



# 2022-23 Pre-Budget Submission

September 2022

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# 1. Introduction

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**Co-operatives and mutuals (CMEs) help to build an economy that is as strong, resilient and inclusive as the people of Australia. They do this by mobilising the sense of collaboration and common purpose that exists between business and communities across the country.**

Co-operatives and mutuals enhance competition and diversity in markets and improve social and economic well-being by generating decent employment and contributing to sustainable development. They spread wealth by focusing on delivering value rather than capital accumulation. They are always domestically owned, employ local people and pay Australian taxes.

With a supportive business environment, CMEs can contribute even more to economic growth and productivity, by boosting advanced manufacturing, food processing, agriculture and fishing and continuing to play a key role in supporting the growing care economy, as well as through its strong performance across a range of well-established industry sectors.

The Business Council of Co-operatives and Mutuals (BCCM) would like to engage directly with the Federal Government to explore how CMEs can help to deliver progress in several priority policy areas, particularly through the National Reconstruction Fund. Building on Labor's election commitment to make the National Reconstruction Fund inclusive of co-ops and mutuals, the sector can bring real value to this national mutual effort:

- **Agriculture and fishing:** Agricultural co-operatives are key Australian assets, generating self-reliance and significant export earnings and safeguarding food security.
- **Advanced manufacturing:** Co-ops help small and medium businesses to reach competitive scale through collaboration to create world leading advanced manufacturing, defence and engineering businesses such as [HunterNet](#).
- **Value added food and fibre processing:** Co-ops are well established in value added food processing for a whole range of products, securing regional employment across Australia and boosting farm gate income.
- **Energy transition:** As Australia moves towards a greener economy and climate resilience, energy co-operatives can help to embed local ownership and engagement in the future of energy security and motoring mutuals are rolling out the EV network.
- **Affordable homes:** Housing co-operatives and financial mutuals can be boosted to provide more secure, affordable housing – particularly for key workers priced out of the housing market.
- **Social care:** Co-operatives are increasingly providing social care services both in Australian homes and in regional and remote areas.

## 2. The context

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The last few years have presented a series of unprecedented challenges to Australia, some natural and local, with others global or geo-political. Droughts, bushfires, the global pandemic, and volatile trade with China have each highlighted the importance of building greater self-reliance, resilience, and diversity into the Australian economy. The pandemic has provided the opportunity to reset Australian business and to rebalance the economy towards the interests of the Australian people, to repatriate advanced manufacturing sectors and to shift from 'just in time' to 'just in case' supply chains.

### **We have learned three things from this experience:**

- Australia needs more self-reliance – co-operative ownership guarantees Australian supply and control
- Australia needs more onshore manufacturing and processing – CMEs are proven to create value and re-circulate it into their communities
- Australians expect more fairness – CMEs are equitable wealth sharers

### **Australia needs more self-reliance**

The recent experience of the pandemic, of droughts and a volatile trading relationship with China have shone a light on the importance of achieving greater Australian national self-reliance through more Australian ownership and control in the national interest, across a range of sectors.

The interruption to global supply chains caused by the pandemic points to a need for greater Australian domestic manufacturing. The importance of control over domestic production is just as relevant in the value-adding of manufacturing as with primary industries.

Australian-owned food producers and processors are the key to local food security. Agricultural co-operatives are here to stay – owned exclusively by Australian independent family farms, they work together to add value to primary produce, export to the world and return the value to regional communities.

### **Australia needs more onshore manufacturing and domestically owned food processing**

More Australian owned and operated value-added manufacturing and the growth of a medium-sized business sector can be delivered through co-operatives. Co-operatives and mutuals are domestically owned and controlled. The co-operative cluster of 160 independent engineering services firms, working through HunterNet in NSW, is a notable example of how SMEs can collaborate to strengthen their supply chains, increase production, and boost exports.



CBH Group Kwinana Port infrastructure, WA

### **Australians expect more fairness**

CMEs are equitable businesses. They share the benefits of business fairly with all stakeholders – employees, customers and other participants. This ensures that wealth remains in Australia and is spread among the communities they serve, either through lower prices, access to otherwise inaccessible services, or sharing of profits.

During the COVID-19 pandemic, co-operatives and mutuals grew their workforce when other businesses were furloughing staff. CMEs invested in programs to support cost of living pressures especially for essential services workers and found ways to include marginalised and disadvantaged workers in mainstream employment. In the recovery phase, direct employment of co-ops and mutuals grew by 6,000 workers, over 8.5 per cent. Many more workers were supported indirectly through secondary (business or enterprise) co-operatives.

