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Who knew Australians were so co-operative?

The size and scope of mutually owned co-ops in Australia

Institute Paper 10
October 2012
ISSN 1836-8948

Richard Denniss and David Baker

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Institute Paper

Acknowledgments

The Australia Institute would like to acknowledge the financial support of Abacus and bankmecu in the preparation of this paper. The Institute is grateful for the advice and assistance provided by Melina Morrison from Social Business Australia, David Richardson from The Australia Institute and Ben Irvine for his work on an early draft of this paper.

The opinions expressed in this paper are those of the authors, as is responsibility for any errors or oversight. They should not be regarded as representing the official position of the organisations involved.

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Summary

Eight in every ten Australians are a member of a co-operatively owned, or mutually owned enterprise (co-ops and mutuals) such as a road side assistance organisation (NRMA, RACV), a member-owned superannuation fund (AustralianSuper), a mutually owned bank (such as bankmecu) or a consumer cooperative (Co-op Bookshop). Similarly, large businesses such as the dairy co-operative Murray Goulburn or the giant grain handling enterprise Co-operative Bulk Handling are collectively owned by the farmers who supply them. An overview of the size of the co-op sector is provided in Figure 1.

A defining feature of co-operatives is their democratic nature. They are owned and controlled by their members, and they apply co-operative principles and values in their day-to-day activities. The combination of a high degree of community participation in co-ops, a low level of public awareness of their own participation, and the ongoing willingness of millions of customers to spend billions of dollars paying higher prices than necessary for goods and services creates a substantial opportunity for both the co-op sector and policy makers to reduce the cost of living for most Australians.

Figure 1 : Overview of member owned businesses

Worldwide	Australia
1,000 million members	13.5 million members (estimated)
$1,700 billion annual turnover	1,600 co-operatives
100 million employed	103 financial mutuals
Three billion livelihoods secured	$83 billion combined total assets of financial mutuals
23% share of global insurance market	$17 billion: top 100 turnover in 2011
196 million credit union members	Seven million automobile club members

Despite the widespread membership of co-ops, and the size and economic significance of the sector, community awareness of the sector runs far behind community reliance on the sector. Indeed, according to a survey conducted by The Australia Institute despite the fact that 79 per cent of people are members of a co-op only three in ten Australians could name a co-operative or mutually owned enterprise and only 16 per cent of Australians believe that they are a member of one.

The widespread community reliance on co-ops and mutual organisations suggests that these enterprises have significant advantages over their for-profit rivals. In relation to home mortgages, for example, members of mutually owned banks, credit unions and building societies are estimated to save an average of 0.4 per cent on their mortgage interest rate which, for an average loan, generates savings of $76,417 over the life of the loan and reduces the repayment period by three years.

As shown in Table A1 the vast majority of Australians believe that privately owned for-profit companies are more interested in shareholder profit than customers (90 per cent), that large shareholders have too much influence (88 per cent) and that corporate executives are overpaid (92 per cent). However, despite these beliefs most Australians do not seek out co-operatively or mutually owned alternatives. For example, as discussed above even when substantial financial savings are available many Australians do not switch from the 'big four' banks to their mutually owned competitors.

Table A1: Public perceptions of for-profit corporations

Perception	Survey response (%)
Corporate executives are overpaid	92%
Corporations are more interested in the welfare of shareholders than customers	90%
Corporations are too driven by profit	90%
Large shareholders have too much influence over running corporations	88%
Foreign owned corporations are less likely to support Australian communities	85%

Source: The Australia Institute Survey

In recent years many for-profit companies in Australia have begun to emphasise the contribution that they make to Australian communities. Mining companies and the big four banks, for example, extensively promote any contributions they make to communities even though such contributions represent a very small proportion of total profit. That said, the willingness of for-profit companies to spend large amounts of money on advertising suggests that the community as a whole is likely to value and admire such contributions.

Co-operatively and mutually owned enterprises on the other hand typically invest the surplus they generate into the community or return it to their members. As such, these organisations spend far less money advertising the contribution they make to the community and therefore there is far lower awareness of this contribution.

Of course, the relative lack of expenditure on advertising means that the cost of providing services to members is significantly lower. The big four banks spent more than $1 billion on advertising in 2011, all of which was in turn passed on to their customers through higher interest rates and fees. Ironically, the lower level of expenditure on advertising by co-ops and mutuals means that many members, and potential members, are unaware of the low prices and high quality services that are often available.

The relatively high level of consumer satisfaction with co-operatively and mutually owned enterprises and relatively high levels of consumer loyalty, do however, combine to create a circumstance in which such organisations can promote the advantages, to consumers and the community, of their ownership structures without having to match the expense incurred by their privately owned competitors.

These opportunities include the following:

1) Better explain their ownership structure, and its benefits, to their existing customers.
2) Better explain the contribution that mutuals and co-ops make to the community. The mutual sector could highlight its contribution to society by creating a central registry of community support. Similarly, the mutual sector needs to measure, and promote, its contribution to the building of social capital which, in addition to the economic contribution described above, contributes to community wellbeing and resilience.
3) Government ministers and government departments should pay greater attention to the benefits to consumers and communities that flow from co-operatives. They should also do more to overcome the pragmatic or psychological barriers that prevent consumers switching to mutually owned enterprises.

The fact that so many Australians are members of co-ops and mutuals yet so few are aware of this fact is both a challenge and an opportunity for the sector. While it is unclear why so few members are aware of their membership, the fact that they remain members suggests that the quality and price of the service alone is sufficient to retain their custom. If the mutual and co-op sector can succeed in explaining the broader benefits of membership then it is likely that not only will their existing members become even more supportive, but that they will more readily consider a wider range of mutual and co-operatively provided goods and services.

2012 is the International Year of the Co-operative. As shown in Table A1 there are one billion members of co-ops and mutuals around the world. Co-operative businesses can be traced back to the late fifteenth century while the first modern co-operatives emerged in Rochdale, England in 1844 with the founding of the Rochdale Society of Equitable Pioneers, which allowed members access to food at more affordable prices.

Today, both around the world and in Australia, mutuals and co-operatives continue to provide a wide range of goods and services while delivering tangible benefits to their communities and returns to their members. Co-ops range in size and scope from small locally oriented groups formed to improve access to low cost, locally grown food to nationwide member-owned superannuation funds managing tens of billions of dollars' worth of members' funds.

As discussed above, the majority of Australians believe that shareholder-owned companies are too focussed on profit and not concerned enough with their customers. Similarly, since the recent meltdown of the financial system during the Global Financial Crisis many Australians have expressed their desire for change and the development of 'an alternative'. Paradoxically, many of those people who express a desire for something new are likely to be members of at least one such alternative.

Introduction

The overwhelming majority of Australians are members of a co-operatively or mutually owned enterprise. Indeed, according to a survey conducted for this report 79 per cent of Australians are a member of at least one co-operative or member owned mutual business.

Some of the best known brands in Australia are co-ops, including the National Roads and Motorists' Association (NRMA), the Royal Automotive Club of Victoria (RACV) and the Royal Automotive Club of Queensland (RACQ), who between them have more than five million members. Credit Union Australia is owned by its more than 400,000 members and has total assets of more than $9 billion. Australian Unity is the largest mutually owned insurer, with more than 300,000 members and over $3 billion in assets.

Mutually owned enterprises range in size from behemoths like AustralianSuper, which has more than $43 billion in assets, to the Friends of the Earth Food Co-operative, which aims to provide sustainable, ethical, affordable and healthy food.

Well-known co-ops like the Murray Goulburn dairy co-op help farmers to negotiate with large supermarkets, while an example of a less well-known co-op is Co-operative Bulk Handling Limited, which employs 1,000 staff and provides nearly $3 billion worth of services to the West Australian grain industry.

Since the GFC there has been much talk of the need for alternatives to traditional capitalism, yet, ironically, most Australians are already members or customers of such an alternative.

Figure 2 provides an overview of the magnitude of member-owned business worldwide and in Australia.

