



4 April 2024

Supermarkets Inquiry Issues Paper

Submission to the Australian Competition and Consumer Commission

Introduction

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to respond to the Australian Competition and Consumer Commission's (ACCC) Supermarkets Inquiry Issues Paper.

The BCCM is the national peak body representing the co-operative and mutual enterprise movement.

Co-operatives and mutuals are businesses that are owned and democratically controlled by members, who may be consumers, producers, workers or a combination of these stakeholders. They are guided by seven internationally-agreed principles¹ to deliver benefits to members and the community:

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among co-operatives
7. Concern for community

Co-operatives and mutuals are a competitive force in all sectors of the Australian economy. Eight in 10 Australian consumers and more than 160,000 SMEs are members of at least one co-op or mutual.

The important contribution of co-ops and mutuals to a diversified, dynamic and competitive economy was recognised in the recent House of Representatives Standing Committee on Economics inquiry into promoting economic dynamism, competition and business formation. The report includes a bipartisan recommendation that the Treasurer's Competition Policy Taskforce examine improvements to regulation of the sector.²

Co-ops play an important role within the grocery supply chain.

More than 70 consumer-owned grocery retail co-ops aim provide the highest value to consumers. This directly benefits members and additionally drives business model competition with investor-owned retailers to the benefit of all consumers. Their distinct business objectives mean they can operate sustainably where investor-owned businesses cannot, such as in remote and regional areas.

More than 230 co-ops of primary producers or retailers exist to bring independent SMEs in grocery supply chains together into medium-sized businesses that can compete with large investor-owned players. They can do this through a range of activities including bargaining, wholesaling and processing.

¹ [Cooperative identity, values & principles | ICA](#)

² [Better Competition, Better Prices \(aph.gov.au\)](#)

The BCCM recommends that the ACCC formally recognise the benefits that co-operatives bring to markets and how they facilitate the economic participation of small businesses and value to consumers in grocery supply chains.

In responding to select questions raised in the Issues Paper, this submission focuses on:

- The current role of consumer-owned co-operatives in grocery retailing
- The current role of producer-owned co-operatives across the grocery supply chain
- Barriers to greater use of consumer and producer-owned co-operative models in the grocery supply chain

We would be pleased to provide further information on any matters raised in this submission, including more detailed analysis of co-operatives in particular commodity sectors drawing on our research database if this will assist the inquiry.

Role of co-operatives in grocery retailing

2. Market structures for the retail supply of groceries in Australia.

There are currently at least 72 co-operatives active in grocery retailing with an estimated combined turnover of \$500 million and 75,000 members. While not a large part of the overall market, most co-operatives operate in regional and remote markets where they are crucial in securing the supply of groceries for their members. As they exist to provide services to members, rather than maximise profits, they can operate effectively in markets that are seen as insufficiently profitable for other models.

The majority are consumer-owned supermarkets or general stores in regional Australia. The next largest group are consumer-owned food co-operatives in both regional and urban settings that focus on retailing organic or sustainable groceries, either through a storefront or direct distribution to members.

In addition to the 72 incorporated co-ops, it should be noted that there are also many unincorporated buying groups that effectively operate on co-operative principles and are not captured in BCCM's research on the co-operative and mutual economy ([for example](#)).

Co-operatives use a range of wholesalers including Metcash and, particularly in the case of food co-operatives, engage in direct purchasing from primary producers or wholesale markets.

The following are some illustrative examples of the different models and roles co-ops play in grocery retailing:

- **The Barossa Co-op** (*large consumer-owned supermarket*) is one of Australia's largest consumer-owned retail co-operatives with more than 20,000 members and a turnover of approximately \$100 million. Its primary activities set out in its constitution include provision of commercial infrastructure to "facilitate competitive choice for members of the co-operative". Its businesses include a large supermarket operating under an independent banner (Barossa Fresh) and owning and operating the main shopping centre in Nuriootpa. A

[2014 EY study](#) found that for every dollar spent at the co-op supermarket an additional 76c in value was generated in the local economy.

- **Bynoe Community Advancement Co-operative Society** (*remote Aboriginal community-controlled supermarket*) is a multi-service Aboriginal community-controlled co-operative. It recently entered a partnership to open the first large supermarket, under the Foodworks banner, in Normanton. See: [First Nations-owned supermarket slashing grocery bills in Normanton and creating jobs](#)
- **Bathurst Wholefood Co-op** (*small regional consumer and producer-owned sustainable grocery retailer*) is a small not-for-profit food co-operative. It is owned by local consumers and producers and has a turnover of approximately \$500,000 generated from a single retail store. It has dual goals of providing quality, sustainable groceries to consumers and providing an alternative avenue to market for local producers. See: [About Us – Bathurst Wholefood Co-Operative](#)

A development in recent years is the co-operative structure being used to run some farmers markets. These are being organised by both farmer and community-owned co-operatives and provide another route to consumers.

