



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Building Resilience into Australia's Supply Chains
through Co-operative and Mutual Business Models
Submission to the Productivity Commission

30 April 2021

Dear Commissioners,

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to make a submission in response to the Productivity Commission's inquiry into Vulnerable Supply Chains.

BCCM is the national peak body representing co-operative and mutual enterprises (CMEs) in all industries including agriculture, business purchasing and services, banking, insurance, motoring, housing, health, community services and retail. The top 100 CMEs have a combined turnover of \$33.9 billion and the sector is owned by more than eight in 10 Australians (National Mutual Economy Report 2020).

BCCM has reviewed the inquiry interim report and is of the view that further consideration of the role of co-operative ownership in supporting supply chain resilience is required. Our submission is an intellectual contribution to the policy discussion. In the submission we outline how co-operatives, especially those owned by individual businesses, can improve transparency about risks in supply chains, and allow businesses to work together to manage these risks.

If properly enabled as part of the government policy and regulatory toolkit, co-operatives can support local business sustainability and production capacity and free trade; this is a recipe for access to critical local and global supplies. Our submission provides information on the co-operative and mutual business model and how it can support industrial supply chain resilience.

We would be pleased to provide further information.

Yours sincerely,

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1. Summary

Co-operative ownership is a strategy for individual businesses to work together to manage risks. It should be enabled by government because it reduces risk at both the market and individual enterprise level.

The opportunity for greater adoption of co-operative business models to enhance supply chain resilience warrants much greater consideration in the Final Report.

Government has a role through policy and regulation to better enable the adoption of co-operative and mutual business structures that can enhance the ability of firms to identify and mitigate supply chain risks. Co-operative and Mutual Enterprises (CMEs) improve the resilience of their individual business members through facilitating strategic import and export supply chains, as well as benefitting the wider economy.

A number of factors that contribute to vulnerability of supply chains are addressed through co-operatively owned enterprises:

- **CMEs enable small and medium sized businesses to participate in large and complex markets** by providing logistical support that they could not access alone. This facilitates an increase in export earnings and wider trading capacity. CMEs can provide transparent information to members to manage risks, and can also draw on the members knowledge of emerging risks within their business.
- **Australian, domestic ownership** of co-operatives and mutuals ensures that they are not prone to unexpected decisions of international investors/owners which could have a detrimental impact on supply chain resilience. It also means that they can operate in the national interest, particularly at a time of crisis.
- **Diversity of corporate ownership builds resilience in economies** by ensuring that different businesses behave in a diverse way, helping to manage risk by mitigating against herd mentality. This is particularly pronounced as firms seek to deliver on their business purpose.

In this submission we have drawn upon two case studies (included at section 5) to illustrate how co-operatives act to improve supply chain resilience:

- Agricultural co-operatives, which facilitate smaller farm businesses to participate in joint purchasing, processing and access to local and export markets.
- Manufacturing co-operative clusters, which help high value manufacturing SMEs work and invest together to compete with multinationals

2. What are co-operatives and mutuals?

Co-operatives and mutual Enterprises (CMEs) operate across much of the Australian economy. From farming to finance, health to housing, motoring to manufacturing, they deliver trusted products and services in some of the most competitive domestic and international markets.

The largest CMEs in Australia are either co-operatives of independent SMEs or they are customer owned. Regardless of membership type or industry, all CMEs are driven by a business purpose to serve their members, who are active participants in the business. This leads them to behave differently from other forms of businesses, such as publicly-listed companies.

3. Why co-operatives and mutuals are critical to Australia's supply chain resilience

CMEs are able to drive growth, create and maintain quality jobs, facilitate export earnings, provide supply chain and food security, enable value added manufacturing and deliver competition and choice for consumers.

This business sector, covering multiple industries and across all of Australia's regions is making a major contribution and properly supported, can do more.

How co-operatives and mutuals are critical to supply chain resilience

CMEs are:

- Employers and job creators across all of Australia and especially in the regions
- Australian owned enterprises – ensuring that decision-making and value stays local
- Domestic taxpayers and significant export earners
- Critical to supply chain sovereignty including food security
- Value adding businesses especially in manufacturing
- Driving competition and consumer choice in concentrated markets

Employers and job creators across all of Australia and especially in the Regions

CMEs are middle sized businesses, in an economy disproportionately dominated by small companies. As such they are significant employers in their own right, but they also facilitate small firms that are themselves members of the co-operatives to employ and train people in skilled jobs across all of Australia.

A really good example is Capricorn Society, a co-operative of automotive repair shops. Capricorn directly employs 270 people, but through its operations supports over 70,000 jobs spread across its 22,500 small business members. Supply chain risk is managed by the enhanced purchasing power and business support services provided by the co-operative.

Australian owned enterprises – ensuring that decision-making and value stays local

By definition, CMEs are, and will always be, Australian owned businesses. The value that they create stays in Australia and is distributed in an equitable way through their membership, either through lower prices, or dividends.

Co-operatives like Norco show how, by being Australian farmer owned, they operate in their interests and consistently return the highest milk price to farmer members.

