



Meat & Livestock Australia

Submission to the Senate Rural and Regional Affairs and Transport References Committee

Inquiry into industry structures and
systems governing levies on grass-
fed cattle

28 February 2014

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ACRONYMS

ABARES	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
AGM	annual general meeting
AHA	Animal Health Australia
ALFA	Australian Lot Feeders Association
AMIC	Australian Meat Industry Council
AMLC	Australian Meat and Livestock Corporation
AMPC	Australian Meat Processor Corporation
ASX	Australian Securities Exchange
BISP	Beef Industry Strategic Plan
BSE	bovine spongiform encephalopathy
CCA	Cattle Council of Australia
CIE	Centre for International Economics
CRC	Cooperative Research Centre
CSIRO	Commonwealth Scientific and Industrial Research Organisation
Deed	Deed of Agreement between Australian Government and Meat & Livestock Australia
FTA	free trade agreement
GICA	Goat Industry Council of Australia
ICA	industry collaborative agreement
KPI	key performance indicator
LPA	Livestock Production Assurance
MISP	Meat Industry Strategic Plan
MLA	Meat & Livestock Australia
MOU	Red Meat Industry Memorandum of Understanding
MRC	Meat Research Corporation
MSA	Meat Standards Australia
NABRC	Northern Australia Beef Research Council
NLIS	National Livestock Identification System
NRS	National Residue Survey
PC	Productivity Commission
R&D	research and development
RD&E	research, development and extension
RDC	research and development corporation
RMAC	Red Meat Advisory Council
RMCI	Red Meat Co-Investment Committee
SCA	Sheepmeat Council of Australia
SAMRC	Southern Australia Meat Research Council
US	United States

EXECUTIVE SUMMARY

Meat & Livestock Australia (MLA) has prepared this submission for the Senate Rural and Regional Affairs and Transport References Committee to consider as part of its inquiry into industry structures and systems governing levies on grass-fed cattle. The submission seeks to provide information to Committee members on MLA's programs and operations in relation to the management of the grass-fed cattle levy.

MLA invests more than \$50 million in grass-fed cattle levies each year in marketing and R&D programs that create opportunities for livestock producers. Of the \$5 per head grass-fed cattle transaction levy, the Department of Agriculture disburses \$3.66 to MLA to invest in marketing programs and \$0.92 in R&D programs (matched by Australian Government funding). MLA's marketing and R&D programs are designed to deliver strong returns back to the farm gate.

MLA offers a number of broad principles for the Committee to consider relating to levy investment, consultation, governance and effectiveness. These can be broadly summarised as follows:

Transaction levies invested in marketing and R&D programs help address market failure in the cattle industry

The fundamental rationale behind levy investment is to address instances of market failure where the return on an investment includes a greater industry or public benefit. Instances of market failure are especially prevalent in Australia's livestock industries due primarily to issues of scale and the predominance of small- to medium-sized enterprises, and the long time-lags often associated with a return on marketing and R&D investments.

Levies of appropriate scale and invested strategically are an important device for effectively positioning the industry over the long term

Levy investments make up a relatively small percentage of total industry investments in marketing and R&D by private enterprises and government organisations, and compared to the industry as a whole. However, the outcomes of appropriately directed levy investments can generate outsized returns and effectively position the industry over the long term. This is demonstrated through the impact of programs such as Meat Standards Australia, MLA market information and marketing in northern Asia.

Strategies and priorities around levy investment are developed in close consultation with government, industry representatives and levy payers to deliver maximum benefit

Under the terms Red Meat Industry Memorandum of Understanding, the Australian Government and livestock industry participants have a clear strategic planning process to identify and act to address industry priorities. A range of other consultative processes – including industry taskforces and R&D consultation arrangements – provide opportunities for industry and levy payers to influence the investment of cattle industry levies.

Levy investments are governed by rigorous and transparent processes

MLA's governance, strategy and funding responsibilities are specified in its Deed of Agreement with the Australian Government. The Deed clearly lays out MLA's responsibilities in having a skills-based Board that adds value and in maintaining a five-year and annual corporate planning and reporting process that provides transparency for government and industry stakeholders.

1. BACKGROUND

1.1 About this submission

On 12 December 2013, the Senate moved that the following matters be referred to the Rural and Regional Affairs and Transport References Committee for inquiry and report.

The industry structures and systems governing the collection and disbursement of marketing and research and development levies pertaining to the sale of grass-fed cattle set out in subsections 6(1)(a), 6(1)(b), 6(2)(a) and 6(2)(b) of Schedule 3 (Cattle transactions) of the *Primary Industries (Excise) Levies Act 1999*, including:

- a. the basis on which levies are collected and used
- b. the opportunities levy payers have to influence the quantum and investment of the levies
- c. industry governance arrangements, consultation and reporting frameworks
- d. recommendations to maximise the ability of grass-fed cattle producers to respond to challenges and capture opportunities in marketing and research and development

This submission has been prepared by Meat & Livestock Australia (MLA) in response to the Senate inquiry's terms of reference in order to provide information to Committee members on MLA's programs and operations in relation to the management of the grass-fed cattle levy. This information is supported by a number of case studies presented throughout the document outlining the history and outcomes of several major MLA investment programs.

1.2 About the grass-fed cattle industry

The grass-fed cattle industry is one of Australia's largest rural industries. According to the 2011-12 census, Australia had 38,752 specialised beef cattle farms (including feedlots), 6,526 mixed beef cattle and sheep farms and 11,552 mixed grain-sheep or grain-beef farms (ABS, 2013).

These producers continue to face a challenging and volatile trading environment. The dominant current issue for most Australian cattle producers has been a prolonged drought and subsequent surge in cattle supply. Cattle numbers that had built up over the previous two good seasons have flooded into the feedlots, saleyards and direct to works, as producers ran out of options given depleted water and feed. This saturated market place saw prices drop considerably, not because of a lack of demand, in fact processors were experiencing record levels of demand from global customers, but because processors had more livestock than the current infrastructure and labour force could accommodate.

In cattle production, Australia has significantly higher on- and off-farm costs of production than our major North and South American global competitors. MLA analysis in late 2013 estimated that when compared to the United States, Australian industry has labour costs at around twice the average wage, diesel costs approximately 30 to 35 per cent higher and shipping costs to Japan approximately 48 per cent higher. Given its relatively high-cost production systems and off-farm costs, the Australian industry is simply unable to match the price competitiveness of beef from the United States, Brazil or India. The challenge for the Australian industry is to differentiate its product sufficiently to attract a premium in global markets while at the same time mitigating the impact of these high costs of production through increased productivity and cost-effective regulatory systems.

While domestic consumers still make up Australia's largest single market, more than two thirds of all beef production is exported to approximately 100 countries around the world – hence, maintaining international competitiveness is a critical challenge. After growing strongly in the early 2000s, the total value of the domestic market has been relatively stable in recent years with approximately \$6.6 billion in sales per year. In contrast, despite a very high Australian dollar and global economic challenges in major developed economies, international demand for Australian beef has grown significantly in recent years with total beef export values of \$5.1 billion (FOB) in 2012-13.

Market access and integrity issues continue to have a major influence on Australia's international beef competitiveness. Australia enjoys an almost unique position in global trade, being free from major cattle diseases that have shaped access around the Pacific Basin – particularly bovine spongiform encephalopathy (BSE) and foot and mouth disease. This freedom from disease status and industry and government's best practice integrity systems have helped Australia maintain access particularly to Asian markets where access has been denied or restricted for some of our major competitors.

This access helped to boost the Australian industry and trade to new heights in the mid-2000s, as the absence of the US from key Asian markets created significant opportunities for Australian beef. Australia's "clean, green" image also assisted over the past 12 months in being one of the factors leading to strong growth in exports to two of Australia's fastest growing markets in China and the Middle East.

While enjoying access to markets due to disease freedom and product integrity, Australian beef exporters continue to face other major trade access barriers. In particular, these include volume quotas and high tariffs in Europe; a 38.5 per cent tariff in Japan; and competitive disadvantage in China, Taiwan and Mexico where competitors have secured more favourable access arrangements. In addition, technical barriers (such as export establishment accreditation, product shelf-life restrictions and labelling issues) proliferate across numerous export markets – in some cases significantly hampering trade prospects with a recent MLA review finding that 136 high impact trade barriers have a total cost estimated at \$1.3 billion in loss of sales.

1.3 About MLA

MLA is a producer-owned company that delivers marketing and research and development (R&D) services for Australia's cattle, sheep and goat industries. Its mission is to create opportunities across the cattle, sheep and goat supply chains by optimising the return on the collective investment in marketing and R&D.

MLA was established in 1998, and is the declared marketing and R&D body under the *Australian Meat & Live-Stock Industry Act 1997*. Alongside the Commonwealth of Australia, Cattle Council of Australia (CCA), Sheepmeat Council of Australia (SCA), Goat Industry Council of Australia (GICA), Australian Meat Industry Council (AMIC), Australian Livestock Exporters Council (ALEC), Australian Lot Feeders Association (ALFA), Australian Meat Processor Corporation (AMPC) and Australian Livestock Export Corporation (Livecorp), MLA is a party to the Red Meat Industry Memorandum of Understanding (MOU) that records the roles, responsibilities and obligations of the signatories to the agreement.

MLA operates in accordance with the requirements set out in its Deed of Agreement 2012–2016 (Deed) with the Commonwealth of Australia (dated 15 October 2012) and it is incorporated under the *Corporations Act 2001* as a public company limited by guarantee.

MLA has more than 48,780 producer members including 41,460 who are engaged in the raising, finishing or trading of grass-fed cattle. It is not an industry representative body, nor does it lobby government, set livestock prices or regulate the industry.

MLA invests in programs that grow demand for Australian beef, lamb and goat globally and maintain and improve market access. It invests in R&D programs that increase productivity across the supply chain and support the industry's integrity and sustainability.

1.4 MLA funding, expenditure and reserves

MLA received \$162.2 million to invest in marketing and R&D programs in 2012-13. This funding comes from several sources:

- transaction levies on livestock sales
- Australian Government dollar-for-dollar matched funding for R&D investments
- co-investments by processors, livestock exporters, wholesalers, food service and retailers
- commercial investments by individual businesses along the supply chain

MLA's major revenue streams over the past three years – including grass-fed cattle levies – are outlined in the following table.

Source	2012-13	2011-12	2010-11
Grass-fed cattle levies	\$54.2m	\$52.5m	\$56.2m
Other livestock levies	\$39.6m	\$39.3m	\$39.9m
Government contributions	\$39.2m	\$40.3m	\$40.3m
Other sources	\$29.2m	\$27.8m	\$31.0m
TOTAL INCOME	\$162.2m	\$159.9m	\$167.4m

MLA invested \$165.8 million in 2012-13 in marketing and R&D programs across MLA's four strategic imperatives. These strategic imperatives are outlined in detail in MLA's *Corporate Plan 2010—2015* which has been developed to closely align with the *Meat Industry Strategic Plan 2010—2015* (MISP), the industry's five-year strategy that aims to take advantage of growth drivers, and the Australian Government's National and Rural R&D Priorities.

