31 March 2023

Inquiry into promoting economic dynamism, competition, and business formation.

Submission to the House of Representatives Standing Committee on Economics

BCCM | THIS IS SOCIAL BUSINESS

Business Council of Co-operatives and Mutuals

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to provide a submission to this important inquiry into promoting economic dynamism, competition and business formation.

The BCCM is the national peak body for co-operative and mutual enterprises (CMEs) in Australia, a sector with combined memberships of more than 31.7 million (National Mutual Economy Report 2022). The BCCM is a member driven and funded organisation representing CMEs operating in all industries including agriculture, manufacturing, energy, insurance, banking, mobility, housing, retail, wholesale, health and community services,

As key players in Australia's economy, co-operatives and mutuals generate high quality employment, maintain vital supply chains, and secure access to essential services for millions of people. In addition, Australia's producer-owned co-ops serve 160,000 small and medium sized businesses across a range of retail, wholesale and manufacturing industries.

If properly supported though an enabling policy and regulatory framework, co-operatives and mutuals can support business sustainability, encourage domestic innovation, promote national resilience, and industry revitalisation.

We would be pleased to provide further information.

Yours sincerely,

Melina Morrison

Chief Executive Officer

Contents

1. Introduction: How co-operatives and mutuals benefit Australia 4

2. The effect of a diverse and dynamic business environment on: 6

- productivity, prices and better-paid jobs 6
- our supply chain resilience to disruption 6

3. The extent to which anti-competitive behaviour and changes in industry structures have contributed to rising market concentration in Australia 10

4. The extent to which economic barriers – such as regulatory costs and barriers to finance, infrastructure, suppliers, customers and workers – contribute to rising market concentration and slowing business formation rates in Australia. 12

5. The extent to which businesses consolidating their market power has undermined productivity, stifled wages, made markets more fragile and led to higher mark-ups 15

6. Drawing on international examples, how Australia could lower economic barriers to competition and business formation, further limit anti-competitive behaviour, and better manage changes in industry structure that would entrench, increase or extend market power 16

7. Supplementary comments on related matters 22

8. About the BCCM 23

1. Introduction: How co-operatives and mutuals benefit Australia

The economic and social challenges facing Australia are linked:

- We need to generate wealth that is spread fairly among all our people.
- We must build more medium sized, Australian owned businesses to produce the things we need.
- We need business that is hard-wired to deliver this in an equitable way, so that workers, customers and business partners all have the chance of a fair go.
- To achieve this, Australia must embrace corporate diversity and abandon the monoculture that prioritises listed business by enabling and supporting different business models to grow and flourish through a world leading business environment for co-operatives and mutuals.

Co-operative and mutual enterprises (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 are active in many industries that impact the lives of ordinary Australians. 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.

- Co-ops and mutuals are businesses formed to benefit their members, drawn from the stakeholders of the business such as customers, suppliers, employees or people in the local community.
- The business purpose is different from an investor-owned firm; co-ops and mutuals exist to deliver benefits back to members, rather than profit maximisation to investors.
- This diversity of corporate form and business model helps to spread the inherent risk of a corporate monoculture dominating behaviour in Australia, where business serves the interests of capital ahead of society.
- With good management it is an efficient model of business, with no leakage of value from the business and all returns reinvested locally.
- 8 in 10 Australians and 160,000 Australian businesses are members of at least one co-operatively owned business.
- Including member-owned super funds, co-ops and mutuals contribute around 7-8% of GDP.
- In 2022 there were a total of 1,832 active co-operative and mutual enterprises operating throughout Australia.
- These firms had a combined active membership base of more than 31.7 million memberships, generated $203 billion in revenue, managed over $1.28 trillion in assets, and directly employed at least 76,000 people.

Co-operatives and mutuals strengthen competitiveness 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 to customers and staff rather than capital accumulation. They are always domestically owned, employ local people in high quality jobs and pay Australian taxes.

