

GRAIN INDUSTRY

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AUSTRALIA FACTSHEET SERIES

#2

CORPORATIZING THE AUSTRALIAN WHEAT BOARD

DRIVERS OF CHANGE

Two external factors encouraged deregulation in Australia's grain industry prior to 1989. First, the United States (US) and the European Union (EU) were engaged in an export subsidy war, which resulted in a 40% drop in price for Australian wheat in 1986. The price drop resulted in a deficit for the Australian Wheat Board's (AWB) 1986-87 pool. The Australian government gave notice that it could not compete with the treasuries of the US and the EU, thus Australia's only choice was to increase the efficiency of grain handling and marketing.

The second external factor was the Uruguay round on trade negotiation that began in the late 1980's. Australia believed that if export subsidies were disciplined, growers with efficient production and marketing would have a competitive advantage.

Australia's National Competition Policy (NCP) was developed to encourage competition in Australia's economy and was not restricted to agriculture. The NCP targeted statutory marketing authorities deeming them to be anti-competitive. These drivers of change ultimately led to the decision to privatize the Australian Wheat Board.

ELIMINATING GOVERNMENT GUARANTEES

Australia's Wheat Marketing Act (1989) established a Wheat Industry Fund (WIF) to create a grower funded capital base. The Act also immediately reduced the government's guarantee to 85% with provision to reduce it to 0%. The Australian Wheat Board (AWB) and the Grains Council of Australia (GCA) lobbied to have the WIF included in the Act because they believed that the AWB would need a capital base to be successful in the new environment.

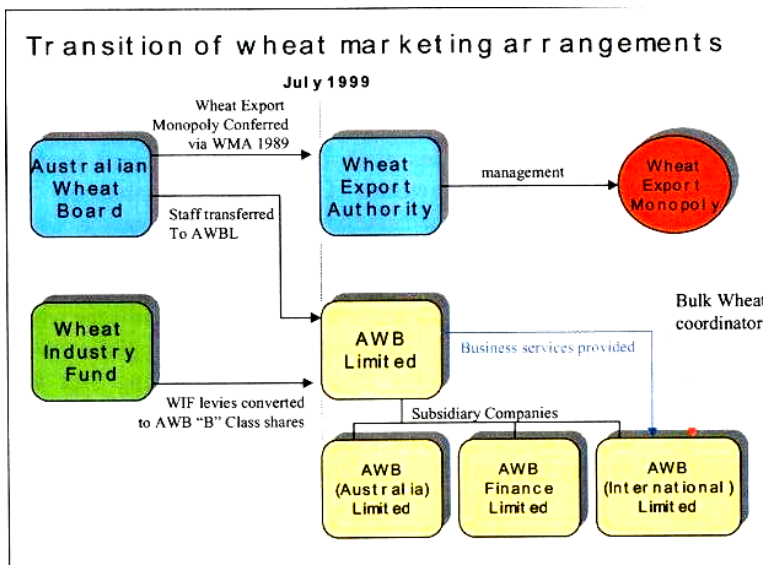
The objectives of the WIF were to:

- a) underwrite AWB's domestic trading.

- b) provide a capital base to allow AWB to diversify, and
- c) provide a capital base that would allow AWB to continue making advance payments.

In 1992/93 industry agreed to build the WIF to AU\$450 - \$500 M by 2000. The WIF collected a mandatory 2 percent levy on wheat sales by producers. By 1999 the fund was worth \$607 M (A\$465 M collected from growers over ten years).

On July 1, 1999, the AWB was privatized, the government guarantee of borrowing ceased, and the WIF was co-opted as equity for AWB Limited. A summary of the transition follows:



Privatization separated AWB's commercial and regulatory functions. The regulatory functions were transferred to the Wheat Export Authority. The legislation granted the single desk export rights of bulk wheat to AWB International, a wholly owned subsidiary of AWB Ltd. The commercial functions of the former Australian Wheat Board were transferred to AWB Ltd, a grower owned and controlled corporation.

AWB LTD. BOARD STRUCTURE

- The structure of the AWB Ltd. Board of Directors ensures that growers maintain control.
- The Board consists of twelve Directors with seven, including the Chairman, elected by growers who hold A Class shares.
- Those A Class Shareholders elect two directors from Western Australia; two from New South Wales and/or the Australian Capital Territory, one from either Victoria or Tasmania; one from South Australia; and one from either Queensland or Northern Territory. In addition, A Class shareholders appoint two additional Directors to round out the skills of the Board.
- B Class shareholders elect two of the twelve Directors.

- The Managing Director serves as the 12th Director on the Board.

Class A shareholders:

- One share for each of the approximately 37,000 growers. A Class shares are only issued to growers and must be redeemed when the holder stops being a grower. They are non-transferable and are not eligible for dividends.
- Shares have variable voting rights based on deliveries. A Class Shareholders have one vote, plus one additional vote if the average annual tonnage of wheat delivered by the A Class Shareholder to the AWB Group is more than 33 1/3 tonnes per year; plus an additional vote for each 500 tonnes per year of average annual tonnage of wheat delivered by the A Class Shareholder to the AWB Group above 500 tonnes per year.

Class B shareholders:

- Shares were issued to growers on the basis of their equity contribution to the Wheat Industry Fund.
- B shares are traded on the Australian Stock Exchange (ASX) and are subject to a 10% cap on individual or entity ownership.
- Both growers and non-growers can own B class shares.

AWBI and AWB Ltd share some directors in common. AWBI has no staff or assets. All employees of the national pool are employed by AWB Ltd. AWBI purchases 77 services from AWB Ltd and pays a lump sum for them.

For further information (or to suggest topics for future information sheets), contact:

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