Corporate greed does not spare cooperatives: chronicle of the disappearance of the largest agri-food cooperative in Canada

by Assoumou-Ndong, Franklin

Global and diverse cooperative enterprise, *Saskatchewan Wheat Pool* (SWP), now known as Viterra Inc., has been ranked for years among the 50 largest companies in Canada, including the first in the handling and distribution of grain and also the largest agri-food cooperative in the country. It was the pride of an entire province. Supporters of the cooperative model present it as an alternative model for excellence in business, based on a human vision of enterprises focused on community empowerment and democracy.

In the late 1800s, after years of battle and frustration against government policies of capitalism's free market in agriculture, farmers in western Canada understood the need to regroup, precisely in cooperatives, to counter the harmful effects of free market and speculative fluctuations in grain prices. Cooperation appeared then as an alternative to economic and social exploitation of the people, especially in rural communities. Cooperatives were becoming tools for social change to support members (or community) and the redistribution of economic power.

In June 1924, nearly 46 000 farmers, producing mainly wheat, officially signed a new contract that united them under the banner of *Saskatchewan Cooperative Wheat Producers Ltd*. (incorporated in 1923); the cooperative was subsequently renamed (in 1953) the *Saskatchewan Wheat Pool*. The cooperative has gone through many difficult times, such as the Great Depression of the 1930s, and has had good years with instances of record operating surplus (profits) and healthy membership numbers of farmer members (Assoumou-Ndong, 2001a; Lang, 2007).

Nearly 88 years after wheat producers got together to create a large-scale cooperative enterprise that generated the envy of many; the former SWP was sold to a Swiss multinational company, *Glencore International*, for approximately $6.1 billion. The announcement of the takeover bid was made on March 20, 2012.

How did this co-op come to this? Was it really the only way for the future of this cooperative?[1] It is a story tinged with sadness and pride, and as some would say, a kind of moral drift (within the meaning of cooperative values and principles). A transformation from a company based in member's empowerment, local initiative, community control, democracy and cooperation, to a

[1] Other large agri-food cooperatives such as Coopérative Fédérée de Québec and Agropur (also of Québec) have not yet shown evidence to suggest that they would move as to the business model chosen by the SWP in 1994, but we can ask whether if they are exposed to similar risks.

purely capitalist enterprise for which the race for profits (or corporate greed) is now the principal rule of governance. Some might even wonder if cooperatives can remain competitive only when they are modest, without coming into direct competition with the best companies in the world.

After the announcement of this transaction, there was virtually no critical analysis in the media, particularly with regards to a transformation of a cooperative that belonged to local farmers to a company under the influence of foreign interests. Need we recall that the year 2012 was proclaimed by the United Nations (UN) as "International Year of Cooperatives'? Thus, the sensational disappearance of what was the largest agri-food cooperative in Canada could have brought more questions from the cooperative movement and the media who are interested into it.

Without going into details of the long and complex history of the SWP[2], the objective of this paper is simply to recall some important moments in the recent history of SWP, namely the conversation of its capital structure in 1994 (to become a publicly traded company) in its acquisition by Glencore as the company Viterra.

Brief contextual review of SWP before entering the stock market

In 1994, the beginning of major changes that preceded the creation of Viterra, SWP was celebrating its 70th anniversary. The cooperative had over 84,000 members, controlled 58% of grain movements and 40% of livestock in Saskatchewan, and 31% of all grain handled in Western Canada with production exceeding 10 million tons of grain. Its annual sales exceeded $2 billion (Assoumou Ndong, 2001a).

In early 1990, executives of the Saskatchewan Wheat Pool had already announced that the company would face a crisis if changes were not undertaken. The reasons were various. The aging membership would reach retirement age in bulk, which requires (according to the practices of the cooperative) repayment of share capital and accumulated retained dividends to members aged 70 and older. Thus, the shape of the cooperative capitalization of withholding members' dividends, including turning them into withdrawable shares, was considered a debt for the company. Thus, for the medium and long term, the cooperative could become vulnerable to financial pressures if it wanted to invest for expansion or new projects.