Figure 2 : Overview of member owned businesses

Worldwide	Australia
1,000 million members	13.5 million members (estimated)
$1,700 billion annual turnover	1,600 co-operatives
100 million employed	103 financial mutuals
Three billion livelihoods secured	$83 billion combined total assets of financial mutuals
23% share of global insurance market	$17 billion: top 100 turnover in 2011
196 million credit union members	Seven million automobile club members

Source: Cooperatives UK (2011); The UK co-operative economy 2011 – Britain's return to co-operation; World Council of Credit Unions; ABS (2012); socialbusiness.coop, Cooperatives Australia (2012).

Despite the economic size of the co-operative sector, the breadth of its membership, and the range of the services it provides, Australian consumers and policy makers seem largely unaware of its significance and of the distinctive features of the organisational structure of co-operatives. Whereas most Australian companies are owned by shareholders and operated to maximise the profits of those shareholders, co-ops are owned by members and seek to maximise their members' collective benefits. As discussed below, the notion of 'one member one vote', as opposed to 'one share one vote', has a powerful impact on the way in which co-ops and mutuals are managed.

Significantly, members who provide capital to co-operatives are generally only entitled to receive their original investment back from the organisation, rather than the flow of dividends that investors in for-profit corporations expect. While co-ops may pay interest on capital that has been invested by members, such returns are not the major objective of the organisations. Indeed, to the extent that profit is distributed to members, that distribution is in often proportion to the members' trade with the society, rather than the size of their initial investment.

Put simply, when compared with equity capital invested in private companies, co-operative capital does not deliver comparable financial benefits. However, as demonstrated in the case studies throughout this paper, investment in co-operatives does have the potential to provide members with a significant flow of other benefits, such as access to affordable health care, access to 24-hour roadside assistance and access to significant financial savings on a wide range of insurance, finance and other products.

While maximising profit may not be the main goal of co-operatives, prudent financial decision making is central to the long-term sustainability of such enterprises. Co-ops and mutuals aim to generate the profits necessary to sustain or grow the business while also providing low prices and improved services to members. Because of this focus on members' benefits, co-operatives usually engender higher levels of loyalty and commitment among their members and customers which, in turn, reduces the need to spend large amounts on advertising. In contrast, the 'big four' banks spent more than $1 billion on advertising in 2011, all of which would have been passed on to consumers in the form of higher interest rate margins or higher bank fees.

In the post-GFC era, in which many Australians have lost confidence in the ability of profit maximising firms to make decisions in society's interests, it is surprising that there has been so little attention paid to emerging forms of economic structure such as co-ops and mutuals. Indeed, it is paradoxical that so many of the people who have pondered if there is any alternative to the greed and poor oversight that led to the GFC are likely members or customers of such an alternative.

As the survey results reported below demonstrate, while nearly eight in ten Australians are members of a co-op or mutual, a much smaller number of Australians is aware of this fact. Indeed, only 16 per cent of survey respondents were aware of being a member of a co-op, 42 per cent reported not being a member and 42 per cent of survey respondents indicated that they were not sure.

That said, almost two-thirds of respondents indicated that they were a member of a roadside assistance automobile club, all of which are member-owned. This suggests that co-ops and mutuals have done a better job of explaining the benefits of their services than they have done of explaining their ownership structure. The low level of membership awareness, however, reveals a need for the co-operatives and mutuals sector to build a stronger public and policy-maker awareness of their current economic importance and its potential policy significance.

The popularity and longevity of co-ops in Australia, and around the world, raises a number of significant questions, such as:

- Could there be a way for individuals to buy and sell goods and services without corporations exploiting their monopoly power to maximise profits to their shareholders?
- Could consumers identify the products we need or desire without the expensive marketing campaigns that we ultimately pay for?
- Could society efficiently satisfy our needs though co-operation rather than a reliance on greed and self-interest?
- Could society develop new co-operative and mutual models for the provision of affordable and community-owned public services?

Such questions are often dismissed by those interested in practical questions about how to improve the lives of Australians. The size, scope and success of the co-op sector in Australia, however, suggests that not only are such questions worth asking, but that the answers might be less radical than it is often assumed.

This paper begins with an overview of the characteristics of co-ops and mutuals before providing the results of two new surveys of the general population and of the co-ops and mutuals themselves. The paper provides an overview of the size and significance of six major different kinds of co-ops before offering some conclusions and recommendations.

What is a co-op?

Co-operative businesses can be traced back to the late fifteenth century. The first modern co-operatives emerged in Rochdale, England in 1844 with the founding of the Rochdale Society of Equitable Pioneers, which allowed members access to food at more affordable prices. The principles used by the Rochdale Society have since been established as ideals for co-operatives.

A defining feature of co-operatives is their democratic nature. They are owned and controlled by their members, and they apply co-operative principles and values in their day-to-day activities. As the International Cooperative Alliance (ICA) put it:

> A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.[1]

The ICA also lists the values of co-operatives:

> Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Moreover, the ICA translates those values into seven principles:

> Voluntary and Open Membership: Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.
>
> Democratic Member Control: Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.
>
> Member Economic Participation: Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes – developing their co-operative, possibly by setting up

[1] Cited in Novak (2008) 'Defining the co-operative difference', Journal of Socio-economics, Vol. 37, p.1269

> reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; supporting other activities approved by the membership.
>
> Autonomy and Independence: Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
>
> Education, Training and Information: Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.
>
> Co-operation among Co-operatives: Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.
>
> Concern for Community: Co-operatives work for the sustainable development of their communities through policies approved by their members.[2]

These are lofty principles and they contrast sharply with the aims and objectives of privately owned enterprises. Both types of enterprise, of course, have a role in the Australian economy.

Adam Smith described business as being motivated by self-interest. As he put it:

> It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages.[3]

The modern entrepreneur is thought to be motivated to maximise profit and, in the case of the corporation, to maximise income for the shareholders, who are the owners of the corporation. Moreover, whether the entrepreneur or the corporation is successful depends on whether it is able to meet the needs of its customers in the marketplace. The rising tension between the demands of distant shareholders for greater financial returns and the demands of communities for a greater say in how and where products are made underpins the significance of the work of the winner of the 2009 Nobel Prize in Economics, Elinor Ostrom. Ostrom's work has

[2] Ibid

[3] Smith, A. (1776) An inquiry into the nature and Causes of the Wealth of Nations, Vol. 1

focused on the diverse ways in which communities seek to manage common assets; in particular her work has emphasised the success of self-organised governance systems based on effective communication, internal trust and reciprocity.

The role of member-owned businesses in sustainable development was recently acknowledged at the 2012 'Rio+20' UN Conference on Sustainable Development (UNCSD). Co-operatives appeared three times in the Rio+20 document, where they were noted for their role in bringing social inclusion, reducing poverty and supporting sustainable agricultural practices.

There are currently around 1,700 cooperative and mutual businesses in Australia.[4] Over 22 million combined memberships are held with the largest co-operatives in the sectors discussed in this report. The top 100 co-operatives and mutuals have combined annual revenue of more than $17 billion.[5]

The members of these organisations can be customers, employees, suppliers or the local community; every member has an equal say in decision-making processes according to the co-operative principle of 'one member one vote'. Members often have an active relationship with their co-op; in some cases, such as food co-ops, members regularly provide volunteer labour for the co-operative in return for savings or privileges. Members can also participate in the management of a co-operative in a voluntary or paid capacity.

It is expected that in 2012 member-owned businesses in Australia will benefit from the Co-operatives National Law, a national reform aimed at increasing the uniformity of regulation and administration of co-operatives so as to reduce red tape and associated business costs. Smaller co-operatives in particular are expected to benefit through simplified requirements for financial reporting.[6]

[4] Australian Bureau of Statistics (2012) 'Regulation of co-operatives in Australia', Year Book Australia, 2012.

[5] Co-operatives Australia (2012). Australia's Top 100 Co-operatives, Credit Unions and Mutuals by Annual Turnover.

[6] NSW Fair Trading (2012). *Co-operatives National Law.*

What do Australians know about co-ops?

