

To  
**Productivity Commission Inquiry into the Australian Government  
Research and Development Corporations Model**

by  
**Australian Beef Association Inc**

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## a view of **farmers**<sup>1</sup>

“Although **farmers** benefit greatly from agricultural research, relatively few have substantial expertise or experience in the conduct of agricultural research.

Many (**farmers**) are involved in on-farm trials of new technologies or systems, but these only provide a narrow perspective on the R&D process, as such trials usually occur late in the R&D process.

The important links between basic or strategic research and applied research (Pannell 1999) would not be clear to many **farmers**.

Evidence about the high economic returns on investment (ROI) in agricultural R&D is largely unknown to **farmers**.

**Farmers** tend to express a preference for highly applied research and extension addressing short-term problems, whereas evidence indicates that basic-strategic research is likely to provide greater rates of return in the long-term (Huffman & Evenson 1993).

The long time lags involved, the variation in success of research projects, and uncertainty about where particular technologies or information come from, would all contribute to the difficulty that **farmers** have in fully appreciating the long-term benefits of agricultural research.

All of these factors are likely to contribute to under-investment in agricultural research by the farming sector. Even research that will generate benefits rapidly is likely to be under-appreciated by **farmers**. Thus, the levy system, while it addresses the problem of free-riding well, does not deal with all reasons for under-investment.”<sup>2</sup>

<sup>1</sup>**farmers – the people who pay the levies**

<sup>2</sup> MLA Submission to Productivity Commission, June 2010

## **Australian Beef Association Inc**

The Australian Beef Association is a national, body, focused on improving profitability for the beef industry by giving control and ownership of industry projects and policy back to members. Membership of ABA is voluntary. All ABA activities are funded by its 680 members.

### **Terms of Reference**

This submission will primarily address:

- To consider the effectiveness of the current R & D model
- To consider any impediments to the efficient and effective functioning of the RDC model and scope for improvement in governance and management

### **Executive Summary**

This is an evaluation of the R& D program managed by Meat and Livestock Australia.

Timely, quality R & D and associated extension to industry is of vital importance to the future of Australian agriculture and the wider meat industry.

- 1) MLA has spent about \$700 m on R&D since its inception in 1998
- 2) MLA has commissioned about 4,000 R & D projects since that time.
- 3) MLA has completed reports for about 260 or 6% of projects
- 4) Ninety four percent (94%) of R & D projects and expenditure is not accounted for.
- 5) About \$650 m of producers' and tax payers money is unaccounted for.
- 6) R & D that cannot be accessed, for all practical purposes, does not exist.
- 7) A \$700 m R & D program that has few (about 15%) accessible records cannot be evaluated.
- 8) MLA management has failed in its duty to manage the R & D program
- 9) The MLA Board of Directors has failed in its duty to members.
- 10) Cattle Council of Australia, Red Meat Advisory Council among others have failed in their duty to oversee this expenditure on behalf of Australian cattle producers and tax payers.
- 11) The Federal Government must immediately initiate reforms of the meat industry structure. The failure of MLA's R & D program is symptomatic of an industry structure that has failed levy payers, the meat industry, taxpayers and the wider Australian community.

### **MLA R & D Expenditure**

Expenditure on R & D represents about a third of Meat and Livestock Australia's annual expenditure. It is one of MLA's core functions and is vitally important to Australian agriculture and the wider food industry.

MLA has spent more than \$700m on R & D and commissioned and estimated 4000 R & D projects in the past decade.

This estimate is based on the limited and inconsistent information available in MLA Annual Reports.

1998/9 R&D expenditure and project numbers not stated in the Annual Report  
1999/0 R&D expenditure and project numbers not stated in the Annual Report  
2000/1 R&D expenditure and project numbers not stated in the Annual Report  
2001/2 R&D expenditure and project numbers not stated in the Annual Report  
2002/3 R&D expenditure and project numbers not stated in the Annual Report  
2003/4 R&D expenditure and project numbers not stated in the Annual Report  
2004/5 R&D expenditure and project numbers not stated in the Annual Report  
2005/6 Annual Report listed R &D expenditure for the previous four years.

2001/2	\$45.6m
2002/3	\$53.1m
2003/4	\$65.4m
2004/5	\$78.0m
2005/6	\$80.6m

2006/7 MLA Annual Report stated: MLA spent \$71.3m and commissioned 444 new projects.

