

## **Consumer Co-operatives in Australia: Past, Present and Future**

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This submission looks at the past, present and future of consumer co-operatives in Australia. It argues that there is a potential for this member-owned form of business to increase the level of competition in the Australian supermarket sector, where Coles and Woolworths, the two leading conventional retail supermarket chains, control approximately 80 per cent of the Australian grocery market share, leading to claims that Australia has the least competitive retail supermarket sector in the world.<sup>1</sup>

This submission focuses on four issues: -

- (i) What is a consumer co-operative?
- (ii) What has been the history of consumer co-operatives in Australia?
- (iii) What is the current situation?
- (iv) What are the future prospects?

**(i) What are consumer co-operatives?**

Co-operatives provide a means for individuals to directly control the aspects of their lives relating to consumption and production. Although some co-operatives had existed earlier, the founder of the modern co-operative movement was the Welsh social reformer Robert Owen (1771–1858), who believed that co-operation rather than competition would create a prosperous and harmonious community. The best known of the early co-operative movements were the Rochdale consumer co-operatives, which date back to 1844 in England: following an unsuccessful strike, Rochdale flannel weavers helped start a movement to combat high prices and poor-quality food. The Rochdale consumer co-operatives were founded on clear principles. These

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<sup>1</sup> Stuart Alexander, “Australian Market”, [http://www.stuartalexander.com.au/aust\\_grocery\\_market\\_woolworths\\_coles\\_wholesale.php](http://www.stuartalexander.com.au/aust_grocery_market_woolworths_coles_wholesale.php) (accessed 1 April 2015).

included the provision of capital by members at a fixed rate of interest; a dividend, or “divvy”, based on profits, to be divided among members in proportion to the amount of purchases; and management to be based on democratic principles, with “one member, one vote.” The co-operative movement manifested itself in other forms, including agricultural co-operatives, worker co-operatives and credit unions.<sup>2</sup>

There are two major challenges facing consumer co-operatives – capitalisation and supply chain management. Consumer co-operatives initially drew their capital primarily from the shares of members. One important issue that arose was the minimum cost of shares, which if they were too high, could act as a deterrent to new members. To overcome the problem of a high minimum share cost, some consumer co-operatives permitted new members to pay a smaller amount and then allowed their dividends on purchases to accumulate to the full amount. There were also concerns that share capital could be withdrawn, which could arise on a large scale if there was a crisis of confidence in the co-operative, and further threaten solvency. Co-operatives have required shareholders to give reasonable notice if large amounts of shares are to be withdrawn and in extreme cases freeze withdrawals, as was the case with the collapsing Newcastle and Suburban Co-operative in Australia in October 1979. As members found more attractive investments, such as building societies and savings banks, capital could be lost as members cashed in their shares.<sup>3</sup>

Consumer co-operatives therefore found it necessary to attract individuals to purchase large amounts of shares, even though it meant these individuals still had the same vote as shareholders with limited amounts of capital. As a result, consumer co-

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<sup>2</sup> Greg Patmore, “Co-operatives”, in Melvyn Dubofsky (ed.), *The Oxford Encyclopedia of American Business, Labor, & Economic History*, Oxford University Press, New York, 2013, pp. 151-2.

<sup>3</sup> Alexander Carr-Saunders, Philip Sargent Florence, and Robert Peers, *Consumers' Co-operation in Great Britain. An Examination of the British Co-operative Movement*, 3rd ed., George Allen and Unwin, London, 1940, pp. 129-130; Daphne Hampton, *Retail Co-operatives in the Lower Hunter Valley*, Newcastle Region Public Library, Newcastle (Australia), 1986, pp. 42-43.

operatives had to provide competitive returns on capital compared to other financial institutions such as banks. There were limits on the numbers of shares that an individual could have due to concerns that large shareholders could exercise undue influence over the co-operative because of the possibility of the withdrawal of their capital and abrogate democratic principles.<sup>4</sup>