Total expenditure and grass-fed cattle levy expenditure are outlined in the following table:

Funding	2012-13	2011-12	2010-11
Marketing (grass-fed cattle levy)	\$44.9m	\$50.0m	\$48.0m
R&D (grass-fed cattle levy)	\$11.5m	\$12.2m	\$11.2m
EXPENDITURE (grass-fed cattle levy)	\$56.4m	\$62.2m	\$59.2m
Marketing (total incl all levy streams)	\$86.2m	\$92.4m	\$90.4m
R&D (total incl all levy streams)	\$79.6m	\$78.6m	\$76.1m
EXPENDITURE (total incl all levy streams)	\$165.8m	\$171.0m	\$166.5m

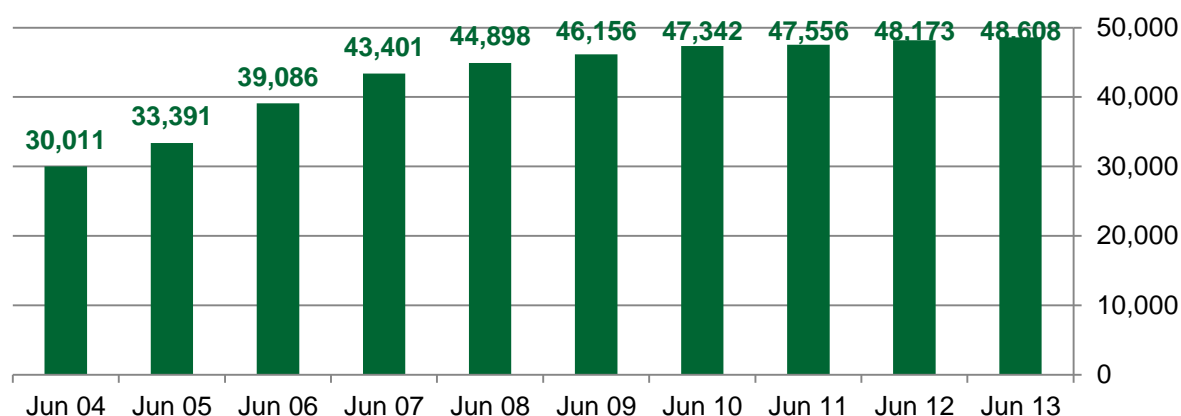
MLA maintains appropriate retained levy earnings across each levy stream in order to provide reserves to support ongoing expenditure and emergency industry funds in the event of a major industry crisis such as an animal disease outbreak. In 2012-13, MLA had a total retained surplus of \$41.8 million including \$12.0 million in grass-fed cattle levies. MLA has been deliberately running small deficits for several years to maintain reserves at an appropriate level in line with the MLA Board's levy reserving policy.

Retained earnings	At 30 June 2013	At 30 June 2012	At 30 June 2011
Grass-fed cattle levies reserves	\$12.0m	\$14.2m	\$23.9m
Total reserves	\$41.8m	\$45.3m	\$56.4m

1.5 MLA membership

MLA had 48,787 members at 31 December 2013. This included 41,460 members involved in raising, finishing or trading grass-fed cattle in their enterprises – including 22,809 specialist grass-fed cattle producers. Membership of MLA is open to all levy-paying producers engaged in the raising, finishing or trading of grass-fed cattle, grain-fed cattle, sheep, lamb and goat producers. Membership is free of charge. MLA members have the opportunity to vote at MLA annual general meetings and receive a range of communications (see section 1.8). MLA actively works to ensure levy payers have the opportunity to become MLA members, and its constitution was amended in 2005 to broaden the definition of membership to allow traders of livestock to have a say in their service company (see also section 4.6.3).

Figure 1: MLA membership growth for decade to 2013



1.6 MLA's strategic direction and investments

The focus and direction of MLA's marketing and R&D effort is provided by the industry peak councils' MISP and its R&D is closely aligned to the Australian Government's National and Rural Research Priorities.

In addition, local, regional and global meat industry trends, macro and micro economic drivers, and the outcomes of regular industry consultations are all carefully considered when planning programs and initiatives.

More detail on the consultation processes used in determining areas of investment can be found in section 3 of this submission.

MLA invests under four strategic imperatives to further the objectives of the industry. The imperatives and their links to Australian Government Research Priorities and to the MISP are set out in the following pages.

Key performance indicators (KPIs) associated with each strategic imperative are listed in MLA's five-year corporate plan. Additionally, annual milestones are listed in MLA's annual operating plans each year and reported in the annual report.

Imperative 1: Maintaining and improving market access	
<i>Objectives:</i>	1.1. Develop and deliver industry systems that underpin product integrity 1.2. Support industry and government to maintain market access and liberalise world meat markets 1.3. Maximise market options for producers and exporters in the livestock export market
<i>Focus areas:</i>	1. Assist industry to better integrate and sustainably deliver its on-farm risk management systems (LPA, NLIS) 2. Assist government and peak councils to secure free trade agreements that eliminate the current tariffs on red meat exports to Korea (currently 40%) and Japan (currently 38.5%) 3. Identify high priority technical trade barriers that are impeding red meat export sales, and assist government to alleviate their impact through the provision of science and technology 4. Maintain access to livestock export markets by assisting supply chains to implement and comply with Exporter Supply Chain Assurance System regulations through the provision of gap analysis, risk analysis, training and technical advice

<i>Guided by:</i>	<i>National research priorities</i>	<i>Rural research priorities</i>	<i>MISP strategic themes</i>
	<ul style="list-style-type: none"> • Promoting and maintaining good health • Safeguarding Australia 	<ul style="list-style-type: none"> • Productivity and adding value • Supply chain and markets • Biosecurity 	<ul style="list-style-type: none"> • Market access • Marketing and promotion • Economics and infrastructure
Imperative 2: Growing demand			
<i>Objectives:</i>	2.1. Develop practices and programs that help industry deliver consistent and optimal eating quality 2.2. Enhance the nutritional reputation of red meat 2.3. Develop new products 2.4. Aggressive promotion of beef in the domestic market 2.5. Aggressive promotion of lamb in the domestic market 2.6. Aggressive promotion in export markets – beef 2.7. Aggressive promotion in export markets – sheepmeat		
<i>Focus areas:</i>	1. Increase Australian consumers' demand for beef through compelling marketing campaigns encompassing eating quality, enjoyment and nutrition 2. Create new business for Australian beef in emerging global markets by working with exporters to win at least 20 new major accounts and at least 20 large new product opportunities for branded beef 3. Create incremental business for Australian lamb in domestic and global markets by increasing consumer perceptions in key markets and working with exporters to win 20 new major accounts for Australian lamb		
<i>Guided by:</i>	<i>National research priorities</i>	<i>Rural research priorities</i>	<i>MISP strategic themes</i>
	<ul style="list-style-type: none"> • Promoting and maintaining good health 	<ul style="list-style-type: none"> • Productivity and adding value • Supply chain and markets • Innovation skills • Technology 	<ul style="list-style-type: none"> • Marketing and promotion • Innovation
Imperative 3: Increasing productivity across the supply chain			
<i>Objectives:</i>	3.1. Identify and deliver opportunities to increase on-farm productivity 3.2. Identify and deliver opportunities to increase off-farm productivity and capability 3.3. Deliver valued supply chain and market information 3.4. Support industry to improve animal health and biosecurity 3.5. Increase producer engagement with MLA tools and information to support productivity		
<i>Focus areas:</i>	1. Create opportunities through research and extension to improve reproduction efficiency in northern beef (by five percentage points) and maternal sheep breeds (by two percentage points) 2. Create opportunities through genetic research and management practices to improve pasture and forage crop productivity, quality and persistence 3. Create opportunities with new practices or technologies to improve labour efficiency by 5 per cent, encompassing occupational health and safety, labour resource need and yield 4. Create opportunities to improve compliance to market specifications by 3 per cent by providing information and tools that encourage practice change on farm, such as Livestock Data Link and BeefSpecs 5. Create opportunities through research to minimise the threat and impact of exotic, emerging and endemic diseases on Australian livestock enterprises		

<i>Guided by:</i>	<i>National research priorities</i>	<i>Rural research priorities</i>	<i>MISP strategic themes</i>
	<ul style="list-style-type: none"> • Frontier technologies for building and transforming Australian industries • Environmentally sustainable Australia • Promoting and maintaining good health • Safeguarding Australia 	<ul style="list-style-type: none"> • Innovation skills • Technology • Natural resource management • Productivity and adding value • Supply chain and markets • Biosecurity 	<ul style="list-style-type: none"> • Our industry • Our people • Innovation • Economics and infrastructure
Imperative 4: Supporting industry integrity and sustainability			
<i>Objectives:</i>	4.1. Support on-farm environmental sustainability 4.2. Support off-farm environmental sustainability 4.3. Provide solutions to meet high standards of animal welfare without reducing productivity levels 4.4. Support industry's effective engagement with the community 4.5. Develop sustainable innovation capability within the industry and its service providers		
<i>Focus areas:</i>	1. Create opportunities through research that will deliver a 10 per cent improvement in production efficiency through new tools and management that will decrease greenhouse gas emissions from livestock systems by up to 30 per cent 2. Create cost effective opportunities to replace, relieve, refine animal husbandry practices to continuously improve animal welfare 3. Create opportunities through media, social media and events for producers and industry to engage with the community and maintain current high levels of trust (over 80 per cent)		
<i>Guided by:</i>	<i>National research priorities</i>	<i>Rural research priorities</i>	<i>MISP strategic themes</i>
	<ul style="list-style-type: none"> • Environmentally sustainable Australia • Promoting and maintaining good health • Frontier technologies for building and transforming Australian industry 	<ul style="list-style-type: none"> • Natural resource management • Climate variability and climate change • Innovation skills • Technology 	<ul style="list-style-type: none"> • Our industry • Our people • Environment and ethics • Innovation • Economics and infrastructure

1.7 MLA organisation structure

MLA is governed by a skills-based Board (see appendix 3) that works with industry to set strategic priorities for the company. It also approves and monitors progress against the strategic plan, evaluates performance and budgets, oversees risk management and compliance and ensures the company abides by its obligations under the MOU, Deed, and under corporations law.

The Managing Director and eight General Managers make up the Executive Team which is responsible for guiding MLA's performance through the development of key strategies, business plans and policies and ensuring MLA meets its objectives.

MLA has staff based strategically in areas of critical importance to the Australian industry – Australia, North America, Europe, China, Japan, Korea, Middle East and Indonesia.

1.8 MLA communications

MLA's communications strategy aims to achieve effective engagement with producers about the outcomes of their levy investment in research, development and marketing programs.

A key channel in the communications program is *feedback* magazine, which provides comprehensive information about levy-funded programs, the outcomes of these programs and how producers can take-up the opportunities these investments provide. Ten issues a year are distributed to more than 48,000 members and a survey of readers found that 93 per cent of recipients read it, 65 per cent rate it as a good or excellent source of information and 83 per cent say it has some influence on their business decisions.

MLA's website www.mla.com.au has grown significantly in reach with more than 60,000 unique visitors a month on average (an increase of more than 40 per cent in 2012-13 compared to the previous year) and 82 per cent of respondents to a user survey rated it somewhat or very useful. Through the website, producers (not just MLA members) can access a wide range of market information, on-farm news and publications, decision-making tools, and log-ins to Meat Standards Australia (MSA) and other industry systems. MLA's publications continue to provide a solid platform for delivering practical information that is generated from MLA's R&D investment with an average of 1,500 downloaded and more than 1,000 hard copies ordered across a range of titles each month.

MLA's events and sponsorships programs are an important part of MLA communications. In 2012-13, almost 4,800 producers participated in an MLA event with 85 per cent of them rating these events as good or excellent. MLA's Meat Profit Day program is a core part of the events series, led by local producer committees who work with MLA to develop one-off major events that are locally relevant. In 2014, Meat Profit Days are being delivered in Hamilton (Vic) and Port Denison (WA). Additionally, MLA's sponsorship works directly with producer committees and producer groups/organisations to provide information, resources and support to key producer facing events across the country such as Beef Australia, Richmond Field Days, Pacific Beef Expo, and Muchea Livestock Centre Cattle Producer open day.

2. THE BASIS ON WHICH LEVIES ARE COLLECTED AND USED

In relation to “*the basis on which levies are collected and used*”, MLA offers the following broad principles for the Committee to consider:

- The statutory levy on livestock transactions is primarily designed to address instances of market failure
- The rural R&D corporation model was reaffirmed in the Australian Government’s response to the Productivity Commission’s report on rural R&D corporations
- Investments in innovations that continue to increase the productivity and competitiveness of industry are vital
- Investment of transaction levies into industry marketing and R&D programs has producer support
- Investments that underpin industry’s marketing goals are best made collectively

2.1 About the grass-fed cattle levy

The grass-fed cattle levy is collected by the Department of Agriculture’s Levies Revenue Service and the funds are distributed to MLA, Animal Health Australia (AHA) and the National Residue Survey (NRS). The legal basis for collecting the levy is set out in the *Primary Industries (Excise) Levies Act 1999* and the Australian Government is the only body with the legal power to collect and disburse the levy.