Domestic taxpayers and significant export earners

Australian owned in perpetuity, they pay their taxes to State and Federal Government, and often derive a large proportion of their earnings from exports, drawing additional wealth to Australia.

CBH Group shows how 3,800 individual farm businesses can manage the logistics to access international grain markets, exporting 85% of the grain they produce.

Critical to supply chain sovereignty including food security

Co-operatives make it possible for small companies to access markets and to benefit from efficient supply chains, in ways that would be impossible on their own. They are the logistics backbone for many thousands of businesses and contribute significantly to making Australia self-sufficient.

All of the producer owned co-operatives, from agriculture to fishing to automotive repairs create supply chain integration and efficiency otherwise not available to individual businesses. The trust in the relationship between co-operative and members means that there can be greater transparency about risks in the supply chain.

Value adding businesses especially in manufacturing

By facilitating businesses to work together in a collaborative way, co-operatives enable value to be added to businesses. CMEs achieve this across the spectrum of business, from primary production all the way to complex modern manufacturing.

Individual businesses can combine through co-operatives to add value through manufacturing. Food producers can in this way enhance profitability and benefit from vertical integration through their co-operative, such as milk from Norco member farms manufactured into ice cream and other dairy products.

Co-operatives can take on new domestic manufacturing enterprises, when there is an enabling policy environment. Over the course of the 1950s and 1960s the Dairy Farmers co-operative was able to purchase a dairy equipment manufacturing and two refrigeration business from retiring private owners. These businesses not only secured quality inputs for the local dairy industry and other food supply chains but also became export earners for Dairy Farmers.

Driving competition and consumer choice in concentrated markets

Customer owned banks are an excellent example of how a different business purpose benefits markets. They promote competition to the big banks, through a range of diverse business options and products whilst behaving in a reputable and customer centric way.

Credit unions and mutual banks, such as Heritage Bank and CUA, have shown how they can compete with big banks by offering customer focussed products and services, that are not conflicted by the interests of investor shareholders.

4. Co-operatives and mutuals are the resilient backbone of Australian business

CMEs last longer than shareholder owned business, their resilience means that on average they are a huge 25% longer-lived

The longevity of CMEs is striking. In Australia, the average age of an ASX top 50 firm is 65 years. By comparison, the average age of a top 50 Australian CME is 82 years, a full 17 years and 25% longer.

Their average age is growing - in stark contrast to the overall downward trend for corporate longevity.

This tells us something significant about the importance of co-operatives and mutuals to a successful mixed economy. They are the anchors in an often-turbulent business environment. Their ability to show resilience in such a consistent way helps to de-risk economies and provide stability and certainty in a way that profit maximising companies with short term objectives cannot.

In a crisis, business purpose is everything

In examining the experience of CMEs through the pandemic, we saw how their business purpose

motivated their behaviour and choices during the crisis.

CMEs have a number of characteristics that are derived directly from their business purpose which guide how they have responded:

Firstly, a **long-term view of business** is innate to co-operatives and mutuals. Not driven by the need to maximise short term profitability in the way that listed firms must, they are able to build a longer-term attitude to growth.

This leads to **relative conservatism in business planning** so that CMEs are more likely to take a patient view to growing their business, relying on retained earnings for investment.

Co-operatives and mutuals are **likely to carry less debt** than shareholder owned businesses reflecting their expectation that any borrowing has to serve the long-term interests of their members.

CMEs have a mutual mindset which means that their **co-operative business culture** drives how they behave in a crisis. Naturally focussed on their core purpose, they seek ways of delivering on this promise despite the adversity of wider economic conditions.

The resilience of CMEs has tangible benefits for Australia

CMEs actively facilitate the participation of small and medium enterprises in competitive markets: The example of agricultural co-operatives and HunterNet below shows how participation in co-operative business builds supply chain resilience for smaller enterprise.

CMEs provide competition and choice for consumers in a range of markets: Their presence means that there is a permanent competitive pressure on profit maximising firms, keeping prices lower for consumers.

CMEs are businesses that plan for the long term rather than short term: Without the need to respond to short term share market pressures, CMEs are stable, reliable businesses able to adopt longer term business strategies.

CMEs are businesses that treat customers fairly and honestly: Research consistently shows that the public trusts CMEs more than other types of business. They can concentrate on running the business in a way that best meets the needs of their customers, whether that is through lower costs or better/more diverse service offerings.

CMEs share the benefits of business and wealth throughout the country: They share their profits through lower prices to customers and dividends to members so that more people can benefit. They provide employment opportunities across the country and are good for small business, bringing equity and fairness to supply chains, more local employment and enhanced local procurement.

5. The role of Government in supporting the CME sector

There is clear evidence of the competitive advantage of CMEs in a crisis and how they are important to a mixed economy. In practice, they help governments by operating to a different business purpose from the mass of companies, effectively helping to de-risk the economy by behaving differently, and not relying on government support.

Government has a role in supporting adoption of business structures that can enhance the ability of firms to identify and mitigate supply chain risks. SME firms, working together in co-operatives have access to:

- enhanced market and supply chain information

- enhanced and joint purchasing power
- enhanced business services
- co-investments in local capability

There is a role for Government investment in enabling policy and resources.