From the earliest days it was recognised that shares were not enough to provide capital for the co-operative. The British Industrial and Provident Societies Act of 1852 allowed for individuals with then maximum shareholding of £100 to invest up to a further £400 in loan capital. Even in regard to loan capital there was a limited liability in British co-operatives and the principle followed that it was better to have many small investors rather than a small number of large investors to ensure that no one could dominate the co-operative society. For these loan capital investors the consumer co-operatives provided internal bonds, debentures and certificates of indebtedness at attractive interest rates. Some of these investors, which could even include non-co-operative shopkeepers, could invest in the co-operative even if they were not members as they considered it a convenient institution into which to place their money.<sup>5</sup>

Consumer co-operatives could generate their own capital through their business activities. Again the retention of capital had to be balanced against the level of dividends and the payment of interest on shares and other member investments. This could be a controversial issue at members' general meetings and required the co-operative management to convince members of the need to invest in the upgrading and expansion of co-operative services. Co-operatives may also encourage members

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<sup>4</sup> Johnston Birchall, *Co-op: The People's Business*, Manchester University Press, Manchester, 1994, p. 57.

<sup>5</sup> Birchall, *Co-op*, p. 57; Carr-Saunders, Sargent Florence, and Peers, *Consumers' Co-operation in Great Britain*, p. 131; Jerry Voorhis, *American Co-operatives*, Harper & Row, New York, 1961, p. 129.

to invest their dividend based on patronage back into the co-operative in the form of additional shares and interest bearing securities. This surplus capital becomes collective capital, which individual members have no claim on and reduces the co-operatives' exposure to fluctuations in share capital.<sup>6</sup>

Another approach is for the smaller co-operatives to merge into larger co-operatives in order to have sufficient capital to manage the modern supermarkets and hypermarkets. Patrizia Battilani argues that this process transformed the Italian consumer co-operatives during the 1950s and 1960s and explains the greater success of consumer co-operatives in Italy compared to other European countries. There were however problems with these mergers as the larger size of the co-operatives distanced members from the general management and reduced the importance of members and the boards of directors who represented them.<sup>7</sup>

There have been a number of approaches in recent years to assist consumer co-operatives with raising capital. Improved capitalisation has been an important factor that has allowed Italian co-operatives to flourish since the 1970s. This expansion of Italian co-operatives was financed through the strategy of encouraging members to provide loans to their co-operatives. A favourable legal environment has assisted capitalisation with laws that, for example, exempt undistributed profits that have been set aside in indivisible reserves from corporate taxes. Members can simply own capital and no longer have to be active in terms of purchasing goods and services. Co-operatives are allowed to issue special shares to these members.<sup>8</sup> As

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<sup>6</sup> Carr-Saunders, Sargent Florence & Peers, *Consumers' Co-operation in Great Britain*, p. 131; Voorhis, *American Co-operatives*, pp. 130-1.

<sup>7</sup> Patrizia Battilani, "How to Beat Competition with losing the co-operative identity: the case of the Italian Consumer Co-operatives", Amsab-Institute of Social History (ed.), *Consumerism versus Capitalism? Co-operatives seen from an International Comparative Perspective*, Amsab-Institute of Social History, Ghent, 2003, pp. 110-112.

<sup>8</sup> Tito Menzani, Tito, and Vera Zamagni. "Co-operative Networks in the Italian Economy", *Enterprise & Society*, vol. 11, no. 1, 2010, pp. 105-106.

