

When the Wheat Board went Down Under

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By now prairie wheat and barley producers should have their ballots for the Canadian Wheat Board plebiscite which asks whether they want to keep the single desk marketing system for their crops. It is a good time to hear about how Australia's wheat board single desk ended, and how that has worked out for farmers and grain companies.

In 1939 the Australian Wheat Board (AWB) was created as a government agency. In 1999 it was changed into a company owned by Australia's farmers and some investors. Each farmer held a "class A" share, and had a vote in electing the 7 farmer directors. "Class B" shares could be bought and sold on the Australian Stock Exchange, and the owners were entitled to elect 2 directors. The single desk authority of the AWB came from a law that gave the AWB veto power to stop any other company from exporting wheat. In addition to its role as a grain exporter, the AWB also had a subsidiary company that was the largest seller of farm inputs in the country.

While the details of how the AWB was structured and the legal basis of its single desk marketing responsibilities were slightly different from our Canadian Wheat Board, as a farmer-controlled entity, its ability to market the country's wheat production was virtually the same.

As in Canada, there was pressure from grain traders to get rid of the single desk. In response, the AWB directors proposed restructuring into two companies: one that looked after input sales and the other that looked after grain exports while maintaining the single desk and pooling the grain. Their proposal was rejected. In December 2006, right in the middle of harvest, the government changed the legislation and took away the AWB's veto power over exports, breaking the single desk. The Minister of Agriculture was given the power to accredit exporters instead.

Almost immediately, companies that had been looking forward to this day jumped into the export market, buying outside of the pool and selling abroad with the Minister's blessing.

In response to the new situation, and after internal struggles, the AWB proposed a new governance structure that the managers said would make the company more competitive. Instead of a majority of farmer-directors, under the new structure farmers would only elect 2 of the directors. The class B shareholders would elect the majority of directors. This change was sold as a way for farmers to "influence" decision-making (instead of actually making the decisions). The proposal also limited the proportion of all class B shares that any one owner could have to 10%, but only for the first three years. It also allowed the farmers to reject any takeover bids for the first three years. To take effect, the proposal had to get 75% support in a vote.

Farmers did not rush to mail in their ballots. The AWB management pushed hard to get farmers to approve the change. Finally in 2008, after extending the voting period, a little over half of the producers voted and the required majority was reached.

Now it is 2011 - three years later. The class B shareholder restriction has been removed, and not surprisingly, the company has changed hands.

In late 2010 the North American fertilizer company Agrium bought the AWB, even though it had no experience in selling grain. At the time Agrium said it would evaluate how things were going and decide shortly whether to keep the international grain marketing side. Meanwhile, it had acquired the largest farm input retailer in Australia, worth nearly \$2 billion in annual sales.

Less than two weeks later, Agrium announced its deal with Cargill for the international grain marketing business. The sale passed the Australian foreign investment regulatory and competition bureau reviews in May 2011. Australian farm organizations tried to get the government to put some conditions on the sale to Cargill -- such as transparent freight rates and protection of the pools -- but they were unsuccessful.

In three short years Australia's 40,000 wheat farmers went from running their own grain marketing system, selling virtually all of Australia's wheat (12% of world wheat production, worth about \$5 billion) on their own behalf to being mere customers of Cargill's, one of the world's largest agribusiness corporations, which is privately-owned and based in the United States.

Since 2006 the AWB's share of Australia's wheat sales has dropped to 23% with 25 other companies in the market, all looking to make money on the spread between purchase and sale prices. When the AWB had its single desk power Australian wheat could command premiums of over \$99/tonne over American wheat, but by December 2008 it had dropped to a discount of \$27/tonne below US wheat.

And what is the view from the tractor seat?

Here are some recent comments about the post-single desk environment from an Australian farmers' bulletin board:

"More middle men to screw the prices down -- traders are not interested in farmers getting high prices. As long as they make a margin it doesn't matter to them if prices are high or low."

"Terrible logistics in organizing export cargoes, with multiple exporters all wanting to load ships at the same time leading to shipping bottlenecks. Someone has to wear the cost of idle ships waiting to load. Guess who eventually wears that cost? Deregulation hasn't benefited the average Australian farmer at all."

"I think our quality to the export market has to suffer. How many two-bit outfits are now jamming grain in sea containers that don't know any thing about grain?"

"Deregulation has allowed for more buyers, which has an advantage, until one does not pay. The AWB had the advantage of promoting Australian grain as a premium product. This is slowly being eroded, I think."

At this critical point in western Canadian agriculture history, farmers can take heed of the Australian experience. The federal government has announced its intention to defy the Canadian Wheat Board Act and end the single desk without a binding farmer vote. In its place, Minister Ritz has offered nothing more than empty rhetoric about "freedom" and sound bites about "a strong voluntary CWB".

Farm organizations are calling on the government to hold a legal, binding vote as required under the current law. In the meantime, it is important to be a well-informed and proactive voter in the CWB's own plebiscite. Your ballot will send a strong message about how much farmers really value their own marketing agency and all its benefits.