CMEs already make a powerful contribution towards Australia's prosperity and happiness. With a supportive business environment, CMEs can deliver even more to economic growth and high-quality employment, by boosting advanced manufacturing, food processing, agriculture and fishing whilst 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 in financial services and beyond.

CMEs can help to deliver progress in priority policy areas, particularly focusing on improving productivity and quality work.

Building on the best global evidence, our proposals will enable existing and new co-operatives and mutuals to grow by establishing enterprise clusters that will deliver increased domestic capacity to create long term quality employment and prosperity across all regions of Australia.

2. The effect of a diverse and dynamic business environment on:

- productivity, prices and better-paid jobs
- our supply chain resilience to disruption

Co-operatives and mutuals strengthen competitiveness 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 to customers and staff rather than capital accumulation. They are always domestically owned, employ local people in high quality jobs and pay Australian taxes.

Productivity, prices and better-paid jobs

A truly diverse and dynamic business environment benefits from business competition from a range of corporate participants. Such diversity will include different sized businesses, but also a full range or corporate forms that follow distinctive business models.

Co-operatives and mutuals are businesses that pursue a different business purpose from conventional profit maximising firms. They concentrate on providing competition through the quality and type of service they deliver, as well as delivering price value to customers.

Co-operatives and mutuals operate across many different industry sectors in Australia, and they have a number of features in common:

- They are always domestically owned, returning value and tax revenue to the Australian economy.
- They are rooted in the communities that they serve, which can be regional or focused on a specific industry.
- Their business model is focussed on long-term value delivery rather than short term strategies.
- They are resilient businesses – on average longer lived than conventional companies.
- Co-operative structures enable smaller businesses to scale rapidly in a wide range of markets.

In Australia, the business environment for co-operatives and mutuals has been improved in recent years to facilitate new options for capital growth. Further reforms are needed to establish a truly world class business environment.

This includes legislation to preserve legacy assets and efforts to establish a deeper policy appreciation for the value that co-operatives and mutuals can deliver in a range of business settings.

Supply chain resilience to disruption

The 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. This can be achieved 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 and return the value to regional communities.

Australia needs more onshore manufacturing and domestically owned food processing

The twin objectives of more Australian owned and operated value-added manufacturing and the growth of a medium-sized business sector can both be delivered through co-operatives. Co-operatives and mutuals are always domestically owned and controlled.

It isn't easy to build sizeable businesses, particularly where smaller enterprises dominate. Yet co-operative business clusters can help small business to grow and create medium sized enterprises that Australia needs.

The co-operative cluster of independent tech, consulting, engineering and manufacturing firms, working through HunterNet in NSW, is a great example of how SMEs can collaborate to strengthen their supply chains, increase production and boost exports.

HunterNet provides shared services that enable firms to grow by working together more effectively to access a range of expertise unavailable to single businesses. Such services include:

- Introductions & Collaborations
- Opportunity Identification
- Bid/Tender Support
- Consulting Services
- Export advice

Co-operatives can be established to help small and medium sized enterprises to grow through collaboration and help to create the businesses that Australia needs to build its supply chain resilience.

Norco Co-operative milk factory, photo by Paul Harris

Case Study: HunterNet – 'The Power of Many'

Founded in 1992, HunterNet Co-operative (HunterNet) is a multi-stakeholder co-operative headquartered in Newcastle, NSW. In 2022, HunterNet had 130 member organisations of various sizes, with a combined turnover of $82 billion.

HunterNet assists local businesses within the Newcastle and Hunter Region to sustain and grow through collaboration, networking, knowledge exchange, and innovation. Its members are primarily small to medium enterprises (SMEs), engaged in manufacturing, engineering, specialist advisory and consulting services. Their focus is within the domestic and international defence, energy, and resources industries, as well as emerging industries in environmental sustainability.

HunterNet provides a range of services to its members. These include:

- assisting them to develop their business networks through introductions and collaboration opportunities.
- helps to find business opportunities such as entering into new markets or securing contracts in existing ones.
- helps members with expert guidance over preparing tenders and the associated documentation and presentation skills that are required for success.
- The co-operative offers a range of consulting services such as business development, marketing and communications, business systems and processes, work health and safety training, innovation, leadership development, and environmental, sustainability and governance (ESG).
- Networking events, and export advice.