Pérotin has noted in regard to worker co-operatives, such legislation does not protect co-operatives but helps them avoid ‘perverse incentives’ such as the excess consumption of capital saved by previous generations and demutualisation.<sup>9</sup>

In Australia, a new hybrid security called a co-operative capital unit (CCU) was introduced in NSW in 1996 that could be issued to non-members, and is capable of a stock exchange quotation. However as the NSW Fair Trading noted in 2012 “CCUs were initially popular with co-operatives, but their popularity is limited by the fact that co-operatives in other jurisdictions were not able to issue them, and market knowledge of the securities is not widespread, particularly in a nationally operating financial market.”<sup>10</sup>

There has also been a focus on banking reform to give community-based co-operatives easier access to loan capital than that provided by traditional banking sources. Following lobbying from the Co-operative League of the USA, the US Congress in 1978, with the support of President Carter, established the federally funded National Co-operative Bank (NCB) to provide cheap finance to co-operatives. The Reagan administration moved to close the NCB as part of budget cuts, but agreed to privatise the Bank in 1981 after the US co-operatives raised sufficient capital for the Bank.<sup>11</sup> The NCB’s mission is to “help co-operatives grow by supporting and being an advocate for America’s co-operatives and their members, placing special emphasis on serving the needs of communities that are economically challenged.”<sup>12</sup> The NCB funds a variety of co-operatives including grocery wholesale

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<sup>9</sup> Pérotin, “The Performance”, p. 216.

<sup>10</sup> New South Wales Fair Trading, Department of Finance and Services, “Regulation of Co-operatives in Australia”, *Year Book Australia, 2012*, Australian Bureau of Statistics, Canberra, 2012. <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Regulation%20of%20co-operatives%20in%20Australia~287> (accessed 7 April 2015).

<sup>11</sup> Berkeley Historical Society, *A Conversation with Robert Neptune: Pioneer Manager of the Consumer Co-operative of Berkeley and Long-Term Manager at Associated Co-operatives*, Berkeley Historical Society, Berkeley, 1996, pp. 22-23.

<sup>12</sup> <http://www.ncb.coop/default.aspx?id=3682> (accessed 8 April 2015).

co-operatives, which are crucial for the development of supply chain management for retail consumer co-operatives.<sup>13</sup>

The second issue of importance for consumer co-operatives is supply chain management. While many co-operatives have had to develop relationships with non-co-operative private sector wholesalers to survive, there were early examples of opposition from such wholesalers and manufacturers to supplying co-operatives. There were also concerns about consumer co-operatives bidding against each other in a competitive market. In the early years of the movement in Great Britain the purchasing of goods for sale was a major concern to co-operative management committees, and managers were subject to greater scrutiny than in other retailers.<sup>14</sup> As Gurney notes “wholesaling was vital to co-operative success as it reduced costs and helped solve the problem of boycotting; with a strong wholesale organization, co-operators could buy their supplies directly from the manufacturer, thereby cutting out the capitalistic middleman.”<sup>15</sup> The survival of consumer co-operatives since World War II has rested partially on their ability to develop integrated systems of wholesaling to match the economies of the larger non-co-operative retail chains.<sup>16</sup>

To meet these issues in Great Britain during the nineteenth century the Co-operative Wholesale Society (CWS) began trading in 1864 and the Scottish Co-operative Wholesale Society began trading in 1868. According to Johnston Birchall the wholesale societies grew in three main ways. First they became importers of cheap foods from abroad such as Indian tea and Danish bacon and they processed these foods either in Britain or in the country of origin. They became owners of

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<sup>13</sup> <http://www.ncb.coop/default.aspx?id=3682> (accessed 8 April 2015).

<sup>14</sup> Martin Purvis, “Stocking the Store: Co-operative Retailers in North-East England and Systems of Wholesale Supply circa 1860-77”, *Business History*, vol. 40, no. 4, 1998, pp. 55-78.

<sup>15</sup> Peter Gurney, *Co-operative Culture and the Politics of Consumption In England, 1870-1930*, Manchester University Press, Manchester, 1996, p. 94.