Co-ops and mutuals invest in people by committing a higher share of income to wages, by investing in skills and training and by ensuring people keep their jobs through bad times as well as good. The top 100 co-ops and mutuals combined delivered 66 per cent of income to wages in 2020-21. Financial sector mutuals paid out 68 per cent of their earnings to their staff versus less than 30 per cent across the industry.

### 3. Unleashing the co-operative potential

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**There now needs to be more co-operation between the Australian people, its government and the co-operative and mutual business sector. Working towards the common goal of strengthening the business environment will help to release the full potential of these people-centred businesses to do good for Australia and its people.**

The policy, legislative, regulatory and business services environment play an important role in deciding the success or otherwise of businesses. If we look around the world, it is these factors that have the biggest influence on the size and scope of the CME sectors in each country. Australia should have a world leading business environment that enables co-operatives and mutuals to play their full role in the future Australian economy, in a way that reflects the best of the history and culture of Australian co-operative business.

Federal government business policies are fundamental to securing the potential of CMEs to create growth and spread prosperity. They should provide a supportive policy and legal framework for CMEs.

By adopting recognised international best practice (e.g. [International Labour Organisation Recommendation No. 193 on the promotion of co-operatives](#)), CMEs should be considered as one of the pillars of national economic and social development:

- policy should encourage the development of CMEs in areas where they have an important role to play or provide services that are not otherwise provided
- policies should support capital access and retention in CMEs
- regulations should treat CMEs on terms no less favourable than those accorded to other forms of enterprise
- the registration of co-operatives should be as rapid, simple and affordable as possible.



Norco Co-operative milk factory, photo by Paul Harris

## 4. Actions the Federal Government can take

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A small number of policy and funding decisions could help to facilitate the CME sector to grow and actively deliver on the Government's urgent objectives for national reconstruction.

### **Appoint a Federal Minister for co-operatives and mutuals**

A Minister should be formally responsible for policy affecting co-operatives and mutuals across Australia. As Minister for CMEs, this would be an important cross-cutting responsibility and signal the significance that the Commonwealth places on the contribution of the CME sector and the fair treatment of collaborative enterprise.

### **Support the Australian Centre for Co-operative Business Growth**

A national centre for Co-operative Business Growth would deliver consistent, world leading business services to support co-operative education and business development nationwide. A partnership between Government and industry, its purpose is to facilitate collaboration between SME businesses to increase their productivity, profitability, and their capacity to add value and export.

### **Legislate to maintain legacy assets for the purpose they were intended**

Over generations, people have invested and built mutual assets for the benefit of their communities. Voluntary legislation can ensure that these legacy assets are preserved for the purpose they were intended and not the subject of asset raids. It would empower members to decide what should happen to assets on a solvent dissolution and prohibit capital distribution beyond what members have contributed.

### **Regulation of co-operatives that facilitate small business competition**

Competition policy should understand and support co-operatives, as they are often the mechanism relied on by small businesses to compete with larger operations. The Australian Competition and Consumer Commission (ACCC) should formally recognise the benefits that co-operatives bring to markets and how they facilitate the economic participation of small businesses.

### **ASIC and APRA should have a statutory duty to promote corporate diversity**

The history of Australian business shows that co-operatives and mutuals have been the true 'challenger' institutions to the largest corporate businesses. By delivering their purpose to provide affordable goods and services to consumers in insurance and banking and commodities markets, co-operatives and mutuals provide real price competition. Regulators should be responsible for ensuring that a wide range of corporate providers are available to consumers: legislation should introduce a statutory obligation on regulators to measure and promote corporate diversity in financial services and other industry sectors.

## Single National Regulator for Co-operatives

Now that Co-operatives National Law is adopted across all states and territories, a single national regulator for co-operatives should be instituted to ensure national consistency and access to full information about co-operatives. Because of under-resourcing at State registrar offices, co-operative businesses face a range of barriers including slow registration times and a lack of responsiveness from the registry offices. This process should be managed under a principle of no disadvantage – adopting best practice from different jurisdictions and ensuring all types of co-ops are treated equally and fairly.



*Hepburn Energy co-operative*

## 5. A proposal to the Federal Government: co-operative and mutual contribution to National Reconstruction

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To realise the Government's election commitment to include investment in co-ops and mutuals in the National Reconstruction Fund, the BCCM proposes a virtual Australian Centre for Co-operative Business Growth to provide expert business services to support co-operatives and mutuals to be ready to receive investment from the National Reconstruction Fund and use this as a catalyst for further private investment.