The grass-fed cattle levy is currently charged at a total of \$5 per head of cattle transacted. This levy is distributed across MLA, NRS and AHA as follows:

Levy split	Amount per head
MLA (marketing)	\$3.66
MLA (R&D)	\$0.92
NRS	\$0.29
AHA	\$0.13

Of the \$4.58 of the grass-fed levy received by MLA, expenditure is directed across MLA’s four strategic imperatives as follows:

Strategic imperative	Amount per head
Maintaining and improving market access	\$0.62
Growing demand	\$2.74
Increasing productivity across the supply chain	\$0.73
Supporting industry integrity and sustainability	\$0.37

In most circumstances, this levy works out as being less than one per cent of the average cattle sale price per head:

Class	2013 average price (A\$/kg)	\$/head (based on median weight)	Levy per cent of average head price
Trade steer 330-400kg C3 lwt	\$1.818	\$663.47	0.75%
Medium steer 400-500kg C3 lwt	\$1.653	\$743.98	0.67%
Heavy steer 500-600kg C4 lwt	\$1.767	\$971.68	0.51%
Medium cow 400-520kg D3 lwt	\$1.206	\$554.75	0.90%

2.2 The statutory levy on livestock transactions is primarily designed to address instances of market failure

2.2.1 History of agricultural levies

Australian livestock industries have had statutory and collective arrangements in place since the 1930s to address market failure and maximise market opportunities, however these arrangements have changed over time. A statutory industry slaughter levy supporting R&D in the Australian cattle industry was introduced in 1960 and a levy to support generic promotion was introduced in 1979. The creation of rural R&D corporations (RDCs) throughout the 1980s and 1990s, including in the meat industry in 1985 (MLA's predecessor organisations – the Meat Research Corporation (MRC) along with the Australian Meat & Live-Stock Corporation (AMLC)), established the current model where levy contributions in R&D are matched by government funding. Today, the 15 rural RDCs covering almost all Australian rural industries are funded through some combination of industry levy and government funding arrangements (Productivity Commission, 2011).

2.2.2 Addressing market failure

The principles that underpin the grass-fed cattle levy – outlined in the *Department's Levy Principles and Guidelines* – are that it addresses market failure and is equitable, efficient and supported by the industry. Government action aims to set and enforce property rights and related institutions that will enable the efficient operation of commodity and resource markets, and where markets fail to provide a socially desirable level of 'good', or do so but not cost effectively, there may be a case for government action (Department of Agriculture, 2009).

The fundamental rationale behind the levy is to raise necessary funds to be invested in industry-supported activities that address market failures and gaps. This is based on the assumption that in a competitive market, commercial businesses and voluntary associations are best placed to identify opportunities and make decisions to pursue them while considering the potential risks. However, under circumstances where the market is not working perfectly there is an argument to take formal collective action to address these market imperfections for the greater industry and public good (ACIL, 1999).

Many examples exist of activities that would fail to attract the interest of private investors, but which result in overall industry benefit. One such example is investment in new weed control measures. It is unlikely that any farmer in isolation would be able to afford to invest in the biological and chemical research needed for a new weed control, but the collective development of a new weed control potentially can result in huge industry benefits.

A major contributor to the prevalence of market failure in the sector is the scale of cattle enterprises. In contrast to other industries such as manufacturing or mining, where large scale enterprises are of sufficient size to realise benefits from investments in such things as innovation and brand marketing, the cattle industry has a structure dominated by small and medium enterprises, particularly in southern Australia. This enterprise scale presents a number of challenges including investment scale, free-rider, information failure and risk aversion issues.

Another factor that leads to a relatively high incidence of market failure in industry marketing and R&D is the long time lag involved between investment and the return of benefit. In R&D in particular, there is an extremely long time lag between the conduct of agricultural research and the flow of benefits back to producers. There are several components of the lag, particularly the lag while research is actually conducted to a point where an adoptable product is available (approximately five to 20 years) and the lag to adoption of new farming technologies or practices (often a decade or more). Some researchers note that dozens of studies indicate the productivity consequences of public agricultural R&D are distributed over many decades with a lag of 15 to 25 years before peak impacts are reached and continuing effects for decades afterward (Pardey and Alston, 2010). Although operating on shorter time-frames, marketing activities such as business development and brand building can take several years to deliver their full benefit back to participants.

2.3 The rural R&D corporation model was reaffirmed in the Australian Government's response to the Productivity Commission's report on rural R&D corporations

2.3.1 Productivity Commission report on RDCs

In February 2010, the then Assistant Treasurer, The Hon. Nick Sherry, referred the rural RDC arrangements to the Productivity Commission (PC) for consideration. The PC's inquiry examined the effectiveness of the RDC model, including the appropriateness of current funding levels and arrangements for improving productivity through R&D, and whether there are any impediments to effective and efficient functioning of the model.

The PC examined the breadth of Australia's 15 rural RDCs and their models of operating, and recognised that there are considerable differences in them. Some RDCs operate as statutory corporations (such as the Grains R&D Corporation) that are solely responsible for funding R&D and extension, while others (such as MLA) are industry-owned and have levy-funded marketing functions, and others (such as Australian Pork Ltd) also have industry representation functions.

The PC received 295 submissions and conducted 11 public hearings in late 2010. MLA made several submissions to the inquiry. In June 2011, the Australian Government released the PC's final report.

The report recognised that the co-investment of industry levies and matched Government funding through the RDC model has a number of strengths including helping to ensure that public money is not spent on research of little practical value and facilitating greater and faster uptake of research outputs. The report also highlighted important strengths of RDCs including MLA as an interface between industry, government and research suppliers and in playing a systems integration role. It sighted further strengths in the procurement and management of rural R&D – where the model

Case study 1: MLA market information

Valued decision-making tools return more than \$5.60 per dollar invested

MLA collects timely, relevant and accurate market information that represents livestock supply chains. These market information services aim to collect and maintain domestic and international meat market data of relevance to the Australian livestock industries, disseminate insightful analysis of relevant world meat market developments, gather and analyse data on competitors, and facilitate improved information flows and price and supply management across the supply chain.

MLA's provision of accurate market information assists producers and enterprises in making a myriad of business decisions ranging from input cost decisions, selling and turnoff decisions, long term planning and investment decisions. The information also enables MLA and industry to assist government during trade negotiations through the clear identification of industry priorities with robust data to support the prioritisation process.

These market information services are particularly valuable owing to the complex and elongated nature of meat and livestock supply chains. They address market failure as they deliver an information product that is difficult to price, easy to share (leading to free-riding), and has substantial production costs.

This service has evolved over time in response to the changing needs of industry. When MLA inherited the service from AMLC in July 1998 it did not have an extensive time series database on overseas markets or Australian production statistics. From 1 July 2002, MLA assumed responsibility for the National Livestock Reporting Service, a major provider of market intelligence of domestic information to the red meat industry collecting market information from an average of 60 cattle and sheep physical markets nationwide. This information is freely available to all levy payers.

Delivered at less than the cost of services provided by the US and some European countries, MLA market information is envied by many of our counterparts overseas and large overseas customers. In 2012-13, MLA invested \$5.4 million in market information services including \$2.4 million of grass-fed cattle levies. Primarily delivered online, market information on the MLA website had an average of more than 14,100 unique visitors per month during 2013, and news and updates emailed to an average of more than 24,800 recipients each week.

MLA research confirms a continued high level of awareness and satisfaction with MLA's market information services. MLA's annual member research found that 67 per cent of cattle members were somewhat or very satisfied with MLA's livestock reporting and market information in 2013 (compared to 17 per cent dissatisfied). Approximately 95 per cent of respondents to a 2013 user evaluation survey said that MLA market information was reasonably, highly or extremely valuable. Similarly, 61 per cent of respondents rated the overall accuracy high to extremely high, while 74 per cent of respondents rated the timeliness high or extremely high.

A major review of the service by the Centre for International Economics (CIE) in 2009 found that MLA's market information was generally highly valued by producers, lotfeeders and processors in assisting their business decision making. The CIE conservatively valued the benefits of MLA market information to industry from 1998-99 to 2007-8 to be between \$255 million (consultation method) and \$582 million (online survey) for a \$45.2 million aggregate cost (expressed in 2007-08 dollars) – or a benefit cost ratio of between 5.6 and 12.9 to 1.

allows for competitive tendering to determine which supplier can deliver best value for money coupled with staff who have skills in assessing funding proposals, negotiating agreements and managing performance (Productivity Commission, 2011).

Incidentally, similar principles can also be seen to apply to MLA's procurement of marketing services where there is competitive tendering and pitching for work with proposals assessed by MLA staff with relevant marketing skills.

2.3.2 Australian Government's response

Following a preliminary response and public consultations, the then Minister for Agriculture, Fisheries and Forestry, Senator the Hon. Joe Ludwig, released a Rural R&D Policy Statement in July 2012 that included amendments to legislation.

This response recognised the unique strengths of the RDC model and did not accept a number of the PCs recommendations, in particular a recommendation to reduce the matched eligible R&D expenditure on a dollar-by-dollar basis from up to 0.5 per cent to up to 0.25 percent over 10 years. The legislation to enact the Rural R&D Policy Statement was introduced into Parliament in June 2013. These bills contained amendments to implement the legislative aspects of the Rural R&D Policy Statement with changes including:

- Allow statutory RDCs to undertake marketing at the request of industry
- Extend the arrangements for matching voluntary contributions to all RDCs
- Introduce funding agreements for statutory RDCs
- Improve the process for selecting board members for statutory RDCs
- Remove product specific maximum levy and charge rates from legislation
- Improve consistency of governance arrangements between the RDCs
- Remove redundant provisions from legislation.

MLA has since worked closely with the Department of Agriculture to resolve expectations around the new policy arrangements and ensure compliance. This has involved very little change, as MLA's pre-existing operations and corporate governance arrangements were in line with these requirements.

2.4 Investments in innovations that continue to increase the productivity and competitiveness of industry are vital

Australia's rural R&D corporation model has a number of strengths that have been acknowledged to deliver benefits to industry and the wider community (Productivity Commission, 2011). The model, where industry levy investments in R&D are matched by government funds, provides a mechanism for the Government to harness collective investment across the agriculture sector and have the investment directed in-line with the National RD&E Research priorities. The RDC model also allows for greater collaboration across industries with co-investment from multiple RDCs.