Nine out of every ten Australians agree that corporate executives are overpaid, that companies are more interested in profits than their customers and that the single-minded pursuit of profit is inconsistent with the common good of Australians. By comparison, around six in ten Australians believe that co-operatives and mutuals are driven by profit (see Table 1).

Table 1: Public perceptions of for-profit corporations

Perception	Survey response (%)
Corporate executives are overpaid	92%
Corporations are more interested in the welfare of shareholders than customers	90%
Corporations are too driven by profit	90%
Large shareholders have too much influence over running corporations	88%
Foreign owned corporations are less likely to support Australian communities	85%

Source: The Australia Institute Survey

However, despite this apparent antipathy, or even hostility, towards for-profit companies, most Australians willingly pay higher prices for banking, superannuation and a wide range of other services than is necessary. This section presents evidence that suggests that a major reason for this apparent contradiction may be a lack of awareness and understanding within the community about the role of, and benefits (both financial and for the community) of switching to, mutually owned enterprises.

Despite the fact that the first Australian co-op was established over 100 years ago and that four in five Australians are actually members of a co-op, a survey by the Australia Institute for this paper (see Appendix) found that most members of co-ops and mutuals are unaware of their membership.

Indeed, while 79 per cent of respondents reported being a member of a roadside assistance club such as the NRMA or did their banking with a credit union, only one in two Australians surveyed reported that they had heard of co-operatives and/or mutually owned businesses. As shown in Table 2, there was evidence of a link between age and awareness of the sector.

Table 2: Have you heard of co-operatives or mutually owned businesses (mutuals)?

	18-34	35-55	55+	All
Yes, both	24%	28%	30%	28%
Yes, cooperatives	9%	16%	27%	18%
Yes, mutuals	6%	4%	4%	5%
No, I haven't heard either of these	61%	52%	39%	50%
Total	100%	100%	100%	100%

Source: The Australia Institute Survey

Table 2 shows that people aged above 55 years were more likely to have heard of co-operatives and mutuals, followed by people aged between 35 and 55 years, while the lowest awareness was among Australians aged 18-34 years.

Although many Australians reported being aware of the sector, fewer survey respondents were able to name actual examples of operating co-operatives and mutuals. Only three in ten Australians said that they would be able to name a co-operative or mutual business. Half as many respondents (16 per cent) were aware of being a member of at least one such organisation.

Despite half the survey sample being aware of the sector, individuals showed low personal awareness of their own membership of co-operatives. Among survey respondents who were identified as being a member of a co-operative, the majority of these respondents either reported that they were not members (42 per cent) when in fact they were, and a similar proportion (42 per cent) responded that they were not sure if they were a member of a co-operative or a mutual business. Actual membership is significantly larger than would be suggested by this low recognition among respondents.

In fact, almost eight out of ten Australians (79 per cent) reported being a member of at least one co-operative or member-owned mutual business. Almost two-thirds of respondents indicated that they were a member of an automobile club, all of which are member owned; 15 per cent of respondents reported using a mutually owned financial services provider; and almost four in ten respondents (38 per cent) reported being members of an industry super fund. Such low levels of membership awareness reveal an opportunity and a need for the sector to build a stronger public awareness of its prominence and importance.

Benefits of membership

The importance of the sector is illustrated in the connection that the majority of survey respondents made between being part of a community and the perceived role of co-operatives in the local community. Most Australians (87 per cent) believe that people benefit from being involved in their local community; involvement with a co-operative or mutual increases this sense of local connection for members. Despite the benefits positively associated with community involvement, only half those people surveyed said that they were actively involved in their community. For two thirds of respondents (65 per cent), being involved with a co-operative or mutual made people feel more connected with their local community. There was a strong perception among all survey respondents that co-operatives and mutuals have strong links to the local community. The positive perception of community and the strong link with membership of a co-operative is a factor that the sector could potentially build upon.

Table 3: Community involvement

	Percentage
Individuals benefit from being involved in their local community	87 %
I am actively involved in my community	51 %
Involvement with a co-operative or mutual makes you feel more connected with the local community	65 %

Source: The Australia Institute Survey

A different approach to business

The co-operative sector is also perceived by many as having a fundamentally different approach to business compared with the for-profit corporate sector. Co-operatives and mutuals are more widely identified as being fair, ethical, trustworthy, generous, and providing better value for money than their for-profit competitors. This perception is evident in the survey responses listed in Table 4.

Table 4: Community perceptions of co-ops/mutuals and for-profit corporations

	Co-ops/mutuals	For profit
Owned by customers or members	84%	19%
Local	68%	18%
Strong links to local community	72%	19%
Fair	61%	19%
Ethical	58%	21%
Trustworthy	54%	22%
Generous	28%	11%
Value for money	53%	22%
Customer focused	70%	30%
Inclusive	39%	18%
Open and accountable	57%	28%
Innovative	42%	46%
Shareholder focused	51%	79%
Profitable	46%	88%

Source: The Australia Institute Survey

Another important point of difference between the two sectors is the role of shareholders, and in particular large shareholders, in determining the direction of for-profit organisations, compared with the co-operatives' focus on members. Most Australians surveyed for this paper believe that the for-profit sector is more interested in the welfare of their shareholders than the welfare of their customers (90 per cent), and that large shareholders have too much influence over the way for-profit corporations are run. In comparison only six out of ten people said that co-operatives and mutuals are too driven by profit.

While the overwhelming majority of Australians (95 per cent) surveyed said that competition is good for consumers, less than half as many (46 per cent) agree that there is sufficient competition in the finance sector. This finding is all the more noteworthy as seven out of ten survey respondents indicated that their primary financial institution was either one of the 'big four' – ANZ, Westpac, Commonwealth Bank, NAB – or a subsidiary of one of the big four banks. Interestingly, people using subsidiary banks are generally aware that their primary financial institution is owned by one of the big four. Only 15 per cent of survey respondents primarily used a credit union, building society or mutual bank. This low proportion is indicative of the market strength of the big four banks, given that 85 per cent of survey respondents agreed with the statement that co-operatives and mutually owned businesses are good for consumers.

Table 5: Perceived competition in the banking sector

		Co-ops/mutuals
Competition is good for consumers		95 %
Co-operatives and mutually owned businesses are good for consumers		85 %
There is enough competition between Australian financial institutions		46 %
Your primary financial institution is	One of the big four or a subsidiary	70 %
	A credit union, building society or mutual bank	15 %

Source: The Australia Institute Survey

Interestingly, the rate of disagreement with the statement that there is enough competition between Australian financial institutions was fairly consistent between people using the big four for their primary banking (53 per cent) and people using credit unions, building societies or mutual banks (56 per cent); and a majority (71 per cent) said they would like to see more competition in the market for consumer goods. As shown below, the potential savings available to mortgagees illustrates the potential competition that the co-operative sector provides in the consumer finance market.

What the co-operative sector thinks

In addition to conducting a survey of the Australian community, the Australia Institute also conducted a survey of co-operative and mutually owned enterprises to examine whether community perceptions of the sector, and the sector's perceptions of itself, were broadly compatible.

As discussed above, the survey of the Australian population found that the public perception is that the co-operative sector has strong community links and that this provides benefits to both the community and members. The survey of co-ops appears to confirm this perception. As shown in Table 6, half of the co-operatives that participated in the survey allocated funds raised from their activities to social programs, and 56 per cent reported that they were involved in the local community.

Table 6: Average allocation of funds to social programs by co-operatives that reported allocating funds

	Co-ops/mutuals
Communication grants and partnerships	32%
Charitable organisations	22%
Staff resources	10%
Other	9%
Product subsidies	8%
Sustainability programs	4%

Source: The Australia Institute Survey

Table 6 shows that co-operatives that allocate funds to social programs are most likely to do this in the form of grants and partnerships (32 per cent), with 10 per cent also contributing the time of their paid staff to community projects.[7]

[7] See Appendix for a description of the survey of co-operatives and the respondents.

The role of co-ops and mutuals in the finance sector

Mutually owned financial institutions take on a number of different forms and names in Australia, the most common being building societies, credit unions and mutually owned banks.