The creation of HunterNet

The foundation of HunterNet, was inspired by the way small firms in northern Italy collaborated to achieve benefits that would not be possible were they to operate alone. In December 1992, HunterNet was formally incorporated with an initial group of fourteen companies interested in how collaboration might achieve and sustain competitive advantage.

The ability to share knowledge within the existing membership was a key to the co-operative's success at creating member value. At the local level, this process involved arranging regular site visits where selected members would open their doors and host other members to learn about their firm's operations and workplace activities.

Within Australia, HunterNet participated in the Australian Engineering Exhibition (AIEE) held at Sydney's Darling Harbour from 30 May to 3 June 1994. It was the first major promotional activity undertaken by the co-operative.

Creating jobs and training through HunterNet Career Connections (HNCC)

The role of HNCC is to recruit, employ, pay, and oversee the training of apprentices contracted to work within member companies. It manages all the contractual arrangements on behalf of members, monitors the progress of the apprentices, and conducts regular monthly site visits.

In 2022, HNCC reported that its activities had increased to the management of more than 1,500 apprentices for over 40 member organisations, making it one of the leading hosting companies in Australia.

These activities led to the realisation within the co-operative that collaboration was not only beneficial for tendering, but also for knowledge exchange, networking, and the enhancement of innovation. This generated the concept of 'The Power of Many', which has become the mantra of HunterNet.

Key lessons from HunterNet

HunterNet illustrates the effectiveness of a CME business model to act as a catalyst for creating and sustaining a regional industry cluster. In addition, it demonstrates that the key elements in success are the focus on a common purpose, generation of trust between the member and the CME, between the members as a group, and between the CME and the wider community.

The case study also shows that a value generating CME can be successful based primarily on the exchange of knowledge and fostering networking rather than the trading of commodities or services. In addition, it shows that a multi-stakeholder membership structure, although complex to manage, can be a valuable source of competitive advantage if all members are united in a community of purpose.

https://hunternet.com.au

Manufacturing and tech business benefits from co-operatives

3. The extent to which anti-competitive behaviour and changes in industry structures have contributed to rising market concentration in Australia

One theme running through this submission is the need to challenge the presumption that large businesses must be organised as a corporate monoculture of listed firms. Demutualisation over recent decades has significantly reduced diversity of many industry structures in Australia.

Demutualisation is the loss of mutual status in a member-owned business, in practical terms, that usually means they have been converted into a proprietary company, which can be either a private company or publicly listed.

There have been many examples of demutualisations, particularly in the financial services industry, where it has been a significant feature in Australia, but a large number of agricultural co-operatives and food processors have also demutualised.

The impact of demutualisations in the past has been to the detriment of members, customers and market competition particularly over the longer term. Demutualisation alters the corporate purpose so the business will instead be focussed on delivering value solely to its investor shareholders. The requirement to service shareholder capital means that there will always be less money for customers or suppliers to benefit from. Where all firms in a market are structured with this focus, there is less countervailing pressure to maximise value to customers or other stakeholders.

In most demutualisations, the proposers' stated rationale for the conversion is that they needed additional capital to develop the business. However, the actual experience of demutualisation is that most businesses soon ceased to trade as independent entities as they were merged into larger consolidated groups.

The Australian insurance industry is a good example of this and has suffered a major loss of diversity through demutualisation, with many former mutuals now part of large merged insurance groups. (See RBA Bulletin January 1999 https://www.rba.gov.au/publications/bulletin/1999/jan/1.html)

The truth is that it was always the presence of legacy assets that attracted demutualisers, who wish to access these without paying a full market value.

Successful CMEs are a constant target for demutualisers who are incentivised by the potential to access legacy assets.

