

PUBLIC POLICY VACUUM IS DEMORALISING CO-OPERATIVES

AUSTRALIAN co-operatives and credit unions are being demoralised and hampered by a public policy vacuum, according to **Tom Webb**, a Canadian co-operatives expert.

Mr Webb has just ended a tour of Australia and New Zealand, giving seminars and running workshops on 'Marketing our Co-operative Advantage'.

Having observed the co-operative sector in a number of Australian states, he said co-operative and credit union legislation was not friendly to the development of the sector.

"There is a public policy failure here, and the people that represent Australians in Parliament and those that are responsible for forming legislation have to stop and ask themselves why," he said.

He said the spate of demutualisations that had occurred in the sector in recent years had been "pretty soul destroying". The sector had seen capital accumulated over

generations, and which was not intended to be private individual capital, slip into private ownership.

"Co-operative capital is not like ordinary capital, but obviously there is a public policy climate that wants to reduce everything to an investor-owned corporation and treat every ounce of capital as if it were best in private ownership," he said.

Given the way demutualisation has been presented, he said it was not surprising that it had occurred.

Lack of information

Mr Webb argued that if you offered a person a one-off, \$15,000 windfall profit, as the result of the demutualisation of groups such as the NRMA and AMP, without explaining where that capital came from and what it represented, it was not surprising that they voted to take the money.

More often than not, he said, it was not explained that this

capital represented the efforts and contributions of past generations of members of these mutuals. Nor was it understood that these reserves were intended to build and support services for current and successive generations of members of the mutual, not crystallised in a one-off grab for the mutual's reserves by current members.

Public policy bias

There was often a massive public policy bias against co-operatives, despite the general public's support for this way of doing business, Mr Webb said.

For example, he said, more than one in five people in Victoria belonged to a co-operative or mutual-type organisation, yet this fact was not reflected in government spending on the area.

"The government takes everybody's tax dollars, including the tax dollars from the one

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in five members of the country's population that belong to a co-operative or mutual and say, "Thanks for that. We know you are supporting co-operatives and value them by your actions, but we are not going to support them in public education or rural development policies, but thanks for the money." ■

A contrast with the Canadian co-operative experience

Mr Webb took time to contrast the Australian situation with that of Canada, where co-operative capital was seen as different.

"You cannot carpetbag a co-operative in Canada," he said.

Co-operatives in Canada have a recognised place in economic policy and are protected by legislation which helps them support their members.

Without legislative and public policy support, Mr Webb said he

could understand why co-operatives and their members would become dispirited.

"Maybe it is time the co-operative sector took a closer, more unified look at the issue," he said.

"Maybe it is time to tell your politicians that they are letting you down."

Having said that, Mr Webb said his look around Australia had identified a number of co-operatives doing well and proud of

their structure and heritage, despite the public policy failure.

"Retail co-operatives, such as the Warrnabool Co-operative Society in Victoria and the Capricorn Society, which has a growing Australian and international business, are moving with the times and doing what they need to do to survive and prosper, despite the disadvantages they face, and that is impressive."

Mr Webb also pointed to a lack of

support for the co-operative model of business inherent in the educational area.

"Why is it you can go through every business school in the country and not find one course on co-operatives?" he asked.

There is a similar problem in Canada, but Mr Webb said steps were being taken to improve that situation with a proposed course at a postgraduate level about co-operative management.

AROUND AUSTRALIA

NATIONAL

Consistent legislation – the wait continues

The Australian co-op sector still awaits further developments on the road to nationally consistent legislation.

Brian Given, assistant director general with the NSW Department of Fair Trading and convenor of the Co-operative National Working Party (CNWP) on the issue, told *National Co-op Update* there had still been no response to the CNWP report submitted to the Council of the Ministers of Fair Trading and Consumer Affairs at the end of the January.

Building effective social entrepreneurs

Building Effective Social Entrepreneurs is a two-day, practically oriented conference aimed at enabling social entrepreneurs to become more effective in their various fields. The emphasis will be on trading, project development and partnership facilitation.