The RDC model has enabled the injection of an additional \$55.5 million in government funding matched to grass-fed cattle levies that has been invested in RD&E programs over the past five years (2008-09 to 2012-13). In total, the Australian Government has provided MLA with approximately \$176.3 million in R&D funding matched to industry levies across all categories over the same five-year period. This funding has supported the development and delivery of productivity-enhancing R&D ranging from genetic tools and evaluations through to consumer-driven supply chain product quality systems such as MSA. This R&D has created opportunities for

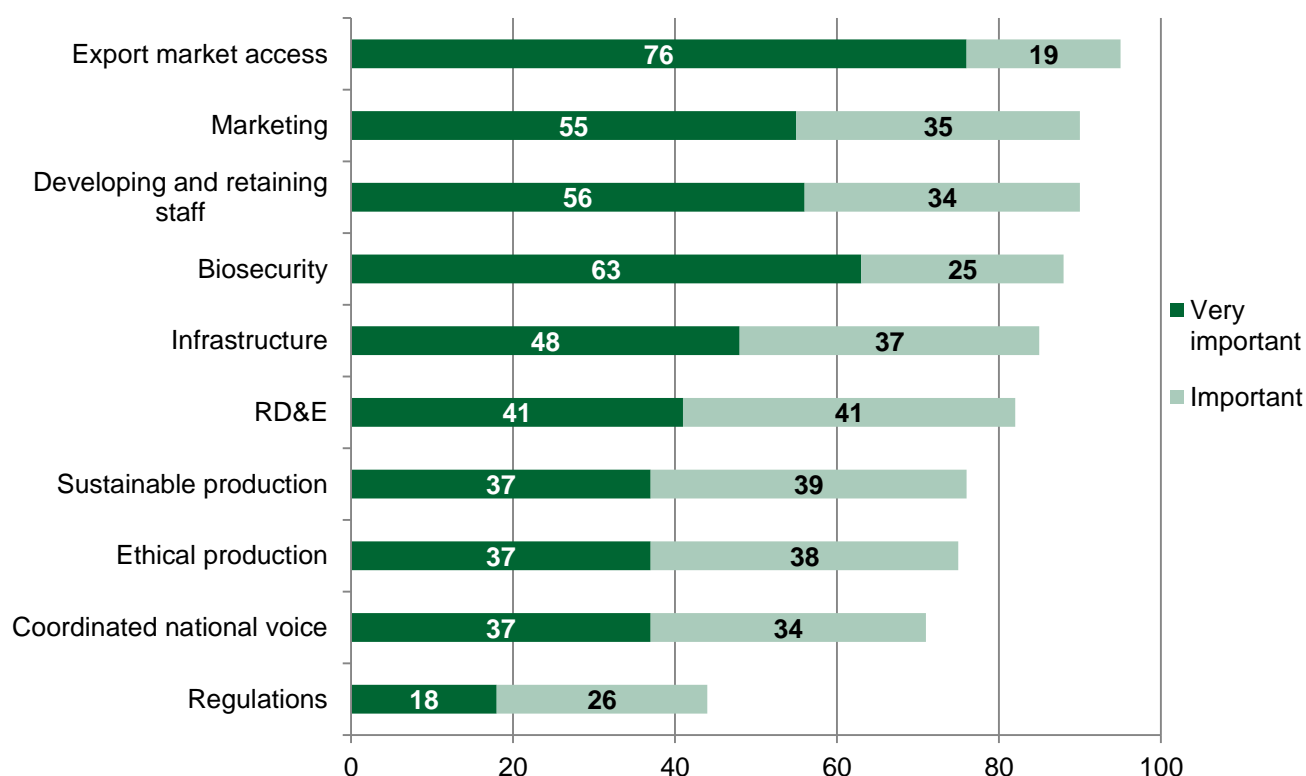
producers to increase the productivity and profitability of their enterprises where they have chosen to adopt them. These investments have contributed to industry maintaining the long-term average productivity growth of approximately 0.9 per cent per year in beef cattle enterprises.

These investments have also assisted in building the competitiveness of Australian industry in the face of advances by our global competitors. Failure to make effective advances in marketing and R&D leads to the Australian industry falling behind its international competitors and, with industry so export-dependent, the result would be dire. An example of the importance of maintaining competitiveness was apparent when the Korea–United States free trade agreement (FTA) came into force in March 2012. The FTA gave US product a tariff advantage over Australia that in the absence of the now negotiated Australia–Korea FTA could have cost Australian industry as much as \$1.4 billion over 15 years.

2.5 Investment of transaction levies into industry marketing and R&D programs has producer support

The \$5 grass-fed cattle levy is currently invested in marketing and R&D programs managed by three industry organisations: MLA, AHA and NRS. Broadly speaking, of the \$5 grass-fed cattle transaction levy, 73 per cent is directed into industry marketing and promotion activities by MLA, 18 per cent into MLA R&D activities, six per cent to NRS’s food safety activities, and three per cent to AHA’s animal health programs. There is substantial evidence that the majority of cattle producers are satisfied with the distribution of their levy investments into marketing and R&D programs. A survey of a representative sample of 675 cattle producers commissioned by MLA on behalf of CCA in 2012 as a part of the development process for the strategic plan, *Beef 2015 and Beyond*, found that market access, marketing, staff retention and biosecurity were rated the most important industry strategic priorities (Kaliber, 2012).

Figure 2: Cattle producer ratings of relative importance of MISP industry priorities



These findings were reinforced in MLA's annual research of its membership which in 2013 found that 80 percent of beef cattle members rated MLA's global beef marketing activities as important or very important to their businesses, 79 per cent rated market access activities as such, and 79 per cent rated animal health and biosecurity programs as important or very important.

This importance is attached to marketing due to its role in creating opportunities for supply chains in growing demand and in R&D for creating opportunities for producers to increase their productivity and profitability.

Maintaining the comparative advantage of the Australian cattle industry involves investments to deliver productivity growth, improve product quality and integrity, and assist in maintaining market access. In order to compete successfully on the international market Australian exports must have access to markets and the product mix (price, integrity, quality) which meets customer needs.

2.6 Investments that underpin industry's marketing goals are best made collectively

A key benefit of collective grass-fed cattle levy investments lies in providing the long-term strategic industry planning that gives Australian beef a unique competitive advantage in global markets (Beef Marketing Fund Committee, 2009).

More than two-thirds of Australia's beef production is destined for export markets as diverse as Japan, the United States, China, and the Middle East. At the same time, Australia is a relatively high cost beef producer with input costs such as labour – and off-farm costs in processing and transport – significantly higher than in other exporting nations such as Brazil, the United States and India.

Sustaining growth in sales in these overseas markets requires differentiating Australian beef as a high quality, safe and delicious product amongst consumers and retailers and, just as importantly, maintaining trade access to our main overseas customers.

2.6.1 World leading integrity systems

Developed by industry levy investments and underpinned by Australian and state government regulations and legislation, Australia's traceability, biosecurity and food safety systems have played a vital role in managing animal diseases and providing assurance to keep export markets open when they have been closed to competitors. Similarly, strategic investments in brand and reputation building in major markets have provided the platform for growing returns to industry from export markets.

Industry and government funds have been invested in RD&E to develop world-leading integrity systems. Quality assurance and traceability systems boost customer and government confidence in the safety of Australian red meat products. Australia's National Livestock Identification System (NLIS) is seen as having the world's most advanced livestock traceability system and, together with the Livestock Production Assurance (LPA) program, it has enabled Australia to differentiate its red meat products in global markets. This safety and quality assurance is particularly important in several emerging markets where food safety is rated as a high priority for consumers when making purchasing decisions. These ongoing investments are particularly important given that databases and systems have the potential to be made more accurate and efficient as technology platforms evolve.

2.6.2 Market access is critical

The industry works closely with the Australian Government to defend against threats to current market access and where possible improve access conditions. MLA commissions economic research to inform the government of priority areas for market access improvement. The work of MLA and other agricultural organisations supports the Australian Government with the necessary information to pursue the most favourable outcome for Australia in multilateral and bilateral trade negotiations. Since the early 1990s, MLA (and previously the Meat Research Corporation (MRC) and Australian Meat and Live-stock Corporation (AMLC)) has maintained the Global Meat Industries model with R&D funding. The industry has used this model (and other general equilibrium models) to estimate the potential impact of various trade negotiating scenarios. This model was also used to undertake collaborative projects with like-minded countries. Examples included the Magellan project, a partnership commenced in 2001 by representatives of the “five nations” (Australia, Canada, Mexico, New Zealand, and the United States) that has quantified the benefits of trade liberalisation to beef industries globally (Five Nations Beef Group, 2003).

Significant efforts are focussed on multilateral and bilateral trade negotiations, but there are a growing number of technical barriers that are affecting exports of Australian red meat and livestock. As overseas markets come under pressure to reduce their border protection measures, some countries are turning to technical barriers to protect their domestic industries from imports. The Australian industry is in a position to utilise its integrity systems to assist in ameliorating the impact of some technical barriers.

2.6.3 Strategic marketing plays an important role

While individual private investment in business development is critical, there is a high to medium market failure in relation to a number of global business development activities.

MLA’s export marketing strategy aims to build loyalty and help create new business opportunities for Australian beef in global markets. MLA’s key roles are to support industry, including:

- Monitor and report on consumer trends, channel trends and requirements, and competitive positioning – involving the collation and dissemination of information on behalf of industry, including reporting in-market, volume and cuts analysis, trade research and consumer insights
- Develop new business opportunities for Australian beef – including research and identification of networks, sales lead generation, trade show facilitation, introductions and account management to ensure ongoing commitment to Australian product and involving providing solutions for prospective companies that may need multiple suppliers, and continuing to build the capability of commercial organisations to effectively manage business development activities
- Clearly position Australian beef as safe, consistent, versatile and nutritious via trade and consumer educational activities through generic promotional activity in order to overcome natural prejudice towards domestic product, or product from another supplier country
- Assist in the creation and promotion of strong brand identities through implementation of individual cooperative activities under the industry collaborative agreement (ICA) program (see section 5.4.2).

MLA’s nutrition policy and marketing strategies aim to create an environment to grow demand which gives “permission to eat” Australian beef three to four times a week as part of a healthy diet

through strategies to increase knowledge of the health benefits of red meat, maintain consistent and fact-based dietary recommendations for red meat, and communicate and promote evidence based nutrition information on red meat to health professionals and the broader community. The program has extended beyond the domestic market to global market advisory role to ensure messages are relevant and consistent. As nutritional issues are generic to the category, they are unlikely to draw investment from the commercial sector, save for some niche categories such as organic or 'natural' products.

MLA's domestic marketing aims to maintain strong consumer perceptions and preference for beef (and lamb) in order to sustain a willingness to pay a premium over alternative proteins. It does this through strategies which strengthen Australian consumers' emotional bond with beef; create desire and educate consumers to cook a range of seasonal beef meals/cuts; work with retailers and foodservice operators to raise standards of presentation, quality, merchandising and promotion; and build consumer awareness and understanding of MSA eating quality standard and grow MSA penetration within the wholesale, retail and foodservice channels. MLA also builds the category by conducting national and state-based promotional activity with independent butchers and the foodservice channel to increase merchandising and value-added options versus competitor proteins, and works to manage major national accounts to grow product ranges and promotional activity for beef in the face of competition from other protein suppliers.

Case study 2: Marketing in Japan and Korea

Securing majority market share returns more than \$4.70 per dollar invested

Positioning Australian beef as clean and safe has been a major pillar of MLA's marketing strategy in North Asia, where aggressive promotion of beef has built and maintained a strong market position despite considerable challenges in this region. Japan continues to be Australia's largest beef export destination with more than \$1.47 billion worth of beef exported in 2012-13, and beef export values to Korea grew to reach \$704 million.

The focus of industry's marketing investments in Japan and Korea has shifted over time in response to changes in the relative importance of key drivers of demand for beef. In the early stages, marketing expenditure was oriented around expectations of market potential and the macro drivers of beef consumption in the two countries.

In the 1980s and 1990s, Australian beef was largely perceived as a low quality, low priced product in Japan and Korea. In the early 2000s, MLA's marketing activities in Japan and Korea focussed on raising awareness of Australian beef among Japanese and Korean consumers, and improving quality and safety perceptions. Following bans in 2003 on US imports due to BSE, MLA further strengthened the food safety focus of the marketing strategy to respond to heightened Japanese and Korean consumer concerns. Australia's market share in Japan and Korea increased as a result of greater awareness of, and loyalty to, Australian beef brands and confidence in Australia's meat safety credentials. This brand positioning helped to maintain customer loyalty and ensure a strong market position once the US product returned to these markets.

Australia's marketing efforts continue to be underpinned by strong generic branding of Australian beef – the 'Aussie Beef' brand in Japan and 'Hoju Chungjung Woo' (Australian Beef: Clean and Safe) in Korea. Near 100 per cent recognition of 'Aussie Beef' in Japan among the target 25 to 65-year-old audience meant the brand has become a springboard to position Australian beef's integrity and flavour. Consumer awareness of the 'Hoju Chungjung Woo' brand had reached 89 per cent in 2004 and has continued over the long term.