In response to consultation question 16 we provide additional information on co-operatives of independent grocery retailers, manufacturers' co-ops and primary producer co-ops involved in the grocery supply chain.

4. The practices supermarkets use to attract and retain consumers, and any changes observed over recent years (up to 10 years)

Alongside the suggested areas noted by the ACCC for feedback, the BCCM submits that ownership model is another important aspect of how supermarkets differentiate themselves.

By having consumers at the centre of governance and ownership, consumer co-operatives generally are focused on using their resources in line with a range of community objectives:

- Allocating surpluses to community causes
- Prioritising local employment, local procurement and maintenance of local operations even in a low-profit environment
- Returning surpluses to members by way of rebates on purchases or dividends

Similarly, producer-owned co-ops can differentiate themselves with consumers due to their ownership structure. Any surpluses a producer co-op generates will generally be reinvested, shared with local communities where the co-op operates or distributed to producer-members as rebates or dividends.

The word 'member' is not protected and the BCCM believes its meaning has been diluted by its use in the customer loyalty programs of many investor-owned businesses. This makes it harder for grocery consumers to understand the difference between being a member (i.e. both an owner and consumer) in a co-operative and being a consumer via other businesses.

The role of co-operatives in grocery supply chains

16. The structure of the grocery supply chain(s) and market(s) you operate in

More than 160,000 SMEs are members of co-operatives and mutuals. A significant part of this total are primary producers, manufacturers and retailers involved in grocery supply chains.

Primary producer co-operatives

There are approximately 230 primary producer-owned co-operatives in Australia with a combined membership of 24,000.

They provide a wide range of services to support all aspects of a farm business, including:

- Advocacy, bargaining, research and education
- Supply of farm inputs, advice and services
- Irrigation services
- Insurance and risk protection
- Storage and handling
- Processing of commodities and livestock
- Marketing and distribution

The BCCM estimates 80 primary producer-owned co-ops with a combined turnover of more than \$9bn and 9000 members are actively involved in the grocery supply chain by way of transporting, processing, marketing or distribution of commodities in the grocery supply chain or bargaining with downstream players in the grocery supply chain.

While all co-op models can boost the competitiveness of family farms, it is these two models (processing and marketing; bargaining) that have a clear direct impact on the market power of primary producers in relation to processors and retailers.³ Examples of these types of co-op include:

- **Norco Co-operative** (*processing and marketing*) is a co-operative of 326 dairy farmers in northern NSW and southern Queensland. It is the last remaining co-op dairy processor in Australia and also operates rural store and stockfeed manufacturing businesses. It has a turnover of \$700m and regularly pays some of the most competitive farmgate prices to its members.
- **Oz Group Co-op** (*processing and marketing*) is a co-operative of 140 blueberry, raspberry and blackberry growers. It operates the largest blueberry packhouse in Australia and has spearheaded the transition to berry production near Coffs Harbour.
- **Mountain Milk Co-op** (*bargaining*) is a co-op of 8 dairy farms in north-east Victoria. The co-op's main activity is managing supply agreements with processors.

³ For a more detailed typology and overview of the economic role of producer co-ops see generally Professor Michael Cook, *Food and Agricultural Marketing Issues for the 21st Century*, 1993, FAMC 93-1.

Dairy is an emblematic industry and the following gives an idea of the current role of co-operatives in this supply chain. As detailed below in response to question 39, previously a larger share of dairy processing and the milk pool was controlled by co-operatives:

| Co-op | Main activities | Estimated number of members (not farms) | Estimated milk pool by litres |
|---|---------------------------------|---|-------------------------------|
| Norco Co-operative | Processing and marketing | 326 | 205m |
| Dairy Farmers Milk Co-operative | Bargaining | 200 | 150m |
| Australian Dairy Farmers Corporation | Bargaining | 154 | 295m |
| Mountain Milk Co-operative | Bargaining | 10 | 25m |
| Barossa Mid-North Co-operative Dairymen | Bargaining/branding arrangement | n/a | n/a |
| Port Curtis Milk Suppliers Co-operative | Bargaining/branding arrangement | n/a | n/a |

Retailer, Distributor and Manufacturer co-operatives

There are at least six co-operatives of SMEs of grocery manufacturers, distributors or retailers. Similar to other producer-owned co-ops they can undertake a range of activities to deliver value to their members. Most importantly, they can be involved in bargaining for their members or wholesale and distribution operations. More than 1000 independent grocery retailers are members of these co-ops.

