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Canadian Wheat Board Rating Lowered To 'AA+' From 'AAA' On Reduced Government Support

Rationale

On Jan. 30, 2007, Standard & Poor's Ratings Services lowered its long-term issuer credit rating on the Canadian Wheat Board (CWB) to 'AA+' from 'AAA' based on reduced government support in its policy role as a monopoly seller of western wheat and barley. At the same time, Standard & Poor's affirmed the existing 'AAA' senior unsecured debt and the 'A-1(High)' Canadian national scale and 'A-1+' global scale CP ratings on debt issued by CWB that is guaranteed by the Government of Canada. The outlook is negative.

The ratings on CWB depend on its strong public policy role and demonstrated government support. Government support has been evidenced in CWB's statutorily established role as the monopoly seller of wheat, durum, and feed and malting barley and in the guarantees provided by the federal government on CWB's receivables, borrowings, and floor prices to producers. These guarantees have mitigated CWB's lack of paid-in capital. Recent developments, however, have threatened CWB's monopoly status and weakened the level of support from the federal government it previously enjoyed. The Conservative Party, which formed a minority government in January 2006, had made an election commitment to enable western Canadian grain farmers to sell directly to the grain market and has taken a number of steps in the last year that suggest it is very possible CWB could lose its monopoly status.

The federal government began to act on that commitment beginning in September 2006 with the appointment of a taskforce to examine options for the implementation of marketing choice and its relations with CWB began to deteriorate. Since then, the government has banned CWB from advocating on its own behalf, terminated the employment of CWB's president and CEO, and announced its intention to hold a plebiscite on the marketing of barley early in 2007. Although the Conservative's minority government requires the aid of an opposition party if it is to make changes to the Canadian Wheat Board Act, the act that defines and governs CWB, Standard & Poor's expects that government support of CWB will continue to deteriorate as long as the current government lasts.

The threat to CWB's federal guarantees (on borrowing, receivables, and floor prices) from World Trade Organization driven efforts to reform global agricultural trade has receded for the time. The guarantees had been challenged during the Doha round of talks, which effectively collapsed in 2006 with a low likelihood of being restarted in the near term.

As the only entity empowered to market and sell wheat and barley produced in western Canada for both export and domestic human consumption, CWB is one of the world's largest exporters of wheat, accounting for about one-fifth of the world's wheat exports. As a legislated monopoly, CWB serves 85,000 wheat and barley farmers and provides economies of scale in distribution and financial operations.

CWB is a shared governance corporation, whose 15-member board of directors consists of 10 members elected by farmers and five (including the president) appointed by the government. Support for CWB remains strong among most of its farmer constituency. In the recent election for five farmer representatives to the board of directors, four of the five positions were won by candidates who support the retention of the single desk monopoly. Currently, supporters of the existing single desk monopoly have a narrow majority on CWB's board of directors.

Outlook

The negative outlook reflects Standard & Poor's expectation that, given the desire of the government to reform the wheat market and the current strained relations between the government and CWB's board, the level of support from the federal government for CWB and its current public policy role will not recover to a level that is consistent with a 'AAA' rating in the near term and could deteriorate further. The future role, commercial strategy, and organization and financial strength of the CWB in a "marketing choice" scenario are uncertain at this time. The success of the government's efforts to impose change on the CWB in the near term will depend much on farmer support and the near-term political fortunes of the minority Conservative government. In the medium term, the ratings trajectory will turn on the outcome of a possible federal election, farmers' support for its monopoly position, and on any changes to its commercial strategy, corporate structure, and operational profile. These would include the level of capital CWB can raise and, finally, the expected time frame for withdrawal of one or more government guarantees.

Ratings List

Ratings Lowered

	To	From
Issuer credit rating	AA+/Negative/—	AAA/Negative/—

Ratings Affirmed

Commercial paper

Canadian scale	A-1(High)
Global scale	A-1+

Senior unsecured	AAA
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