

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

by

**Australian Beef Association Inc**

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Australian Beef Association makes this submission in response to issues raised and requests for information in the Productivity Commission's Draft Report September 2010.

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## **Background**

This submission is made in response to the Productivity Commission's Draft recommendations, specifically Recommendation 8.1 and 8.7 and in part to 9.1.

Recommendation 8.1 sets out a schedule of what a competent, accountable and diligent RDC should do on behalf of levy payers, taxpayers and the wider community.

Recommendation 8.7 sets out a set of reporting processes/benchmarks to evaluate an RDC's performance with respect to achieving the objectives set out in 8.1 above.

Recommendation 8.7 includes an information request.

*The Commission seeks further input on what 'intermediate' sanctions could be used to address ongoing underperformance by a Rural Research and Development Corporation prior to any withdrawal of public funding for the entity concerned.*

## **Introduction**

Why have an industry organisation?

ABA accepts that the cattle production industry, specifically cattle producers, can benefit from an industry organisation.

Support for an industry organisation is based on the belief that for a sustainable production sector there are many issues producers need to address collectively. The beef production industry includes hundreds of thousands of producers, manages a significant part of the Australian land mass and provides red meat protein for 100s of millions of humans.

Australian beef producers need an industry organisation that among other responsibilities provides guidance and to some degree funds Research and Development relevant to beef producers' needs.

The challenge is to design and operate an industry organisation that actually delivers useful outcomes for producers and the wider community.

The industry body envisioned by ABA is very different from Meat and Livestock Australia. MLA is an industry (producers, processors and retailer) organisation.

MLA and the wider red meat industry structure are obsolete. They were designed to service a red meat industry that may have existed 40 years ago. (Attachment 1)

Today's red meat industry is very different. MLA is unable to adapt to the commercial, environmental and social realities of today's world. Its failure to deliver credible R & D outcomes for producers is just another measure of MLA's irrelevance.

## **The Issues**

ABA has identified three key issues that affect the performance of MLA as an R & D manager. ABA suggests options to address each issue to improve MLA performance and accountability.

The three key issues are:

- 1) Industry Structure
- 2) Deed of Agreement
- 3) Partitioning of Levy

The core problem is the industry structure. ABA recognises that the wider industry structure is beyond the immediate issue before the Productivity Commission.

However, ABA believes that any recommendations made by the Productivity Commission with respect to MLA must be mindful of the way the industry agri-political organisations and MLA are structured and funded.

### **1) Industry Structure**

MLA's poor accountability with respect to its R&D expenditure is in part due to its wider need to conceal the identity of individuals and organisations that it funds.

The whole meat industry structure is fundamentally flawed. The system is a closed loop where money is fed-in by producers but the allocation of funds and evaluation of activities and outcomes is determined by the beneficiaries of the funds.

Cattle Council of Australia states on its website:

"Cattle Council, as the peak body representing Australia's beef producers, continually scrutinises the activities and performance of MLA."

A beef producer cannot be a member of CCA. CCA does not publish accounts. Its accounts are not available to beef producers. CCA does not disclose the source of its funds. CCA does not disclose how it allocates its budget. But levy payers fund CCA.

CCA is a Peak Council. It claims to "scrutinise" MLA's operations. CCA appoints one person to the Selection Committee that appoints members to the MLA board. Its appointee to the Selection Committee is also part of the group that selects the one nominee that beef producer can vote onto the MLA board.

Clearly the CCA representative, on the Selection Committee is required to ensure individuals nominated to the MLA board will look after the interests of CCA. By definition: "Cattle Council, as the peak body representing Australia's beef producers . . . What's good for CCA is good for beef producers!"

CAA has been paid hundreds of thousands of dollars by MLA to fund Cattlecare. The extent of this funding (or other MLA funds directed to CCA) is unknown as MLA does not publish a schedule of R&D and CCA does not publish accounts.

CCA has one of five seats on the Red Meat Advisory Council board that is itself funded by producers' levies. The CCA representative on RMAC votes on the allocation of RMAC funds to Peak Councils. The CCA member on RMAC voted to allocate CCA \$542,414 in 2009 and \$682,421 in 2008.