The quid pro quo from government at state and Federal level should be to ensure that Australia has a world leading business environment for co-operatives and mutuals. This requires up to date legislation – the first steps have already been taken towards this. It requires development of corporate and competition regulation that understands the value of co-operatives to groups of small business.

Most of all it requires a positive policy environment from government where policymakers, frontline staff and businesses are aware of the application of co-operative models and able to access relevant business support services. Such a positive environment will enable the sector to grow further and to take its place as a critical part in a highly productive and secure economy.

[BCCM's 2020-21 Pre-Budget submission](https://bccm.coop/what-we-do/advocacy-and-policy/submissions/) provides further information on the priority actions that are required to facilitate the growth of CMEs. <https://bccm.coop/what-we-do/advocacy-and-policy/submissions/>

6. Case studies

Agricultural co-operatives as facilitators of supply chain resilience

Agricultural co-operatives are formed by groups of producers to process, distribute and market their products. In some cases, they provide farmers and fishers with facilities for the supply and storage of inputs for agricultural production, such as fertilisers, seeds, fuel, water and ploughing or harvesting services.

Agricultural co-operatives seek to maximise the benefits to their farmer members by helping them to access markets, services and products on a more cost-effective basis than can be achieved individually.

Co-operatives are active in all parts of Australia's agricultural economy, helping farmers to compete in ways that they could not do alone. There are co-operatives for grain crops, livestock, dairy, horticulture, fishing and forestry. Co-operatives also support agricultural logistics through farm supply co-ops and irrigation mutuals.

Across Australia, there are 229 agri-business co-operatives, with almost 24,000 individual members, which are each separate agricultural businesses. They can be a family farm of thousands of hectares, a fisher with one or more vessels or an individual grower member of an irrigation co-operative.

- 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
- Process and export most of our Western Rock Lobster fishery
- In dairy and meat processing, co-operatives represent the remaining Australian producer-owned firms

Maintaining supply chain resilience

For many farmers, the only dependable way of underpinning and building the value of their basic

business – the family farm – is through ownership and control of the inputs, supply, processing and marketing of their farm products through a co-operative. This has been important for producers, particularly wholesale traders in perishable commodities such as fruit, fish and fresh milk or where prices or markets are volatile.

The co-operative helps maintain farm profitability, adjust production to demand, provide healthy competition for processors and ride out adverse trading conditions in commodity markets.

By eliminating intermediaries from the economic cycle and providing a dependable vehicle for the distribution of produce to markets, co-operatives have given farmers a greater sense of security and confidence, especially in periods of gluts, economic downturn or drought and flood, to which much of Australia is vulnerable.

Co-ops also help farmers exercise quality control and to achieve crop variety and herd improvements, thereby enhancing productivity. Processing and manufacturing co-operatives enable farmers to add value to commodities through the supply chain, and to keep the benefits within the farming community.

Supply co-operatives help protect individual farmers against market forces as a 'price-taker'. They positively influence post farm-gate prices by encouraging open markets so that other traders and processors compete for supplies and cannot set prices independently. In this way, co-ops deliver effective competition and keep markets functioning fairly.

Co-operatives provide a mechanism for small producers to hedge against risks associated with farming such as crop failure due to climate related events, drought, fires and floods.

Agricultural co-operatives are good for Aussie farmers, fishers and foresters. They:

- Enable independent Australian farmers to compete by providing access to markets and bargaining power
- Facilitate economies of scale by enabling individual businesses to jointly own and control their supply chain
- Provide a mechanism to transfer risk from the small producer to the shared business to reduce the barriers to operating successful farm businesses
- Support smaller farmers and fishermen to stay in business and remain independent
- Spread wealth back to farmers, fishers and foresters through profit-sharing and produce rebates

When independent businesses co-operate in this way, they can meet global competition from large corporates head on.

Through their co-operative membership farmers and fishers gain significant opportunities, in particular access to national and global markets from which they would otherwise very likely be excluded or would have difficulty accessing.

Agricultural co-op members also derive a range of specific benefits from membership, depending on the nature of their crop or produce, these could include gaining access to the co-operative's:

- Storage, transportation and handling expertise and the ultimate shipment/ export of product to market
- Marketing and trading expertise, which gives individual farms exposure to markets and resource that would be completely unachievable as a sole trader
- Produce value maximisation technologies, from greater sustainability farming and innovations to bioengineering

Manufacturing co-operatives contribute to a growing mid-sized business sector

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.
- 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

HunterNet is a network of manufacturing, engineering and specialist services companies located in the Hunter and Central Coast Regions of NSW.

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.

7. About the BCCM

The Business Council of Co-operatives and Mutuals (BCCM) is Australia's peak body for co-operatives and mutuals across all industries. BCCM is the representative body for Australian co-ops and mutuals, working with governments, regulators and policy makers to ensure the Australian economic landscape is able to fully benefit from a competitive co-op and mutuals sector. The BCCM is funded by our co-operative and mutual members.