



# **STRENGTHENING THE CO-OPERATIVE**

## **Wally Newman, Chairman**

Co-ops NSW Conference  
Friday 22 June 2018



## About CBH



- CBH is **Australia's largest co-op** and 3rd largest private business\*
- 100% owned and controlled by **4,200 WA grain grower members**
- CBH typically contributes **>\$3.5 billion** to the WA economy annually: 1 in every 4 dollars generated by WA's agricultural sector originates from CBH and our members.
- WA is an **export State** for grain – 90% of grain from WA is exported, mainly to SE Asia
- CBH is **Australia's biggest exporter** of grain in Australia
- CBH is a small player in the global trade market (less than ~6%) and cost competitiveness is under threat – particularly from high yield, low regulatory, subsidised regions such as **Black Sea**

\*IBISWorld Top 500 Private Companies 2017 List

# CBH supply chain



## Our Customers

Flour millers, maltsters,  
feed manufacturers,  
food processors



## Our Growers

4,200 members  
12 million tonne production  
Largest co-operative in Australia

## Processing

Interflour – 10 flour, 1 malt mill  
in Vietnam, Indonesia,  
Malaysia & Turkey (2MT of  
flour pa)  
BLM – 2 oat mills  
120,000 tonne capacity



## Storage & Handling

150 site  
4 Panamax ports  
20 million tonnes storage  
capacity

## Shipping

Load 10 million tonnes per year  
Own stevedoring (Joint Venture)  
Charter 2 million tonnes