It will be held on June 28 and 29 at The Customs House, Brisbane. Cost: \$250 for SEN Members and \$450 for non-members (includes a one-year SEN membership).

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NSW NEWS

Profit down for Dairy Farmers

The Dairy Farmers Group (DFG) has reported a \$600,000 profit for the six months to December 2000 after tax abnormalities and minorities, down by 95% on the previous period.

The abnormalities included \$6.9m for above-average milk prices for suppliers, to help them through the first stage of deregulation.

New executive director for NSW federation

Helen McCall will take over as executive officer of the Co-operative Federation of NSW following the retirement of **Don Kinnersley** at the end of June. Ms McCall is a chartered accountant based in the Hunter Valley. She has a keen interest in the role of co-operatives in supporting the rural sector.

Wine society reshuffle

Steve Jarvie has moved from his position of chairman of The Wine Society to that of chief executive officer (CEO). He had been acting in that role since the departure of the previous CEO, **Robert McMahon**. As a result, he will be resigning from the board.

SOUTH AUSTRALIA

Another one bites the dust

CIC Insurance has left the Co-operative Federation of South Australian (CFSA). CIC Insurance was a founding member of the CFSA, formed in 1974.

According to the CFSA, changes in the insurance business and the fact that CIC insurance is no longer a true co-operative are the reasons for its departure.

VICTORIAN NEWS

Green light for Bonlac/NZDB alliance

Members of major dairy processing co-operative, Bonlac Foods, have voted to form an alliance with the New Zealand Dairy Board (NZDB).

The deal sees the NZDB buy a 25% share in Bonlac and form a 50:50 joint venture consumer company (provisionally called ConsumerCo).

This company will market and distribute consumer products under brands licensed from Bonlac, NZDB and NSW-based Bega Cheese Co-operative, which also voted to join the alliance.

Krafty move by Murray Goulburn

Major dairy processing co-operative, Murray Goulburn (MG), has entered into a strategic alliance with Kraft Foods.

Kraft has sold its Leitchville bulk cheese plant to MG as a going concern and, in return, the co-operative will supply a significant portion of Kraft's cheese requirements under a long-term supply arrangement.

SPC restructure approved

Former co-operative fruit canner, SPC, has gained approval from shareholders for a restructure aimed at attracting institutional investors.

The restructured company will have one share class, replacing the previous three-tiered structure.

The new structure offers concessions to fruit grower shareholders, which SPC claims will ensure they do not lose control of the business.

The concessions include a limit of 20% on new individual shareholdings and on additions to existing shareholdings.

The approval of at least 75% of SPC's shareholders will be needed if the company's main processing plant is to be put up for sale.

INTERNATIONAL NEWS

SCANDINAVIA

Retail giant

KF of Sweden, FDB of Denmark and Coop Norge of Norway, three Scandinavian retail co-operatives, have merged to form Coop Norden. The new entity will be the region's dominant retailer.

BRITAIN

Milk merger

Two major British dairy co-operatives, Axis and Scottish Milk, have merged to form First Milk – a £400 million business, marketing 2.2 billion litres of milk a year to customers throughout Scotland, England, Wales and Northern Ireland. It will hold 18% of Great Britain's raw milk market and have 4500 members.

INTERNATIONAL

International day of co-operatives

The international co-operative movement will promote the theme, 'The Co-operative Advantage in the Third Millennium', on the International Day of Co-operatives on July 7.

Defining the co-operative advantage

The International Co-operative Alliance (ICA) wants co-operators to define what the co-operative advantage means to them.

The ICA will be using these definitions in a press pack to be shared with other co-operators, government officials, development organisations and United Nations agencies to illustrate why co-operatives have a special role to play in the Third Millennium.

To share your ideas with the ICA, e-mail chavez@coop.org

DAIRY FARMERS LOOKS FOR A NEW EQUILIBRIUM

A NEW structure, the 'Equilibrium Model', is part of the Dairy Farmers Group's (DFG) strategy to raise the capital it says it needs to remain competitive in today's dairy environment.

The Equilibrium Model is designed to meet the needs of future external investors, as well as co-operative members' expectations for:

- a competitive and fair price for their milk;
- an income, plus a 'capital gain' return on their ownership; and
- access to short-term liquidity from their current investment in the co-operative.