<sup>16</sup> Espen Ekberg, “Confronting three revolutions: Western European consumer co-operatives and their divergent development” *Business History*, 54, 2012, pp. 1004-1021: 1007, 1015.

plantations and processing facilities abroad and even became ship-owners to control all stages of the manufacture, distribution and transportation of food. Secondly they became the manufacturers of basic products that were in strong demand by working-class people such as boots, biscuits and jams. Thirdly they took over other productive facilities set up by consumer co-operative societies and even ailing worker co-operatives, such as those set up in Britain during the brief boom of the 1870s. The CWS also became an exporter to consumer co-operatives in countries such as Australia and New Zealand. The Scandinavian Co-operative Wholesale Society (NAF) and the Nordisk Andelsforbund performed a similar international wholesaling role for the Scandinavian co-operatives.<sup>17</sup>

One of the important developments associated with the rise of these wholesale bodies was the creation of a common co-operative label. In Italy the Union Co-operative Milanese (Milan Co-operative Union), which packaged panettone in its own name in 1896, and the *Alleanza Co-operativa Torinese* (Turin Co-operative Alliance), which had commercialised a range of its own private labels by 1899 are examples of local marketing with the co-operative brand. World War II saw the development of the Co-operative brand at the national level in Italy.<sup>18</sup>

While consumer co-operatives can face major difficulties in regard to capitalisation and supply chain management, they have prospered in a number of countries. Consumer co-operatives continue to thrive in many countries such as Finland, Italy, Norway and Switzerland. Italian co-operatives, for example, are a leader in a grocery market with approximately a 20 per cent share of the market and a wholesale division, which supplies other retail chains, having over a quarter of the

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<sup>17</sup> Johnston Birchall, *Co-op: the people's business*, Manchester, 1994, pp. 81-87; Johnston Birchall, *The international co-operative movement*, Manchester, 1997, pp. 59-60.

<sup>18</sup> Patrizia Battilani, "How to the Beat Competition with losing the co-operative identity: the case of the Italian Consumer Co-operatives" in *Amsab-Institute of Social History* (2003), pp. 109-126: 120-121.



market. Some individual consumer co-operatives have survived without the benefit of a national organisation, such as coop eG in Germany, which operates more than 200 supermarkets in five German states. There are examples of new smaller consumer co-operatives emerging to meet local needs, such as at Kirchstetten in Austria, without the support of a national co-operative. These co-operatives are ‘outsider co-operatives’, which are not linked to any co-operative retailing networks.<sup>19</sup>

While many of the older Rochdale consumer co-operatives did not survive in the US, the disillusionment with capitalism during the late 1960s and 1970s led to the formation of new wave of consumer co-operatives. Protestors against the Vietnam War, environmentalists, community control advocates and civil rights activists saw co-operatives as a symbol of the counterculture. Some of these co-operatives have been able to prosper by specifically focusing on organic foods and locally produced goods. In the USA a current example is the GreenStar Co-operative Market at Ithaca, which was founded in 1971 and had 8,000 members in 2011. At the Green Star Co-operative you pay a \$US90 share equity investment, with a \$US1 processing fee to join, which can be paid over time. In return members receive a two per cent member owner discount on purchases and member-owner specials in all departments. The growth of these consumer co-operatives followed a pattern of establishing regional associations and then forming the National Co-operative Grocers’ Association (NCGA) in 1999. The NCGA currently has 143 food co-operatives, which operate 190 stores in 38 states and has combined annual sales of over \$1.7 billion and over 1.3 million customer members. The states that have largest numbers of these co-operative stores in 2015 are Minnesota (26), Washington (19), Wisconsin (14) and

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<sup>19</sup> Nikola Balnave & Greg Patmore (2015): The outsider consumer co-operative: lessons from the Community Co-operative Store (Nuriootpa), 1944–2010, *Business History*, DOI: 10.1080/00076791.2015.1015998

California (12).<sup>20</sup> The NCGA “helps unify natural food co-operatives in order to optimise operational and marketing resources, strengthen purchasing power, and ultimately offer more value to natural food co-operative owners and shoppers everywhere.”<sup>21</sup>