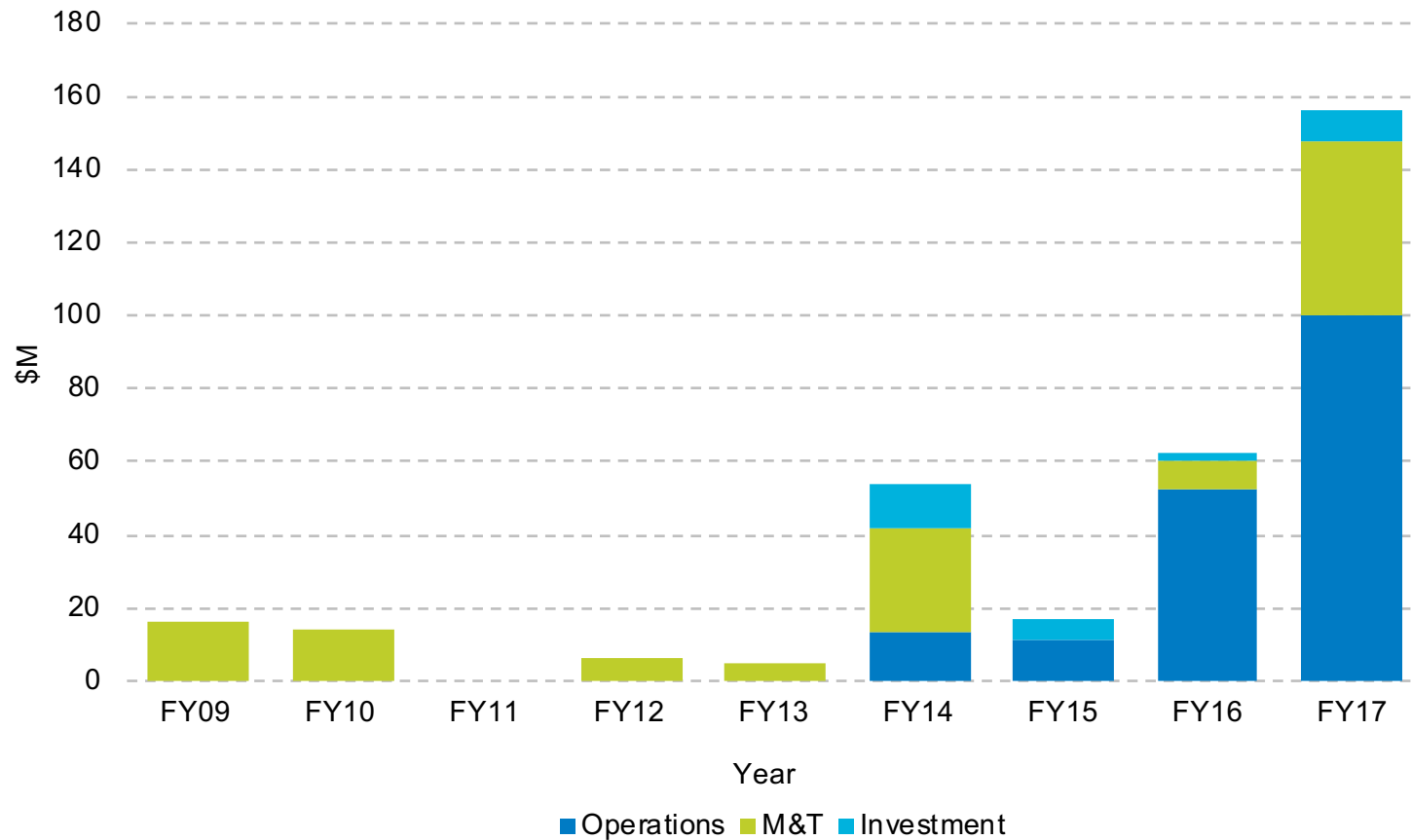
## Marketing & Trading

Largest Australian exporter  
WA and EA accumulations  
International offices in Hong Kong,  
Japan and Russia  
Exports to more than 30 countries

# Growers sole beneficiary of rebate patronage program



*\$156 million provided to growers in FY17*



Since we introduced the rebate program in 2009, CBH has returned a total of **\$333 million** to growers



# CO-OPERATIVE CHALLENGES

## A RECENT HISTORY

## Demutualisation tactics



“ Co-operatives and mutuals are seen as being like ripe plums on a tree ready for the easy picking....”

Peter Jooster QC  
Western Australia



## The greatest danger



“ One of the greatest dangers to mutual’s and co-operatives comes from within – from managers and directors who are not committed to co-operative principles and values. ”

Race Mathews “Looting the Mutual’s:  
The Ethics and economics of Demutualisation”

# Facts of Life



- There are no free lunches in this world
- Everything has a price
- We only ever make a few major decisions in a lifetime
- Smart people learn from their mistakes
- Wise people learn from other people's mistakes
- Hopefully after this presentation, you will be a little wiser and less likely to be in the position of learning from your mistakes



## Corporate Control

More and more power and profit to fewer and fewer people

Directors obligations are to the investor shareholders

## Co-op Member Control

Power and money to more and more people

Directors obligations are to the members

Who are the sole beneficiaries

## The Burning Platform

- Competition
- Capital raising
- Control and ownership
- Value/equity for members
- National Competition Review
- Deregulation
- Legislative change

## The Rhetoric

- Danger if we don't change now
- Status quo not an option
- Not change for change's sake
- We will be in limbo
- Proactive not reactive
- Members will lose plenty if they vote no
- Alliances and mergers only possible with a restructure
- You can have your cake and eat it too

# Recent co-operative structure events



**2000**

## **CBH Corporate Restructure**

- Board led proposal for CBH to change from a co-operative to a corporate structure
- Only 35% of members participated with 58% voting for the move, considerably less than the required 75%
- With 10,070 members at the time, the results suggest only 29% (2,044 members) of all grower members supported corporatisation

**2011**

## **CBH registers under the new Co-operatives Act 2009 (WA)**

- Significant support – more than 96% of the members who voted

**2016**

## **CBH rejects Australian Grain Champions bid**

**2016**

## **Growers overwhelmingly support co-operative structure**

- Largest ever survey find current model remains most preferred

**2018**

## **New minimum participation rule approved to protect collective equity**

# 2016 structure and governance review survey



# 2,600

GROWER MEMBERS RESPONDED

Biggest ever CBH survey

Independently conducted by Thinkfield



Reflects all zones, size and ages

- 71% believe CBH increases profitability and value of their farm
- 73% trust CBH to do the right thing for all growers
- 75% believe they receive good or very good value from being a member of CBH