Under the proposed structure (see diagram) the operating business of DFG will first become a separate co-operative and then a publicly listed company, Dairy Farmers Ltd (DFL).

Seventy-five per cent of DFL will be held in the collective ownership of a supply co-operative. DFG's farmer members will then receive the remaining 25%, based on their shareholding. This spin-out of shares to members will give them a 'liquid' asset, as these shares will eventually list on the Australian Stock Exchange and be tradable.

The float will occur at the board's discretion. DFG chairman, **Ian Langdon**, said it was unlikely to be in the first year of the new structure, but would be within three years of the change.

Unique model

Mr Langdon said the model was unique, in that it preserved farmer control and co-operative principles, yet made it attractive for external investors to supply funds. He said an essential difference between

SNAPSHOT

Members of major Australian dairy processing co-operative, the Dairy Farmers Group, will vote before the end of June on a proposal to change their co-operative's structure forever.

this model and others around the world was that farmers would have an on-going investment commitment to the supply co-operative (via a compulsory share acquisition program) to ensure it could, in turn, maintain an investment strategy in the listed DFL to protect farmer control.

As DFL moves to raise capital by issuing shares onto the market, it will effectively dilute the initial 75% holding held by the supply co-operative. As this occurs, the supply co-operative will have to buy additional DFL shares to maintain its relativity of shareholding. To help this process, it will have first option on any issue of DFL shares.

Under the Equilibrium Model, the publicly listed company will function on a 'one share, one vote' system, while the supply co-operative retains the traditional 'one member, one vote' arrangement.

The supply co-operative will be responsible for how it splits the dividend stream it receives from DFL between a co-operative premium on milk, a dividend on co-operative shares and retained earnings.

Control issues

Unlike several similar overseas structures, there will be no minimum percentage of

shares which the supply co-operative must hold in the publicly listed company.

To some, this flies in the face of the need for suppliers to retain control by holding at least a 51% share in the new company.

Mr Langdon maintains this is not as important as many people believe; it was a 'comfort factor' for members rather than a commercial response to the issue of control.

He said that in every similar case he had seen throughout the world, farmer members had eventually voted to remove the 51% limit.

His emphasis is on *effective*, rather than *arithmetic* control. He makes the point that if farmers went to bed one night with 51% of the publicly listed company and woke up the next day with 41%, they would still have effective control. While advocating as large a members' shareholding in DFL as possible, he believes the cut-off point for effective control is probably around 35%.

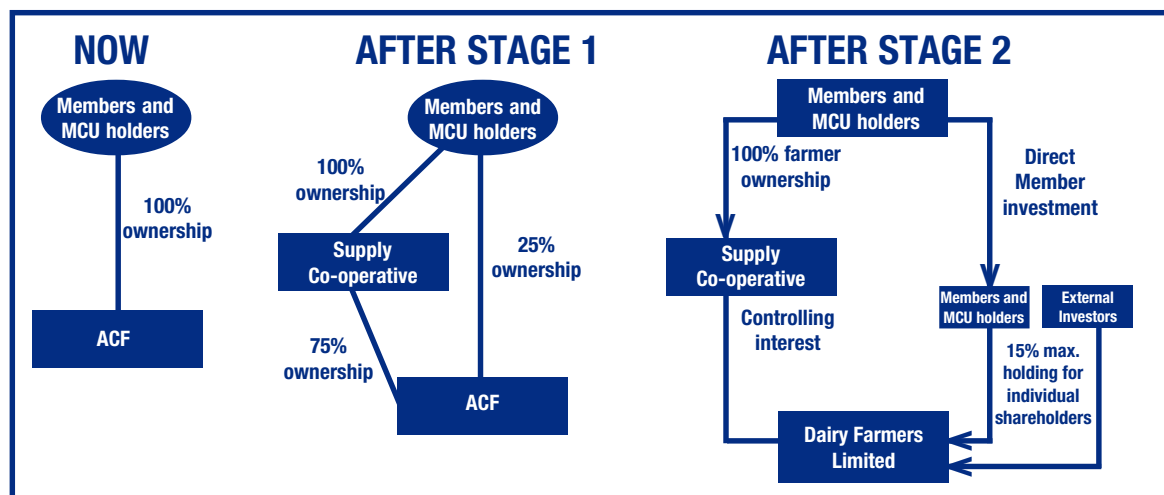
Investor perceptions

To minimise any discounts that might be applied to issued capital, DFG has designed its new structure to be almost free of so-called 'co-operative heritage' factors, such as voting restrictions and minimum grower shareholding clauses.