Independent evaluation by the CIE found in net present value terms, the \$173 million invested by MLA between 2000 and 2009 has helped to increase recognition of the safety and quality of Australian beef within North Asia. This has seen Australian beef secure the majority market share in Japan and Korea, delivering industry-wide benefits conservatively valued between \$815 million and \$994 million with an estimated benefit-cost ratio ranging from between 4.7 and 5.8 to 1.

The effectiveness of MLA's marketing programs in Japan and Korea were recognised by a recent inquiry into trade relationships with Japan and Korea (Joint Standing Committee on Foreign Affairs, Defence and Trade, 2013) which endorsed a coordinated approach to marketing and:

opportunities to use MLA's model of creating an 'umbrella' marketing campaign through the 'Aussie Beef' and 'Aussie Lamb' promotions as a mechanism that could be used effectively for other Australian products. The benefits of this approach could include a reduction in competition between individual Australian brands, improved customer awareness, and the opportunity to utilise Japanese perceptions of Australian food as safe, high quality products.

3 OPPORTUNITIES LEVY PAYERS HAVE TO INFLUENCE THE QUANTUM AND INVESTMENT OF LEVIES

In relation to “*Opportunities levy payers have to influence the quantum and investment of levies*”, MLA offers the following broad principles for the Committee to consider:

- The quantum of the grass-fed transaction levy is set according to a robust industry consultation process designed to engage the widest possible number of levy-payers
- Transaction levies are invested according to industry priorities and strategies, in particular the *Meat Industry Strategic Plan*
- The role of peak industry councils to provide direction to MLA marketing and R&D programs is prescribed under the MOU
- Investments in industry marketing programs are based on the global marketing taskforce consultative structures
- Industry R&D investments are strategic and have a particular need to complement government R&D funding through national RD&E strategies
- MLA’s R&D portfolio is managed to maintain transparency and balance across research categories

3.1 Mechanisms for levy payers to influence levies

The process for any industry or group of levy payers to amend the quantum of the existing statutory grass-fed cattle levy is clearly set out in the Department of Agriculture’s *Levy Principles and Guidelines*. This document outlines the framework for proposals, the minimum consultation required and voting arrangements, and the process for submitting a proposal to the Minister.

Levy payers have additional opportunities to influence the investment of their levies through a number of industry consultation mechanisms. As outlined in the industry Memorandum of Understanding, these include the consultation process to develop the five-year MISP and sector industry plans (e.g. the BISP). Peak industry councils – CCA for the grass-fed cattle industry – and state farm organisations also play an important role in enabling producers to have input into industry marketing and R&D programs.

3.2 The quantum of the grass-fed transaction levy is set according to a robust industry consultation process that aims to engage the widest possible number of levy-payers

The process for amending levy rates in the livestock industry requires consultation with the Australian Government and related industry members to gain support for the amendment (Department of Agriculture, 2009). Since the inception of MLA there have been several changes to the grass-fed cattle R&D and marketing levies. At the establishment of MLA in 1998, the cattle transaction levy was split into grass- and grain-fed components with the grass-fed cattle levy for marketing set at \$2.16 per head and R&D at \$0.92. The most recent process for consultation on the quantum of the levy took place in 2009-10 – a review of the \$5 levy first implemented in 2006 – and provides a useful illustration of the consultation process.

3.2.1 Industry vote to increase levy in 2005

In 2005, CCA and ALFA, the peak industry councils for grass-fed and grain-fed cattle industries, initiated a review into beef industry marketing programs. A Beef Industry Funding Steering Committee was established to undertake the review to ensure appropriate strategies and adequate funds were available for future promotional and market development activities in the beef industry. The Committee had 11 key findings and recommendations, one of which was to increase the cattle transaction levies from \$3.50 to \$5.00 per head.

Following a widespread communication and awareness campaign, a ballot was conducted of cattle transaction levy payers, where 57.7 per cent of the 9,810 votes were cast in favour of the levy increase compared to 42.3 per cent against. This ballot was promoted particularly through direct mail to more than 26,800 cattle-producing MLA members and an additional 20,000 cattle producers who were not MLA members, supported by communications and advertising through *feedback* magazine and rural newspapers.

The peak industry councils wrote to the then Minister for Agriculture, Fisheries and Forestry, The Hon. Peter McGauran, seeking his support for the implementation of an increase in cattle transaction levies. The Minister agreed to the request to increase the levy, and the \$5.00 cattle transaction levy came into effect 1 January 2006, with a sunset clause to give producers the opportunity to change or remove the increase after four years.

The sunset clause had the following conditions:

- An independent review into how the extra levy funds have been used will also be undertaken with MLA required to communicate the results to producers and Government
- If industry support for continuing the levy at \$5.00 cannot be demonstrated as of 1 January 2011, the levy rate will be returned to \$3.50

A meeting was held in October 2008 between the then Minister for Agriculture, Fisheries and Forestry, The Hon. Tony Burke, and MLA's Chairman to agree on the voting process to be conducted by industry with the details confirmed in a letter in March 2009. It was agreed that the process should ensure that all those that pay the levy would have the opportunity to have a say in its amount.

3.2.2 Evaluating effectiveness of levy increase

A 14-member Beef Marketing Fund Committee was established in 2009 to manage the process comprising of 13 cattle transaction levy payers (five independent cattle producers, two representatives from AMIC, two representatives from CCA, two representatives from ALFA and two MLA Board members) and one live export sector representative.

The committee appointed independent consultants Warwick Yates & Associates to evaluate the effectiveness of the increased marketing component of the cattle transaction levy since the additional \$1.50 marketing levy was introduced in 2006 and determine the appropriate level of funding for beef marketing and trade development to ensure that Australia's beef industry was competitively positioned.

The findings of this review concluded (Warwick Yates & Associates 2009):

- *The additional marketing levy generated an additional investment of \$50.2 million in industry marketing activities that returned an estimated total of \$275 million*
- *Based on modelling, under a medium impact scenario saleyard prices for grass-fed cattle were an estimated 1.8 per cent higher in 2008 as a result of the \$1.50 increase in the levy than they would have been otherwise*

The report assessed that the major impacts on livestock prices between 2006 and late 2008 were the high exchange rates and grain prices, and credit restrictions on global trade and the collapse in demand for co-products following the global financial crisis. Without these impacts, they believed livestock prices would be near record levels. The report recommended industry continue to invest in a broad range of programs to consolidate its position in beef markets and address the challenges and opportunities that lie before it and that the \$5 levy was a modest but appropriate investment in the future of the industry.

The Committee considered this independent review into the effectiveness of the additional funding alongside submissions sought from industry and MLA, and made the following recommendations:

- That the current \$5 per head cattle transaction levy should be retained
- That a minimum return on investment to producers be set at three times the overall marketing levy as the performance yardstick for future reviews
- That future reviews of the levy be undertaken as a result of industry need, triggered by the peak councils, and not according to a pre-determined timeframe

3.2.3 Industry vote to retain levy in 2009

An almost mirror of the process followed in 2005 prior to the levy increase was applied to ascertain industry support for maintaining the levy at \$5. A poll was run in parallel with the MLA annual general meeting (AGM), with voting independently managed by Computershare. The poll was open to all cattle transaction levy payers – MLA members or not.

Prior to the poll, the Committee instructed MLA to run a widespread communication campaign to ensure levy payers across the country were made aware of the review, the committee's recommendations and their opportunity to participate in the debate, either as an MLA member at the MLA AGM or via the non-member poll.

This 28-week consultation process was far reaching:

- More than 6,000 people attended 71 events held across all states
- 24 media releases helped generate almost 1,000 stories in press and broadcast media
- As at 30 September 2009, MLA had 46,785 members (of which approx 39,700 had cattle) of which 10,091 members returned their levies notice to take up their full voting entitlements and 5,085 cattle producer members cast their vote, representing 12.5% of MLA members and 25% of Australian cattle production
- The voting process was conducted and the results declared by Computershare with the entitlement process audited not only in accordance with MLA's internal audit procedures but also by Ernst & Young

The results of this process saw a vote to maintain the cattle transaction levy at its current \$5 per head with 72.5% of votes cast supporting the retention of the \$5 levy.

Case study 3: Marketing in Australia

Strategic promotional campaigns boosts perceptions and sales

With approximately \$6.6 billion in retail sales value in 2012-13, Australia remains the largest single global market for Australian beef. MLA's domestic marketing program aims to maintain strong consumer perceptions and preference for beef in order to sustain a willingness to pay a premium over alternative proteins.

In 2010, MLA commenced a new strategic approach to domestic beef marketing by launching the 'Nothing beats Beef' campaign aiming to improve consumer engagement with beef. Investments in this flagship category promotional campaign links in with key seasonal periods for beef in order to increase awareness, consumption and loyalty, operating in a market where there is insufficient brand manufacturers to promote the category benefits and drive growth.

The 2012 summer 'Nothing beats Beef' campaign encouraged Australians to "Throw another steak on the barbie" and correct the international perception made famous by the 1980s Tourism Australia commercial that we barbecue 'shrimp'.

The campaign consisted of a media partnership between Channel 7, radio station MMM and Facebook, with a television commercial encouraging consumers to go online or to the butcher shop and sign a petition calling for the tourism ad to be remade. Public relations and point-of-sale materials including bumper stickers, stubby holders and MLA-published consumer magazines were also part of the campaign.

The campaign generated strong engagement and consumer response. Within five days, the ad had reached almost 700,000 views on YouTube, and ultimately ranked eighth on Google's list of Australian top 10 advertisements on YouTube for 2012. The 'Nothing beats Beef' Facebook page achieved a 50 per cent increase in fans to reach more than 82,000 during the campaign, being named number one in Asia Pacific by Facebook for the period.

The campaign performed well on many campaign metrics, with more than 76 per cent of respondents agreeing that beef is 'the perfect meal for the barbecue'. Total beef sales values increased by 0.5 per cent (equivalent of approximately \$6 million) from November to February year-on-year during the campaign period, and sales of steak cuts increased 2.9 per cent year-on-year over the same period.

3.3 Transaction levies are invested according to industry priorities and strategies, in particular the *Meat Industry Strategic Plan*

The industry strategic planning process set out in the MOU between livestock industry participants details ways that levy payers can influence the investment of their levies. MLA's Deed also obliges MLA to consult with government and industry as part of its strategic planning process.

3.3.1 Developing the Meat Industry Strategic Plan

As set out in the MOU, the livestock industry's strategic planning is based on a five-year cycle. Developed and managed by the Red Meat Advisory Council (RMAC), the MISP provides the overarching strategic framework that enables the direction, measuring and reporting of overall industry progress for government and industry stakeholders (RMAC, 2010). Industry specific plans – most pertinently the BISP – define and drive industry specific priorities within this framework.

It is important to note that the process for developing the next MISP for 2015 to 2020 is underway and that RMAC will be conducting extensive industry consultation from the second half of 2014 leading to the development of the new strategic plan.

The MISP development process enables levy payers to be involved in determining industry's strategic direction. Commencing in October 2008, RMAC engaged in a consultation process to develop the *MISP 2010—2015*, with a steering committee designing a three stage consultation process through a series of workshops with industry participants.