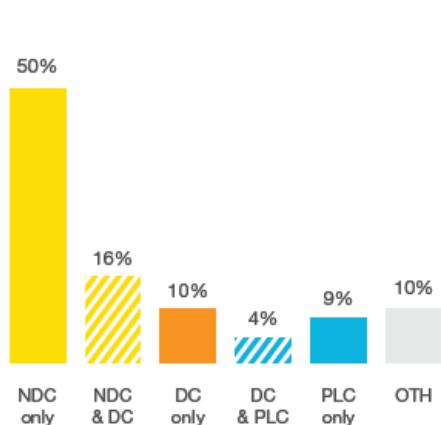
# 2016 structure and governance review survey



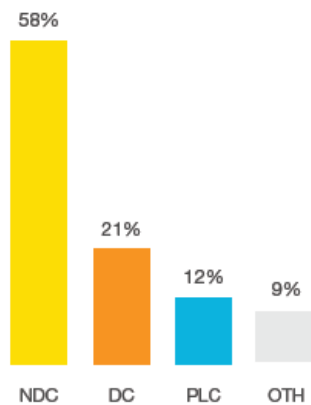
**79%** prefer a co-op model



Some growers support multiple options:



But when asked to choose, prefer:



NDC = non-distributing co-operative DC = distributing co-operative PLC = publicly listed company OTH = undecided / other

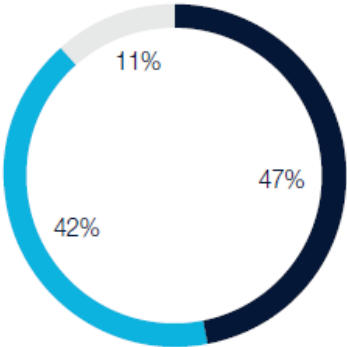
- 70% prefer a non-distributing co-operative with potential enhancements
- 70% want to protect collective equity in CBH for future generations
- 70% believe CBH should introduce mechanisms for protecting collective equity in CBH for future
- 68% believe CBH should introduce a minimum voting participation threshold for significant structural changes

# 2016 structure and governance review survey

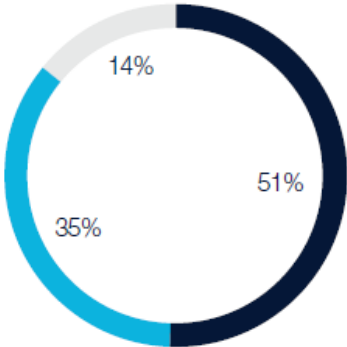


## Growers were open to explore change on the following governance elements

### Board Diversity

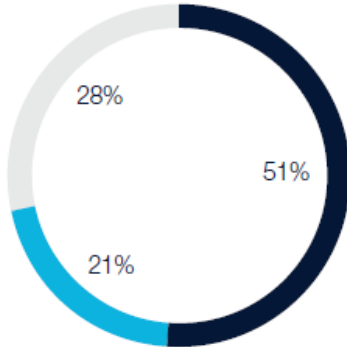


Encourage greater gender diversity on the Board

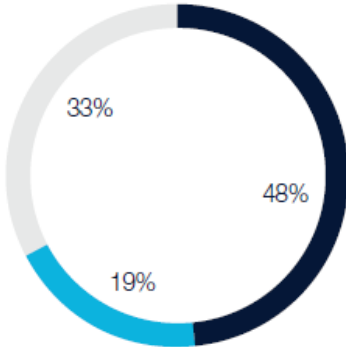


Encourage greater age diversity on the Board

### Board Skills & Experience



Introduce minimum skill and experience requirements for Member Directors



Introduce an independent panel to assess Member Director candidates

● support    ● don't mind    ● oppose

## Actions following the review



- ✓ **CBH resolves to remain a non-distributing co-operative**
- ✓ **Grower members approve a CBH Board-led rule change to protect collective equity for future generations**

The new rule introduced a minimum voting participation of greater than 50 per cent of all members for proposed structural changes of the co-operative