However, there is a 15% ceiling on shares held by any party outside the supply co-operative. This restriction is not expected to trigger a discount. The major investors at this level are financial institutions, which commonly work on holdings of no more than 15% and generally do not seek to influence the organisation unless they are worried about its performance.

DFG has also developed a comprehensive, and what it describes as transparent, milk supply agreement. It guarantees farmers' security of milk supply, while at the same time reassuring investors that farmers will be paid a commercially sustainable price for their milk.

Continued next page



The proposed model for restructuring the Dairy Farmers Group.

From previous page

Basic philosophy

Mr Langdon said many co-operatives worked on an underlying assumption that growing value should not be a major objective.

The traditional philosophy was to process members' milk as cheaply and efficiently as possible, keeping just enough in reserve to keep the co-operative solvent and pushing as much money as possible back to members.

Mr Langdon said DFG had always differed from that view: from a 'members as owners' point of view, it was just as important to expand the business and formalise the farmer ownership of that growth.

Issued capital to DFG farmer members has grown from \$9 million to \$150 million in the past 10 years.

Mr Langdon said half the capital issued was in the form of bonus shares, and all the issued capital was earning a healthy dividend, based on the co-operative's profits for the year.

Brave new world

The Equilibrium Model represents the 'brave new world' of co-operative enterprise as it struggles to compete in a globalised market environment.

During turbulent and now deregulated times in the Australian dairy industry, it is also about getting the politics and equity issues right.

It attempts to recognise the needs of dairy farmers who would like to get full market value for their investment in their co-operative, while at the same time offering the security of farmer control to those who have elected to stay in the industry.

"In a deregulated environment, the growth option for Dairy Farmers is absolutely essential for long-term survival," he said.

Overseas experience suggests that those dairy farmers who lose control of their co-operative or fail to respond to the challenges of their evolving marketplace often head rapidly towards extinction.

With the vote on the model to be held in June, we will soon know if DFG's members agree with Ian Langdon. ■

NEW ZEALAND NEWS

WHY DO CO-OP DIRECTORS UNDERPAY THEMSELVES?

A REVIEW of the directors' fees paid by co-operative businesses shows that many small to medium-sized co-operatives pay less than a fair market rate.

Is it altruism or are there other ideas at work? A prolonged case of concern for the welfare of others may have a place in the co-operative environment, but surely that is not the whole story?

Sometimes it might be a reflection of less-than-professional skill levels at the board table and the moderating of fees is seen as 'balancing the books'.

There is often the concern of being challenged by members at the annual general meeting as to how the fees are justified.

There is also the view that below-market fees can justify below-market performance by the board.

Where a co-operative has one or more 'outside' directors, the fees tend to be more in line with general market levels. That would seem to be the realities of the wider world affecting the co-operative.

There does not seem to be any reason why directors of co-operative businesses should receive lower fees than those in any other comparable commercial business.

Co-operative directors are faced with taking decisions like any other director. They have to give clear strategic direction to management, review the business' performance and objectively assess the performance of the chief executive.

Perhaps if directors were rewarded at

market levels they might be inspired to consistently perform to the highest levels.

A similar argument could be made for the pay to co-operative chief executives.

Coming out from under a bushel

Like Australia, NZ recently had a recent visit from Canadian **Tom Webb** about 'Marketing Our Co-operative Advantage'.

Underlying the issues raised by Mr Webb is a need for self-belief.

If our co-operative is a 'real co-operative' (and we have put ourselves to the tests offered by **Edgar Parnell** in 'Reinventing Co-operation'), then we need to feel proud.