The centre would be a collaboration between industry and the National Reconstruction Fund so that all parties can fully understand and leverage the opportunities for investment in co-operatives and mutuals that can be facilitated by:

- [Co-operative Capital Units](#) (CCUs).<sup>1</sup> The National Reconstruction Fund can invest in registered co-operatives using CCUs and other securities.

### **Case study: Haystacks Solar Garden Co-operative**

*Haystacks is Australia's [first solar garden](#). Based in the Riverina, it is currently inviting members to take up an offer of CCUs that will fund construction of the solar garden. Members who participate in the CCU offer will be entitled to a rebate on their power bill that will save them an estimated \$505 per year. This model provides renters and others previously locked out of rooftop solar to enjoy the economic benefits of the renewable energy transition.*

- [Mutual Capital Instruments](#) (MCIs). The National Reconstruction Fund can invest in co-operative and mutual companies using MCIs.

### **Case study: Australian Unity**

*180-year old wellbeing mutual Australian Unity has issued two tranches of MCIs that are listed on the ASX. The first tranche, issued at the start of 2021, [raised more than \\$120 million](#) and included a placement from mutual superannuation fund HESTA. A second issuance of MCIs raised a further \$230 million. Issuing MCIs is enabling Australian Unity to pursue growth and acquisition opportunities in social infrastructure while retaining its mutual ownership structure and purpose.*

- [Government loans to co-operatives](#) that meet the requirements in section 121(c) of the ITAA 1936. The BCCM would like to explore whether National Reconstruction Fund loans to eligible co-ops can be designed to meet these requirements.

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<sup>1</sup> See also the BCCM's free [Capital Builder](#) tool for designing terms of issue for CCUs and other co-operative securities

### **Case study: Western Australian Meat Marketing Co-operative (WAMMCO)**

WAMMCO is owned by lamb producers who supply its abattoir in Katanning. It is the largest employer in the town. [In 2019, the co-op received a \\$5 million loan from the Western Australian Government](#) to upgrade its mutton boning room. As a supply-based producer-owned processor, the co-operative qualifies under s121(c) of the ITAA 1936 to make deductions on repayments of both principal and interest on the loan from the government. Historically this has been an important mechanism for regionally based farmer-owned processing and marketing co-ops to invest in new plant and equipment.

The centre will facilitate collaboration between independent SME businesses to develop investment plans that will boost their productivity, profitability, and their capacity to add value and export.

The centre would require modest funding drawing on existing allocations to the National Reconstruction Fund and it would be located with and administered by the BCCM.

### **What an Australian Centre for Co-operative Business Growth will deliver**

The BCCM will work with co-operative and mutual businesses and the National Reconstruction Fund across a range of industry sectors in all parts of Australia, with a focus on investment-readiness and regional development.

The centre will focus on developing three streams of potential investments from the National Reconstruction Fund:

- Regional clusters for economic development built around groups of strong co-operatives and mutuals.
- Growth in medium to large co-operatives, particularly in food, fibre and manufacturing.
- Assisting SMEs to be more profitable and competitive through new co-operatives.

#### **1. Regional clusters for economic development built 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 more than six times the value of new capital.<sup>2</sup>

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

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<sup>2</sup> 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

The [Northern Rivers region of NSW](#) is one such area. A cluster of co-operatives, predominately in agriculture, contribute over \$1.5 billion to the local economy and directly provide more than 2000 local jobs. As a network they are currently exploring a shared workforce and affordable housing development which would maintain skills and decent jobs in the region.

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.

Australia can emulate the successful international practice of co-operative clustering 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.

## **2. Growing medium and larger-sized co-operative firms, particularly in food, fiber and manufacturing**

Mid-sized co-operative and mutual firms are key to our reconstruction. 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 investment in 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 successful, sustainable and domestically owned food, fibre and manufacturing sectors. This can be achieved by assisting small and medium co-operative businesses to develop growth and investment plans.

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

Alongside the many co-operatives operating in food and fibre (e.g., CBH Group, Geraldton Fishermen's Co-op, The Casino Food Co-op, Norco) co-operatives of SMEs underpin domestic capacity in defence (HunterNet), general engineering and machining (Emicol), waste recycling and manufacturing (Master Butchers Co-op) and green domestic appliances (Earthworker). Co-operatives 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.

### 3. Assisting SMEs to be more profitable and competitive through 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 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 benefits all Australians.

