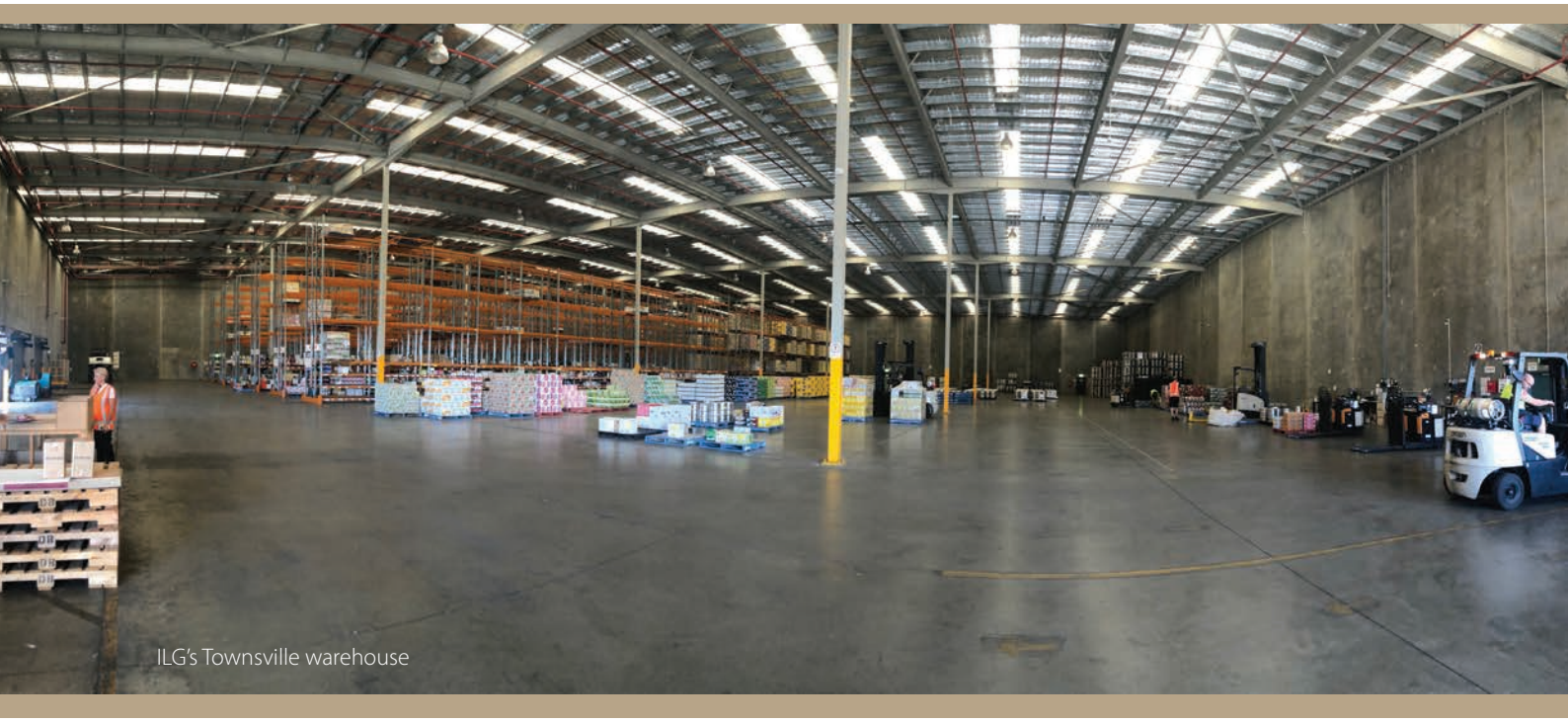
The co-operative's impact on employment starts with its direct employment of 331 people. Capricorn has more than 20,000 independent automotive repair businesses in membership. Many of these are small family owned enterprises and Capricorn estimates its member businesses employ 80,000 people, with two thirds of its member firms employing more than two people.

Independent Liquor Group
Building small business profits

The Independent Liquor Group (ILG) is a co-operative of licensed liquor stores, hotels, registered clubs and restaurants working collectively to obtain the best service and benefits whilst maintaining their own autonomy and independence. ILG has become a major business in the wholesale and distribution of wines, beers and spirits across NSW, ACT and Queensland.

