

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

by

**Australian Beef Association Inc**

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Australian Beef Association response to  
recent information released by Meat & Livestock Australia regarding its R & D  
programs and expenditure.

26 Desmond Lane  
P O Box 446  
Oakey Qld 4401  
T: 07 4691 2618  
F: 07 4691 3814  
E: [austbeef@netspace.net.au](mailto:austbeef@netspace.net.au)  
W: [www.austbeef.com.au](http://www.austbeef.com.au)

## **Executive Summary**

Meat Livestock Australia recently published a partial schedule of R & D completed in the year 2009-10

The schedule provides selected project titles. It does not show the cost or the beneficiary of each contract. The schedule states it excludes an unspecified number of contracts.

Many of the contracts described as R & D are for administrative and promotional activities, not R & D

Some of these administrative and promotional contracts were for politically contentious projects promoted by the board of MLA and the Peak Councils. There is a potential conflict of interest for MLA and Peak Councils in approving R&D funding for these projects.

MLA spent almost \$2 million of Federal R & D funds on "Corporate Services" and "Communicating with Stakeholders" in 2009-10. The brief description provided suggests most of these activities were not R & D.

\$17 million, or about a quarter of MLA's 2009-10 R & D budget was allocated to organisations associated with nine of the 12 individuals who served as MLA board members in the year 2009-10. Individually and collectively MLA board members had a major conflict of interest every time they considered matters relating to R & D.

Australian Beef Association requests the Productivity Commission recommend the Minister instruct the Auditor General to investigate MLA's \$700 million R & D program.

## Introduction

Since the release of the Productivity Commission Draft report in September 2010, MLA has release three documents that relate to R&D:

- 1) *Completed R&D contracts for 2009-10 financial year* (Attachment 1)
- 2) *MLA, Annual operating plan Final report 2009-10* (Attachment 2)
- 3) *MLA Annual Report 2009-10* (financial report) (Attachment 3)

*Completed R&D contracts for 2009-10 financial year* is the only schedule of R & D published by MLA since its inception in 1998. Read in conjunction with *MLA, Annual operating plan Final report 2009-10*, this partial schedule provides a limited understanding of R & D funded by MLA.

These documents provide little specific information with respect to MLA's expenditure on R&D but raise serious questions about the allocation, administration and outcomes of the program.

## What the documents say

***Completed R&D contracts for 2009-10 financial year*** (Attachment 1).

### Comments on schedule

- 1) The schedule provides a reference number and short title.
- 2) MLA states some projects are omitted from the schedule. The introduction states: "A number of administrative, confidential, operational or capital related contracts have not been listed." MLA gives no reason why these categories should be omitted.
- 3) There are 209 contracts on the list. (Allowing for the double listing mentioned below)
- 4) The gross value of the projects is about \$53 million.
- 5) A summary of the expenditure (Gross & Federal Matching Funds) grouped by Objective is listed on the table on the following page.

(The values in the list are based on a common sense application of the information presented in *MLA, Annual operating plan Final report 2009-10* to the schedule of completed R & D contracts.)

- 6) There seems to be an error in the schedule of completed R & D contracts. Contracts with AOP Contract codes 1.1 appear twice, once under the Objective headings "Enhancing product integrity" and again under the heading "Maximising market options for producers and exporters in the livestock export trade".

**MLA R&D Expenditure by Strategic Imperative and Objective, showing gross expenditure and Federal matching contribution.**

	Gross	Gov Component
Imperative: Increasing market access		
1.1 Enhancing product integrity (Objective)	\$4.414M	\$2.207M
1.2 Maintaining and liberalising access to world markets <i>none reported</i>	\$372K	\$186K
1.3 Maximising market options for producers and exporters in the livestock export trade	\$1.728M	\$864K
Imperative: Growing demand		
2.1 Improving eating quality	\$4.044M	\$2.022M
2.2 Enhancing the nutritional value of red meat	\$864K	\$432K
2.3 Developing new products	\$1.366M	\$683K
2.4 Promoting industry integrity <i>none reported</i>	\$160K	\$80K
Imperative: Enhancing competitiveness and sustainability		
3.1 Increasing cost efficiency and productivity – on farm	\$12.488M	\$6.244M
3.2 Increasing cost efficiency and productivity – off farm	\$2.006M	\$998K
3.3 Improving industry and market information	\$2.499M	\$1.250M
3.4 Ensuring sustainability	\$7.506M	\$3.75M
3.5 Science for the future. This category was reallocated to Objectives 3.1 and 4.2 in the 2009/10-year.		
3.6 Improving biosecurity, animal health and welfare	\$4.08M	\$2.041M
Imperative: Increasing industry capability		
- 4.1 Increasing adoption of R&D outcomes	\$5.29M	\$1.288M
4.2 Building world-class skills and innovation capability	\$2.577M	\$1.288M