**(ii) What has been the history of consumer co-operatives in Australia?**

While the first Australian Rochdale consumer co-operative was formed in Brisbane in 1859 and there were waves of interest in Rochdale consumer co-operatives in the nineteenth and twentieth century, the movement failed to consolidate in Australia. Rochdale consumer co-operatives were important in particular locations such as coal mining and rural areas. They also had a presence in major metropolitan centres such as Adelaide in South Australia and Newcastle in NSW. However, they never established a national organisation. While there was a Co-operative Wholesale Society (NSW CWS) established in NSW in 1912, its operations were largely confined to that state and it ceased operations in 1979. While consumer co-operatives formed the Co-operative Federation of Australia (CFA) in 1943, it remained weak and fluctuated in its level of activity, becoming moribund in 1986. State co-operative associations in 1993 reformed a national body of co-operatives, Co-operatives Australia, which like its predecessor has a limited impact.<sup>22</sup>

There are number of reasons why the Rochdale co-operative movement had a limited impact in Australia. There were deep internal divisions between those who

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<sup>20</sup> John Curl, *For All the People: Uncovering the Hidden History of Co-operation, Co-operative Movements, and Communalism in America*, PM Press, Oakland, California, 2009, pp. 214-218; *GreenLeaf*, September 2011, p. 2; <http://www.greenstar.coop/newsletter> (accessed on 9 April 2015); <https://www.ncg.coop/> (accessed on 9 April 2015); David Thompson, ‘What’s next for California’s Consumer Co-op’s?’ in Fullerton, Michael (ed.), *What Happened to the Berkeley Co-op? A Collection of Opinions, Centre for Co-operatives*, University of California, Davis, 1992, p. 90.

<sup>21</sup> <https://www.ncg.coop/> (accessed on 9 April 2015).

<sup>22</sup> Nikola Balnave and Greg Patmore, ‘Rochdale consumer co-operatives in Australia: Decline and survival’, *Business History*, vol. 54, no. 6, 2012, pp. 987-9.

wanted a centralised movement built around the NSW CWS and those who wanted local autonomy for the Rochdale co-operatives. There were also divisions built around gender with the Co-operative Women's Guilds sometimes critical of the male Rochdale leadership. Unlike the UK, the Rochdale consumer co-operatives did not affiliate with the Labor Party. Australian unions looked toward the industrial arbitration system rather than co-operatives as a means of protecting real wages through mechanisms such as wages being indexed to prices. The Rochdale movement in Australia was also unable to form alliances with the farmer producer co-operatives. Finally, under the Australian federal system, state rather than national law governed co-operatives, which meant that regulation was fragmented and that there was no national focus in regard to political issues.<sup>23</sup>

The Australian Rochdale consumer co-operatives went into decline following World War II. There are a number of explanations for this decline including direct competition from the traditional retail sector. The demise of the Collie Co-operative in Western Australia followed the arrival in the town of a major supermarket chain, some of whose suppliers refused to supply the Co-operative at wholesale prices and encouraged the Co-operative's management to buy from the supermarket chain at retail prices. There was also indirect competition associated with the changing nature of retailing, particularly the rise of chain supermarkets and shopping centres. The decline of coal mining communities, the depopulation of rural areas, the increasing ownership of automobiles, and poor management are further reasons for the downturn. Many otherwise successful co-operatives failed to survive the economic uncertainties of the post-1974 era. The most spectacular collapse in Australia was the Newcastle and Suburban Co-operative. After reaching a peak membership of 95,000

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<sup>23</sup> Balnave and Patmore, "Rochdale consumer co-operatives in Australia", pp. 990-993.

in 1978, there were rumours of impending insolvency which led to a run on capital in 1979 as 9000 members left. Despite a freeze on capital withdrawals, which split both management and shareholders, the co-operative closed in 1981. A subsequent investigation of the collapse found there were problems such as overstaffing and inadequate accounting practices.<sup>24</sup>