The term 'mutual banks' is a recent innovation in Australia; it arose from the new Commonwealth policy of allowing credit unions and building societies to apply to the Australian Prudential Regulation Authority (APRA) to become a bank. Like for-profit banks, mutually owned financial institutions are regulated by APRA and are held to the same regulatory standards.

Australia has the third largest mutual banking sector in the world after the United States and Canada. Mortgages and retail deposits are the staple offering of the sector, with one in ten Australian home owners having a mortgage with a mutual.[8]

In Australia, there are currently 88 credit unions, seven building societies and soon to be seven mutual banks. Together, these organisations serve more than 4.6 million Australian members and hold $83 billion in assets.[9]

The highest concentration of mutual membership of financial institutions is in New South Wales, at 27 per cent, and South Australia, at 26 per cent. The concentration is significantly lower in Victoria at 10 per cent, compared to the national average of 20 per cent.[10] Mutually owned financial institutions consistently top consumer satisfaction surveys.[11]

Data from CANSTAR shown in Figure 3 shows that standard variable interest rates for the mutuals have been consistently lower than those of the big four banks in recent years.[12] The average standard variable rate (SVR) for mutuals over the period of June 2009 to August 2012 was 6.73 per cent, which is 40 basis points (0.4 per cent) lower than the average SVR of 7.13 per cent from the big four banks.

[8] Abacus (2012).

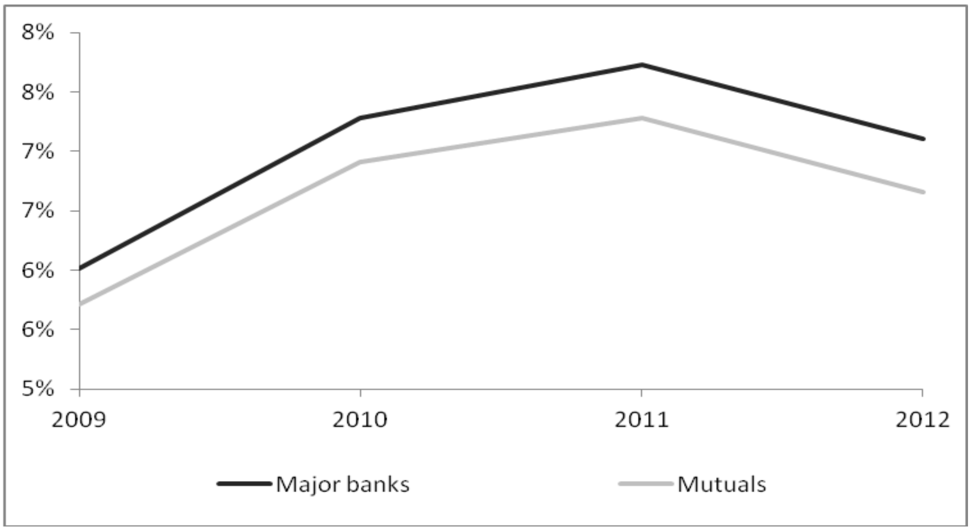
[9] Abacus (2012).

[10] Abacus (2012).

[11] Abacus (2012).

[12] CANSTAR data provided to The Australia Institute through Abacus.

Figure 3: Standard variable interest rates



Source: CANSTAR data supplied to the authors

According to a survey conducted by The Australia Institute, 11.9 per cent of Australians with mortgages say that they would be willing to switch financial institutions for a rate reduction of 0.25 per cent or more. As shown above, however, the average saving associated with a switch from the big four banks to a mutual is nearly twice that amount.

The savings associated with making such a switch would be substantial. The average loan size for mortgage holders was $293,600 in May 2012.[13] An interest rate saving of 0.4 per cent would reduce total loan repayments for a $293,600 loan from $702,184 to $625,767 as well as reducing the loan term from 29 years and two months to 26 years.[14] That is, switching from an average mortgage offered by the big four banks to an average mortgage offered by a mutually owned bank would generate a saving of $76,417 and reduce the repayment period by three years[15].

Given that the big four banks hold $1.13 trillion in housing loan commitments,[16] if the 11.9 per cent of customers who said that they would switch for a saving of more than 0.25 per cent chose to do so, it would lead to total savings for Australian home owners of over $500 million per annum. If a greater proportion of the population was willing to switch to lower cost mortgage providers, the savings to the household sector would, of course, be even larger.

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[13] Fujitsu Consulting (2012). *Australian Mortgage Industry.*

[14] Calculated using Commonwealth Bank's home loan calculator at http://www.commbank.com.au/personal/home-loans/calculators/home-loan-calculator.aspx.

[15] Assuming that fortnightly repayments remain unchanged.

[16] Australian Prudential Regulation Authority (2012) *Statistics: Quarterly bank performance, December 2011*, 15 May.

Major players in the mutually owned financial sector

Table 7 shows the top fifteen Australian mutuals ranked by total assets. Credit unions dominate the list, with the largest, Credit Union Australia, holding more than $9 billion in assets and having more than 400,000 members.

Table 7: Top fifteen mutuals by total assets

Name	Type	Total assets June 2011 ($m)	Members
1 Credit Union Australia	Credit Union	9,016	415,937
2 Heritage Mutual Bank	Mutual Bank	8,045	298,000
3 Newcastle Permanent	Building Society	7,457	320,000
4 People's Choice	Credit Union	6,072	341,474
5 IMB	Building Society	4,812	179,000
6 Greater Building Society	Building Society	4,605	239,035
7 Teachers Mutual Bank	Mutual Bank	3,522	177,530
8 Community CPS Australia	Credit Union	3,442	155,000
9 P & N Bank	Mutual Bank	2,859	102,500
10 Bankmecu	Mutual Bank	2,625	125,252
11 Qantas Staff	Credit Union	2,262	86,000
12 Victoria Teachers	Mutual Bank	1,434	24,396
13 Banana Coast	Credit Union	1,252	53,630
14 Defence Force	Mutual Bank	1,199	86,142
15 Queensland Teacher's Mutual Bank	Mutual Bank	1,175	78,000
Total		59,777	2,741,896

Source: Annual reports.

In December 2010, amid ongoing pressure to rein in increasing large profits made by the big four banks, the Commonwealth government announced the Competitive Banking System package aimed at promoting greater competition in the finance sector. The package imposed obligations on financial institutions to simplify the switching of accounts and introduced a ban on mortgage exit fees for new home loans. The reforms also aimed to improve the access to funds for smaller financial entities. Treasurer Wayne Swan talked of the rise of a 'fifth pillar' of the banking sector made up of mutually owned financial institutions.[17]

The Competitive Banking System package also paved the way for mutually owned financial institutions to call themselves banks, an opportunity that, to date, seven organisations have taken.

Case study: Heritage Bank

The largest of the newly converted mutual banks, Heritage was formed in 1981 with the merger of Toowoomba Permanent Building Society and the Darling Downs Building Society, which were established in 1875 and 1897 respectively. In 2011 the organisation took advantage of the opportunity to become a bank that came with the Competitive Banking System package and changed its name to Heritage Bank.

Heritage manages total assets exceeding $8 billion; it operates mainly in the Darling Downs area of Queensland and has its head office in Toowoomba. It has a staff of more than 700 and its 130 retail outlets are spread across southern rural Queensland. It offers the full range of standard banking services and its members have access to the rediATM network of more than 2,900 automatic teller machines across the country.

Heritage supports events in the Darling Downs region such as the Heritage Toowoomba Royal Show, the Heritage Ag Show, the Heritage Eisteddfod, the Heritage Acquisitive Photographic Awards, the Everest Virtual Challenge and the Queensland Half Marathon. It also supports community groups and environmental organisations.