Legacy assets are the amount remaining after deducting a CME's total liabilities from its total assets, including repayment of any members' capital. The presence of these assets makes CMEs attractive to demutualisers, who wish to access the value, even though they have not invested in its creation.

This matters because successful CMEs will always be a target, challenging stability and growth. The ever-present threat of demutualisation is a major is a time consuming and disruptive distraction for CMEs. In some cases, the debate around mutual ownership is constant, as a minority of current members seek to cash out the business legacy assets in their personal favour. This process takes valuable attention away from growing a successful business. The result is smaller and less effective CMEs. CME constitutions can place temporary barriers against such demutualisation, but they cannot prevent a determined effort to change the rules from external raiders who can influence managers, boards or groups of members.

External raids are also common, from soft contact from potential buyers through to outright hostile raids, often led by investment banks or other private equity. These are destructive and work to reduce corporate diversity, customer choice, competition and ultimately fairness.

Legislation governing co-operatives and mutual enterprises (CMEs) actually incentivises demutualisation by permitting legacy assets to be distributed.

In some countries, legislation prohibits the distribution of such capital. Instead, it must be used for the purpose intended by the original founders or otherwise transferred to a different CME to fulfil this objective. In those jurisdictions where legacy assets are not available for distribution, demutualisation is less common and as a consequence, large CMEs maintain their member ownership, reflecting significant mass in a range of markets.

In Australia, there are no legislative restrictions on the distribution of assets and as a result, waves of demutualisation have occurred, starting in the late 1980s and 1990s. In order to protect legacy assets and the purpose of the business, CMEs often adopt constitutions which require a high threshold member vote to permit a transfer of ownership. This works to an extent as a deterrent to demutualisation but is vulnerable to rule changes.

Voluntary legislation, such as is being currently implemented in the UK, 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.

Demutualisation would not be prohibited by legislation but removing the current incentives to convert would ensure that it only happened in the businesses' interests.

4. The extent to which economic barriers – such as regulatory costs and barriers to finance, infrastructure, suppliers, customers and workers – contribute to rising market concentration and slowing business formation rates in Australia.

CMEs have long been at a disadvantage in terms of legislation and regulation. In 2001, much of the existing state legislation for financial co-operatives and mutuals (credit unions, building societies and friendly societies) was abandoned and these mutual entities were transferred into the Corporations Act. Non-financial co-operatives remained under state and territory legislation but a large and significant proportion of mutual business no longer had a legislative framework that reflected its different business purpose and unique character.

When financial co-operatives and mutuals were transferred to it, the Corporations Act contained only one reference to mutuals and that was to define a process for demutualisation. This reflected the general attitude that listed business was the 'right' way to organise large enterprises and ASIC and APRA echoed this view in the way that regulation was applied.

This had a significant effect on the growth prospects of mutuals. Unable to attract external capital funding without triggering demutualisation, the sector remained relatively small and unable to innovate in the way it always had. As the Australian economy continued to grow and develop rapidly, many mutuals were less able to compete on a level playing field. Instead, the sector strengthened itself through consolidation between mutuals and concentrating on providing the distinct mutual customer experience.

Overall, the business environment for mutuals was marked by a policy ambivalence to the importance of corporate diversity, which neglected to consider the requirements of mutual business.

In the meantime, the financial services markets in which mutuals had always been active, were characterised by increasing concentration in banking and insurance, with the resulting anti-competitive behaviour that led to the Hayne Royal Commission.

In 2019, the Federal Government began the process of correcting the Corporations Act by introducing a legal definition for a mutual entity and a corresponding Mutual Capital Instrument. This marked a significant step forward and has already opened up new opportunities for the mutual sector. Yet it is only a first step towards ensuring that the legislative environment for mutuals supports business growth and prosperity.

The key to long term change sits in a shift in policy that prioritises diversity and competition and recognises the different legal and regulatory requirements of co-operatives and mutuals.

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 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 CMEs should be as rapid, simple and affordable as possible

It is important that entrepreneurs are able to choose the most appropriate business form for their enterprise with no additional cost or bureaucratic barriers.