### **(iii) What is the current situation?**

By 2015 Australian supermarket retailing was characterised by a very weak co-operative sector and market concentration in two large conventional retail chains. At least three of the original Rochdale consumer co-operatives survive in the rural centres of Denmark in Western Australia, Junee in the Riverina region of NSW and Nuriootpa in the Barossa Valley of South Australia, which have also become franchisees for the Independent Grocers of Australia (IGA) network to ensure a wholesale supplier, and compete against Coles and Woolworths. While the co-operative at Nuriootpa does not currently have direct competition from Coles and Woolworths, it has had to face Woolworths in the past. Woolworths opened a supermarket at Gawler, a relatively large town situated north of Adelaide and adjacent to the Barossa Valley, in December 1962, which it promoted in the Barossa newspapers. Woolworths moved into the Barossa Valley and opened a supermarket in nearby Tanunda in December 1965, but despite its national growth, allowed the lease on this supermarket to expire in October 1975 and withdrew from the Barossa Valley. One issue was the relative size of the store compared to newer outlets and the limits

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<sup>24</sup> Balnave and Patmore, "The Outsider Consumer Co-operative"; Nikola Balnave and Greg Patmore, "Practical Utopians: Rochdale Consumer Co-operatives in Australia and New Zealand", *Labour History*, no. 95, 2008, pp. 103-105; Garry Lewis, *A Middle Way: Rochdale Co-operatives in New South Wales 1859-1986*, Brolga Press, Curtin, ACT, 1992, pp. 218-219; Kimberley Webberly and Ian Hoskins, *What's in Store? A History of Retailing in Australia*, Powerhouse Publishing, Sydney, 2003, p. 29.

on possible expansion on the Tanunda site. More recently Woolworths has shown a direct interest in Nurioopta but been unable to obtain a suitable sized site for a supermarket.<sup>25</sup>

The survival and prosperity of these Rochdale co-operatives need to be placed in the context of ‘localism’, which is a sense of place.<sup>26</sup> For example, the Junee Co-operative and its leadership have played an active role in the community, and formed networks with local businesses and the Chamber of Commerce. Over the years the co-operative has encouraged residents to ‘shop local’ rather than at other regional centres. The Junee Co-operative’s strategy for maintaining local shopping in recent years has involved either the stocking of additional lines if other businesses closed and/or taking over other failing businesses. This has contributed to the survival of the Junee Co-operative, but also to the preservation of local job opportunities and to the sustainability of Junee as a viable rural community.<sup>27</sup>

These original Rochdale co-operatives have been joined by at least two dairying co-operatives on the mid-Northern coast of NSW that have transformed themselves into retail co-operatives. A dramatic example of the shift of a rural co-operative towards retailing is the Macleay Co-operative on mid-North Coast of NSW, which began as dairy co-operative in 1905 with a butter factory and now focuses on retailing.<sup>28</sup> Due to increasing competition from the larger supermarket chains, the Macleay Co-operative had to sell its Kempsey IGA Supa and IGA Liquor operations in August 2014. Richard O’Leary, the CEO of Macleay, noted that, “we just can’t

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<sup>25</sup> Balnave and Patmore, “The Outsider Consumer Co-operative”.

<sup>26</sup> Greg Patmore, “Localism and Labour: Lithgow 1869-1932”, *Labour History*, no. 78, 2000, pp. 53-56.

<sup>27</sup> Balnave, Nikola and Patmore, Greg, “Rochdale Consumer Co-operatives in Australia: A case of Rural Survival”, *Journal of Co-operative Studies*, vol. 4, no. 1, 2008, pp. 18-19.