ILG's has invested in market leading wholesale distribution centres located in Sydney and Townsville. The ILG Logistics Contract Warehousing and Distribution Solutions, extend warehousing, handling and distribution services, as well as customised supply chain solutions for the Liquor Industry.

The Co-operative extends its members significant buying power with enhanced marketing opportunities through specific advertising under Fleet Street, Bottler, Super Cellars, Pubmart, Clubmart and The Liquor Coop brands.



ILG's Townsville warehouse

4.4 Growth through new co-operatives:

New co-operatives can be created to take advantage of business opportunities best suited to collaboration.

Energy generation
PV schemes

In parts of Australia, community-owned energy has a role to play in reducing energy costs for businesses and homes and maintaining security of local supply. Technological innovations mean that local communities can now work collaboratively towards a degree of self-sufficiency in energy production and purchase.

There are an increasing number of utility scale wind and solar generators in addition to the long-standing hydro generation. There is a growing appetite for medium sized generation, above the household size, but below corporate scale, everything from a few kilowatts up to a few megawatts (businesses or about 600 homes).

Communities are coming together to invest in scale solar farms, wind farms, micro hydro projects and bioenergy projects which can sell electricity to the national electricity market and earning an income from that. Through co-operatively owned installations on commercial buildings, local businesses issue a share offer and raise money to install a solar system on the roof of the business.

The business is a big energy user and purchases all that electricity from the co-op and the co-op uses that income to pay for its costs and then also to pay a return to its members.

Agriculture
Forestry

Co-operatives can help to reforest the bush, and deal with drought. The summer bushfires destroyed an area which is 50 per cent more than that burnt in the Amazon in 2019. Added to the loss of biodiversity, there is a strong case for reforesting by intervening in the natural process of regeneration. Co-operatives can be key to this.

Reforesting could become part of the land management plans for many regional areas. In many countries, forestry co-operatives in drought-prone districts have shown that harvesting can be a profitable business and generate economic value.

Farm forestry is part of the solution to increase the size of Australia's total plantation estate. The establishment of a farm forestry development co-operative would make this a reality.

5. Recovery Through Co-operation

A PROPOSAL TO THE FEDERAL GOVERNMENT

This proposal is to facilitate a boost to economic growth by supporting the development of regional business clusters around strong co-operatives and mutuals.

It is an 18-month industry-led program to commence immediately and can facilitate co-operatives and mutuals to deliver this program and increase their impact on the Australian economy.

Federal support of $5 million will allow the sector to create the infrastructure required to deliver a return multiplier estimated at up to six times the value of investments.

WHAT THE PROPOSAL WILL DELIVER

The BCCM will work with co-operative and mutual businesses across a range of industry sectors in all parts of Australia, with a particular focus on regional development.

The plan will focus on:

- Building regional clusters for economic development around groups of strong co-operatives and mutuals.
- Growing medium and larger-sized co-operative firms, particularly in manufacturing and finance.
- Assisting SMEs to be more profitable and competitive through existing and new co-operatives.

1. Building regional clusters for economic development around groups of strong co-operatives and mutuals

International experience shows that co-operatives can be major contributors to regional economic development, through the establishment of enterprise clusters, where co-ops and mutuals work together to share expertise, financing capacity and human resources development. This kind of investment in co-operatives has been shown to provide a return in excess of six times the value of new capital.[3]

We should establish regional development clusters in two or three locations in Australia, around existing strong co-ops and mutuals.

The Northern Rivers region of NSW is one such area. A cluster of co-operatives, predominately in agriculture, contribute over a $1 billion to the local economy and provide more than 2000 local jobs. As a network they are currently exploring a shared workforce.

The establishment of legal, financial and professional support capabilities are proven to act as an accelerator for co-operative business development. Australia has the foundation of successful co-operative businesses upon which to build such a system, and in turn benefit from the exponential business growth that the co-operative sector can deliver.

Access to business expertise is critical to the supporting the success of clusters. Alongside the availability of investment finance, a business ecosystem exists to provide support to small businesses that wish to come together through their co-operatives.

Co-operatives can work together in a variety of ways that other types of business find difficult. They can do this both on a regional basis and through industry groups. The BCCM is adept at bringing these firms together towards shared objectives. The potential for collaboration ranges from peer support to the encouragement of joint ventures and the shared responsibility for innovation and training. In each case, the winner is the local economy.

Access to investment finance, is critical for co-operatives to succeed. Efforts should be made to ease the market for co-operative investment in Australia.