That, however, must be supported by policy, practices, training, attitude, board decisions (and attitudes), management decisions (and attitudes) and virtually everything we do. The co-operative character is an integral part of an organisation.

Many co-operatives directors and management feel they can properly fulfil their obligations by reporting to the members on the success and fortunes of the business – after all the members are the ultimate owners.

If co-operatives are to become a real 'movement' (rather than a disparate collection), of which participants can feel proud, there needs to be a commitment to developing a media strategy and involving the media so that the population at large can see the successes of co-operatives.

Don't let people find out by accident that the co-operative is trading well, and don't

assume those outside the co-operative know the facts about the business.

Mr Webb's marketing ideas should permeate the whole of the co-operative to get best value and pride from the success of the business.

Voting time for NZ dairy farmers

It is almost time for NZ dairy farmers to vote on the mega-merger of Kiwi Co-operative Dairies, the NZ Dairy Group and the NZ Dairy Board.

Farmer shareholders have received several publications about the many issues involved in the proposed merger, which needs at least 75% support in order to move to the next stage and have the government pass the special legislation to facilitate the merger and associated arrangements.

That legislation effectively bypasses the consumer watchdog, the Commerce Commission, to deal with the issue at the level of 'national interest'.

The rationale is that since some 95% of NZ's milk production is processed for export, the benefits of the mega-merger should not be in the hands of people who are considering the implication of 5% of production.

The industry seems to accept that there needs to be a visible level of competition within the domestic market, even though it could be some time before there are competing channels of milk supply developed in a deregulated market.

The final information to farmer shareholders is expected soon, with a vote in June. ■

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SUBSTANCE OVER STYLE?

CONGRATULATIONS to Co-operative Development Services director, **Tony Gill**, for his challenging article 'Bringing Balance to the Social Enterprise Debate' (NCU January/February 2001), which touched on several issues of vital importance to the future of co-operatives and the co-operative sector, and to NCU for airing such views.

I must admit at the outset that I am probably one of those commentators to whom Mr Gill refers. I have been arguing of late (along with others, but from an historical perspective), the need for co-operatives to think 'outside the box' and rediscover some of the other reasons for their invention which might differentiate them in crowded markets, apart from being a business model alternative to private-profit enterprise.

Historical trap

History tells us that a co-operative, governed wholly by commercial imperatives and neglectful of its dual democratic-social side, must inevitably transmute into a hybrid, convert to capitalist orthodoxy, be taken over, stagnate or fail outright.

This historical 'trap' is what some commentators, including myself, have referred to as the 'Rochdale Cul-de-Sac'. But, in Australia, where the emphasis of late has been on adjustment to economic restructuring, radical regulatory reform and competition, few in the co-operative movement have had the time or inclination to pay heed to the historical evidence.

Time for a rethink

It is arguable that an emphasis on structure in debates has skewed the whole co-operatives debate to its disadvantage, fixing it upon narrow commercial and legal concerns. This has occurred at precisely a moment in 'post-modern' history when people, particularly the young (tomorrow's) co-operators; are busily dismantling traditional cultural institutions and viewing economic and political edifices askance.

The result has been the alienation of a generation of prospective co-operators, who do not see this option as relevant to their needs and aspirations. This has seen a diminution of interest in co-operatives develop in some administrations and opportunities lost.

It is in this context that some commentators, including myself, have sought to 'rethink' co-operation by augmenting

SNAPSHOT

Co-op historian, Dr Gary Lewis, brings further balance to the social enterprise debate issue raised by Tony Gill in our 'Have your say' section in NCU No. 31.

necessary debates about structure (means) with consideration of outcomes (ends); and by supplementing necessary debate on legal entities called 'co-operatives' with a conversation about co-operative means of achieving socially beneficial outcomes.

This nuance in thinking does not constitute quite the 'either-or' situation *viz a viz* 'social enterprise' and co-operatives that Mr Gill seems to think it does, though I can understand his concern, given the conceptual vagueness attending the 'social partnerships' debate.