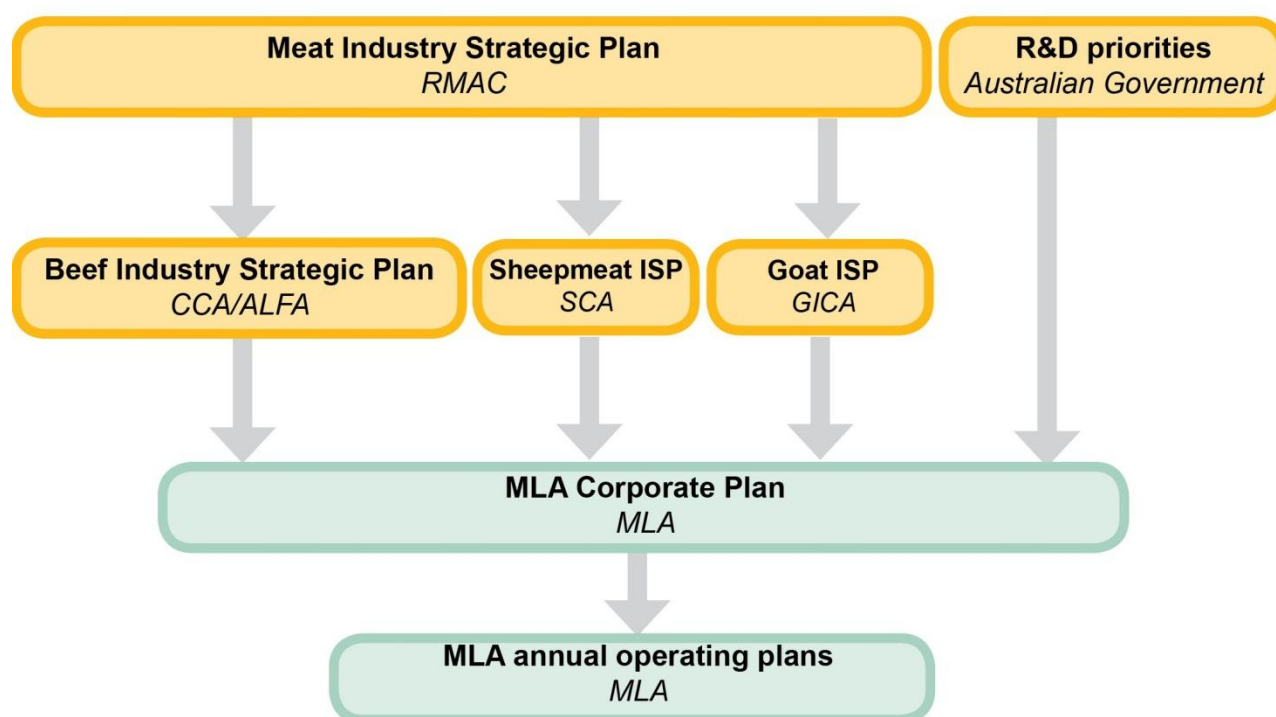
Two in-depth strategic workshops involving key 'strategic thinkers' from inside and outside the existing industry structure were engaged to set the context and develop the broad themes of the MISP3. A series of seven workshops between February and April 2009 focussed specifically on one of the seven identified themes – our industry; our people; economics and infrastructure; innovation; marketing and promotion; market access; and environment and ethics. A total of 200 participants from across industry attended one of these one- or two-day workshops (RMAC, 2010).

Peak industry councils also consult with industry participants to develop their industry strategic plans. In 2012, for example, CCA engaged grass-fed cattle producers in consultation to develop *Beef 2015 and Beyond*, a process that included a detailed telephone survey of a representative sample of grass-fed cattle producers, online consultation, and a series of workshops attended by several hundred producers.

3.3.2 How the plans interrelate

As a service company, MLA's five-year corporate planning is cascaded out of the MISP, industry strategic plans and national R&D priorities. MLA's five-year corporate plan is translated into annual operating plans that define MLA's marketing and R&D strategies and programs.

Figure 3: Five-year livestock industry strategic planning framework



This five-year planning cycle maintains a critical balance between the need to maintain long-term strategies in marketing and R&D to maximise their effectiveness, while remaining responsive to a dynamic operating environment. The need for long-term planning in the development and delivery of marketing and R&D is based on the long pay-back period on many of these activities such as on-farm strategic research, brand building and business development programs.

3.4 The role of peak industry councils to provide direction to MLA marketing and R&D programs is prescribed under the MOU

Under the MoU, peak industry councils play a critical role in providing direction and monitoring of industry marketing and R&D programs reflecting the strategic framework of the MISP. CCA is the prescribed peak industry body for the grass-fed cattle sector under the MOU. The peak industry councils provide leadership, formulate policies, set strategic imperatives and agree to overall levels of expenditure to MLA for the industry sector they represent.

CCA is closely consulted for direction on all MLA's marketing and R&D programs relating to the grass-fed cattle industry. MLA places considerable focus on interacting with peak councils across the business from the Chair, Directors, Managing Director, General Managers and senior program staff. Formal and structured engagements include interactions at MLA Board meetings and peak council meetings, and attendance at other industry, corporate and state farm organisation meetings.

Industry taskforce structures are of particular importance in guiding MLA programs to ensure that they are directed according to the MISP and industry priorities. Meeting several times each year, the marketing, R&D and MSA taskforces are a key interface between MLA and industry ensuring that MLA programs provide direction and seek outcomes that are strategically relevant to, and valued by industry. While not having direct decision-making authority, recommendations from the taskforces carry considerable weight with the MLA Board and peak councils. For marketing programs in particular, the taskforces provide critical producer input into program direction.

3.5 Investments in industry marketing programs are based on the global marketing taskforce consultative structures

Drawing on MLA's *Corporate Plan* and business plans, MLA's global marketing strategy underpins annual regional implementation plans that include strategies, activities, budgets and key performance indicators to meet the vision and imperatives of the cattle, sheep and goat industries.

Made up of peak industry council and other industry representatives, global marketing taskforce committees assist in providing strategic advice to MLA's efforts to grow demand and improve market access across global markets. Marketing taskforces currently guide MLA's strategy for each major regional market – Australia, Japan, Korea, North America, Middle East, Europe/Russia, Indonesia and South Asia.

An MSA taskforce was established to coordinate industry representative's advice to the MLA Board and peak councils on the MSA program. This includes program management and development, research priorities, domestic and international marketing strategies and advice on technical and commercial issues. Members of the taskforce include peak council representatives and a member of the MLA Executive Team.

When formulating advice, the taskforce committees will seek a consensus position across industry representatives. This will include consideration of global, domestic and regional strategic marketing programs as they relate to beef and sheepmeat. The global marketing taskforces particularly focus on the overarching market strategy specific to each region, guided investment correlated from comprehensive supply and demand information, budget allocation against underlying operational projects and activities, and evaluation of MLA performance in delivery of programs.

More specifically, the global marketing taskforces will provide interaction between MLA regional managers and peak councils, a comprehensive industry endorsed communication plan of marketing activities, supply, demand and market analysis to support regional program directions, and preparatory advice towards key stakeholder forums and rollout.

Taskforce attendees are made up of representatives from the CCA (President, CEO and two nominated marketing committee members), ALFA (President, CEO and two nominated marketing committee members), AMIC (President, CEO and two nominated marketing committee members), AMPC (one representative) and MLA (General Manager Global Marketing, eight regional managers, five marketing staff).

Each taskforce committee meets twice a year and is convened by a Chair selected through consultation between the relevant peak industry councils, MLA General Manager Global Marketing and MLA regional managers. The chair is an industry focussed person that has active participation in and deep knowledge of the respective regions and can lead insightful discussion on market topics. The MLA regional managers are responsible for the provision of information and regular communication to the taskforce chair and committee.

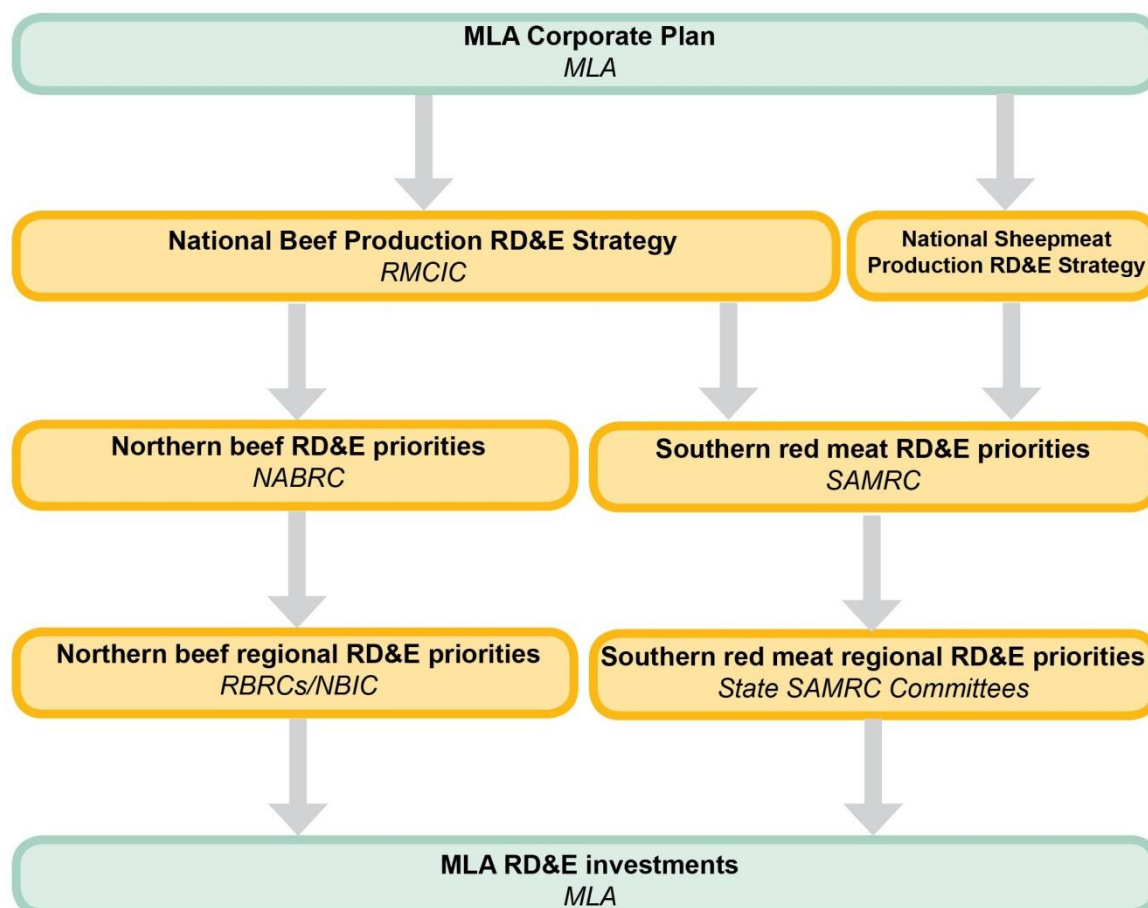
3.6 Industry R&D investments are strategic and have a particular need to complement government R&D funding through national RD&E strategies

MLA's R&D investments are made up of producer levies, matched funding from the Australian Government and other external funding sources. These investments align with the Australian Government's national research priorities and rural R&D priorities. They are made in a complex operating environment, and need to complement investments from all levels of government, other industry organisations, universities and private companies.

3.6.1 Aligning the strategies

In order to better coordinate RD&E investments that align with industry and government priorities and increase efficiency in resource use and retention of key resources and infrastructure, the National Beef Production RD&E Strategy was developed at the request of the Primary Industries Ministerial Council. The strategy is overseen by the Red Meat Co-Investment Committee (RMCiC) which is made up of representatives from CSIRO, each state department of Agriculture, a representative of the University sector, and the Department of Agriculture. Peak councils are invited to participate in strategic planning discussions. The processes described in the National Beef Production RD&E strategy provide new mechanisms for government, MLA, universities, CSIRO and CRCs to share information and make collaborative investments on behalf of industry, government and other RD&E providers. The linkage to sheepmeat RD&E investment through the RMCiC will also ensure that appropriate resource and information sharing and co-investment occurs between the two red meat industries. Linkages with other sectoral and cross-sectoral plans have also been identified.