Australia can emulate this successful practice by building co-operative clusters out from its existing successful co-operative businesses. There are significant concentrations of large co-operatives in Perth, WA and in northern NSW, which we would immediately scope for establishing such co-operative clusters.[4]

2. Growing medium and larger-sized co-operative firms, particularly in manufacturing and finances

Mid-sized co-operative and mutual firms are key to the economic recovery. They are often significant employers in regional towns and major players in regional economies.

We should assist in the expansion of existing co-operatives and mutuals through diversification, acquisition and new product development. In this way, high quality jobs will be maintained and expanded, particularly in regional Australia.

Co-operative business should be a key contributor to the effort to grow a successful, sustainable and domestically owned manufacturing sector. This can be achieved by assisting small co-operative businesses to work together to grow existing medium sized firms and create new ones in key agricultural and industrial sectors.

Whilst maintaining the essential nature and benefits of private ownership, co-operatives are able to build businesses of scale by harnessing their shared interest and knowledge of their markets.

Co-operatives operate in food manufacturing but also in defence manufacturing (Hunternet), general engineering and machining (Emicol) and recycling of organic waste (Master Butchers Co-op). Co-operatives, such as Norco, not only have extensive manufacturing facilities, that serve domestic and overseas markets, but also bring employment to local communities by owning stores that provide agricultural supplies.

Mutual banks and credit unions act as major players in regional economies, and by growing through acquisition and diversification of their products, they can provide greater competition to the large banks and better choice for consumers.

3. Assisting SMEs to be more profitable and competitive through existing and new co-operatives

Australia has a high proportion of small enterprises. Co-operatives of small and medium sized businesses help these firms to compete with larger businesses, supporting competition and choice in a range of markets by sharing costs and logistics.

We should leverage existing sector experience to help grow existing co-ops and mutuals and establish new ones.

Purchasing and supply service co-operatives of independent business owners enable small firms to benefit from economies of scale in procurement and throughout their supply chain so they can operate in sophisticated, crowded markets whilst simultaneously maintaining their focus on their locality.

These co-operative business consortia enable independent business owners to run and operate businesses in competitive marketplaces where they would otherwise be squeezed out by pressure from large listed firms. They help to foster a spirit of entrepreneurship in a marketplace where such zeal could otherwise be pushed out.

Lower input costs to members of the co-operatives improve business productivity and efficiency, which benefit regional Australians.

The co-operative enterprise consortia way of doing business is extremely successful at providing access to finance for smaller, regional businesses that would otherwise struggle to compete in developed markets.

This co-operative approach should be mobilised and supported on a national scale to help small local businesses to grow and compete successfully in their markets. New consortia can be facilitated in a range of industry sectors, to increase the success of small enterprises and grow new medium sized firms to service them.

How the program will work

The project will be delivered through two distinct, but complimentary workstreams, which together will create the environment necessary for the growth of co-operative business clusters.

1. Co-ordination and leadership of co-operative and mutual business **(Business activation).**
2. Access to investment finance for growth **(Access to capital).**

Workstream 1. Co-ordination and leadership of co-operative and mutual business

BCCM will co-ordinate and lead co-operative and mutual businesses from a range of industry sectors, across all regions of Australia, towards a focus on accelerating growth and development. We will:

- Identify businesses with growth potential including existing investment plans or ambitions for expansion.
- Assist their growth plans by providing leadership from peer group co-operatives and mutuals.
- Establish 'co-operative clusters' to adopt international best practice for the rapid growth of businesses

One striking feature of co-operative and mutual businesses is their natural willingness to work together towards a shared objective. It is second nature for these firms to put aside commercial rivalry in place of co-ordinated peer group action.

Co-operative business can provide a significant contribution to enterprise growth, once the right development conditions are in place.

By working towards the creation of a number of regional co-operative business clusters, we believe that Australia can benefit from a significant boost to economic growth, harnessing the innate self-help entrepreneurialism of co-operatives and mutuals.

Australian co-operatives can be mobilised to grow medium and larger-sized business.

Co-operative business should be a key contributor to the effort to grow a successful, sustainable and domestically owned manufacturing sector. This can be achieved by assisting small co-operative businesses to work together to grow existing medium and larger-sized firms and create new ones in key agricultural and industrial sectors.

Co-operatives and mutuals protect Australian assets and a way of life associated with family business ownership. They vertically integrate the domestic supply chain from inputs to energy infrastructure, labour, plant and equipment and logistics.