In October 2009, as part of a strategy to manage the liquidity and funding challenge commonly found in member-owned businesses, Heritage announced an innovation aimed at increasing access to capital. Their issue of 500,000 subordinated, unsecured debt securities quoted on the Australian Stock Exchange (ASX) were called Heritage Notes and raised $50 million. Heritage was the first mutual authorised deposit-taking institution (ADI) to offer an ASX-listed debt instrument. A subordinated debt issue is a way to gain access to external investment without demutualising. In May 2012 Heritage launched Heritage Bank

[17] See http://www.smh.com.au/business/bankers-beware-fifth-pillar-on-its-way-20101201-18gp2.html

Retail Bonds, a new ASX-listed debt security. This second innovation was also a new milestone, being the first issue of senior, unsecured bonds to be listed on the ASX by a mutual bank in Australia. The five-year, senior, unsecured bonds were expected to raise another $125 million.

Innovations such as these, show that it is possible for mutually owned financial enterprises to simultaneously retain their membership-based governance while accessing the pool of funds that has historically been accessed only by the for-profit sector.

Automobile clubs owned by more than seven million members

The popularity of Australian automobile clubs followed the popularity of the privately owned car, which began in the early twentieth century. These clubs were established to provide car-related advocacy and services for their members. Membership rates grew over the century to the present seven million members, who represent nearly half of all licensed Australian drivers.

The most common service offered to members by the automobile clubs is roadside mechanical assistance. In 2010-11 the automobile clubs attended 4,519,330 road service calls.[18] The role of automobile clubs has expanded to provide a range of services such as maps, insurance, travel advice and hospitality.

Each state has its own automobile club (see Table 8) and all are members of the Australian Automobile Association (AAA, established in 1924). The AAA supports and coordinates their activities at the national and international levels with the objective of influencing public policy. The AAA is a member of the Alliance Internationale de Tourisme (AIT) and the Federation Internationale de l'Automobile (FIA), a federation of more than 160 clubs in 120 countries, representing more than 100 million people.[19]

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[18] AAA (2012). Our Members.

[19] AAA (2012).

Table 8: Automobile club membership in Australia

Name	State	Members	Staff	Est.	Revenue ($m)	Net Assets ($m)
National Roads and Motorists' Association (NRMA)	NSW/ ACT	2,360,000	Not available	1920	467.3	659.5
Royal Automobile Club of Victoria (RACV)	VIC	2,000,000	2,623	1903	443.3	1,097.9
Royal Automobile Club of Queensland (RACQ)	QLD	1,204,100	800	1905	1,086.1	861
Royal Automobile Club of Western Australia (RAC WA)	WA	720,000	1,243	1905	503.6	688.9
Royal Automobile Association of South Australia (RAA)	SA	600,000	700	1903	193.5	157.8
Royal Automobile Club of Tasmania (RACT)	TAS	184,000	Not available	1923	22.7	38.4
Automobile Association of the Northern Territory (AANT)	NT	20,100	7	1963	3.6	4.1
		7,088,200	5,373		2,720	3,508

Source: Annual reports and club websites

Table 8 shows the ranking of the automobile clubs by membership size. The combined membership is over seven million. The combined revenue of these groups is $2.7 billion and their combined net assets are $3.5 billion.

Case study: Royal Automobile Club of Western Australia (RACWA)

The Royal Automobile Club of Western Australia was formed more than 100 years ago when cars were still a rare sight on Australian roads. It now employs more than 1,200 people and provides services and products to more than 720,000 members. The profits earned from providing these services are reinvested to provide ongoing benefits to members and the community.

As well as providing direct services such as roadside assistance to its members, the RACWA has also become a major provider of insurance services to its large membership base. Indeed, it is now the largest provider of private car and home insurance in Western Australia.

Like most co-operatives, the RACWA seeks to make a contribution to the broader community, rather than simply generating financial returns for those who provided start-up capital. To that end the RACWA has pursued government policy changes designed to deliver safety benefits to all road users through support for improved road surfaces, vehicle safety regulations and driver education. It also campaigns for increased investment in transport infrastructure.

Similarly, the RACWA provides financial support for a rescue helicopter service designed to save lives on Western Australia's roads; provides funding to the Australian New Car Assessment Program (ANCAP); and funds the Used Car Safety Rating scheme to help ensure that all car buyers are accurately informed about the relative safety of all the vehicles they may consider purchasing.

Consumer co-operatives help consumers to make savings by buying in bulk

Consumer co-operatives are formed by members and aim to benefit members by increasing their bargaining power in the market. This is done by co-operatively buying in bulk from suppliers to gain volume discounts before distributing the supplies to members. There are hundreds of small consumer co-operatives across Australia. The main types of consumer co-operatives include:

- Food co-operatives
- Accommodation and hospitality
- Licensed and sporting clubs
- Hardware, building and rural suppliers
- Newsagents and book stores
- Health care

Smaller scale consumer co-operatives, such as food co-ops, are often operated by their members on a voluntary basis or in exchange for discounts on products. As with other co-operatives seeking to operate in line with the Rochdale principles, consumer co-ops place high importance on social responsibility. For example, food cooperatives typically offer more sustainably grown, healthier wholefoods compared with the average supermarket. There are food co-operatives in all Australian cities,[20] and many Australian universities have a food co-op run by students.

[20] See http://www.coopdevelopment.org.au/retailcooplinks.html for a list.

Table 9: Ten largest consumer co-operatives in Australia

	State	Revenue ($m)	Members
1 University Co-operative Bookshop Ltd	NSW	94.6	1,600,000
2 Hastings Co-operative	NSW	85.7	8,900
3 The Community Co-operative Store (Nuriootpa) Ltd	SA	62.3	15,236
4 Australian Wine Consumers Co-operative	NSW	43.6	58,000
5 Mount Barker Co-operative	WA	26.0	2,390
6 Terang & District Co-operative	VIC	19.1	2,300
7 Chester Hill RSL & Bowling Club Co-operative	NSW	14.7	3,927
8 Auburn RSL Club Co-op	NSW	13.7	28,735
9 Young Services & Citizens Club Co-operative Limited	NSW	13.4	5,487
10 York & District Co-operative Ltd	WA	13.4	406
Total		386.5	1,725,381

Source: Annual reports.

Table 9 shows the ten largest Australian consumer co-operatives ranked by revenue.[21] The combined revenue for the top ten is more than $386 million with more than 1.7 million members and 1,553 staff. By far the largest Australian consumer co-operative is the University Co-operative Bookshop Ltd. Established in 1958, it now has more than 40 branches, and a membership of more than 1.6 million. Almost all students at Australian universities become a member in order to buy discounted textbooks from their on-campus stores.

The close runner-up is Hastings Co-operative. Established in 1916, it is based in the Hastings area of NSW and its operations include the manufacture and distribution of cheese and yoghurt, three supermarkets, hardware and rural supplies stores, two service stations, a bulk fuel division and several liquor stores.

[21] Note that Australia's automobile clubs are also consumer co-operatives; for an overview see the automobile clubs section of this report.

In third place is The Community Co-operative Store in Nuriootpa, South Australia, which was established in 1944 as a member-owned supermarket. A hardware and furniture division were subsequently added and a major expansion occurred in 1998 when the co-operative opened a shopping centre with a supermarket and eight specialty shops. It continues to offer a rebate to members each year, depending on levels of profit.

The fourth largest consumer co-op is The Australian Wine Consumers' Co-operative, which was established in 1946 for the original members to pool their funds to obtain better pricing for wines. It now has more than 58,000 members and more than 100 staff. The co-operative sources and sells wines as well as providing wine education courses.

The revenues of the second to fourth ranked co-operatives are all above $100 million and this reflects their operations in multiple Australian states. The lower ranks of the top ten are comprised of rural co-operative stores and licensed clubs. All three licensed clubs are from New South Wales. Six of the top ten are from New South Wales, two are from Western Australia and South Australia and Victoria each have one.

Case study: West Belconnen Health Co-operative

Despite the fact that access to primary health care, such as that provided by general practitioners, is an essential element of an equitable and effective health system, many Australian communities do not have a GP who 'bulk bills'.

In 2004 a group of residents of some rapidly growing suburbs on the northern fringe of Canberra decided to do something about the fact that across six suburbs there was not one practising GP. Not only did they decide that the community had an important problem; their vision was for the community to solve it and, after a survey of 8,000 homes in the area, they decided on a co-operative as the best model to provide the primary health services that were missing.