Figure 4: Consultation around MLA's northern and southern RD&E investments



The priorities in the strategy were identified and developed in consultation with beef producers, industry RD&E consultative entities and the CCA. Collectively, the consultation processes and entities have been used to develop ten Priority Industry Outcomes, incorporating the regional and national needs of industry, seven strategic imperatives that align with Australian Government, state and territory governments' RD&E priorities and those prescribed within the MISP, and proposed RD&E programs and deliverables for further assessment and consideration by the RMCiC.

3.6.2 Consultation arrangements for R&D

Development of an industry plan and the setting of investment priorities requires input from producers and processors, in consultation with RD&E organisations that have the capacity to execute the plan. With this as the focus, the Southern Australia Meat Research Council (SAMRC), North Australia Beef Research Council (NABRC) and MLA ran four regional consultation forums in October–November 2008. These forums gathered information on industry priorities for future RD&E. The participants were a mixture of producers, peak body representatives, state and other RD&E agencies and MLA representatives.

NABRC is the key industry–agency forum with the responsibility for determining and advising on strategic requirements for RD&E activities (including education and training) in the northern Australian beef industry. It acts as the central consultative council comprising all major northern and southern beef RD&E agencies and educational institutions (departments of primary industries, CSIRO, CRCs and universities) and producer representatives from applicable states and territories.

NABRC contributes to overseeing and implementing the processes and policies developed by RMCiC in relation to collaboration, program coordination and monitoring, and evaluation for implementation of the National Beef Production RD&E Strategy. NABRC has formal linkages to other industry organisations, including CCA and state farm organisations, and provides information and advice to support RD&E policy development by these prescribed bodies.

Oversight of the activities of levy-funded service companies, including MLA's involvement in delivering the objectives of the MISP, is the express responsibility of peak industry councils (including CCA) as set out under the MOU.

NABRC is underpinned by 11 regional committees chaired by producers who represent their regions at NABRC meetings. The regional committees provide grass roots input to NABRC and are at the heart of its continuing success. Regional committees are made up of producers and local RD&E personnel from a wide range of organisations. Chairs of the regional committees play a key role on MLA's Northern Beef Industry Committee (NBIC) by providing advice relating to the strategic direction and principal components of the program, the design and management of R&D projects, to ensure the full benefit of projects are captured, R&D funding and expenditure; and communication of results to industry. MLA believes that the advice provided by producer members of NBIC is essential to ensure both projects and results within the program maximise benefits to the industry.

3.6.3 Seeking continuous improvement

Following advice from CCA that it wanted MLA to review its systems associated with on-farm R&D, MLA commissioned an independent review of the systems used for investing grass-fed cattle and sheepmeat levies in on-farm R&D projects in early 2013. The purpose was to find ways to strengthen systems to maximise the benefits from producer investment. A key driver for commissioning the review was the changing nature of the RD&E landscape including the cessation of the Beef CRC, the continued decline in state agency RD&E resources and the implications of working under the National RD&E framework.

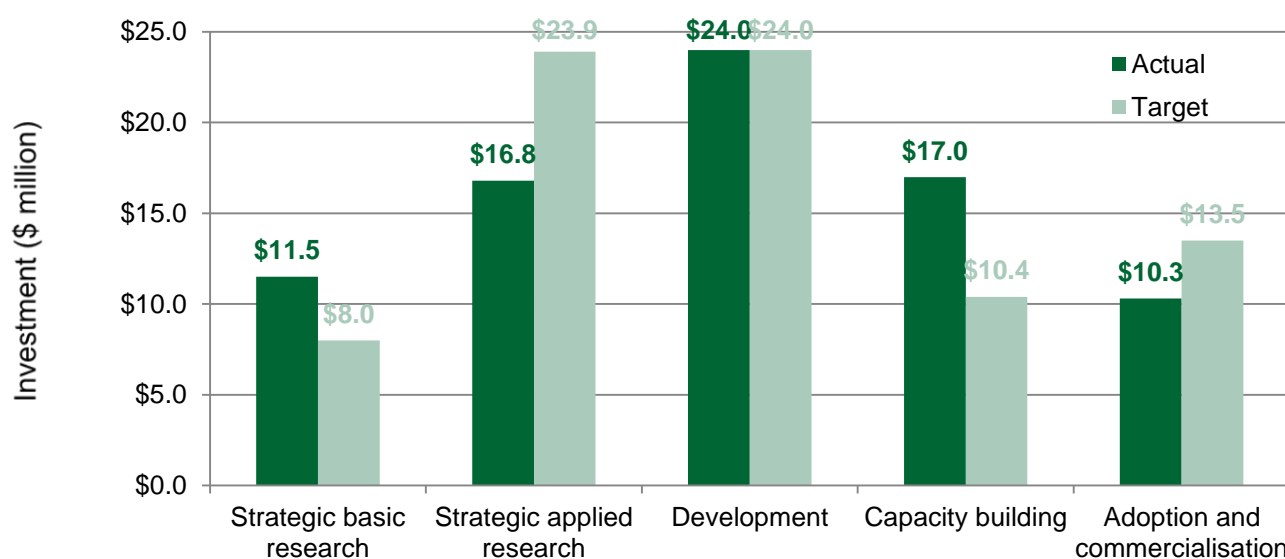
The review panel made 11 recommendations and these were presented to peak industry councils. A committee has since been formed with representation from CCA, SCA and MLA to work through the recommendations with a view to developing enhanced systems that will meet the future needs and expectations of the industry. This includes examining structures around industry consultation across MLA's R&D strategies.

3.7 MLA's R&D portfolio is managed to maintain transparency and balance across research categories

MLA strives for transparency and balance across its RD&E portfolio. Project selection takes into account private and public outcomes, the risk profile of the project and where the project fits within the RD&E continuum. Generally there is a time lapse of five or more years between idea generation and completed R&D. Then a further 3–5 years following completion of R&D contracts before a critical mass of industry uptake has occurred and industry impact can be meaningfully quantified and commercially validated. Balancing the portfolio across the RD&E continuum enables MLA to concurrently drive adoption of proven R&D outcomes while investing in future economic, environmental and social solutions.

Each year, MLA reports to government and industry on the portfolio balance of its RD&E expenditure according to research category. In 2012-13, MLA invested 14.4 per cent of its R&D funding into strategic basic research, 21.1 per cent into strategic applied research, 30.2 per cent into development, 21.4 per cent into capacity building, and 13 per cent into adoption and commercialisation.

Figure 5: MLA's actual and target R&D investments by research category 2012-13



Even though the majority of funding is allocated to projects that could be classified as *industry-specific* or *adaptive*, significant benefits are generated beyond those captured by levy payers. While greater knowledge spillovers may flow from basic and basic-strategic R&D, i.e. the beginning of the RD&E continuum – it is at the other end of the continuum that the majority of social and environmental spillovers are generated. This is because the majority of social and environmental benefits are not generated until the new innovation is adopted at the appropriate point along the supply chain.

MLA also provides transparency around its R&D portfolio by publishing an annual list of completed R&D contracts over the previous financial year as part of its annual reporting process. Information and analysis on MLA's R&D expenditure is also published in its annual reports, including the alignment of the expenditure with the Australian Government's national R&D priorities and rural R&D priorities. MLA's R&D portfolio balance and funding is reported to the MLA Board annually in an R&D health check.

In addition, detailed final reports from many of MLA's R&D projects are published in a database on the MLA website. Third party recipients of MLA R&D funding are required to submit a final report as part of their funding agreement however not all projects produce a publically available report (such as where it is commercial in confidence or produces other outputs as part of the funding agreement). There are currently more than 1,200 R&D final reports available either for download or by request with almost 175 published in 2013. The publication of recent and relevant R&D final reports is further promoted through MLA's communication channels such as *feedback* magazine and emails, and can form the basis of R&D extension campaigns.

Case study 4: EverGraze

Sustainable grazing RD&E returns around \$5.40 per dollar invested

EverGraze is a national RD&E project that aims to design, test and implement holistic farming systems based primarily on perennial pastures in the high rainfall zone of southern Australia. EverGraze aims to significantly increase the profitability of livestock enterprises while at the same time reducing ground water recharge and soil loss by water and wind. To achieve these aims, the project applied a set of principles summarised as “Putting the right plant in the right place for the right purpose with the right management”.

EverGraze is managed by the Future Farm Industries CRC with additional funding support from partners including the NSW, Victorian and WA governments, Charles Sturt University, catchment management authorities, Australian Wool Innovation and MLA. MLA invested \$5.4 million from a total program budget (cash and in-kind) of \$32.9 million between 2003 and 2013.

Six large scale research sites (proof sites) at Tamworth, Orange, Wagga Wagga and Holbrook (NSW), Hamilton (Vic) and Albany (WA) provided the backbone of the EverGraze R&D – testing various perennial feedbase combinations with high performance livestock enterprises and best practice livestock, soil and grazing management practices.

By combining EverGraze principles with findings from the proof sites, modelling, other relevant research, input from EverGraze regional advisory groups, and on-farm experience from more than 60 associated demonstration sites and farmer case studies, EverGraze has been able to develop regionally relevant information for farmers which quantifies the productivity, economic, environment, risk and lifestyle impacts of implementing changes on farm.

The key outputs from EverGraze have been significant in research, with approximately 30 journal papers, 83 conference papers and 17 modelling reports published to date, but more importantly it has had a strong focus on extension. The program has blended the skills of researchers with advisors and producers to develop and deliver decision support mechanisms, tools and packages to achieve high levels of on-ground practice change. The model has involved a strong focus on a series of ‘regional packages’ of information that include all the research and decision-making information relevant to a particular local area. These packages include links to factsheets and digital decision-making tools. The EverGraze website is the central hub for these extension materials supported by events and demonstrations.

EverGraze research has demonstrated that it is possible to increase enterprise profitability while at the same time improving environmental management. Using a range of extension methods, the project has engaged more than 14,000 farmers and advisors and achieved practice change on more than 4,300 enterprises covering at least 200,000ha. An ex-post evaluation conducted by AgTrans in 2012 estimated a net present value of \$129 million over 20 years, a benefit:cost ratio of 5.4 to 1 and an internal rate of return of 27 per cent.

4 INDUSTRY GOVERNANCE ARRANGEMENTS, CONSULTATION AND REPORTING FRAMEWORKS

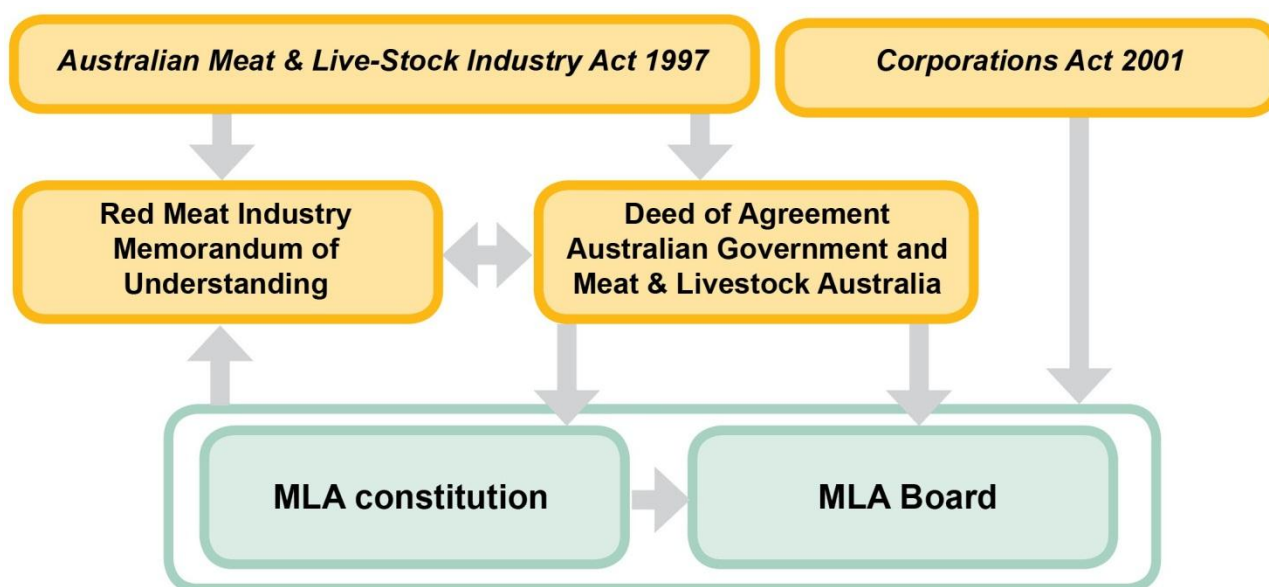
In relation to “*Industry governance arrangements, consultation and reporting frameworks*”, MLA offers the following broad principles for the Committee to consider:

- MLA’s corporate governance and reporting arrangements reflect its obligations under the *Corporations Act 2001*, *Australian Meat and Live-stock Industry Act 1997* and MLA’s Deed of Agreement
- MLA’s corporate governance is regularly reviewed under the terms of the Deed of Agreement
- A skills-based Board is an effective governance arrangement for an industry marketing and R&D services company
- MLA facilitates robust evaluation of its marketing and R&D programs and reports results back to industry
- MLA is accountable to its members through the annual general meeting voting process

4.1 MLA’s governance and reporting requirements

As an industry levy-funded marketing and R&D service company, MLA has implemented a range of detailed governance procedures to ensure that expenditure against individual levy streams is clearly accounted for and transparently reported. Similarly, the receipt of government matching R&D funds is also managed precisely with internal systems to ensure that eligibility criteria are observed and reviewed and that delegations clearly separate the expenditure of marketing and R&D funds.

