

13 August 2010

Mr Philip Weickhardt  
Presiding Commissioner  
Productivity Commission  
Locked Bag 2, Collins Street East  
Melbourne VIC 8003

Dear Mr Weickhardt

**Re: The Australian Beef Association's submission to the Inquiry into Research and Development Corporations**

I am writing in response to the submission by the Australian Beef Association (ABA) to the Productivity Commission Inquiry into the Australian Government Research and Development Corporation Model. I am most concerned about the inaccuracies contained in the submission and I want to take this opportunity to correct these claims.

One of Meat & Livestock Australia's (MLA) key roles is to invest in targeted research, development and extension (RD&E) activities and facilitate industry-wide adoption of RD&E outcomes to deliver quantifiable public and private benefits. Since its inception in 1998, MLA has invested in R&D funded by industry levies, matching government investments, processor contributions and private investment.

**MLA can account for every dollar of its R&D investment**

ABA claims in their submission that MLA has spent \$700 million on R&D and that \$650 million of producers' and tax payers' money is unaccounted for. This claim is false. All of MLA's total R&D spend since inception is accounted for, as evidenced by:

- MLA's financial performance undergoing rigorous external third party audits every year, as detailed in MLA's annual reports.
- MLA's governance having been developed and implemented with regard to the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (2<sup>nd</sup> edition).
- The recent independent performance review of MLA by Arche Consulting, which stated that MLA meticulously meets the obligations of the Statutory Funding Agreement in regard to fraud and risk, and specific compliance policies and procedures are embedded in the company relating to Commonwealth matching payments of R&D.
- Project milestones in R&D contracts being signed off by the responsible MLA R&D manager before milestone payments are awarded.

Based on the above, MLA strongly disputes ABA's assertions that \$650 million of producer and tax payer money is unaccounted for.

## Confusion over number of projects

The majority of ABA's submission concerns MLA's R&D projects. ABA claims MLA has performed over 4,000 projects and makes further comments about the number of reports available on the database for these reports, drawing the conclusion that the percentage of reports for completed projects is very low.

MLA is uncertain how ABA extracted the 4,000 project figure. The ABA submission states it was derived from MLA's annual reports. ABA's submission provides a yearly breakup, for example, in 2008-09 ABA states MLA commissioned 194 new "projects" and completed or terminated 382 "projects" and there were 276 live "projects".

However, MLA's annual reports clearly state these are not projects but are contracts. This distinction is important as projects often have multiple contracts – up to as many as 200 for any one project. Clearly, contract numbers do not reflect project numbers and therefore the ABA project number is false, and by extrapolation, their claims that 94% of projects have no final reports available is also false.

The MLA R&D database does not include every project commissioned by MLA since 1998 because:

- The database has only been active since 2004. Older projects with only hard copy final reports are being uploaded into the electronic system and in the meantime MLA is happy to provide copies of these reports (if they are public) on request; for example, producers can request copies of all reports on a specific topic.
- There are a number of project reports that are not publicly available – particularly where commercially sensitive or commercial-in-confidence information is included. As such, none of the MLA Donor Company (MDC) reports are included in the database. Between June 2008 and December 2009, 30 per cent of MLA's R&D projects were MLA Donor Company projects. Outcomes from MDC projects however are disseminated and made available to the broader industry via detailed adoption and commercialisation plans. There are also numerous examples of MDC project outcomes being featured in MLA's member magazine, *feedback*, and other MLA publications. In addition, MLA has developed a dedicated off-farm website ([www.redmeatinnovation.com.au](http://www.redmeatinnovation.com.au)) in collaboration with the Australian Meat Processor Corporation (AMPC) to showcase the outcomes of our extensive off-farm portfolio. Finally, more specific details of the processor-funded R&D undertaken by MLA is communicated directly to processors via the AMPC website ([www.ampc.com.au](http://www.ampc.com.au))
- Some projects (often involving many contracts) do not include a final report. For example the outputs specified from the More Beef from Pastures and Making More From Sheep communication and extension projects were to develop a series of practical producer deliverables such as workshops or manuals. Other R&D outcomes are distilled into practical producer information and tools, making the R&D more accessible and practical for the intended audience – producers.
- Some projects are terminated before they are completed if the project is unlikely to yield the expected outcomes. This measure is taken to conserve R&D funds. In this instance, a final report is not written.
- Many R&D projects are carried out over an extended number of years (eg projects with CRCs can take place over seven years) hence the lag between commissioning the research and releasing the final report.
- A streamlined process to upload completed reports to the R&D database has been developed as part of MLA's recent web rebuild project. Now the new website is live, MLA is working to ensure all recent publicly available final reports are uploaded as quickly as possible.