Since 2020 when the project of national harmonisation of co-operatives legislation was completed, Australian entrepreneurs in any part of the country have access to a high-quality legislative framework for non-financial co-operatives, the Co-operatives National Law (CNL). Importantly, the CNL removed red-tape for co-ops operating across state borders and introduced Co-operative Capital Units for member and non-member equity investment (similar to Mutual Capital Instruments).

However, legislative harmonisation has been let down in practice through paper-based, inconsistent and slow regulatory processes that continue to disincentivise formation and growth of co-operatives:

- Registration of a co-op can take several months and requires submission of paper-based forms, compared to a simple online process completed in minutes for a company.

- Regulators take inconsistent approaches on matters such as drafting of rules, meeting procedures or documentation required for offer of co-operative securities to members or the public. There is no national guidance published equivalent to ASIC's Regulatory Guides on capital raising.

- During the height of COVID, co-operative regulators lacked the policy and operational resources to respond proactively (or in some cases at all) to provide regulatory relief to co-operatives comparable to relief provided to companies in relation to matters like insolvency or deferral of AGMs. There was no nationally-consistent regulatory response.

BCCM's research for the National Mutual Economy Report suggests that approximately 50 co-operatives are forming (and roughly the same existing the sector) each year. This is much less than comparable economies like Canada where, with a population of 38 million, approximately 200 non-financial co-ops are formed each year.[1]

[1] https://canada.coop/wp-content/uploads/Economic-Impact-of-the-co-operative-and-mutual-sector-V5.pdf

A renewed commitment from policymakers is therefore needed to ensure co-operatives regulation is at least at the same standard as for other business forms available in Australia. This commitment to modern, nationally-consistent regulation could consist of one or more of the following measures:

- States and territories commit to post-COVID amendments to the Co-operatives National Law and Co-operatives National Regulations and to jointly resource a centralised national co-op registry to deliver uniform, streamlined and digital registry processes
- States, territories and the Commonwealth commit to inclusion of co-operatives in the Modernising Business Registers Program (Commonwealth Registrar, Director Identification Number system)
- States, territories and the Commonwealth agree to a referral of powers in relation to co-operatives to the Commonwealth (and preservation of the CNL framework in the transfer)

Hepburn Energy co-operative

5. The extent to which businesses consolidating their market power has undermined productivity, stifled wages, made markets more fragile and led to higher mark-ups

The existence of CMEs contrasts strongly with the consolidation of market power in proprietary businesses. As part of a diverse economy, they help to ensure competition between businesses and choice for consumers. Our earlier discussion on demutualisation has described how it not only undermines competition and choice but encourages corporate behaviours detrimental to Australian citizens.

The Hayne Royal Commission into misconduct in the banking, superannuation and financial services industry, which reported in 2019, highlighted the risks of poor corporate behaviour from banks and insurers, but notably no mutuals were criticised. Examples of poor governance were evident from demutualised insurers and banks. Executives were incentivised through the business model to prioritise short term profit taking.

It reinforced for consumers the importance of a business model where there is no conflict between a customer and a profit taking third party.

Co-operative and mutual businesses are the epitome of collaborative partnerships. They are equitable businesses. They share the benefits of business fairly with all stakeholders – employees, customers and other participants.

This ensures that the wealth created remains in Australia and is spread among the communities served by the CMEs, often regionally based, either through lower prices, access to otherwise inaccessible services, or sharing of profits.

Co-operatives give family businesses access
to otherwise inaccessible markets and logistics

6. Drawing on international examples, how Australia could lower economic barriers to competition and business formation, further limit anti-competitive behaviour, and better manage changes in industry structure that would entrench, increase or extend market power

Globally, the top 300 co-ops and mutuals represent US$2.14 trillion of annual trade. They employ 280 million people, and in just one industry, insurance, they represent a third of the global total business.

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.

The international evidence is that CMEs thrive where there is a supportive business environment – where positive policy enables strong legislative frameworks and regulators facilitate competition and choice rather than stifle it.