The relationship of CCA to MLA is mirrored to varying degrees by the other Peak Councils. All peak Councils have a vested interest in the existing system and voting themselves funds from RMAC and supporting MLA to ensure funds for their activities, irrespective of the benefits for producers.

Part of the problem is that the producer Peak Councils (CCA and SMC) are in reality "subcommittees" of the state based farm organisations (VFF, NSW Farmer etc). State farm organisations are struggling to attract members. It is estimated less than 5% of beef producers are members of a state farm organisation.

Similarly RMAC is a subcommittee of Peak Council representatives. To some degree the Board of MLA is a “derived subcommittee” given that its board members are appointed by members of subcommittees.

Under the existing industry structure these subcommittees – constituted and described as boards - collectively spend about \$180million of producer’ funds each year but are not accountable to anyone – particularly the producers who fund them.

#### *ABA Recommendation 1*

*That the Productivity Commission recommends to the Commonwealth that it dissolves the existing red meat industry structure.*

*That the Commonwealth initiate a process to provide beef producers with an industry organisation with the capacity to provide positive outcomes where collective action is required.*

## **2) Deed of Agreement**

On April 13, 2007, MLA signed a Deed of Agreement with the Commonwealth of Australia. (Attachment 2)

The deed sets out the conditions under which the Commonwealth will make R & D payment to MLA.

The enforcement of the conditions in this deed would go a long way towards achieving the Productivity Commission’s objectives as set out in its Draft Recommendation 8.1.

This deed defines the level of accountability required of MLA and gives the Commonwealth the power to investigate/audit the activities of MLA with respect to its R & D management and expenditure.

Clause 7 of the Deed covers the Application of Funds. It makes specific reference to R & D funds and states among other requirements that funds are to be spent: “in a manner that is efficient, effective and ethical.”

Clause 8 provides for the termination of fund payments. This clause allows the Commonwealth to reduce or terminate MLA’s R & D funding for a variety of reasons.

Clause 10 gives the Commonwealth Auditor General the power to monitor MLA’s compliance with the deed. The Auditor General is empowered to access MLA’s premises and records. MLA is required to provide access to its premises and records.

Clause 17 covers audit and compliance reports. Clause 17.6 provides for the Commonwealth to request an audit report or opinion if the Commonwealth suspects a breach of the deed.

#### *ABA Recommendation 2*

*That the Productivity Commission recommends to the Commonwealth that the Auditor General initiate a performance review of MLA’s R & D management, estimated at \$700 million of expenditure for the period 1998 to 2010.*

### 3) Partial Withdrawal of Funding

The current cattle transaction levy (\$5.00 per transaction) consists of four legally recognised components. (Attachment 3)

For beef producers (grass) this levy has four components that are raised and directed for specific purposes. The breakdown for grass fed producers is:

Animal Health Australia	\$0.13
R & D Levy	\$0.92
Marketing Levy	\$3.66
National Residue Survey	\$0.29
TOTAL	\$5.00

The marketing levy was recently reviewed and adjusted.

The R & D component of the levy represents about \$10 million or 18% of MLA cattle transaction levy revenue. MLA total income (levies and government contribution) is about \$160 million.

Withdrawal of MLA's right to levy producers for poor performance or non compliance in R & D management that would put MLA, the Peak Councils and RMAC under significant pressure to meet their performance and accountability obligations. Withdrawal of its R & D funding would not undermine MLA's other functions, unless R & D funds are being misused. Alternative options may include the collection of the levy but the withholding of all or part of the R & D component by DAFF.

A 100% cancellation of the R & D component of the levy would reduce the transaction levy to \$4.08. MLA's total expenditure would be reduced by about \$20 million (levy reduction and the Federal Government's matching grant).

#### *ABA Recommendation 3*

*That the Productivity Commission implement the procedures needed cancel collection or withhold the forwarding of the R & D components of the Cattle Transaction levy as a sanction to enforce performance and disclosure requirements on MLA.*

Attachments:

- 1) Red Meat Industry Structure Diagram
- 2) Deed of Agreement Commonwealth & Meat and Livestock Australia
- 3) Beef Transaction Levy Components

END