Other program areas that are funded by research dollars that do not have final reports associated with them include the provision of detailed market information and analysis to support producers and other supply chain business to make informed business decisions; and the sponsorship of undergraduate and postgraduate scholarships to develop the scientific and leadership skills of producers, processors and scientists.

Based on the above, MLA strongly disputes ABA's assertion that only 6 per cent of MLA's R&D projects can be accounted for.

### **MLA's R&D database is one of many delivery mechanisms for R&D outputs**

The ABA has stated that the documentation of MLA's R&D program is severely deficient. This is false.

The MLA R&D database is not the only resource available to producers to access our publicly available R&D reports. As stated above, MLA extracts the key findings from R&D outputs, packages them into practical information and tools, and communicates these to producers and processors through a variety of accessible channels including forums, workshops and publications.

To meet the needs of our primary producer levy payer audience MLA has channelled resources into providing practical, relevant and timely information gained from R&D via:

- our suite of magazines – *Frontier*, *Prograzier* and *feedback*
- A case study-driven program delivered to MLA members on DVD – *feedbackTV*
- a series of *Tips & Tools* fact sheets, producer manuals and information books
- online tools and calculators.

Based on the above, MLA strongly disputes ABA's assertion that R&D cannot be accessed.

### **The evaluation of R&D programs is based on sound foundations**

#### *MLA's independent evaluation framework*

As cited in MLA's submission to the Productivity Commission, MLA has commissioned independent evaluations across its key activities – including its R&D activities. The evaluations have been carried out by the Centre for International Economics (CIE), who accessed all the necessary information to perform an independent evaluation without utilising the public R&D database. CIE sourced the necessary information from MLA's annual operating plans (available on MLA's website), by consulting extensively with industry, MLA's internal project management databases, producer awareness and adoption KPI surveys, and records from external funding providers and statistical sources.

#### *Three year performance (prepared by Arche Consulting)*

This independent external review was undertaken in accordance with MLA's Statutory Funding Agreement (SFA) with the Australian Government. The final report is available on MLA's website.

During the review, MLA provided assistance to Arche Consulting so it could access all necessary records and information – including the abovementioned independent evaluations carried out by CIE. A wide range of industry stakeholders, including ABA, were consulted during the conduct of the study.

Key findings from the review included:

- *Through a series of independent evaluations, MLA has been able to demonstrate value for money to levy payers from investments in on-farm research and development. (page 17)*
- *The structures (MLA and the Australian Meat Processor Corporation working with sector participants) enable a responsive off-farm R&D program, that has a mix of*

*industry-wide projects and tactical, jointly funded work that encourages innovation. (page 22)*

- *There is evidence that off-farm R&D projects have been managed, assessed and terminated appropriately. The group has taken steps to manage projects using ex-ante analysis and reassessment of key assumptions throughout the project life. This approach should continue to be implemented and improved. (page 23)*
- *MLA meets the obligations of the SFA (Statutory Funding Agreement) in regard to fraud and risk, and specific compliance policies and procedures are embedded in the company relating to Commonwealth matching payments of R&D. (page 40)*

*Independent Review of the Effectiveness of the Additional \$1.50 Beef Marketing Levy (prepared by Warwick Yates and Associates)*

On page 6 of their submission, the ABA reference the review carried out in 2009 to examine the effective use of the additional \$1.50 beef marketing levy by MLA. Obviously the scope of this report did not include reviewing the effectiveness of MLA's R&D expenditure.

