

AUSTRALIAN CENTRE FOR SUSTAINABLE BUSINESS AND DEVELOPMENT
Professor Julie Cotter
Centre Director



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Senate Economics References Committee Secretariat
PO Box 6100
Parliament House
Canberra ACT 2600

Dear

Re: Questions on Notice – Senate Economic References Committee Inquiry into Cooperative, Mutual and Member Owned Firms in the Australian Economy

Please find attached material in response to a request to provide summary information capturing salient points related to agribusiness co-operatives "on Notice". This request was made by the Committee at its hearing in Canberra on 26 February.

I would be happy to elaborate on or discuss further any of the points made.

Yours sincerely

Professor Julie Cotter
Centre Director

ON NOTICE RESPONSE - SUMMARY INFORMATION. Thank you for the opportunity to provide a brief summary of key points related to the potential role and importance of co-operative business models in facilitating Australia's global competitiveness and growth of agriculture and agribusinesses.

Research results

Research undertaken by our agribusiness research team at the University of Southern Queensland shows that the opportunity is high value products (rather than commodities) for export to middle-class Asian and other export consumers. Products include boxed and portion-sized packaged meats, dairy products, seafood, functional foods with proven health benefits, nuts, high quality fresh fruits and vegetables, value-added products including dried, frozen and juiced horticulture produce.

Using a systems thinking approach, the following six areas have been identified as needing further research and development:

- Supply networks - need for collaborative business structures
- Access to capital for expansion and processing infrastructure
- Capturing more value-adding opportunities in Australia
- Shorter supply chains and online retail
- Quality control for chilled products in Asian countries
- Better understanding of consumer preferences across multiple export markets

Demand for safe, high quality and sustainably produced Australian food products is evident, however to ensure that we don't miss the opportunity, the following issues need to be addressed by the Australian agricultural sector:

- Capacity to supply – consistent high quality and year-round availability at sufficient scale.
- Shorter value chains - transformation of our value chains to close the gap between international consumers and the producers of safe, sustainably grown and processed foods i.e. Australian farming enterprises

Australia's farming and agribusiness systems are fragmented, with few agribusinesses having sufficient capacity to supply high value, high growth export market opportunities. Collaborative business models are needed to achieve sufficient scale. Collaborative business models such as co-operatives provide opportunities for family farming enterprises to access high value supply chains including export value chains.

To address the issue of access to capital for expansion of the sector, we have commenced research into capital raising for agribusiness including available and emerging co-investment models, including investors are looking for and governance considerations. There is a lack of knowledge amongst agribusiness enterprises about access to equity capital. Further, lack of sufficient scale and compelling business cases limits the number of investable farming and agribusiness enterprises. Investors include managed funds, private equity, high net worth individuals and family offices.

Our researchers have also developed an in-depth case study based on the North Coast Fresh Food & Cold Storage Co-operative Company Ltd (Norco) business model. The publication is targeted at industry participants who want to learn more about the co-operative business model and includes lessons from Norco's experience.

Collaborative business models

Collaborative business models that can be used to build capacity to supply while maintaining Australia's family farming base include co-operatives, contract supply models, and joint ventures arrangements.

Agribusiness co-operatives provide advantages over other collaborative structures, including the ability to

- bring together a large and sustainable supply base;
- provide benefits to members including increased bargaining power with retailers and processors, greater economic returns and share of value add, extension services, discounted production inputs and a social support network;
- implement quality control and sustainability initiatives down the supply chain;
- develop vertically integrated businesses that link Australian farming enterprises to export consumers - including cold storage, processing, packaging, logistics, marketing and distribution functions; and
- provide social and community benefits to rural and regional Australia.

On the other hand, control and ownership are not normally separated in the co-operative business model and this can add an extra layer of complexity to processes such as business formation and issue of hybrid or equity securities.

Agricultural cooperatives harness the substantial existing investment of the farming enterprises that come together to collaborate. This represents a significant source of capital that should not be ignored when comparing alternate business and investment models.

Co-operatives - barriers to growth and entry

Government policies can impede or enhance independent co-operative development. This section highlights several areas where action could be taken to facilitate co-operative development.

Regulatory barriers – International research evidence tends to indicate that legal issues are not usually a major hurdle for farmers to cooperate effectively, and that legislative flexibility is most important (Bijman et al 2012).

The evidence also indicates that providing sufficient guidance, administrative support and coordination across regulatory authorities are important. It would seem that these present areas for

improvement in Australia. For example, the government should ensure that cooperatives are included in government incentive schemes and grants for exports, SMEs, start-ups, innovation etc.

Adoption of the NCL by all Australian states will be particularly important for cooperatives aiming to secure year-round supply of seasonal agricultural produce to meet domestic and export demand.

Capital raising by established coops for rapid expansion into new markets, infrastructure development and/or technology innovation – barriers include the cost of advice and transaction costs. These costs are expected to be particularly high for early adopters of innovative co-operative financing instruments. The recent issue of equity units by Murray Goulburn appears to indicate that it is possible for Australian co-operatives to raise non-member equity capital under the existing regulatory regime but very expensive, and therefore difficult or impossible for most medium sized coops. It is more expensive to issue securities to non-members than to issue shares in a publically listed company, and generally requires changes to member arrangements as part of the process.