2007/8 MLA Annual Report stated: MLA spent \$69m and commissioned 412 new projects and completed or terminated 436 projects. The 2007/8 Annual report also stated MLA had 464 "live" R&D projects valued at \$99.1m on June 30 2008.

2008/9 MLA Annual Report stated: MLA spent \$62.8 million on R & D Commissioned 194 new projects and completed or terminated 382 projects. There were 276 "live" projects valued at \$75.1m on June 30 2009.

**So where is all this R & D located? Where can farmers, scientists, meat processors and meat retailers access this information? Where can agricultural marketing, commerce and science students access this information?**

The Managing Director says the MLA website is the definitive source of R & D information.

"All non confidential MLA research projects and associated final reports will be available online and revised search screens will provide you with information on non confidential, completed MLA R&D projects. Final reports will be available for download to MLA members free of charge and to non members at a small fee."

MLA Managing Director, October 2005

The Managing Director reaffirmed this instruction at the 2008 MLA AGM held in Orange, NSW.

According to the managing director the web based data base is the definitive source for farmers, scientists and students looking for the latest R & D.

### **What does the MLA R & D data base show?**

The data base can be accessed on at: <http://www.mla.com.au/General/Search/Advanced>

Search results:

- The data base lists 580 R & D projects under the option "All projects".
- The data base lists 485 R & D projects under the option "Completed projects".
- Analysis of the list of "Completed projects" reveals 53% have a report that is accessible on the internet.\*

In Summary

- Of MLA's estimated 4,000 R & D projects, 580 or 15% are listed on the data base.
- Of MLA's estimated 4,000 R & D projects, about, 260 or 6% have a report on the data base
- There is no record for more than 3,500 MLA R & D projects.
- Ninety four per cent (94%) or about 3,760 projects do not have a report on the data base.
- In financial terms, this missing R & D represents in the order of \$700 million of levy payer and public funds.

Notes on MLA R & D data base

Research Partners: MLA research partners/contractors who have a listed project, that should have been completed by June 2009 but where no report is available include:

AWI  
CSIRO  
QDPI&F  
Land & Water Australia  
CRCs- Beef, Sheep, Plant and Salinity  
NSW DPI  
Numerous private consultants

Producers Initiated R & D Projects. PIRDS are on-farm trials/projects normally run by a group of farmers with the assistance of a technical coordinator.

The 2002/2003 MLA Annual report claimed MLA had funded 185 PIRD projects. The data base lists 95 PIRD projects.

Less than 50% of PIRD projects have a report.

\*Estimated by sampling 124 of 485 Completed projects. The MLA data base was accessed late June early July 2010.

## What does MLA say about its R & D programs?

MLA claims it has commissioned external reviews of its R & D program and that these reviews have reported that the R & D program is well managed and consistent with government and MLA objectives and performance criteria.

External Reviews commissioned by MLA

1)

*3 Year review of Performance* June 2010 For: Meat & Livestock Australia, Prepared By: Arche Consulting Pty Ltd in association with Michael Clarke, Richard de Vos and Anne Skipper.

This is a 86 page document. A word search of the text found about 45 references to R & D.

This report states:

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The MLA Evaluation Framework uses program logic (based on an assessment of objectives, inputs, outputs, KPIs and outcomes) along with benefit cost analysis across the triple bottom line (market returns, environmental and social impacts). The MLA Evaluation Framework accommodates both a top down and a bottom up approach. This approach has been well suited to a process that encourages active engagement in evaluation processes. The MLA Evaluation Framework is consistent with accepted Council of Rural Research and Development Corporation Chairs Guidelines and evaluation practice.

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The MLA Evaluation Framework has encouraged a focus on outcomes rather than outputs within MLA and has driven portfolio management changes at a program level. It provides the beginnings of a consistent and comprehensive framework for accountability and there is evidence of focusing effort such as an increased recognition that adoption is of critical importance in much of the company's R&D efforts.

In addition to the implementation of the company wide evaluation framework, the Livestock Production Innovation team commissioned evaluations of a random sample of 800 projects. Results from this random sample, using an alternative evaluation approach, are available on the MLA website. The Client Innovation Services business unit has undertaken a number of independent commercial validations of the benefits of off-farm project outcomes. The results of these studies are being disseminated to the processing sector as part of the group's strategies to facilitate adoption.

This report seems to say that MLA's R & D is well managed and received by stakeholders.