With financial support from a government development grant, a feasibility study and business plan were developed, which in turn led to start-up funding being secured from both corporate and government sources. Finally, in January 2010 the West Belconnen Health Co-operative opened, with one doctor providing GP services to the local community. Within two years, however, the practice had grown to employ ten doctors across three sites servicing 12,000 local families who were registered as members of the health co-operative.

Membership of the co-op is open to anybody who pays the $66-per-year fee for families or $33 fee for individuals (with a 50 per cent discount for those with a Healthcare card). Members are then entitled to unlimited free medical consultations. The practice also provides a range of allied health and social services including access to psychology, pathology and support for breastfeeding and at-risk young people.

Health co-ops were common in Australia in the early twentieth century, but were largely replaced with a fee-for-service model after World War II. The Chair of the West Belconnen Health Co-operative has stated, “We stand ready to support any group that wants to set up something like this, as long as they have their local community behind them. Healthcare is an area where co-ops can work.”

Mutual insurers and friendly societies provide insurance to 1.4 million Australian households

Some of the largest insurers in Australia are mutually owned, with the mutuals particularly prominent in health insurance and the provision of 'life event' products. A 'friendly society' is a financial services organisation that provides life event products to assist people to save for expenses such as education, mortgage deposits, weddings or funerals. Friendly societies also offer health or life insurance.

While mutually owned institutions such as HCF and Australian Unity are quite well known in Australia, friendly societies are typically much smaller and, in turn, perhaps less well understood. An example of a friendly society is the Family Care Friendly Society in Queensland, which provides after-hours doctors' house calls with bulk billing for its members.[22]

Another example is the Australian Friendly Society, which offers a funeral bond that is a secure savings and investment plan designed to finance funeral costs.[23] Friendly societies are often much smaller organisations than other financial mutuals; however, there are obvious exceptions such as Australian Unity, which is a national health care and financial services organisation with 286,000 members and assets of over $3 billion in 2010-11.[24] Table 10 shows the top ten APRA-regulated friendly societies registered under the *Life Insurance Act (1995)*. These are investment companies that help with saving for life events. Unregistered but still mutually owned friendly societies also run retirement villages, pharmacies,[25] and fraternal societies.

[22] See http://www.familycarefriendlysociety.com.au

[23] See http://www.australianfriendlysociety.com.au

[24] Australian Unity (2011). *Annual Report 2011*

[25] See http://www.afspa.org.au/members for a full list of 33 pharmaceutical friendly societies running 122 Australian pharmacies.

Table 10: Top ten mutual insurers and friendly societies

Name	Services	Total Assets ($m)	Members
1 Australian Unity	Health insurance, investment, pensions	3,134	286,000
2 IOOF Holdings	Super investment	2,058	31,634
3 HCF	Health insurance, investment, pensions	1,277	599,000
4 Australian Scholarships	Education savings	1,668	190,935
5 Centuria Life	Investment bonds	892	112,500
6 Forresters	Community finance	233	55,000
7 KeyInvest	Finance, investment, pensions	216	23,492
8 Austock Life	Investment bonds	237	10,000
9 Westfund*	Health insurance, investment, pensions	116	100,000
10 Australian FS	Funeral bonds	106	19,079
Total		9,937	1,427,640

Source: Abacus, annual reports

* NB: Westfund is a mutual health insurer not an APRA-regulated friendly society

The total assets of the ten largest mutually owned insurers and friendly societies add up to over $9.9 billion, with more than 1.4 million members.

Case study: Westfund Health Insurance

Westfund is a member-owned health insurance fund that traces its co-operative origins back to 1891 in the Lithgow mining community in New South Wales. Its involvement in the delivery of health care dates to 1896, when some Lithgow miners were injured in a serious accident and needed to be transported 80 kilometres for treatment in Bathurst. This incident led the local mining unions to raise funds for a local hospital and other health services.

While the Westfund co-operative has long since moved on from the agricultural services on which it was founded, it continues to provide a wide range of health and health insurance benefits to its 44,000 members. And while it now provides services across Australia, its membership strength continues to centre on the mining communities in which it was founded, particularly Mudgee and Dubbo in New South Wales, and Rockhampton and Mackay in Queensland.

According to the Managing Director of Westfund, Grahame Danaher, “We don’t have to make decisions on the financial return only.” Such an approach has allowed Westfund to reinvest some of the co-operative’s profits into new state-of-the-art dental services in regions of high membership concentration such as Lithgow and Mackay.

Purchasing co-operatives help small businesses buy stock at the same prices as their larger competitors

'Purchasing co-operatives' are a type of co-operative that employs the same bulk buying strategy as consumer co-operatives, but on behalf of businesses rather than consumers. As well as pooling their buying power to acquire stock and services, some purchasing co-ops offer specialist services to their members, such as processing of waste, warehousing, transport and logistics. Purchasing co-operatives enable small businesses to compete with large corporations while still maintaining their independence.

Table 11 shows the ten largest Australian purchasing co-operatives ranked by revenue.[26] The combined revenue for the top ten purchasing co-ops is more than $1.6 billion, with more than 28,000 members.

[26]Note that the Ravensdown Fertiliser purchasing co-operative also appears in the agricultural co-operatives section of this report.

Table 11: Top ten purchasing co-operatives

	State	Revenue ($m)	Members
1 Capricorn Society Ltd	WA	1,029.5	15,200
2 Independent Liquor Group	NSW	211.8	1,200
3 Plumbers Supplies Co-op	NSW	125.0	5,000
4 Ravensdown Fertiliser Co-operative Ltd	WA	120.0	4,800
5 Master Butchers Co-operative Ltd	SA	38.2	468
6 Co-operative Purchasing Services Ltd	WA	28.0	250
7 Labour Co-operative Ltd	NSW	25.6	15
8 Wesbuilders Co-operative Ltd	WA	24.9	100
9 Associated Newsagents Co-operative Ltd	SA	21.2	350
10 Community Child Care Co-operative Ltd	NSW	19.0	1,260
Total		1,643.2	28,643

Source: Annual reports.

New South Wales and Western Australia together dominate the top ten, with four purchasing co-operatives each; South Australia has two. This distribution is similar to that of the top ten consumer co-operatives, which are also mostly in New South Wales and Western Australia.

By far the largest purchasing co-operative, by both revenue and membership, is Capricorn Society Limited, which was established in 1975 to increase purchasing power for automotive repair and service businesses. It has since extended its trading to all Australian states, along with New Zealand and the Republic of South Africa. Capricorn's trading revenue is larger than that of the rest of the top ten list combined, which reflects its nationwide and international operations.

The next largest is the Independent Liquor Group, which was also established in 1975. It uses its collective bargaining power to source supplies for more than 1,200 hotels, bottle shops, licensed clubs, bars and restaurants in New South Wales and Queensland.

The third largest purchasing co-op is the Plumbers Supplies Co-operative Ltd, which was formed in 1955 by members of the Master Plumbers Association in response to post-war material shortages and high supply costs for individual plumbers. The co-operative now supplies to more than 5,000 members.

The fourth largest purchasing co-op, and the largest of the specialist agricultural purchasing co-ops, is Ravensdown Fertiliser Co-operative, a New Zealand-based farming inputs supplier with subsidiary operations in Queensland and Western Australia.

Master Butchers Co-operative Ltd (commonly known as MBL) was formed in 1905 by South Australian butchers to provide supplies and services required by individual butchers. Members include abattoir operators, boning room operators, supermarkets, retail and wholesale butchers, and small goods manufacturers. Their support operations include the packaging and distribution of consumables for the food industry, the warehousing and distribution of merchandise, ingredients and packaging materials, the sale of food processing machinery and the collection and processing of meat by-products from members into tallow, meat and bone meal.

The levels of employment among purchasing co-ops varies widely due to differences in the business models of these organisations – for example, variation in the physical involvement with the purchased supplies. Some purchasing co-ops play a hands-on role in the physical distribution and storage of products, while others work primarily as intermediaries to secure discounts for their members.