According to data from the Saskatchewan Wheat Pool in 1994 (Assoumou Ndong, 2001a and 2001b), 46% of members were aged 55 years or more and held more than $ 100 million in shares redeemable at the dawn of 2009 (over 15 years). The amounts payable to the members were to increase substantially in the long run according to the executives of SWP. With such an increase in amounts payable to members, in addition to bank debt, the cooperative feared not being able

[2] For further reading on the history of the SWP, we refer readers to various references cited at the end of this paper.

to fulfill its commitments, while maintaining its borrowing power and its policy of expansion and modernization. Moreover, because members who leave abandon production, with succession not assured, the production of the cooperative could have also significantly lowered, creating a bottleneck in the supply of agricultural materials for the cooperative. The rise of competition from large multinational agri-food companies, with more money, just as seriously worried the leaders of the cooperative. According to executives of SWP at the time, the situation became alarming; the status quo was simply not a viable option (Assoumou-Ndong, 2001a). By March 1991, a review of the financial situation of the cooperative is set up to examine the requirements and alternatives for a revision of the organizational and financial structure of the cooperative.

1994 - 1996: SWP becomes a public company listed on the TSE[3]

On July 14, 1994, 137 delegates (out of 84,000 members) members representing the various districts that made up the governance structure of this cooperative of wheat producers in Saskatchewan voted by 80% in favor of changing the "Saskatchewan Wheat Pool Act" to enable the organization to transform the members' equity capital into shares of classes' "A" and "B".

During the Annual General Meeting in November 1994, delegates from SWP confirmed the decisions taken in July, relative to the new capital structure. A resolution calling for the vote of all members of the cooperative (over 84,000) on the new direction and a stay of financial restructuring was rejected by delegates.

The new funding formula of the now "publicly traded agri-food company" enables the emission of two types of shares (A and B), including one class of non-voting "B" shares, that were offered for sale on the floor of the Toronto Stock Exchange (TSE 300) for the first time April 2, 1996, at a price of $12 per share.

Upon conversion, the shares held by members of the former cooperative were divided into two classes of shares. For each of their blocks of shares, 25 shares of class "A" were held by each member at a fixed value of $25 each. Class "A" shares gave the right to vote[4]. The remaining shares held by each member were then traded on the stock exchange. Each member could have

[3] For details on the conversion of the equity capital of SWP, read Assoumou Ndong (2001a & 2001b) and Fulton & Larson (2012).

[4] Type "A" shares were supposed to maintain the "cooperative" link that the farmers-producers had with the new company. Which proved to criticism at the time given the imbalance between the number and value of listed "B" shares on the stock exchange and those of category "A", held only by the members-farmesrs. Besides, who could sincerely believe that the shareholders (holding "B" shares) would completely leave farmers alone decide the future of the company?

sold his shares before anyone else (in the house) at $25 each or keep them and then track their stock value on the market as other investors.

By this transformation of cooperative shares into traded stocks, it became very clear that the SWP had to institutionalize the dominance of "corporate greed" over cooperative values and principles.

1996 - 2012: From the SWP to Viterra or the disappearance of a giant symbol of the cooperative movement

A year after the first sale of shares of the SWP on the stock exchange, there was a good performance of the new company shares. More than 18 million shares were traded between April 2, 1996 and April 2, 1997. Their value had increased from $ 13 to nearly $ 21. About 80% of "B" shares were owned by Canadians, 67% by residents of Saskatchewan. In addition, an estimated 66% of members-farmers still held Class B shares, up 47% of the shares of this type held in 1998 (Assoumou-Ndong, 2001b).

From 1999, things began to deteriorate financially for the SWP. The "B" share price was affected with a decline in its market value. Indeed, there were several events during this period that had adverse consequences in terms of business performance: declining sales, rising debt, overproduction in the international market, falling prices, declining of global demand, etc. The share price had fallen to about $ 3 at the end of 2000 (Fulton & Larson, 2012; Assoumou-Ndong, 2001b).