It is rather more a case of some devotees of co-operation (many new to the field and this can only be encouraging) seeking innovative ways of making co-operation more relevant to more people.

Theory vs practice

That this carries a risk of 'throwing the baby out with the bath water' is one to which Mr Gill quite rightly alludes. The 'baby' is democratic enterprise, albeit poorly expressed of late through the co-operative vehicle. While co-operatives do not have a monopoly on democratic enterprise – many community services associations, for example, share this quality. They are first and foremost businesses and not instruments of public policy or charity or corporate philanthropy, as Mr Gill quite rightly points out.

In practice, however, co-operatives are whatever members want them to be and what the law permits. It is in this context that I conceive of co-operatives as 'social enterprises': democratic businesses serving members' needs through the provision of goods and services. I also have no difficulty

The task for co-operators, concerned at a concentration of economic power, is to broaden the democratic base of economic activity, not to narrow it by going into a self-survival bunker.

conceiving of co-operatives as part of a broader 'social economy' – that element of overall economic activity, which is neither State-driven nor private profit in orientation.

The need to be 'sociable'

I cannot understand Mr Gill's problem with this notion, though I do share some of his impatience with the overworked 'S' word, largely driven by academics and clerics: 'social entrepreneurs', 'social agenda', 'social capital', 'social partnerships', 'social dividend', 'social exclusion', etc.

Mr Gill's reminder of the need to bring balance to the 'social' enterprise debate is a timely one. Co-operatives, and the co-operative movement, form part of an enduring democratic tradition and should think carefully before accommodating models remote from this tradition.

The task for co-operators, concerned at a concentration of economic power, is to broaden the democratic base of economic activity, not to narrow it by going into a self-survival bunker. To differentiate their 'brand', not have it muddled with generic brands promising something similar.

This presupposes distinguishing co-operatives as democratic, self-help organisations from undemocratic organisations describing themselves as 'social enterprises', even though both might share some common goals and methods. While such views may be dismissed by 'new right' elements as 'old left' cant; as a discredited 'seventies' notion irrelevant to contemporary social needs; the onus is on the former to prove that they have anything better to offer.

Co-operation and co-operatives can point to a splendid historical record of practical achievement and to a future addressing changing needs, firmly rooted in a democratic tradition. They are not about to be subsumed within a 'social enterprise' movement, which employs the rhetoric of co-operation without ever guessing at its substance. ■

Independent co-operatives' historian and commentator, Dr Gary Lewis, is completing a book, Australian Co-operatives in the Twentieth Century, a sequel to his Middle Way, but with a focus on rural co-operatives.

HAVE YOUR SAY

Have an idea about co-operatives you want to communicate, challenge or clarify? Use National Co-op Update as your platform. Write to Chris Greenwood at PO Box 351, North Melbourne, Victoria 3051 or e-mail winwood@ozemail.com.au

WALGETT TO ALLOW MEMBERS' SUPER TO BUY CPUs

AT ITS Annual General Meeting on May 10, members of the Walgett Special One Co-operative (WSOC) adopted rule changes to allow the issuing of Co-operative Patronage Units (CPUs) to grower-owned, self-managed superannuation funds.

WSOC is a grain handling co-operative in north-west NSW. It was established in 1987 to market about 30,000 tonnes of special grain for 40 members. It has since grown to 500 members, with a throughput 650,000 tonnes of grain, cereals and pulses in 1999.

The co-operative issued CCUs to active members earlier this year and the board of directors has expressed great satisfaction with the take-up rate, despite a bad season, due to flood damage to crops during 2000.

The chairman has said that CCUs will be WSOC's major capital-raising instrument, in lieu of share issues or the creation of other entities for specific capital investment.

Following the issue of CCUs, WSOC amended its rules to allow self-managed superannuation funds with an active member involvement to buy its CPUs.

Subject to the requirements of the Australian Taxation Office and the investment portfolios of the superannuation funds, the new provisions will allow the members' funds to invest in the co-operative.

In effect, this will mobilise growers' superannuation funds. It will also help the superannuation funds grow, depending on how much the member patronises WSOC.