Agricultural co-operatives help small farmers negotiate better prices for their inputs and their outputs

Agricultural co-operatives give farmers greater bargaining power when dealing with suppliers of inputs or buyers of their produce. The majority of Australian agricultural co-operatives have been 'producer' co-operatives formed to increase the bargaining power of individuals selling their produce and to drive out 'middlemen'.[27] Purchasing (or retail) co-operatives form to enable farmers to acquire farming inputs at reduced prices through bulk buying. Other agricultural co-operative services include output processing, marketing, storage and transport.

Australian agricultural co-operatives began to be formed by farmers, particularly dairy and wheat farmers, in the late 1800s. Co-operatives in the fishing, rice, cotton and sugar industries spread widely in the mid-twentieth century and many of these sectors remain well supported by co-ops.[28]

A more recent development is the emerging popularity of farmers' markets, which reflects shoppers' desire for an alternative to chain supermarkets. Although not all farmers' markets are structured as co-operatives, the direct trading between farmers and consumers is often reminiscent of the Rochdale principles.

Table 12 provides an overview of the top ten agricultural co-operatives by revenue in Australia. In total the top ten have over 17,000 farmer members, employ over 5,000 staff and have combined revenue of $6.9 billion. Four of the top ten co-operatives are from New South Wales and four are from Western Australia. Although there are only two co-operatives from Victoria, the Victorian co-ops have more members than the four from New South Wales due to the size of the Murray Goulburn Co-operative.

Most of the top ten are producer type co-operatives, with Co-operative Bulk Handling Ltd and Southern Quality Produce Co-operative Ltd offering bulk purchasing as an ancillary function to their members. Ravensdown Fertiliser is the largest purchasing type co-operative. Many more small agricultural purchasing co-operatives still operate in Australia.[29]

[27] Lewis G (2008).The Democracy Principle - Farmer Co-operatives in Twentieth Century Australia.

[28] Lyons M (2001). Cooperatives in Australia – A Background Paper.

[29] For links to other, smaller agricultural co-operatives see: http://www.coopdevelopment.org.au/aglinks.html

Table 12: Top 10 agricultural co-operatives

	Output	Type	State	Revenue ($m)	Members
1 Co-operative Bulk Handling Ltd	Grain	Producer/ Purchaser	WA	2,870	4,700
2 Murray Goulburn Co-operative Co Limited	Dairy	Producer	VIC	2,287	2,580
3 Dairy Farmers Milk Co-operative	Dairy	Producer	NSW	503	1,820
4 Namoi Cotton	Cotton	Producer	NSW	410	330
5 Norco Co-op	Dairy	Producer	NSW	350	161
6 Geraldton Fishermen's Co-op	Fish	Producer	WA	135	285
7 Western Australia Meat Marketing Co-op Ltd	Meat	Producer	WA	124	2,076
8 Ravensdown Fertiliser Co-operative Ltd	N/A	Purchaser	WA	120	4,800
9 NSW Sugar Milling Co-op	Sugar	Producer	NSW	103	550
10 Southern Quality Produce Co-operative Limited Grain	Grain	Producer/ Purchaser	VIC	80	210
				6,982	17,512

Source: Annual reports.
+ Excludes NZ operations

By far the largest agricultural co-operatives are Co-operative Bulk Handling (CBH) Group (see case study) and Murray Goulburn Co-operative Co Ltd. CBH Group supports grain farmers with storage, transport, marketing, shipping and processing; in 2010-11 they handled 6.5 million tonnes of grain. Murray Goulburn Co-operative processes around a third of the nation’s milk supply, which amounted to 3.6 billion litres of milk in 2010-11. These co-operative giants, each with revenue of over $2 billion, are also the largest two co-operatives in Australia by revenue in any sector. Revenue for the ten largest agricultural co-ops was nearly $7 billion in 2010-11.

Dairy co-operatives dominate the top ten, with over $3.5 billion in revenue. The Dairy Farmers Milk Co-operative specialises in managing milk supply agreements, primarily with National Foods. They supplied 921 million litres of milk in 2010-11. Norco Co-operative has a milk purchasing and supply division along with agribusiness, rural and food divisions. Norco supplied 137 million litres of milk in 2010-11.

Case study: Co-operative Bulk Handling Ltd

Co-operative Bulk Handling (CBH) Group coordinates the storage, processing, handling, marketing and sales of 95 per cent of the West Australian grain harvest. CBH Group aims to expand grain-handling operations to the eastern states.

CBH began operation in 1933 during the Great Depression when low wheat prices were crushing the wheat farming industry. CBH established its bulk-handling system, as well as bulk purchasing of consumables such as wheat bags, to reduce costs for growers.

CBH merged with the Grain Pool of Western Australia in 2002 and expanded services to include grain marketing. CBH is now Australia's biggest co-operative by turnover, which was $2.63 billion in 2011. CBH has net assets of $1.1 billion and around 4,500 grain farming members. It has storage capacity for up to 20 million tonnes of grain at 197 sites, including four shipping terminals that ship to 20 countries. The co-op employs 1,000 permanent staff and up to 1,500 seasonal workers during harvest.

In line with the Rochdale principle of community involvement, the CBH Group has stated that:

> *'The CBH Group strives to be involved in building strong and sustainable communities both within the industry and the rural environments we operate in.'*[30]

Support includes events, development projects and community organisations. Initiatives include:

- Education – providing opportunities, scholarships and awards for growers and rural children, as well as support to local grower groups to encourage innovation and improvement.
- Food relief – CBH Group have partnered with Foodbank, a not-for-profit organisation which coordinates the distribution of food donations to the hungry.
- Sport – Sponsorship of community sports such as football, hockey and tennis in regional WA.

[30] CBH Group (2012). Community Investment.

Industry super funds increase retirement savings

Superannuation funds receive regular contributions from members and subsequently make either lump sum or regular payments to members after they reach retirement age. In 1992 the Keating Government made superannuation contributions compulsory for most employees. Prior to the introduction of compulsory superannuation, superannuation products were primarily a form of bonus for white-collar workers.

Currently employers are required to pay 9 per cent of their employees' wages into a superannuation fund. This proportion will gradually increase to 12 per cent over the years 2013 through to 2020.[31] After 20 years of compulsory contributions in June 2012 Australians had superannuation assets of more than $1.4 trillion, of which more than $266 billion is in industry super funds.[32]

Industry super funds are member-owned superannuation funds created purely for the benefit of their members, rather than to make profit for shareholders. These funds are governed by trustees representing the employers and employees of a specific industry. Typically these trustees are from industry bodies or unions. APRA supervises all superannuation funds to ensure that investment risks are managed prudently. The Australian Securities and Investments Commission (ASIC) ensures that all super fund trustees provide information to members in line with trustee obligations, while the Superannuation Complaints Tribunal (SCT) negotiates the resolution of complaints between members and super funds.

Most industry super funds were originally only available to members of specific industries, but many are now open to the general public. Other types of super funds include public sector, corporate and retail. More than five million Australian workers are members of industry super funds.[33]

Industry super funds have consistently provided stronger performance than retail super funds owing to their lower fees and the absence of commissions for financial advisers, financial planners, sales agents or insurance companies. Over the five-year period to 31 March 2012, SuperRatings demonstrates that the average industry super fund delivered $1.50 in earnings for every dollar taken out in fees, compared to an average of $0.40 for retail super funds.[34] The SuperRatings study estimated that the average industry super fund member would be better off by over $82,000 in retirement, compared with members of a

[31] Australian Government (2012). Superannuation - Increasing the Superannuation Guarantee Rate to 12 Per Cent.

[32] APRA (2012) Statistics: Quarterly Superannuation Performance, June 2012

[33] IndustrySuper (2012a). The story of Industry SuperFunds.

[34] IndustrySuper (2012b). Assumptions: Ten year performance difference model.

retail fund, after a 40-year working life. An additional $82,000 would deliver an additional retirement income of around $120 per week.