Appropriately enabled they can grow to global scale manufacturing businesses. Ocean Spray, Fonterra, Arla and Mondragon are examples of global scale co-operative manufacturers that operate without diluting domestic ownership. Foreign currency earned stays local. They provide ethical, traceability for food provenance, guaranteed through the ownership.

However, many of the well-known names and production capacity has been lost over the years, as firms were sold or demutualised - AMP, Wesfarmers, Bega Cheese, Incitec Pivot, and Dairy Farmers, were built as co-operatives before adopting a different corporate structure in the 80s and 90s.

This can be reversed to secure and expand this significant Australian asset.

Co-operative producer-owned manufacturers are successful at:

- Enabling the production of high-quality Australian food produce.
- Maintaining a traditional way of life whilst providing economic growth to strengthen Australia's regions.
- Employing locally through quality long term employment.
- Helping to maintain the domestic ownership of strategic food assets, thus increasing food security for Australians.
- Generating significant export earnings.
- Facilitating independent Australian businesses to compete by providing access to domestic and international markets.
- Facilitating economies of scale by enabling individual businesses to jointly own and control their supply chain.
- Enabling smaller owners to stay in business and remain independent.
- Spread wealth back to owners through produce rebates and profit sharing.

This project will assist the expansion of existing co-operatives and mutuals through diversification, acquisition and new product development. In this way, high quality jobs will be maintained and expanded, particularly in regional Australia.

Growth workstreams

Provide peer group leadership	Identify business growth potential	Establish co-operative clusters

• Identify co-operative and mutual:
  • Business leadership
  • Innovation and skills capacity
• Set up peer support infrastructure
	• Create co-op and mutuals business growth panel
	• Identify existing business growth projects
	• Facilitate project acceleration
	• Promote joint projects
		• Identify co-operative and mutual clusters
		• Evaluate the potential for growth clusters
		• Establish two/three regional clusters

A detailed breakdown of tasks for each of these work programs is in the Appendix.

Workstream 2. Access to investment finance for growth

Co-operatives and mutuals have always relied on retained profits and borrowings to fund investment. This restrains their growth plans in comparison to businesses that can issue equity capital. As a result, co-operatives and mutuals often grow at a slower rate than their competitors and are unable to take advantage of immediate business opportunities.

In 2019, the Federal Government prepared the way for mutuals to access growth capital on an equal basis with other corporate forms. Legislative changes updated the Corporations Act by removing the impediment to accessing investment capital without demutualising, as was already the case for State registered co-operatives.

The Coronavirus crisis has severely disrupted the process of co-operatives and mutuals preparing their constitutions and business plans to enable this option of issuing growth capital.

As prudent businesses, co-operatives and mutuals will preserve business continuity by postponing or cancelling infrastructure projects that could otherwise kickstart the economy in many regions. Without action, this will reduce the role they can play in the recovery.

This project will assist them in preparing for new capital at the same time as helping to stimulate the market for investment.

Opportunity costs of the pandemic on Australian co-ops and mutuals

A recent BCCM member survey on opportunity costs of the pandemic reported more than $200 million in additional capital held as a backstop to the balance sheet that would not be deployed into the economy in growth projects. Members reported more than $100 million in write downs.

Co-operatives and mutuals' investment in member services, social infrastructure and digital innovation will take a backseat whilst income is negatively impacted. With eight in 10 Australians members of at least one mutual the ripple effect on essential services delivery is a concern.

The immediate risk is that well-funded competitors will be able to leverage foreign investment to take advantage in this situation, with the impact of a loss of regional manufacturing capacity, quality jobs and domestic food security.

The capital reforms of 2019 could not be more important for CME resilience during COVID and to remain competitive in the recovery phase.

Potential of capital investment to be unlocked

Federally registered co-operatives and mutuals can issue Mutual Capital Instruments (MCIs) and State registered co-operatives can issue Co-operative Capital Units (CCUs).

KPMG has estimated[3] if mutuals were able to hold capital levels consistent with their larger competitors, loans could increase by some $25 billion to generate additional profits of $375 million assuming a 1.5 percent spread. This would equate to a 25 percent increase in size and 60 percent increase in profitability.

Access to capital will ensure the long-term success of co-operatives and mutuals and their positive contribution to regional Australia as a self-sufficient business sector.

