

25 August 2005

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Chairman  
PGA Western Graingrowers  
Pastoralists and Graziers Association of WA  
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Dear Leon

Thank you for the opportunity for WEA Members and me to meet with you and your colleagues on Wednesday 17 August 2005.

As mentioned at our meeting, the WEA considers there are inaccuracies in the ACIL Tasman report "Marketing Western Australian Wheat" that the WEA believes should be publicly corrected. These relate to the role of the WEA and its performance monitoring function and findings.

The report incorrectly accredits the WEA with responsibility for the Wheat Industry Benchmark (WIB) and the administration of the remuneration arrangements.

The WIB was developed by AWB(I) and AWB Ltd as a means to measure the pool performance. The WEA had no involvement in the development or its application. Accordingly, the benchmarks referred to on page xiii are not the WEA's benchmarks. While the WEA utilises and reports on the WIB outcomes, the WEA also conducts its own analysis and assessment of AWB(I)'s performance, including an independent verification of the WIB results. This was detailed on page 5 of the WEA's 2003 Growers' Report and on page 6 of the WEA's 2004 Growers' Report

AWB(I)'s remuneration model was developed and agreed as a commercial negotiation between AWB(I) and AWB Ltd. The WEA was not involved in this process and this is acknowledged on page xii of the report. The WEA does not administer the remuneration arrangements, nor is it responsible for incentives to drive AWB(I)'s performance, as stated on pages 16 and 40 of the report.

The report does not appropriately reflect the WEA's price discrimination analysis. The measurement of a firm's ability to price discriminate is always a complex task. The WEA has undertaken two forms of assessment. A qualitative assessment of whether AWB(I)'s strategies are consistent with creating the environment for price discrimination to occur was undertaken and reported on page 10 of the WEA's 2003 Growers' Report.

For quantitative assessment, there is no single agreed measure of price discrimination, so the WEA uses two commonly employed approaches: the 'pricing to market' test and the 'price discriminating monopolist model'. These techniques were used in the National Competition Policy review of the Single Desk arrangements undertaken in 2000.

Any 'premiums' obtained from price discrimination will be generated from a number of factors including, among other things: AWB(I)'s marketing; the inherent quality of the product; and product availability.

Given this bundle of factors that may affect price discrimination, in presenting the results the WEA has focused on relative movements of the price discrimination results over time, rather than the absolute values generated from the two evaluative techniques. The results are reported on pages 10 and 11 of the WEA's 2003 Growers' Report and on page 5 of the WEA's 2004 Growers' Report.

The two price discrimination techniques use prices actually achieved by AWB(I) in the market place. The techniques do not directly refer to the comparison grades used in the WIB sub-benchmark and so the quality related criticisms made by ACIL Tasman on pages xii and 43-46 are not valid.

Additionally, the price discrimination chart referred to on page 44 of the report does not represent the difference between the actual prices achieved by AWB(I) and the benchmark grade prices against which they are compared.

In providing comment on an early draft of the report, the WEA explained to the ACIL Tasman consultant that Figure 1 on page 5 of the WEA's 2004 Growers' Report showed AWB(I)'s price discrimination performance and Figure 2 on page 6 showed the difference in prices achieved by AWB(I) against its competitors. The WEA also stated that these two charts reflected different aspects of AWB(I)'s price performance and could not be reconciled.

I look forward to your consideration of these matters and, should you wish to discuss any of these matters further, please feel free to contact the WEA on (02) 6272 4400.

Yours sincerely

Glen Taylor  
Chief Executive Officer