All of this economic and financial upheaval came when the SWP launched large expensive projects of modernization and diversification. Indeed, in the 1990s, the SWP had stepped up strategic alliances, acquisitions, equity investments and business development under its control[5]. The activities were as varied as the processing and marketing of grain; production of specialized seed, animal feed, poultry, various oils, fish, packaging, donuts; printing; grain handling and processing of food products abroad (including Mexico, Poland and England), etc.

In early 2000, a new CEO was hired, Mayo Schmidt[6]. He has undertaken major changes to redress a financial situation that has become critical and re-focused the company towards its expertise base, namely the handling and distribution of grain and some related activities that have worked well in the past. Results: elimination of about a thousand jobs, fewer elevators and grain silos, sale or liquidation of assets, including stakes in companies or joint ventures,

[5] At the end of fiscal year 1999, SWP was linked to about 34 companies that were either owned or affiliated or operated by joint ventures (Assoumou Ndong, 2001a).

[6] Mayo Schmidt arrived from the company ConAgra Canada.

suspension of payment of dividends; reduction and reengineering activities of the company, etc. (Johnstone, 2012b; Gruending, 2012; Assoumou Ndong 2001b).

In 2003, the financial position of the SWP was shaky and close to bankruptcy when shareholders began threatening to sell their shares to withdraw from the capitalization of an organization that was on the rocks. But Schmidt managed to turn the ship-board with all these measures taken upon arrival at the helm of the company. He was able to impose a slimming diet to SWP, which allowed the company to regain a healthier financial situation. Thus, the company returned to profitability to the point where it was able to take control of companies twice its size.

That is exactly what the SWP did in 2006 when it launched a hostile takeover bid of *Agricore United*, which was formed earlier (in 2000) by the merging of the two Manitoba and Alberta Wheat Pools and the *United Grain Growers*. The SWP then again became dominant in the handling and distribution of the grain industry in Canada (Johnstone, 2012b; Gruending, 2012).

We must note that in all this turmoil marked by ups and downs in recent years, the concept of cooperative fell into oblivion in the case of the SWP. It is now the race for profits and the dictates of shareholders which make the company.

In May 2007, to denote the end of the Saskatchewan Wheat Pool (which was truly no longer a cooperative since the conversion of its share capital), after acquiring Agricore United for $ 1.8 billion, the company changed its name to Viterra Inc. The rest is imbued with history. It is truly the end of the largest agri-food cooperative in Canada, pride of Saskatchewan communities and the cooperative movement for decades. Such an end is worthy of serious debates and studies, including in research and educational institutions about cooperatives, to understand why such a giant of the cooperative movement could have disappeared this way.

A purchase agreement for Viterra by Glencore International for a whopping $ 6.1 billion was announced on March 20, 2012, valued at $ 16.25 per common share, representing a premium of 48% compared to the value of a share before the announcement of the transaction, at $ 10.98, on March 8, 2012 at the Toronto Stock Exchange. The announcement came on the heels of another announcement of the disappearance of the Canadian Wheat Board, an institution that farmers had long supported, particularly when it was created. Ending the monopoly of the Canadian Wheat Board is seen by some as an opportunity for companies like Viterra to benefit from the increased demand (theoretically, increase in prices) for the grain. Some fear that the loss of the *Wheat Board* goes back to known situations in the past when Canadian farmers (and Canadian consumers indirectly) were at the mercy of strong speculations, especially from abroad, on grain prices (CBC News, 2012b).

On March 29, 2012, Viterra shareholders approved at 99.8% a resolution dedicated to the purchase agreement announced earlier on March the 20th. A minimum of 2/3 of the votes of the shareholders was necessary for the transaction to be approved. Moreover, to conclude the transaction, it was necessary to go through some legal procedures, including approval of the transaction by the Superior Court of Justice of Ontario; approval was obtained two days later, May 31, 2012. The company Viterra expects the transaction to be concluded at the end of July 2012, but it indicated that some delays may occur and extended this deadline (Viterra, 2012a, b; The Canadian Press, 2012a).