Support is needed beyond BCCM's member businesses to signpost help to the entire co-operative and mutual business sector to equip them to help themselves, without the need for direct government financial assistance.

[3] https://assets.kpmg/content/dam/kpmg/au/pdf/2016/mutuals-industry-review-2016-report.pdf

How this project will facilitate access to investment finance

To achieve a world class capital regime for co-operatives and mutuals there are three major building blocks:

- A permissive legal and market framework.
- Business preparedness among co-operative and mutual enterprises (CMEs).
- Market understanding and acceptance.

Each of the building blocks contains a number of workstreams identified to achieve the objective. These are considered in detail in the Appendix to this paper.

Growth workstreams

A permissive legal and market framework	Business preparedness among CMEs	Market understanding and acceptances
• Preservation of legacy assets • Open public markets • A positive regulatory framework	• Business vision • Legal qualification • Capital planning • Growth plans for CMEs • Certification of business impact	• Wholesale markets • Retail markets • Placement investments • Intra-mutual sector investment

A detailed breakdown of tasks for each of these work programs is in the Appendix.

> *KPMG has estimated if mutuals were able to hold capital levels consistent with their larger competitors, loans could increase by some $25 billion to generate additional profits of $375 million assuming a 1.5 percent spread. This would equate to a 25 percent increase in size and 60 percent increase in profitability.*

Appendix – Growth Workstreams

1. Co-ordination and leadership of co-operative and mutual business

Provide peer group leadership

Identify co-operative and mutual Business leadership, Innovation and skills capacity	Set up peer support infrastructure
• Establish a co-operative task force leadership group of senior executives and non- executives • Leadership group to identify skill bases and shortages	• Establish a 'co-operative academy' of leading business leaders • Co-ordinate support networks between co-operative leaders by discipline

Identify business growth potential

Create co-op and mutuals business growth panel	Identify existing business growth projects	Facilitate project acceleration	Promote joint projects
• Identify CME business leadership pool across: • industry sectors • regions • Establish a mutual leaders growth panel	• Research and identify CME business growth plans across: • industry sectors • regions • Assess and rank individual business plans	• Identify the components for rapid project deployment • Source any missing elements including State/ Federal support	• Build a network of CME businesses with complementary plans • Initiate CME partnerships for joint projects

Establish co-operative clusters

Identify co-operative and mutual clusters	Evaluate the potential for growth clusters	Establish two/three regional clusters

• Identify strongest CMEs by:
  • Growth potential
  • Innovation potential
• Scope out the potential for CME business clusters in multiple:
  • Regions
  • Industry sectors
	• Work with CMEs to consider the infra-structure required
	• Identify participating co-operative and mutual businesses
	• Undertake an analysis of potential costs and benefits
		• Inaugurate Australia's first co-operative cluster
		• Move rapidly to establish one or two additional clusters in different parts of Australia

2. Access to investment finance for growth

A permissive legal and market framework

Preservation of legacy assets	Open public markets	A positive regulatory framework

• Identify legal mechanisms for preserving co-operative ownership
• Draw up legislative options for co-ops under CNL
• Draw up legislative options for mutuals under the Corporations Act
	• Engage with markets to enable ASX listing qualifications
	• Explore alternative listing arrangements
		• Engage with ASIC on distribution rules
		• Engage with APRA for regulated businesses on:
		  • Capital adequacy
		  • Investment limits
		  • Mutual investment

Business Preparedness among CMEs

Legal qualification	Capital planning	Growth plans for CMEs	Certification of business impact
• Enable constitutional amendments to enable co-ops and mutuals to issue capitals	• Develop capital plans for individual firms • Build an appreciation of the options, uses and costs of capital in CMEs (debt vs equity)	• Identify business areas for growth and diversification • Identify new co-operative enterprise opportunities • Create a CME business growth hub infrastructure	• Establish ESG credentials of mutuals • Create a certification process to build confidence for investors

Market understanding and acceptance

Wholesale markets	Retail market	Placement investors	Intra-mutual sector investment
• Engage with wholesale funders to understand MCI/CCU • Develop investor roadshow capacity among CMEs • Design investments to meet market	• Clarify distribution channels for member investment • Establish liquidity options for retail investors • Design investments to meet market expectations	• Engage with Super funds to encourage investment • Engage with Impact investors to encourage investment • Design investments to meet market expectations	• Encourage cross mutual investments including from overseas • Create a mutual investment fund

BUSINESS
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AND MUTUALS