The provisions have been drafted so as to promote maintenance of the active member connection and patronage of the WSOC.

The co-operative will benefit through the additional capital and higher patronage, which will enable the WSOC to serve its grower members in a better fashion.

Peter Boland of ACCoRD was responsible for drafting the provisions to enable growers' self-managed superannuation funds to invest in CPUs. He said the project was innovative and needed creative thinking to make the proposal become a reality.

Great care had to be taken in view of the complex legal structures being used by grower members. Some intricate drafting was necessary to provide sufficient checks and balances within the rules for the Co-operative, its members and CPU holders.

Mr Boland said there was a special need to guard against the possibility of double-dipping through active members holding CPUs in their own right, as well as through



their self-managed superannuation fund.

This was circumvented by devising a nomination process, whereby a superannuation fund was required to nominate an active member of the co-operative and the member's WSOC grower number.

The nominated active member must have a connection with the superannuation fund, and the nomination of the member and the member's WSOC number needs to be approved by the Board.

The rules also allow the WSOC board to review the nomination of active members and their grower numbers.

Several complementary rule amendments were also needed to allow the issue of CPUs to the self-managed superannuation funds of grower members. These covered the notification of trusts, inspection of the Register of CCUs, change of addresses, etc.

Several other amendments to the rules of the co-operative had also been drafted by ACCoRD. These relate to the election of directors, dispute resolution process, fixed dealings contracts, by-laws and meeting procedures. These were passed unanimously at the AGM. ■

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New ACCoRD chairman

Uri Windt will replace **Ian Langdon**

as chairman of ACCoRD, following Mr Langdon's resignation due to commitments relating to the restructure of the Dairy Farmers Group.

Mr Windt was a founding member of the Labour Co-operative in Sydney.

From 1987 until 1991 he was the deputy registrar of co-operatives in NSW. Before that he was executive director of Worker Enterprise Co-operation, the body responsible for financing and assisting the formation of employee-owned and managed enterprises. He is also a member of the NSW Co-operatives Council.

ACCoRD to research housing co-operatives

Preliminary discussions are being held about a research project examining housing co-operatives and their role in community housing.

This would provide valuable advice on broader strategic directions for using co-operative structures in housing development.

The first stage of the project will be a literature review. It will provide an overview of the history of housing co-operatives in Australia, particularly NSW.

The housing industry has been one of the areas in which co-operative structures have been used, both to finance and maintain housing schemes.

During the mini building boom of the early 1930s, the NSW Registry of Co-operatives promoted building societies to eradicate slums and stimulate the housing industry.

It formulated the 'Stevens Scheme' for housing co-operation and funded a journal, 'Our Home'. This led to the foundation of the modern NSW building society industry.

The co-operative housing schemes in Mudgee were other successful schemes that used co-operative structures to satisfy housing needs.

With the formation of the Association to Resource Co-operative Housing (ARCH), there was a revival of housing co-operatives in NSW.

ARCH is a second-tier co-operative providing representation, education and resource services for member housing co-operatives in NSW. It has worked closely with the NSW Department of Housing to ensure the promotion of the co-operative model within the context of tenant-controlled housing programs.

It promotes common equity rental co-operative housing, in which the co-operative buys property with loans and each member pays rent to the co-operative to service the loan and maintain the property.

Such housing co-operatives comprise the largest group of the 250 co-operatives formed in NSW during the past 10 years. Nearly 15% of those formed during this period were housing co-operatives.

In this context, research findings would be valuable in understanding the drivers for the growth of housing co-operatives and whether this model is an appropriate future strategy for providing community housing.

It may also provide answers to what support mechanisms are necessary to ensure the long-term viability of the housing co-operatives sector.

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DAIRY FARMERS DECISION MAY AFFECT ACTIVE MEMBERS

THE DAIRY Farmers Group (DFG) has agreed to hold a separate ballot of 'inactive' members on the organisational restructure of the co-operative, following a hearing in the NSW Supreme Court.

There will now be a separate, but simultaneous, plebiscite of inactive members outside the postal ballot for active members.

DFG has reserved its position as to whether such a plebiscite was legally necessary or appropriate.