Examples of retailer co-ops with wholesale and bargaining activities include:

- **Tasmanian Independent Retailers** (*wholesaling*) is a wholesale co-operative owned by 87 Tasmanian independent supermarkets operating under the IGA banner. It has a longstanding joint venture arrangement with Woolworths, Statewide Independent Wholesalers, for warehousing and distribution. Its membership represents 21% of the market in Tasmania.
- **Co-operative Supermarkets Australia** (*bargaining*) is a bargaining co-operative owned by more than 550 member supermarkets. Alongside negotiating arrangements with suppliers it seeks to facilitate learning and best practice among its network of members. Formed in 2019, it already had reached a turnover of \$100m by June 2022. CSA's model is partly inspired by the [E.Leclerc](#) retailer co-op in France, which has a similar network footprint to Carrefour.

Trends and barriers in producer co-operative formation and growth in grocery supply chains

39. How the extent, and types, of impediments to efficient supply or improvise to the efficacy of business operations have changed over the past 5 to 10 years (please indicate the time period your response covers).

Our response covers the period since agricultural deregulation and includes the last 10 years.

Co-operatives are the only way, in a largely deregulated and highly export-oriented context like Australia, that farmers can achieve a measure of bargaining power with the main "choke point" in the local market: the large retailers.⁴ However, over the period of deregulation the role of co-operatives in most commodity sectors has declined.

Taking the dairy industry as an example, there has been a marked decline of dairy processing co-operatives over the period since deregulation⁵:

| Largest Australian dairy co-op processors in 2000 | Current status |
|--|--|
| Dairy Farmers' Group | Processing demutualised, DFMC bargaining co-op continues |
| Murray-Goulburn | Demutualised |
| BONLAC Foods | Demutualised – held by Fonterra Co-operative, not operated as co-op in Australia |
| Warrnambool Cheese and Butter | Demutualised |
| Tatura Milk | Demutualised |
| Norco | Co-operative |

As the table shows, Norco Co-operative is the last major farmer-owned dairy processor in Australia that can act as a counterbalance to investor-owned processor and retailer market power for farmers. While new bargaining co-ops like Mountain Milk Co-op have formed, such co-ops will have a longer road than a legacy co-op like Norco before they can have a wider market impact that usually comes from entering the processing and marketing supply chain.

The policy and regulatory environment is a crucial determinant in whether producer-owned co-ops can form and grow and deliver these benefits. As stated by Professor Michael Cook, in the United States context:

*agricultural cooperative organizations originated in the early 1900's due to a combination of economic, farm organization and public policy factors.*⁶

⁴ See for example NSW Small Business Commissioner, [Milk Wars](#), 2013, pg. 18.

⁵ Gary Lewis, [The Democracy Principle](#), 2006, xx.

⁶ Professor Michael Cook, *Food and Agricultural Marketing Issues for the 21st Century*, 1993, FAMC 93-1, pg. 154.

Cook goes on to outline the key public policies that have promoted the formation and growth of major national co-ops like Land O'Lakes in that country as:

- Limited anti-trust exemption under the Capper-Volstead Act⁷
- Beneficial tax treatment
- Access to favourable credit (e.g. farm credit system)
- Technical assistance⁸ (e.g. USDA Co-op Programs)

It is sometimes stated that Australia has a weak rural co-operative tradition in comparison to other countries where co-operatives have lifted farmer bargaining power⁹, but less often is the piecemeal policy environment for the formation and growth of agricultural co-ops acknowledged as a key contributor to this situation.

If we compared these same four pillars of public policy that Cook outlines as underpinning U.S. agricultural co-op growth, we find the following in the Australian context:

- Competition policy: The small business collective bargaining class exemption is a positive recent development that reduces costs for some forms of bargaining co-op formation (where limited to producers under the turnover threshold – in contradiction with the open membership principle of co-ops). There is still no high-level recognition of co-ops and unclear treatment under cartel provisions.
- Beneficial tax treatment: some tax benefits to certain producer-owned co-ops under ss117–121 of the *Income Tax Assessment Act 1936*. Limited practical availability as the major tax benefits arises when credit is provided from state/Commonwealth (only available in three states) and reliance on a tax definition of a co-op that excludes many legally registered co-operatives.
- Access to favourable credit: There is no co-op farm credit system in Australia.
- Technical assistance: The Commonwealth Government funded the Farming Together/Co-operative Farming programs. No ongoing government technical assistance or research programs dedicated to regional co-operatives.

Recommendation

The BCCM recommends that the ACCC formally recognise the benefits that co-operatives bring to markets and how they facilitate the economic participation of small businesses and value to consumers in grocery supply chains.

Flowing from this, the ACCC could take steps to:

- Provide equivalent treatment for producer-owned co-ops in Australia as seen under the Capper-Volstead Act in the United States
- Increase consumer awareness of consumer-owned co-operative models

⁷ For further commentary on this see also Michael Cook, [Submission](#) to the Antitrust Modernization Commission in 2005.

⁸ *Ibid.*, pg. 155–6.

⁹ E.g. [Competition in Australian agriculture keynote address | ACCC](#)

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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