**R & D Expenditure on Corporate Services & Communication with Stakeholders**

The following categories of R & D expenditure are not listed on the R & D schedule but appear in the *MLA Annual operating plan Final report 2009-10*. (Pages 53-57)

	Gross	Gov Component
Communication with Stakeholders	\$1.538M	\$769K
Corporate Services	\$2.397M	\$1.199M

## Discussion

### Interpretation of project title

The brief titles provide little information about the contract. There is no information about the beneficiary of the funds or the quantum of funds allocated to each contract.

The following comments are based on a general knowledge of the history and current situation with respect to various issues.

A brief survey of the MLA R & D database shows most of the contracts listed do not have a report.

The basic question is: Are these contracts legitimate R & D under the definitions in Schedule 3 of the Deed between the Commonwealth and MLA?

### Contracts associated with NLIS

1.1V.NLI.1010,1020,1030,1040,1050; 1.1 V.NLS3002; 1.1 V.SMA1006; 1.1 V.NLI 1-31, 1032,1051. And 4.2 B.NBP.0509

#### *Background*

NLIS is the National Livestock Identification Scheme. All cattle, prior to leaving their property of birth are required to be fitted with a radio frequency tag that carries a unique ID number. All cattle movements, property to property and property to point of slaughter must be reported to the NLIS database that is managed by MLA.

NLIS was operational in Victoria in 1999 and has been fully operational and mandatory at all levels of the production and processing chain, on a national basis, since 2005.

NLIS is a politically contentious program. It is strongly supported by the Peak Councils\* but opposed by many producers and processors because it provides little practical marketing value or protection from exotic diseases. Audits of NLIS suggest that more than 30% of cattle lose their lifetime traceability.

MLA has consistently declined to reveal the cost of operating the NLIS service that includes the database. MLA continues to decline to do a performance audit of the system.

#### *Are NLIS contracts still legitimate R & D?*

The hardware, software and operational requirements for NLIS were developed more than 10 years ago. All the technology and systems to operate or enhance NLIS can be purchased off the shelf. It is inconceivable that any aspect of the NLIS system needs R&D.

Contract titles such as: NLIS Helpdesk, technical support communications database development and status codes would seem on first inspection to be operational activities and not R & D.

Project 4.2 B.NBP.0509 This producer demonstration site explaining the management benefits of NLIS, five years after it was fully operational and mandatory, is little more than public relations.

\*Peak Councils, including Cattle Council of Australia do not publish financial statements. Requests for financial statements by ABA have been ignored. The funding of CCA is a secret. There is evidence MLA has funded CCA through R & D in the past. It is not known how much money CCA has received from MLA under the guise of R&D.

### **Contracts associated with LPA/NVD**

1.1V.LPA 2010, 1.1LQH0810, 1.1V.LIM.1002

#### *Background*

Livestock Production Assurance (LPA) and National Vendor Declaration (NVD) are part of a QA system for livestock producers. Producers selling stock are required to make formal declarations regarding the health status of their livestock. This system has been operational and mandatory since 2004.

#### *Are these contracts R & D?*

LPA primarily provides an electronic/paper trail for QA purposes. This QA system is well past its R&D stage. MLA refuses to disclose the cost of operating the LPA/NVD system. MLA refuses to commission an independent performance audit. Contracts with titles such as; telephone costs NVD 1800 hotline and NVD operating funds are operational and administrative activities, not R&D.

### **Contracts associated with MSA**

2.1 V.MSD 0901, 2.1V.EQT1004, 1006, 1008 1001, 1002, 1003; 21. V.MSC.2010,

#### *Background*

MSA is an eating quality grading system for beef. MSA was launched in the commercial market place pre 2000. The whole system is based on consumer sensory tests.

*Over 50,000 consumers have participated in MSA consumer testing providing scores on 350,000 beef samples from 35,000 individual cuts.*

*MLA Tips and Tools, November 2000.*

#### *Are these contracts R & D?*

The sensory testing that underpins MSA was completed in the 1990s. Contracts with titles such as; beef for sensory testing, conduct of consumer sensory testing of beef and lamb and preparation of sensory testing samples are hardly R & D a decade after and the bulk of the sensory testing was completed.

The skills and experience to run sensory tests can be purchased off the shelf.

If a meat processor chooses to test a cut for marketing purposes, it is a straightforward commercial decision. It is not R & D that warrants government funding.