Australia needs a world class business environment to support diversity of corporate forms that will challenge the business monoculture that prevails today.

Australia has a high proportion of small enterprises. Co-operatives that bring together 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 160,000 Australian SMEs 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.

A stronger and growing CME sector will contribute direct benefits to the Australian economy and society.

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. 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, 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.

We can draw upon a number of international ideas that could be adapted and applied to an Australian context:

- Growing medium and larger-sized co-operative firms by creating regional co-operative business clusters will boost economic growth and harness the innate self-help entrepreneurialism of co-operatives and mutuals.
- Supporting business succession through the creation of worker owned co-operatives.

Growing medium and larger-sized co-operative firms by creating regional co-operative business clusters will boost economic growth and harness the innate self-help entrepreneurialism of co-operatives and mutuals.

Creating regional co-operative business clusters will boost economic growth and harness the innate self-help entrepreneurialism of co-operatives and mutuals.

International experience shows that co-operatives can be major contributors to 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.[2]

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-

[2] 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. See Marcora case study below.

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.

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.

Co-operative producer-owned manufacturers are successful at:

- Employing locally through quality long term employment
- Helping to maintain the domestic ownership of strategic food assets, thus increasing food security for Australians
- Enabling the production of high-quality Australian food produce
- 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
- Maintaining a traditional way of life whilst providing economic growth to strengthen Australia's regions

Co-operative business can make a significant contribution to enterprise growth, once the right development conditions are in place. Every country with a thriving CME sector has some sort of development body. In some cases, it is statutory, and in others it is built out of the sector.

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

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 develop the market for co-operative investment in Australia, including through the National Reconstruction Fund.

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 provide the scope for establishing such co-operative clusters.

Case Study: 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. It was the inspiration for the HunterNet co-operative referred to above.

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 capital 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 turn around in fortunes owes its success to a number of factors:

The policies of the regional government actively promote co-operative relations among firms. 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 in every way possible by both type and locality. 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 from the national constitution to co-operative legislation where each co-operative must pay a non-taxed 3 per cent of its annual surplus into a national fund for co-operative development. This enables the sector to 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.

Case study: Basque Co-operatives at Mondragon

Enterprise built on Regional identity

The world-famous Mondragon Corporation is a federation of co-operatives based in the Basque region of Spain. Its objective is to deliver a fair, equitable and supportive business on behalf of its employee owners.

Mondragon is Spain's tenth largest business group. It operates in the industrial, financial and retail sectors and also develops initiatives in the field of knowledge and education. The Mondragon Corporation has 264 businesses and co-operatives employing 81,000 workers with a total revenue of EUR 12 billion. It is a highly internationalised, competitive and successful co-operative group with over 50 years of history, and it has become a world benchmark in terms of work in cooperation.

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 identity among the workers within the company, encouraging an environment of solidarity**. This has been shown where one part of the business has supported less well performing units within the group.

Supporting business succession through the creation of worker owned co-operatives:

Worker co-operatives can play a significant part in rejuvenating viable firms which would otherwise close, in places where there is a supportive policy and business infrastructure to facilitate this. This can act as an essential component of a progressive employment policy.

Perhaps the best-known example of this is Italy, where these conversions take place as negotiated employee buyouts between workers, exiting owners, the co-operative sector and local authorities.

Under a legal framework that is known as the Legge Marcora (Marcora Law), an infrastructure of support has been created to assist the worker buy-out of firms.

State funding that would otherwise have been spent on unemployment benefits is used to finance these new co-operatives. It has been phenomenally efficient for the taxpayer; it is estimated that this investment has safeguarded nearly 14,000 jobs, in 270 businesses and generated an economic return for the Italian State of 6.8 times the capital invested.

Case study: Facilitating employee buy outs by turning social security payments into investment.

Lessons from the Italian Marcora Law

The Italian method of creating worker buy outs is a negotiated conversion and business restructuring mechanism with a unique set of supportive policies and a financing structure facilitated by a collaborative approach between workers, the co-operative sector, and the state.