2)

*Independent Review of the Effectiveness of the Additional \$1.50 Beef Marketing Levy* Prepared for the Beef Marketing Funding Committee and Meat and Livestock Australia Ltd, by Warwick Yates and Associates Pty Ltd April 2009. This is a 134 page report. A word search of the text found 14 references to R & D and no comments regarding the effectiveness or accountability of MLA \$700 m R&D expenditure. The report notes that about 20% of growers' levies are directed to R & D.

The report makes few comments about R & D but in its conclusion it states:

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(D) Has the additional beef marketing levy generated benefits to the industry?  
As long as the additional marketing funds are well targeted and their application is cost effective, \$5 per head is a relatively cheap marketing (and R&D) cost. It enables

Australia to position itself for a significant share of beef consumption increases in North Asian and SE Asian markets as economic recovery occurs.

The Beef Marketing Funding Committee used this report to recommend that the \$5.00 levy be retained because it believed that MLA was performing so well.

3)

MLA's own Review

In the MLA submission to the Productivity Commission June 2010, MLA states:

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MLA (and previously MRC) has a long history of evaluating individual R&D projects. In 2005 MLA commissioned an independent review of its evaluation process and the MLA Evaluation Framework was developed as a result.

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Section 2.1.2 Unique attributes of the agricultural sector cause a high prevalence of market failure in the rural RD&E marketplace

The inaugural review into MLA's performance has just been completed and concluded that:

- A structured approach had been followed by MLA in the development of its Strategic and Annual Operating Plans and that these plans align with government research and development priorities and the industry priorities established in the Meat Industry Strategic Plan (MISP).
- MLA has the support of its Peak Councils and key stakeholders, and is viewed as a valuable contributor to the red meat industry. MLA directors and staff are perceived highly by stakeholders as skilled professionals working for the benefit of industry.
- The MLA Board is open and transparent. The Board has policies and procedures to guide its operations and has been committed to improving governance at all levels.
- MLA has been diligent and meticulous in meeting the requirements of the company's Statutory Funding Agreement with the Commonwealth.
- MLA has developed and implemented a comprehensive approach to assessing value for money from past investments.

In addition to MLA's performance review requirements and formal reporting to DAFF as specified in the SFA, DAFF can also influence MLA's activities and governance procedures through a range of informal mechanisms. MLA proactively seeks input from DAFF through regular meetings to discuss its Strategic and Annual Operating Plans and through the more formal mechanism of the annual R & D forum.

MLA considers that the current level of DAFF involvement in imposing, monitoring and enforcing governance requirements is appropriate.

MLA emphatically states it is doing an excellent job of managing its R & D.

### **How valid are these conclusion?**

It is impossible to make a valid evaluation of MLA's R & D program without access to a comprehensive R & D data base of projects, project reports and associated financial and management documents.

MLA has spent million of dollars in performance audits and evaluations. None of these evaluations refer to the R & D reports or supporting administrative and financial documentation. None refer to the R & D data base – the definitive source of information according to the Managing Director.

How did these performance auditors evaluate MLA's R & D program without a comprehensive list of projects, project status and financial information projects?

The value and honesty of statements by MLA management and independent auditors must be questioned given the absence of the basic information needed to evaluate the R & D program.

## **But what does MLA really know about its R & D programs and management?**

“This growth (in R & D) means it is no longer practical or cost-effective to produce printed lists of the company's extensive work.”

MLA Managing Director, October 2005

This is essentially an admission that MLA does not keep accessible records/a data base that tracks the technical or financial status of its multi million dollar R & D program.

Producing a printed list from a data base is five minutes work. The Managing Director knew this when he made the statement.

This statement is an admission that the essential records of thousands of R & D projects, do not exist in an accessible or usable form.

R & D that cannot be accessed, for all practical purposes, does not exist.

A \$700 million R & D program that has no accessible records cannot be evaluated.

Note –The contrast with the Meat Research Corporation's 1995-1996 Project Guide is extreme. MRC listed 400 projects for the year. They listed the contact, the objective and a Final Report or Summary for each project. MLA have gone backwards on accountability.

### **Who is Responsible?**

Under corporation law and under the terms of the meat industry MoU a number of bodies are responsible for the performance of MLA and its individual programs.

The total failure of the MLA's R & D program has occurred despite the ongoing endorsement of MLA Management, the MLA Board and Peak Council - Cattle Council of Australia.

#### **Management**

MLA management is responsible for the day-to-day allocation of R & D funds, monitoring the progress of projects and ensuring that each project is completed in accordance with the contract.

Management is responsible for keeping records and is also responsible for making R & D findings available to the farm, researchers, students and the general community.