### **Contracts associated with BREEDPLAN**

31.B.BFG 0032, 0039

#### *Background*

BREEDPLAN was developed in the 1980s and widely adopted by the commercial cattle breeding industry by the mid 1990s. The promotion and extension of BREEDPLAN has been in the hands of seed stock producers, AI centres and breed societies for more than a decade. BREEDPLAN is widely described and reported in the press and has been standard content in secondary and tertiary cattle breeding texts for a decade.

#### *Is the promotion of BREEDPLAN R & D?*

BREEDPLAN is no longer R & D or new cutting edge technology that needs explaining to mainstream cattle breeders. The promotion/extension of BREEDPLAN is a commercial decision for users. BREEDPLAN no longer needs government subsidies, particularly in southern Australia where it has its greatest uptake.

## **MLA, Annual operating plan Final report 2009-10** (Attachment 2)

This document provides an overview of MLA marketing and R& D expenditure. It provides some additional information on how and where MLA spent its R & D funds.

### **Expenditure on Communications and Stakeholders**

*MLA, Annual operating plan Final report 2009-10* states MLA spent almost \$2 million of Federal R&D funds under the headings of Corporate Services, and Communicating with Stakeholders. These activities are described on pages 53 to 57 and in the summary table on the last page.

MLA does not provide a schedule of the specific projects to which the Federal funds were allocated.

Corporate services include HR, IT infrastructure, briefing the board of directors, managing the budget. Expenditure under the heading of Communication with Stakeholders includes buying advertising in newspapers, producing press releases, underwriting MLA publications, funding travel to MLA's AGM and the MLA website.

A common sense interpretation of the activities would be that they are normal corporate administrative and communications activities. This is not R & D. The Australian public would have received little benefit.

## **MLA Annual Report 2009/2010**

The Annual report provides little detailed information on how MLA spends its R & D funds. Its R & D expenditure is summarised in a table that contains six numbers that provide the only breakdown of its \$82.3 million expenditure. (Page 14)

In the Financial Report, the section on Director and Executive Disclosures, Related Party Transactions (Page 72) states MLA had 12 directors during 2009-10. The schedule of Related Party Transactions shows that organisations associated with nine of the twelve directors received R & D funds from MLA. The MLA board has nine directors and the managing Director.

The value of these transactions in 2009-10 was \$17 million. In 2008-9 the value of Related Party Transaction was \$5 million.

Members of the MLA Board directed \$17 million or about a quarter of MLA's R & D budget to organizations associated with nine of its directors.

Individually and collectively MLA board members have a major conflict of interest every time they consider R & D funding issues.

It is not known how much R & D funding is directed to activities promoted by Peak Councils.

**Conclusion & Recommendations: Next page**

## Conclusion

- The partial disclosures it has been forced to make in recent time indicate there are major problems with the setting of R & D priorities and the allocation of levy payers' and government funds.
- Australian Beef Association contends MLA has spent a substantial proportion of its Federal R & D funding on projects that are not R & D under the definitions set out in Schedule 3 of the Deed of Agreement between MLA and the Commonwealth (Attachment 4).
- About a quarter of MLA's R & D expenditure is directed to organisations associated with its directors. Nine out of twelve individuals who served on the MLA board in 2009-10 had a conflict of interest in the overall allocation of R & D funds. About a quarter of MLA's R & D funds were directed to organisations associated with these directors.

ABA contends it is impossible for the board of MLA to make rational judgments about R & D priorities and allocations when the majority of directors have an interest in the outcomes.

- Peak Councils, some state agriculture departments and individuals on the MLA board have been powerful political advocates for struggling programs such as NLIS and MSA.

MLA board members and the Peak Councils have a conflict of interest when required to make decisions about R & D expenditure.

## Recommendation

Australian Beef Association requests the Productivity Commission recommends that the Minister instruct the Auditor General (as set out in the Deed) to investigate MLA's \$700 plus expenditure on R & D.

The investigation must include:

- An analysis of the purpose, beneficiaries, outcomes and cost of projects/contracts
- An evaluation of the public and private benefit of individual projects
- An investigation of the administrative and board processes that determined the allocation of funds

### ATTACHMENTS:

Name	File Name
1) Completed R&D contracts for 2009-10	MLA R & D Report 2009/2010
2) MLA, Annual operating plan Final report 2009-10	MLA AOP 2009-10
3) MLA Annual Report 2009-10 (financial report)	MLA_ANNUAL REPORT 2010
4) Deed of Agreement MLA and Commonwealth	MLA & Comm R&D Deed-of-agreement

END of Submission