A government commission of Saskatchewan has also reviewed the transaction and found it positive for farmers in the province, although it raised some concern over the fact that the Alberta Company *Agrium* will become a dominant player in the local retail market. Indeed, as part of the purchase of Viterra by Glencore, Agrium acquires a majority of the retail stores held by Viterra. Thus, the market share of Agrium will increase from 37% currently to 42% of the retail market of Saskatchewan once the transaction is completed (Waldie, 2012a, b). Agrium also controls the largest market of wholesale marketing of nitrogen fertilizers (widely used by farmers), which therefore provides the company a dominant role in both the retail and wholesale trades, especially for agricultural inputs. The fact remains that according to the commission of the Government of Saskatchewan, Agrium operates completely separately in those two markets; one should therefore not worry (Waldie, 2012a, b). The Competition Bureau of Canada will also analyze the effects of the transaction on competition, including increased monitoring of this aspect of market control by Agrium.

Overall, the Saskatchewan government estimates that the sale of Viterra does not fit its definition of "strategic resource" for the province (CBC News, 2012b), contrary to what was the case with the attempted purchase of another giant of the province, PotashCorp, by a foreign company; a transaction that the province and the federal government had blocked.

It appears that to appease the concerns of Canadian authorities on the sale of Viterra to foreign interests, part of the company was sold to Canadian companies, including Agrium (Calgary-based) and the company of Winnipeg Richardson International. The latter, which also operates in the area of grain handling, will acquire 19 of 92 grain elevators owned by Viterra, for a sum of about $ 800 million. This will reduce the market share of Viterra in the area of grain handling, from 45% to about 35% when the transaction is concluded (Waldie, 2012a, b). *Richardson International* will buy 23% of total grain handling assets (eg, elevators) and other types of Viterra's assets in North America (The Canadian Press, 2012b).

For fiscal 2011 ending in October, Viterra had nearly $ 12 billion in sales (a dramatic increase over 3.5 billion compared to 2010), profits of $ 265 million (up $ 145 million, compared to 2010) and approximately 5,800 employees worldwide. The company currently holds about 45% market share of grain handling in western Canada (Johnstone, 2012c; Viterra.com).

Here is a reminder of some important dates in the evolution of the SWP and Viterra since November 2006, until the announced sale of Viterra to Glencore International, March 20, 2012

(CBC NEWS, 2012a, b; Gruending, 2012 Johnstone, 2012 b; Koven, 2012, The Star Phoenix, 2007; The Canadian Press, 2012a, b; Viterra, 2012a, b; Waldie, 2012a, b):

• November 2006: Saskatchewan Wheat Pool, then the second largest grain handling in Canada, launched a hostile takeover bid for the largest enterprise in the field, Agricore United.

• May 2007: Saskatchewan Wheat Pool acquires Agricore United for about $ 1.8 billion and becomes Viterra Inc., the largest grain handling company in Canada.

• April 2009: Viterra confirms the information in the media that the company was in discussions regarding the possible acquisition of ABB Grain Ltd. of Adelaide, Australia.

• May 19, 2009: Viterra announces details of its offer of $ 1.4 billion to acquire ABB Grain. If the transaction is approved, the acquisition would create a company with $ 10 billion in sales, with approximately 5,000 employees worldwide.

• September 2009: ABB Grain acquisition is completed, making Viterra a major global player, with assets in the grain handling and agri-food products in Canada, the United States and Australia, and access to the Asian market growing.

• March 9, 2012: Viterra confirms it has received "expressions of interest" of an "unknown third party company", interested in acquiring the company.

• March 20, 2012: Viterra announces that it has reached an agreement with the Swiss multinational Glencore International; agreement of $ 6.1 billion to acquire the company (Viterra). Agrium companies and Richardson International are also part of the deal, agreeing to take over the majority of Canadian operations of Viterra for $ 2.6 billion in cash.

• March 29, 2012: Shareholders approve with 99.8% of the votes, the acquisition of Viterra by Glencore International.

• On March 31, 2012: The Superior Court of Justice of Ontario approved the transaction under the provisions of the Canada Business Corporations Act. Viterra expects the deal will be closed around the end of July 2012, but pointed out it could have an extension of that period.

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Last updated: June 21, 2012