MLA management must be held responsible for this failure at the operational level. It may also be responsible for failing to advise the board that more resources were need to administer the R & D program.

#### **MLA Board of Directors**

The Board of Directors is responsible for the governance, operational and financial performance and accountability of the Company.

Included in these responsibilities is the annual \$70 million expenditure on R& D - about a third of MLA's total annual expenditure.

This function is impossible without the basic information needed to make judgments.

If the information was not available it was the Board's responsibility to make provisions to make it available.

Either way, - lack of information or faulty evaluation of existing data – the Board has failed in its duty to stakeholders and taxpayers.

#### **Cattle Council of Australia**

In its own words CCA says:

Cattle Council evaluates the performance of and planning of the strategic goals to be pursued by levy funded bodies, Meat and Livestock Australia, Animal Health Australia and the National Residue Survey.

CCA does this through its Development & Extension Taskforce, an eight person committee that specialises in research, development and extension issues.



CCA believes MLA's R & D program is well managed.

In its submission to the Productivity Commission it states:

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#### 9 Governance Arrangements of RDCs and the Role of Peak Councils

Cattle Council has an important role in monitoring levy expenditure and believes that successful, functional RDCs depend in part upon successful, functioning Peak Councils.

Cattle Council sees the cattle transaction levy as an investment in the future of the beef cattle industry. CCA's role is to work with service providers to maximise the return on investment from producer levy expenditure that funds in part the operations of MLA, Animal Health Australia (AHA) and the National Residue Survey (NRS). By working to maximise return on levy dollars, Cattle Council is also working to maximise return on the taxpayer dollars that match industry funding.

Cattle Council's broad membership base through the State member organisations means that service delivery bodies are kept accountable to all of Australia's beef cattle producers.

Industry services bodies such as MLA are accountable to both Government and Peak Councils.

Cattle Council believes that the added level of scrutiny provided by industry organisations increases the absolute need for RDCs to utilise all income as effectively and efficiently as possible.

Cattle Council scrutinises MLA's RDE budget through an internal research and development taskforce. We also scrutinise the marketing budget, together with other councils and members of the beef supply chain, through a marketing taskforce.

These taskforces then report to CCA and CCA reviews and, if satisfied, approves the MLA annual operating plan.

Cattle Council believes that this level of scrutiny, combined with MLAs reporting requirements to Government, would compare favourably with the statutory obligations of the RDCs administered under the PIERD Act.

#### 10 Improvements in the RDC model

Cattle Council believes that the RDC model is fundamentally strong and does not require significant structural change, but recognises there is room for improvement.

Cattle Council is working with MLA and other organisations to continuously improve beef industry RDE, including placing greater emphasis on monitoring and evaluation, uptake and adoption

CCA provides no evidence of how it scrutinises MLA's R & D program. It provides no meaningful description of the processes CCA adopts to evaluate the programs. CCA has never commissioned an independent review of MLA functions.

What documents has CCA viewed and evaluated to reach the conclusion MLA's R & D is well managed and delivering value for money? What MLA systems has it evaluated? What skills and processes does CCA have to evaluate these programs?

The dismal state for MLA's R & D confirms CCA has failed in its duty to Australian beef producers and tax payers.

## **Conclusion**

By its own admission, the documentation of MLA's R & D program is severely deficient.

The fact that only 580 or 15% of 4,000 projects are listed and that only 260 or 6% have a report is testimony to the failure of this program.

Without these documents it is impossible to evaluate the R & D program.

The Board of Directors of MLA and the Peak Councils are ultimately responsible for this failure of policy and execution. These boards have had key roles in the Meat Industry Structure for more than a decade.

The stresses facing the R & D program were obvious to the MLA Managing Director at least five years ago. The Board of MLA and the Peak Councils had sufficient time and resources to address the shortcomings. They failed to act.

At the specific level, the Board of MLA and the Peak Councils have failed in their duty to levy payers and the wider industry and should be dismissed.

At a wider level, the failure of the MLA Board and the Peak Councils to fulfill their statutory duties is a predictable result of the dysfunctional Meat Industry Structure. (See Meat Industry Structure Diagram)

This structure is so complex it cannot make meaningful policy, execute programs or account for its multi million dollar expenditure.

The structure is fundamentally flawed because its decision-making bodies are accountable to no one. The individuals who fund its programs have no representation on its main boards.

The failure of MLA's R & D program was inevitable, given the turgid mess of boards and committees that directed and oversaw its operations.

Attachment:

Meat Industry Structure (Industry Structurev3.pdf)

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