Furthermore, research from SuperRatings shows that the median industry fund outperformed the median master trust (retail fund) over rolling one-, three-, five-, seven- and ten-year periods (see Table 13).[35] Over the last ten years industry fund returns have outperformed retail funds by more than 2 per cent.

Table 13: Industry super and retail super performance

	FYTD	1 year	3 year	5 year	7 year	10 year
Median industry fund	9.45%	8.30%	0.20%	3.17%	6.52%	5.54%
Median retail fund	8.50%	6.83%	-0.55%	1.27%	4.62%	3.50%
Industry fund outperformance	0.95%	1.47%	0.75%	1.90%	1.90%	2.04%

Source: IndustrySuper.

Table 14 provides APRA data for the ten largest industry super funds ranked by net assets, along with totals and averages for all 55 industry super funds and all 289 super funds. The combined net assets of the industry super funds are $244 billion,[36] which is 32 per cent of the combined net assets for all super funds of $771 billion.

[35] IndustrySuper (2012a).

[36] Note that this figure relates to June 2011 for which more detailed data is available. By June 2012, as mentioned above, the total for industry funds had reached $266 billion.

Table 14: Top 10 industry super funds – June 2011

Fund Name	Eligibility	Net assets ($m)	Members
1 AustralianSuper	Public	43,018	1,809,564
2 UniSuper	Non public	28,995	468,053
3 Retail Employees Superannuation Trust	Public	20,444	1,957,328
4 Sunsuper Superannuation Fund	Public	18,379	1,140,392
5 Health Employees Superannuation Trust Australia	Public	18,213	724,867
6 Construction & Building Unions Superannuation	Public	17,394	663,333
7 HOSTPLUS Superannuation Fund	Public	9,396	979,276
8 Victorian Superannuation Fund	Public	8,546	262,285
9 MTAA Superannuation Fund	Public	6,046	291,932
10 Auscoal Superannuation Fund	Non public	5,989	68,954
Top 10 total		176,420	8,365,984
Industry super total (55 funds), see Appendix		244,250	11,438,459

Source: APRA Superannuation fund level profiles and performance 2011

Public funds are available to any member of the public, while non-public funds are only available to workers from specific industries. There are 40 public industry super funds and 15 non-public funds. There are only two non-public super funds in the top ten.

Industry superannuation funds have 11.4 million members, which is almost 40 per cent of all super fund members.[37]

Case study: LUCRF Superannuation

The Labour Union Co-operative Retirement Fund (LUCRF) superannuation fund was the first industry super fund; it was established in 1978 by the Federated Storemen and Packers Union (FSPU, now part of the National Union of Workers). At the time superannuation was generally a white collar benefit and arrangements were at the discretion of employers. Superannuation was used by employers as a

[37] See APRA (2012b)

reward for long service. Employees were usually required to spend 35 to 40 years with one company to qualify.[38]

The LUCRF super fund was created with the aim of giving workers access to a portable fund that could be taken from job to job. For a small fee, member and employer contributions were invested in balanced portfolios. The money was regarded as deferred pay; if a new employer did not agree to continue contributing, the member could have their benefit paid out. Contributing employers were asked to join the Trustee Board and the Skin and Hide Industry Employers Association was the first employer representative to join. Of the twelve current directors on the Trustee Board, five are employee representatives, five are employer representatives and two are independent. The principle of super fund portability initiated by LUCRF is now widely used under the current Australian superannuation legislation.

LUCRF super is open to any member of the public. In 2011 it had net assets of $2.9 billion (its ranking is 34th by net assets) and over 185,000 members. It invests in around 26.7 per cent Australian equities, which is lower than the industry super average of 31.1 per cent, but close to the average from all super funds of 26.3 per cent.

The LUCRF Community Partnership Trust was launched in 2010 and seeks to identify and support worthwhile programs and services for children and young people or the disadvantaged that build skills, capacity and knowledge within communities.

[38] LUCRF (2012). *Our Story*

Conclusion

Co-ops and mutually owned organisations play an important, if low profile, role in the Australian economy and society. While eight in ten Australians are members or customers of a co-op or mutual, only 28 per cent of people are aware of their involvement in, or use of, this unique ownership model.

As discussed above, co-ops provide much cheaper mortgages than the big banks and member owned superannuation funds generate much higher returns than their for-profit competitors. One of the reasons for these lower costs and higher returns is that the satisfaction and loyalty of co-op members means that expenditure on advertising, and other costs associated with customer retention, are typically much lower in member-owned organisations than in their for-profit rivals.

Paradoxically, however, this lower level of expenditure on advertising means that co-ops and mutuals often have a much lower profile than their for-profit rivals. The big four banks, for example, spent more than $1 billion on advertising in 2011, more than the entire budget for the ABC. These high advertising costs are, of course, passed on to consumers.

Policy makers often assume that customers have access to good information on the relative cost of all products, are able to analyse the relative costs, benefits and risks, and have the time to do so. That is, policy-makers typically assume that consumers are 'rational' and that the time taken to make decisions about complex financial products is trivial. As shown above, many Australians say that they would switch banks if they could obtain a saving of 0.25 per cent or more on their mortgage interest rate. However, despite the fact that on average mutually owned banks offer mortgage rates that are 0.4 per cent lower than those of the big banks, many customers do not switch in the way that policy makers assume they would. The same is true for customers who continue to pay higher administration fees to for-profit funds than they could if they switched to lower-priced, better-performing member-owned funds.

The combination of a high degree of community participation in co-ops, a low level of public awareness of their own participation, and the ongoing willingness of millions of customers to spend billions of dollars paying higher prices than necessary for goods and services creates a substantial opportunity for both the co-op sector and policy makers to reduce the cost of living for most Australians. These opportunities include the following:

First, mutuals and co-operatives need to better explain their ownership structure, and its benefits, to their customers. While there are substantial benefits to customers associated with their lower level of advertising expenditure, both co-ops, and the community as a whole, would be better off if more people were aware of the benefits of membership.

Second, mutuals and co-operatives need to better explain the contribution that they make to the community. Again, while institutions in the for-profit sector often spend more money on advertising than they do on supporting communities, they are more than willing to expensively promote the small proportion of their earnings that they donate back to the community.

The mutual sector could highlight its contribution to society by creating a central registry of community support. Similarly, the mutual sector needs to measure its contribution to the building of social capital which, in addition to the economic contribution described above, contributes to community wellbeing and resilience.

Finally, government ministers and departments should pay greater attention to the benefits to consumers and communities that flow from co-operatives. They should also do more to overcome the pragmatic or psychological barriers that prevent consumers switching to mutually owned enterprises. Similarly, central agencies and market regulators should more closely examine the competition and accountability benefits associated with creating more a diverse business ecosystem in which a greater number of types of business structures compete against each other on a broader range of attributes.

Appendix: Description of Survey of Co-operatives and Mutuals

A survey of co-operatives was conducted to complement the survey of public perceptions and membership of co-operative organisations that was undertaken for this report. There were 140 survey responses from approximately 750 requests emailed to Australian co-operatives. Half of the co-operatives surveyed have been established for more than 40 years, 70 per cent for more than 20 years and nine out of ten have been operating for more than ten years.

Predominantly these responses came from the finance (38), consumer (25), and agriculture (23) co-operatives (which together accounted for six out of ten survey responses). This response rate reflects the representation of these sectors in the top 100 list of co-operatives (40, 23 and 23 respectively). However, survey data suggest that respondents were generally smaller co-operatives.

The median membership of co-operatives responding to the survey was 509. This is small compared with the membership rates of the top ten finance and consumer co-operatives, but falls within the varied membership among the top ten agricultural co-operatives. Since the GFC the membership of co-operatives surveyed has increased (34 per cent) or remained constant (33 per cent). Only 13 per cent of respondents reported that membership had decreased.

The median annual revenue of the co-operatives surveyed was $2.1 million. This figure is below the reported revenue of any of the co-operatives in the top ten finance, consumer or agriculture co-operatives. This, along with the comparatively small median membership indicates that the co-operatives responding to the survey were mostly smaller co-operatives. This assumption is supported by the small reported median employee numbers: nine full-time and five part-time.

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