*MLA's submission to the Productivity Commission (June 2010)*

The ABA has taken a number of references out of context in MLA's submission to the Productivity Commission on 25 June 2010 about the role of farmers in R&D. MLA is owned by producers and we take pride in servicing the R&D needs of producers and the wider industry. In our experience, producers are very appreciative of practical R&D that addresses industry issues and problems and can be applied to real life situations. MLA makes great efforts to deliver this.

The Pannell 1999 reference on the second page of the ABA submission refers to the research process and that farmers are often only involved in the last phases of research when there is a practical outcome that can be applied to their situation.

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). However, this research is expensive, long term and more uncertain in terms of outcomes. MLA ensures that we maintain a mix of applied and strategic research.

Based on the results of the independent evaluations carried out, MLA strongly disputes ABA's assertion that it is impossible to make a valid evaluation of MLA's R&D program without access to a comprehensive R&D database of projects, project reports and associated financial and management documents.

### **The MLA Board and management oversees R&D**

The ABA's claim that the MLA Board is unable to fulfil its functions of governance, operational and financial performance and accountability of MLA due to lack of information is, again, false.

One of the Board's functions is to approve and monitor significant expenditure and commitments under agreed programs. At its monthly meeting, the Board scrutinises significant new R&D projects before making a decision to approve or decline them. In addition the MLA Board takes part in a six-monthly 'R&D Health Check' whereby the Board monitors the progress and budgets of significant R&D projects. Highlights and concerns that managers have on progress in individual projects are reported to the Board at each meeting on an exception basis, from which the Directors can seek further information through questioning of General Managers.

While the Board is advised of the details of all new R&D contracts at its monthly meeting, it is not feasible or appropriate for the Board to be involved in monitoring all of MLA's 400 plus live R&D contracts. Rather, that role rests with MLA's R&D managers who are responsible for the day-to-day allocation of R&D funds, monitoring the progress of projects and ensuring project milestones are achieved in accordance with the contract.

Large projects must be approved by the MLA Executive Team with the R&D manager responsible for their day-to-day management and for ensuring milestones are achieved before progress payments are awarded.

Based on the above, MLA strongly disputes ABA's assertion that MLA management and the Board have failed in their duty to stakeholders and tax payers.

### **The industry structure is appropriate**

Peak councils (Cattle Council of Australia, Sheepmeat Council of Australia, Australian Lot Feeders' Association, Australian Meat Industry Council, Australian Livestock Exporters Council and the Goat Industry Council of Australia) play an important role at MLA by providing policy direction, scrutinising budgets and monitoring MLA's performance on behalf of the red meat industry. Importantly, peak councils keep MLA accountable and are a crucial link to the levy stream that funds our projects.

The structure of the meat industry enables the peak councils to concentrate on policy issues related to their sector and at the same time contribute to cross-sectoral issues (through the Red Meat Advisory Council) while providing input to the activities of the service delivery companies (MLA, LiveCorp and the Australian Meat Processor Corporation). The structure fosters interaction and collaboration within the industry.

MLA reports to government through half yearly meetings with DAFF and at MLA's R&D forum with government where MLA presents its progress on R&D to DAFF and other departments including finance, treasury and climate change.


### **In closing**

In conclusion I want to reiterate that every dollar of MLA's R&D expenditure is accounted for. All R&D contracts and projects are monitored to ensure milestones are achieved in accordance with the contracts, and the MLA Board is kept informed of progress on MLA's key R&D activities. The outputs from publicly available R&D are communicated to producers in a variety of channels – MLA's R&D database is only one of these channels. MLA's evaluations have been carried out independently, underpinned by a wide array of information and data sources. Peak Councils perform a critical role in monitoring MLA's performance.

I trust this letter corrects the false assertions made in ABA's submission.

Should you wish to discuss any of the above issues with me further please do not hesitate to contact me or my Managing Director David Palmer on 02 9463 9232.

Yours sincerely



**Don Heatley**

Chairman

Meat and Livestock Australia