- ✓ **CBH Board endorses a statement to encourage diversity in the co-operative**
- ✓ **Growers elect their first female Grower Member Director, Natalie Browning**



**GROWERS ARE SOLE BENEFICIARY**

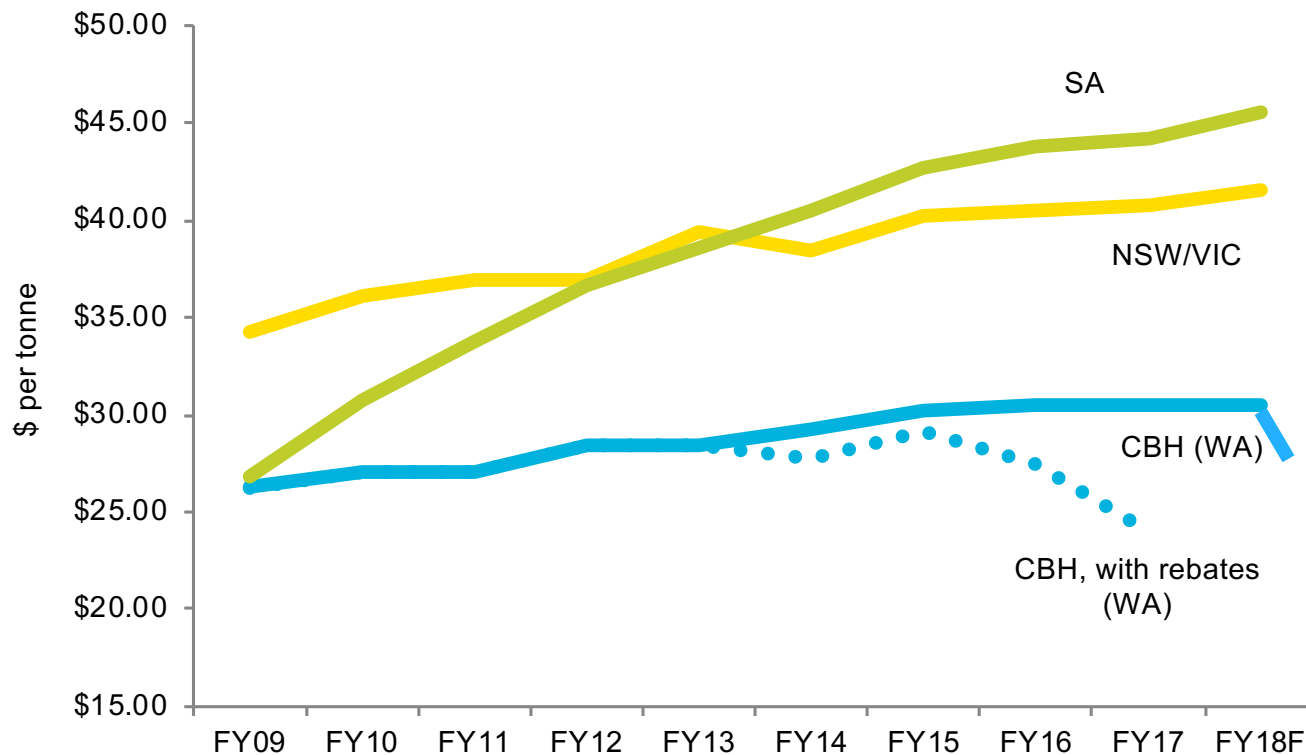
WHY GROWERS PREFER A  
NON-TRADING CO-OPERATIVE



# Low fees - A key area of returning value



Storage & Handling Charges Comparison



- Fees set each year based on average harvest size and capital requirements
- Above average harvest size tend to result in surplus being returned as a rebate
- June 2018, CBH reduces supply chain fees by \$4 per tonne

# How co-ops can succeed



## Co-operatives are successful when:

- They are run commercially
- They are competitive
- They seek volume and reward patronage

“ From a survival / failure perspective, there is no evidence to support the [claim that the] co-operative [structure] is a less efficient organisation than the corporate [structure].

Fabio Chaddad  
University of Missouri