What could be done (capital raising)

1. Facilitate innovation in co-operative capital raising by providing information, decision support tools, subsidised professional advice, and innovation grants for medium-sized coops wishing to raise capital through novel mechanisms and those that have not generally been used by co-operatives to date.
2. Fund research to develop resources and facilitate innovation in co-operative capital raising. Some sources of capital that have been used for corporate structures could be adapted for co-operatives, for example listed securities, private equity or joint venture partnerships.
3. Develop a standard set of 'off the shelf' instruments and template documents that can be used by co-operatives wishing to issue securities including equity units, preference shares, debt instruments or hybrid securities.

Barriers for new co-operatives include administrative processes related to regulatory requirements, access to information and support services, and availability of financial and other resources. It takes time for co-operatives to become self-sustaining organisations. Support can include indirect measures such as those that make it easy to establish a co-operative or direct support such as grants or start-up funding.

What could be done (establishment)

1. Establish a registration service for new cooperatives, including template formation and documents, specialist business advice, guidance and resources.
2. Government policies and measures to support the formation and development of co-operatives including capacity building and organisational assistance for small and start-up cooperatives.
3. Provide financial and other start-up resources; for example, preparation of feasibility studies and business plans.

Supporting agricultural producers needing scale to supply high value consumer markets in Asia

I would like to commend the government on its Agricultural Competitiveness White Paper initiative to assist farmers to establish alternative business models through building knowledge on co-operatives and innovative business structures. This initiative provides an important first step in enabling agricultural co-operative development to enable Australia's global competitiveness and the growth of its agricultural and agribusiness industries.

The Business Council of Australia (2015) recently concluded that building the competitiveness of Australia's agrifood sector requires the government "to facilitate market structures that allow the creation of sufficient scale" and "maximise innovation outcomes by encouraging collaboration". Co-operatives and other collaborative business structures can play an important role in addressing several **impediments to growth** for the Australian agribusiness sector:

- Capacity to supply high value export markets – Australia's farming and agribusiness systems are fragmented, with few agribusinesses having sufficient capacity to supply high value, high growth export market opportunities on a year-round basis. Collaborative business models are needed to achieve sufficient scale, implement quality assurance processes and co-ordinate activities including product development, marketing and distribution.
- Inefficient supply chains – to be globally competitive, Australia needs to transform its supply chains to close the gap between international consumers and the producers of safe, sustainably grown and processed foods i.e. Australian farming enterprises; Collaborative business models such as co-operatives provide opportunities for family farming enterprises to access high value supply chains including export value chains. Shorter supply chains can also be achieved through vertical integration within a co-operative. Emerging digital business models may also have a role to play in more directly connecting consumers with farmers through online sales and supply networks.
- Limited food value-adding capacity – Australia does not have a strong food manufacturing sector with processing often occurring overseas. Capturing more value-adding opportunities in Australia will require state-of-the-art processing technologies and innovative solutions to historical impediments such as high transportation costs and insufficient economies of scale. Co-operative business models can be used to bring farmers together to develop and build shared processing infrastructure that allows them to access higher value markets and diversified income streams.

European evidence indicates that there is an important role for government to help farmers establishing co-operatives (Bijman et al 2012). In addition, the Australian government, through its White Paper initiative and other policy and support measures, can ensure that its farmers are well placed to overcome the above impediments to growth in our agribusiness industries.

What could be done (enabling growth in high value agribusiness exports)

1. Raise awareness of collaborative business models such as co-operatives among agricultural producers – include information on business structures when raising awareness of export opportunities. Farmers need information about how to develop supply networks, quality assurance and value-adding.
2. Facilitate innovation in alternative agricultural business models by providing information, decision support tools, subsidised professional advice, and innovation grants for groups of farmers wishing to commence working together or expand the scope of their collaborative activities. An example of expansion activities would be a marketing co-operative that wanted to incorporate processing and/or logistics into its operations.
3. Fund research to develop training and decision support resources and facilitate innovation in agricultural business models and value chains. Develop a body of knowledge including case studies on co-operatives and other collaborative business models.
4. Facilitate exports of high value agricultural products by providing information, decision support tools, subsidised professional advice, and innovation grants for groups of farmers wishing to commence or expand exports of high quality, high value products. Food entrepreneurs need information on Asian consumer preferences and market opportunities as well as collaborative business structures, value-adding, quality control standards and processes, supply chain efficiencies and access to capital.
5. Facilitate an increase in food processing by providing grants to support the development of innovation in agricultural value-adding models and technologies that are profitable and globally competitive.

References

Business Council of Australia, 2015, Building Australia's Comparative Advantages: A 21st Century Agrifood Sector.

Bijman, J, Iliopoulos, C, Poppe, K, Gijselincks, C, Hagedorn, K, Hanisch, M, Hendrikse, G, Kuhl, R, Ollila, P, Pyykkonen, P & G van der Sangen, 2012, Support for Farmers' Cooperatives, Final Report, Wageningen University, The Netherlands.