The restructure proposal suggests forming a supply co-operative, owned by present suppliers and the restructured DFG, which might later be converted into a company to handle milk processing, manufacturing and marketing of dairy products.

Under the proposed scheme, members would exchange 75% of their existing shares for similar shares in a supply co-operative and retain 25% in restructured DFG.

Members holding Co-operative Capital Units would have CCUs equivalent to 75% of their holding in the supply co-operative and shares in a restructured DFG.

DFG's active members represent 85.35% of the total membership, and inactive members 14.65%. Its inactive members usually forfeit their shares after two years of inactive status and have no vote.

The Supreme Court of NSW considered the question of whether any further safeguards of fairness should be introduced into the restructuring process to ensure that the interests of inactive members are protected.

The decision opens the way for the Court to consider a plebiscite of inactive members when considering an application for the approval of a scheme involving the expropriation of inactive member shares.

In this regard, the Court indicated that the statutory provisions restricting the rights of inactive members to vote on a scheme of arrangements involving an expropriation of shares did not indicate that their level of support or opposition was irrelevant.

The Court accepted the NSW Registrar's position that inactive members should not determine decisions about the future direction of the co-operative.

It also accepted the Registrar's submission that the fundamental nature of a co-operative was that members who wanted



and were able to use its services should control its management and destiny.

However, in the case of the DFG scheme of arrangement, the Court held that it was not dealing solely with the co-operative's overall control but "... with the compulsory cancellation of all members' shares up to 75%, including those of inactive members".

In the case of the inactive members, cancellation of their shares would be effected under the scheme before the two-year period required under the co-operative's active membership rules for

cancelling membership and forfeiture of shares.

Regarding decisions about the future direction of a co-operative, which also involved the taking away of membership rights of inactive members, the Court held that the statutory due process must be followed, but in a fair manner.

The question remains as to what weight the Court will give the plebiscite result when making its assessment. It did acknowledge that the number of inactive members in DFG was small, and that a negative vote by them would not automatically mean the scheme had failed.

However, in considering the application for approval of the DFG scheme, the Court indicated that it would weigh up all relevant circumstances in determining the overall fairness of the scheme. This would be from the point of view of all members, active or inactive, giving primary consideration to the result of the postal ballot of active members.

The Court has allowed the scheme of arrangements to be considered by members and ordered a meeting of the co-operative's capital unit holders.

ACCoRD will be monitoring this case, as the outcome has implications for active membership rules of co-operatives. ■

Contact: Peter Boland, phone (02) 9514 5750.

Webb workshop for CUSCAL members

Tom Webb presented a workshop for representatives of the Credit Union Services Corporation Australia Ltd (CUSCAL) on May 9 at the University of Technology, Sydney, Haymarket campus.

The workshop aimed to make participants think about the co-operative nature of their credit unions and how it could be used in marketing campaigns. The workshop was arranged by ACCoRD.

Mr Webb identified the global challenges faced by co-operatives and similar organisations as:

- the emergence of a global economy;
- the mobility of transnational corporations and capital;
- technological advances; and
- the retreat of governments from public ownership, social programs, direct economic intervention and regulation.

In order to meet these challenges, Mr Webb said, credit unions needed to think about differentiating themselves in the market, while gaining advantage from developing technologies and the changing environment.

Mr Webb cited research from Canada, the UK

and the US which found that people valued ethical businesses that adhered to the principles underlying co-operation.

They thought credit unions were needed and saw them as more beneficial to communities than their competitors. However, while a high percentage of people said they would prefer transacting with co-operative organisations, most could not recognise a co-operative.

Mr Webb said such findings represented an advantage, which needed to be taken if credit unions were to grow and prosper.

In effect, character marketing would be preferable to image marketing, as it would build trusting relationship with members, customers and other stakeholders.

The select number of representatives from CUSCAL's 15 member credit unions expressed overall satisfaction with the workshop.

They said it provided a good introduction to the relevant issues and raised many thought-provoking topics. However, it was felt that a series of workshops would be needed to fully examine the issues and develop a marketing strategy based on the different character of credit unions.

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