<sup>28</sup> Carrolline Rhodes, *McClae. The Centenary History of the Macleay Regional Co-operative Limited. 1905-2005*, Macleay Regional Co-operative, Kempsey, 2005.

compete (in the supermarket sector) as a lone operator without eroding the value of our membership.”<sup>29</sup>

There have also been a number of local food co-operatives that have emerged in recent years with approximately 15 in NSW alone. Some of these co-operatives have been able to prosper by specifically focusing on organic foods and locally produced goods. A notable example is Alfalfa House, which was formed following a rent strike by a single household in the Sydney suburb of Erskineville in 1981 and has approximately 3,200 members. With a store at Enmore, it is a member-based co-operative, with a one-off joining fee, that provides discounts for members who volunteer their labour in the store. The Flame Tree Community Food Co-operative in Thirroul, near Wollongong, also relies on volunteer labour that reduces costs, and emphasises local, unpacked and organic food. The first possible move towards a NCGA in Australia occurred in July 2014 with a Community Food Conference attended by many food co-operatives from NSW and the ACT. The conference provided a face-to-face networking event for food co-operatives, which shared business practices and looked at the possibilities for food co-operatives to work together.<sup>30</sup>

Despite the small impact of the food co-operatives, two major developments have occurred in recent years that should help promote Australian consumer co-operatives and national organisation of all co-operatives and mutuals. One of these is

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<sup>29</sup> Tom Klein, “Macleay Co-op nears supermarket sale completion”, *Macleay Argus*. <http://www.macleayargus.com.au/story/2489746/macleay-co-op-nears-supermarket-sale-completion/> (accessed 5 May 2015).

<sup>30</sup> Business Council of Co-operatives and Mutuals, *BCCM E-News special edition for International Co-ops Day*, 5 July 2014; <http://flametreecoop.blogspot.com/> (accessed 7 May 2015); Interview by Greg Patmore with Sam Byrne, a former Alfalfa councillor, 6 May 2013; <http://www.alfalfahouse.org/> (accessed 7 May 2015).

the movement towards a Co-operatives National Law,<sup>31</sup> which will weaken the traditional Australian focus on state politics and legislation in regard to co-operatives. The second was the celebration of the United Nations Year of Co-operatives in 2012, which has highlighted the significance of co-operatives in Australia.

Against this background we have seen a resurgence of interest in the idea of a co-operative wholesaler. The new wholesale co-operative is called The Co-operative Food Group and has approximately 25 members, both independent retail supermarkets and co-operatives. The major difference in the structure of this co-operative to other failed attempts for co-operative wholesaling is that this model uses existing independent business supermarket food operators. They are already supplied by a major wholesaler and add value to the mix, through stocking more local farm produce and a strong emphasis on “co-op to co-op” business, emphasising co-operative brands such as Devondale Milk and Cheeses, Dairy Farmers Milk, Batlow Apples, Sunrise Rice, Clarence River Prawns, and Norco agricultural products.<sup>32</sup>

At the national level a new council, called the Business Council of Co-operatives and Mutuals, was launched in July 2013. It draws its membership from individual co-operatives or mutuals as well as their peak organisations. Its mission is to represent the co-operatives and mutuals at the highest levels of government nationally and internationally.<sup>33</sup>

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<sup>31</sup> New South Wales Fair Trading, Department of Finance and Services, *Regulation of co-operatives in Australia*.

<sup>32</sup> Richard O’Leary, Greg Patmore and Alberto Zevi, “National Co-operative Organisations in Australia and Italy”, in Anthony Jensen, Greg Patmore and Ermanno Tortia (eds.), *Advancing the Co-operative Movement in Australia and Italy*, University of Florence Press, Florence, 2015, forthcoming.

<sup>33</sup> O’Leary, Patmore and Zevi, “National Co-operative Organisations in Australia and Italy”

#### **(4) What are the future prospects?**

There is potential for the development of an additional competitor in the Australian supermarket industry. While a small number of 'outsider' Rochdale consumer co-operatives have survived the general post-war Australian demise of the movement even without the benefit of a national co-operative wholesaler, there is also an emerging food co-operative sector which has the potential to develop into the NCGA as in the US. There is also the development of the Co-operative Food Group at the wholesaling level. While there has been an emphasis on attracting overseas firms into the supermarket industry to increase competition, co-operatives are locally owned and plough their surpluses back into their communities.

