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26 November 2010

Inquiry into Rural Research  
and Development Corporations  
Productivity Commission  
Locked Bag 2  
Collins Street, East  
Melbourne VIC 8003

Dear Sirs,

**RE: Submission On Rural Research and Development Corporations Draft  
Productivity Commission Report**

This submission is made on behalf of the United Beef Group of concerned beef producers formed earlier this year following a beef forum attended by over a thousand cattle producers in Armidale NSW in February 2010 and a follow up forum held at Paradise Lagoons Rockhampton QLD in July 2010 attended by over five hundred cattle producers owning over 1.5 million head of cattle.

The attached Beef New Directions Strategic Plan refers to the Productivity Commission's enquiry and sets out a strategy for the restructure of the red meat industry research and development corporations (RDC's) which are seen to have significant government governance and accountability issues under their current structures.

The practice of carrying out levy funded research and development and marketing activities in industry bodies such as Meat and Livestock Australia (MLA) gives rise to significant corporate governance issues as does the application of research and development levy funds coupled with government contributions for the benefit of private corporate research and development with the benefits of that research being retained by the recipient of the funding and not shared with the industry as a whole, which is seen as asking some levy payers to cross-subsidise their competitors research and development projects.

Some levy paying members are rightly or wrongly seen as receiving favourable treatment for their research and development projects and in some cases Meat and Livestock Australia spend core funds on project studies in members, factories or farms, the benefit of which is

Principal

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Thursday, 2 December 2010

retained by that member which naturally is seen by many to give those favoured members an advantage over their competitors.

These concerns are exacerbated by the oppressive structure of the MLA board selection and voting structure which allows the peak councils to heavily influence the board selection process and voting entitlements structure based upon the amount of levies paid which allows thirty or forty of the largest cattle producers/processors/feedlotter to outvote the majority of the ten to fifteen thousand MLA members registered to vote (compared to the 150 thousand entitled to vote) on crucial governance issues including the amount of levies to be paid.

The issue of the dominance of the larger corporations has been addressed in the Australian Meat Processor Corporation (AMPC) by the establishment of two registers for the election of the board members. Voting entitlements for one register being decided on one member one vote basis and the voting entitlements for the second register being relevant to the quantum of levies paid by the particular member.

Proposals to deal with the issues outlined above are set out in pages 21 to 22 of attached the Strategic Plan and the proposals regarding the restructure of the MLA and other red meat or industry organisations are dealt with on pages 11 through to 20 of the Strategic Plan.

The proposed restructure of the MLA to form separate sheep and beef corporations in the red meat industry is in line with the majority of rural industry owned corporations (IOC's) which are single sector corporations.

The principles set out on page XV111 of the Overview of the Draft Productivity Report that industry levy arrangements have long been recognised as a means to help ensure that all primary producers who benefit from research contribute to its cost has been turned on its head in the red meat industry RDC's. Both the MLA and AMPC use levy funds to fund private corporate member research and development the benefit of which is retained by the recipient on a commercial in confidence basis.

This issue is recognised and addressed on page XL11 under Draft Recommendation 8.6, which calls for RDC's to commission an independent performance review at least every three years to show that research outcomes have been made sufficiently accessible to all levy payers and other researchers.

The red meat industry is one of the few rural industries in which processors pay statutory levies. As the AMPC suggests in their submission to the enquiry, many meat processing firms have substantial in house R & D programs which suggests that there is little evidence of free rider issues.

Given the governance and equity concerns outlined about regarding favourite recipients retaining the benefit of levy funded research contributed, at least in part, by their competitors it would seem prudent both from a public benefit and governance point of view for the red meat processor levies to be abolished especially given that processor levies are likely to be passed back to producers in the form of lower prices for their animals.

The abolishment of red meat processor statutory levies would also of course negate any need for government matching contributions.

Thursday, 2 December 2010

Certainly it is difficult to see how a case can be bought for the continuation of government matching contributions for levy funded private corporate research the benefit of which is retained by the corporation and not spread throughout the industry.

Moreover if the proposal set out in the attached Strategic Plan regarding centralisation of research and development through an independent rural industry statutory corporation were adopted and matching government funding was limited to private voluntary industry research that was able to demonstrate an achievable whole of industry benefit it would result in a more equitable outcome from both the tax payer and industry point of view.

Yours faithfully,

***Norman Hunt***

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