How it works:

Employees can begin to consider a buy-out project as soon as they anticipate the closing of a firm, if:

- part of or all of a firm is offered to employees by its owners
- a group of employees have been or will be laid off due to the closing of a business
- and after at least nine workers from the closing target company form a new co-operative

CFI co-operatives capitalization: Provides at least an equal capitalization in the co-operative by member workers; Contributes to improving company rating and strengthens the ability to access the credit system; Fosters partnerships of Mutualistic Funds and the entry of other investors.

Once employees form into a worker co-operative, they can begin the process of purchasing part or all of the target company via:

- share capital purchases financed by their personal savings/redundancy payments
- advances of up to three years of their cash transfer-based and employer portions of their unemployment insurance benefits
- debt capital financing from either the cooperative sector or an institutional financier with funds secured by projections on future revenues of the worker co-operative and/or by the collateral offered from the acquired assets of the target company.

The minimum contribution per worker to the start-up capital can be no less than €4,000. New ventures are limited liability worker co-operatives to protect workers from risking personal assets should the business fail. By law, Italian cooperatives must contribute 3% of their annual profits to a national fund (fondo mutualistico) which is dedicated to co-operative development. This money is managed by a specialist agency, Cooperazione Finanza Imprese (CFI), which provides technical assistance, business feasibility studies for assessing the viability of new worker co-ops, and invests risk capital or debt capital finance for workers. CFI works closely with employees, local labour and business representatives, co-operative associations and consortia, before deciding to invest in or assist in the start-up or further consolidation of a WBO project.

The Italian State Treasury has made available two funds for WBOs in order to promote and secure levels of employment in times of crisis and for the conversion of businesses in crisis into co-operatives. These funds contribute to the capitalization of a new co-operative via share or debt capital financing on a 1:1 ratio with workers' initial start-up or capital investments.

7. Supplementary comments on related matters

The co-operative and mutual sector is founded on a tradition of self-help. The existing sector stands ready to implement the ideas in this submission, in partnership with Government.

BCCM has developed plans for establishing place-base partnerships that will deliver long-term, high-quality employment and prosperity. The proposal is to facilitate a boost to economic growth by supporting the development of regional business clusters around strong co-operatives and mutuals through a national Centre for Co-operative Business Growth.

Growing employment and prosperity: Australia's 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 business development, investment and education nationwide. A partnership between Government and industry, its purpose is to facilitate collaboration between independent SME businesses in order to increase employment, business productivity, profitability, their capacity to add-value and export.

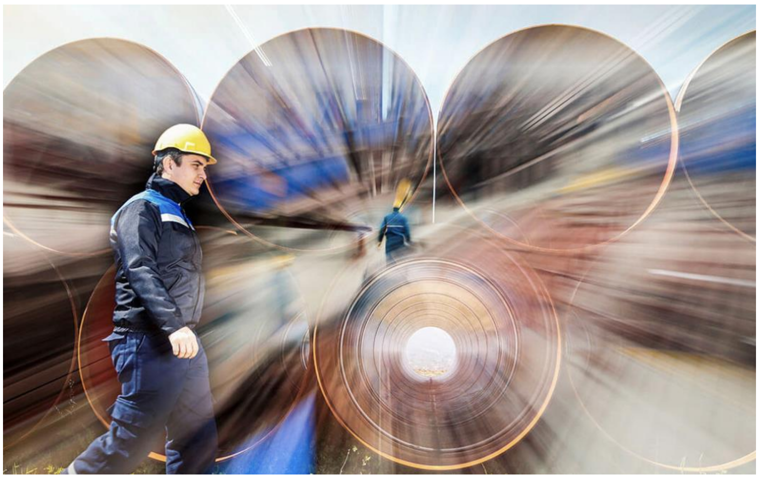
It would be located with and administered by the Business Council of Co-operatives and Mutuals and complement existing Government policies such as the National Reconstruction Fund.

What the national centre 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



8. About the BCCM

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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