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.

The BCCM are experts in supporting the development of new and emerging co-operative businesses. Examples of emerging co-ops for SMEs include [NAAKPA Co-operative](#) (Indigenous-owned bush food supply chain), Co-operative Supermarkets Australia (retailer-owned co-op with a focus on partnering with local manufacturers) and Regen Farmers Mutual (farmer-owned digital platform technology to facilitate small farm access to environmental markets).



*The Northern Australia Aboriginal Kakadu Plum Alliance (NAAKPA)*

## 6. How an Australian Centre for Co-operative Business Growth would work

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The Centre would deliver two workstreams, which together will create the environment necessary for National Reconstruction Fund investment in co-operatives and mutuals.

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

The centre 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 investment-readiness, growth and development aligned with the National Reconstruction Fund. It 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 coordinated 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 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
<ul style="list-style-type: none"> <li>○ Identify co-operative and mutual:               <ul style="list-style-type: none"> <li>○ Business leadership</li> <li>○ Innovation and skills capacity</li> </ul> </li> <li>○ Set up peer support infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>○ Create co-op and mutuals business growth panel</li> <li>○ Identify existing business growth projects</li> <li>○ Facilitate project acceleration</li> <li>○ Promote joint projects</li> </ul>	<ul style="list-style-type: none"> <li>○ Identify co-operative and mutual clusters</li> <li>○ Evaluate the potential for growth clusters</li> <li>○ Establish two/three regional clusters</li> </ul>

## Workstream 2. Access to investment finance for growth

Co-operatives and mutuals have always relied on retained profits and borrowing to fund investment. In some states, government loan schemes that are designed to meet the criteria in section 121(c) of the Income Tax Assessment Act 1936 have also assisted producer-owned processing and marketing co-ops.

Reliance on these limited funding options has restrained co-operative and mutual 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.

Recent policy reforms mean all co-operatives and mutuals can now raise growth capital, including from the National Reconstruction Fund.

In 2019, the Federal Government prepared the way for Federally registered co-operative and mutual companies to access growth capital through an amendment of the Corporations Act that introduced Mutual Capital Instruments (MCIs). MCIs allow co-operative and mutual companies to receive investment capital from members or non-members without demutualising.

In 2020, Queensland was the last state to adopt national harmonised legislation for co-operatives. All state-registered co-operatives now have access to similar instrument to the MCI, the Co-operative Capital Unit (CCU), and can offer these under a single harmonised regulatory regime.

The development of the National Reconstruction Fund also provides an opportunity for the Commonwealth to make section 121(c) ITAA 1936 loans available to producer-owned co-ops operating in any part of Australia.

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 reconstruction.

This project will assist them in preparing for new capital from the National Reconstruction Fund and stimulate the wider market for investment in co-operatives and mutuals.

The BCCM successfully led the industry campaigns that achieved reforms to the Corporations Act and the Co-operatives National Law to enable access to capital for co-ops and mutuals and has the expertise to ensure the National Reconstruction Fund to make the most of these new capital instruments.

## 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 mutuals
- Market understanding and acceptance (including National Reconstruction Fund understanding)

Each of the building blocks contains workstreams identified to achieve the objective with a focus on the National Reconstruction Fund as a catalyst.

### Growth workstreams

A permissive legal and market framework	Business preparedness among CMEs	Market understanding and acceptance
<ul style="list-style-type: none"> <li>○ Preservation of legacy assets</li> <li>○ Open public markets</li> <li>○ A positive regulatory framework</li> </ul>	<ul style="list-style-type: none"> <li>○ Business vision</li> <li>○ Legal qualification</li> <li>○ Capital planning</li> <li>○ Growth plans for CMEs</li> <li>○ Certification of business impact</li> </ul>	<ul style="list-style-type: none"> <li>○ National Reconstruction Fund</li> <li>○ Wholesale markets</li> <li>○ Retail markets</li> <li>○ Placement investments</li> <li>○ Intra-mutual sector investment</li> </ul>

## 7. About the BCCM

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The BCCM is the national industry peak body for co-operatives and mutuals, working with governments, regulators and policymakers to ensure the Australian economic landscape is fully able to benefit from a competitive co-op and mutual movement.

Through its member co-ops and mutuals, the BCCM represents 11 million individuals and 160,000 businesses.

The BCCM has supported new co-operatives and mutuals to form in a range of sectors and is a member of the International Co-operative Alliance (ICA) with access to world-wide networks.

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