This co-operative food sector has a number of benefits. The focus on local community helps sustain a retail profile in a number of rural communities. This serves to curtail the loss of business, jobs, facilities and residents to larger regional centres. Co-operatives are also valuable because they reinforce community co-operation, democratic practices and a general understanding of business operations. There is also an emphasis on good nutrition, health and environment through the sale of local, sustainable and organic produce.

The re-emerging consumer/food co-operative sector thus offers a very real and valuable contribution to social, economic and environmental sustainability in Australia. However, in order to maximise this potential, the sector would benefit from developments in the following areas: -

##### *(a) Education*

The co-operative sector is largely ignored in both secondary and tertiary education which limits knowledge about the co-operative business model. In the wake of the



UN International Year of Co-operatives there has been some interest in including co-operatives in the tertiary curriculum of business students. The University of Sydney Business School approved a Master of Commerce course in 2014 on Co-operatives and Mutuals, which will be taught for the first time in the second semester of 2015. Charles Sturt University has introduced a graduate diploma on co-operatives, in co-operation with the Co-operative Federation of NSW, while the University of Western Australia Business School has an executive program.

More needs to be done by Australian educators to recognise co-operatives in their business programs. The Australian Bureau of Statistics and the Australian Research Council could promote both research and education in the area of co-operative studies by providing more specific data on this area and developing a 6-digit FoR code for co-operative studies in a multi-disciplinary area that recognises the contributions that legal scholars, historians, business studies and other disciplines can make to understanding this business model.

*(b) Capital*

As noted a major problem for co-operatives is their ability to obtain capital, particularly at the start-up stage. This has been recognised in the US through the NCB. There is however a US government program that could provide an example for Australian public policy. In 1991, the NCB successfully lobbied Congress to establish the Rural Co-operative Development Grants (RDCG) program to encourage new co-operative businesses in rural areas. The primary objective of the RCDG program is to improve the economic condition of rural areas by assisting individuals and businesses in the start-up, expansion or operational improvement of rural co-operatives and other mutually-owned businesses through Co-operative Development Centres. These grants

are provided on a competitive basis. The assistance can also be provided on a matching grant basis and are available for conducting feasibility studies, developing business plans, providing business training and facilitating strategic planning. The cost of the scheme per annum ranges from \$5-8 million dollars and the maximum grant amount is \$200,000.<sup>34</sup> If such a scheme were to cover Australian consumer co-operatives then the criteria could include community involvement, competitive impact on non-co-operative businesses and financial viability.

*(c) Supply Chain Management*

Since the earliest days of consumer co-operatives there have been concerns about the unfair competitive practices of non-co-operative retailers, particular large chains. There is a particular vulnerability in the area of wholesaling, where non-co-operative rivals have attempted to convince suppliers to boycott the smaller co-operatives. A number of strategies have been developed by consumer co-operatives to deal with this challenge including the formation of co-operative wholesale societies or becoming franchisees as in the case of the surviving Australian Rochdale consumer co-operatives.

There is an emerging desire by Australian food co-operatives to source their own supplies particularly from agricultural co-operatives and local sustainable sources. To ensure that Australian consumer co-operatives can have access to these suppliers it is crucial that they are aware of their rights under relevant Fair Trading Legislation and that these provisions are actively enforced. There are constitutional limitations with the federal *Trade Practices Amendment* (Australian Consumer Law)

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<sup>34</sup> <http://www.rd.usda.gov/programs-services/rural-co-operative-development-grant-program> (accessed, 8 May 2015)

Act 2010 that focuses on the “for profit” form of the corporation that is embedded in the Australian Constitution.<sup>35</sup>

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<sup>35</sup> Troy Sarina and Antonio Fici, “A Comparison between Australian and Italian Co-operative law”, in Anthony Jensen, Greg Patmore and Ermanno Tortia (eds.), *Advancing the Co-operative Movement in Australia and Italy*, University of Florence Press, Florence, 2015, forthcoming.

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