Figure 6: MLA’s governance framework



4.2 MLA's corporate governance and reporting arrangements comply with the *Corporations Act 2001*, *Australian Meat and Live-stock Industry Act 1997* and MLA's Deed of Agreement with the Australian Government

MLA's minimum governance, strategy and funding obligations are set out in its Deed (see appendix 1). MLA's current Deed was signed by the then Minister for Agriculture, Fisheries and Forestry, the Hon. Senator Joe Ludwig, and took effect on 15 October 2012. It is reflective of the Department of Agriculture's recent requirements of RDCs in relation to the governance and oversight of statutory levies. The Deed will be renegotiated with the Department in 2016. MLA's corporate governance framework is informed by the Australian Stock Exchange's Corporate Governance Council's *Corporate Governance Principles and Recommendations 2nd edition* (ASX Corporate Governance Principles). MLA's corporate governance framework has been established to ensure that it remains accountable to its stakeholders and that stakeholders' interests are protected. The framework is regularly reviewed and updated to ensure it remains effective and relevant.

4.2.1 MLA Board structure

In accordance with the Deed (Section 5), MLA has a skills-based Board that is structured to add value as outlined in the ASX Corporate Governance Principles. It is composed of directors nominated by a Selection Committee for election by members at MLA's AGM. The Board has in place a process to evaluate its performance and that of the Board Committees on an annual basis.

MLA's skills-based Board has the appropriate broad range of skills, knowledge and experience necessary to guide the company and consistent with the range of skills set out in MLA's constitution. It is made up of 10 directors with the Managing Director the only executive director. Directors are appointed for a maximum three-year term under MLA's constitution and may reapply through the Selection Committee at the end of a term. The MLA Board has two committees made up of non-executive directors – the Audit and Risk Committee and Remuneration Committee. The Selection Committee is made up of three producer-elected representatives, three representatives from peak industry councils, and three MLA Board directors. Board directors and the producer representatives on the Selection Committee are elected at MLA's annual general meetings.

4.2.2 Planning and reporting requirements

The Deed (sections 12 and 13) also outlines MLA's requirements for documenting its planning and reporting. MLA's strategic planning is based on a five-year corporate plan and detailed business plans for each strategy area are identified in the corporate plan. This strategic planning captures industry expectations of outcomes from MLA outlined in the MISP.

Each year, these strategies and programs are translated into annual operating plans that set out the intended operations of MLA for the financial year, funding arrangements for each activity area and key milestones in their achievement. These annual operating plans are reviewed by the peak industry councils prior to their approval.

MLA reports to key stakeholders including members, industry and government on the activities and progress against milestones in the annual operating plan in its annual report. The annual report complies with the financial reporting and other reporting requirements of the *Corporations Act 2001*. MLA meets and reports to the Minister, Department of Agriculture, and peak industry councils at least twice a year on its performance.

4.2.3 Departmental oversight

The Australian Government (via the Department of Agriculture) is able to monitor and influence MLA's governance arrangements through a range of mechanisms, but particularly through the Deed of Agreement. If the Department considered that MLA was in breach of its obligations under the Deed, it has the right to suspend or terminate payments, reduce the amount of payments or terminate the Deed if MLA has not rectified the breach.

Under the terms of the Deed (section 18), MLA is required to provide the Minister with a compliance audit report providing an audit opinion on whether MLA has complied with its obligations. MLA is also required to provide the Minister with a certification report on whether it has complied with its obligations under the *Australian Meat and Live-stock Industry Act 1997* and Deed as well as stating if any non-compliances are material.

4.2.4 Entering into service agreements

Under the Deed (section 8), MLA is able to make payments to its industry representative bodies:

- by way of membership fees where that membership contributes to MLA pursuing its objectives;
- on an arm's-length commercial basis to acquire goods or services or fund research and development or marketing activities; or
- costs of consultation covering, for example, consultation costs incurred by an industry representative officer including travel and accommodation expenses.

In accordance with the terms of the Deed, MLA and CCA have signed a service agreement that will result in CCA complementing MLA's planning processes by CCA forming and maintaining a number of grass-fed beef producer consultative processes. These provide strategic input to assist MLA to develop its long-term business plans; develop MLA's annual operating plan (including financial projections); to provide policy advice, direction and communication mechanisms to ensure grass-fed beef producers are engaged with MLA's programs; and foster relations with like bodies in international customer and competitor countries.

The funding associated with the service agreement has been calculated according to the reasonable commercial costs that could be expected to be incurred to undertake this work. The total funding associated with the service agreement is \$484,250 over 12 months. Of this, \$75,467 is R&D funding.

MLA sought advice from the Department of Agriculture to ensure the agreement was appropriately structured and was consistent with MLA's obligations under the Deed. On the basis of this advice, and subsequent written confirmation from CCA that the service agreement was not duplicating activities funded through RMAC, MLA and CCA entered into a 12-month agreement on 8 May 2013.

CCA is required to meet pre-agreed milestones and provide appropriate reporting and supporting documentation before any payments are made.

While MLA has only recently considered a service agreement with any of the peak industry councils, the other service bodies who receive funding from the cattle transaction levy – AHA and NRS – both have such agreements in place.

Case study 5: Marketing in China

Facilitating business relationships to build emerging market position

The emergence of China as one of Australia's largest export markets for beef has been one of the most significant developments for the cattle industry in recent years. Driven by tight local supplies, restrictions on US and Brazilian imports, growing interest in food safety and a rapidly growing fast food sector, Australian product is well situated in the rapidly growing marketplace.

MLA actively supported both exporters and importers by developing in-country supply chain relationships, training Chinese butchers and food service staff to improve their awareness of Australian beef and lamb, and equipping staff in MLA's China office to identify further business opportunities. MLA has had a long-term commitment to the Chinese market having had staff on the ground there since 1998 with six staff currently working in-market.

Spearheading these business development efforts last year was MLA's facilitation of the SIAL tradeshow in May 2013, and Food Hotel China tradeshow in November 2013, supported by more than 40 exporters and resulting in more than 500 importer leads. MLA fortified its marketing efforts into the second tier cities of Shenzhen, Tianjin, Hangzhou and Sanya with a seminar road show and new retail sampling programs to raise interest in these key growth cities.

MLA has also keenly sought out foodservice support and fostered 'champions' of Australian beef and lamb via the Red Majesty Chef program. The program has trained 10 Beijing Chinese banqueting chefs in innovative product use and is capturing opportunities to jointly promote Australian product in the chef's restaurants.

Activities such as these have helped Australia into a market leading position in China, with beef exports in the 2013 calendar year reaching almost 155,000 tonnes swt (up 467 per cent from 2012) and beef export values reaching \$725 million for the year. Australia has a 53 per cent market share of the imported beef market in China.

4.3 MLA's corporate governance is regularly reviewed under the terms of the Deed of Agreement

Under the terms of the Deed (section 17), MLA is required to complete a performance review at least six months prior to the expiration of the four-year Deed. The performance review must involve engagement of an independent consultant to report on terms of reference agreed between MLA and the Department. This takes into account the performance of MLA in meeting its obligations under the Deed, MLA's development of its strategic, operating, risk management, fraud control and intellectual property plans, and delivery of benefits to the industry foreshadowed by MLA's strategic and operating plans.

The last independent review of MLA's performance was conducted in 2010 and found the company has delivered value to stakeholders and maintained high standards of corporate governance, evaluation and planning processes. The review, by Arche Consulting, has also highlighted key areas for improvement principally to move to longer-term strategic planning and KPI setting and reporting.

The report concluded that MLA:

- Has a structured approach to preparing the company's strategic and annual operating plans
- 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
- Has a Board that is open and transparent. The Board has policies and procedures to guide its operations and has been committed to improving governance at all levels
- Has been diligent and meticulous in meeting the requirements of the company's Statutory Funding Agreement with the Commonwealth
- Has a comprehensive approach to assessing value for money from past investments

The consultants also identified a series of key recommendations for improvement which MLA has progressed and regular updates against these recommendations are published on the MLA website. The most recent update is provided as appendix 2.

The next performance review will be conducted in 2015-16 and MLA has already been in discussions with the Department of Agriculture and peak industry councils about their involvement in the terms of reference and appointment of an independent consultant.

4.4 A skills-based Board is an effective governance arrangement for an industry marketing and R&D services company

The Deed (section 5) specifies that MLA should aim to have a skills-based Board recommended by a Selection Committee. The skills specified under the Deed are consistent with those set out in MLA's constitution, which requires the appropriate mix of qualifications and experience of Board members in corporate governance, livestock production, business management, finance, the promotion of products; the international marketing of products, administration of R&D, commercialisation of the results of R&D; and conservation and management of natural resources.

The ASX Corporate Governance Principles recommend that a Board should establish a nomination committee (recommendation 2.4). MLA's current Selection Committee process is in keeping with the ASX Corporate Governance Principles and is widely supported throughout the industry. Having Board members who have been selected for and elected to their position on the strength of their skills and experience means the MLA Board can add significant value to setting of the company's

strategy and monitoring the performance of MLA's marketing and R&D programs. MLA's operations encompass a wide range of complex fields – including global marketing, market analysis, industry systems, agricultural R&D, commercialisation, R&D extension and communications – with a particular focus on program delivery to achieve outcomes for industry.

MLA's skills-based Board has consistently added value across these areas. To ensure its efficiency and effectiveness, the Board:

- Has a strong focus on strategy setting
- Evaluates its performance on a regular basis, with a formal performance review undertaken annually, usually facilitated by a Board review specialist and focussing on the effectiveness of the Board as a whole and the performance of individual directors
- Resolved to reduce the number of directors by one, effective from the 2009 annual general meeting
- Ensures that there is a clear definition of its roles and responsibilities formalised in the MLA Board Charter and each Board committee also has a committee charter which is regularly reviewed
- Sets an annual agenda framework for its meetings which sets out important items to be considered and reviewed throughout the year
- Participates in general strategic discussions at each of its Board meetings, as well as participating in strategic planning sessions with management

4.4.1 Board Selection Committee

MLA's Constitution establishes a Selection Committee for the purpose of reporting to the members of the company on the suitability of candidates for re-election or election to the office of director at general meetings. The Selection Committee is comprised of three individuals elected for three-year terms by MLA producer members at an annual general meeting; three appointed by peak industry councils (CCA, SCA, ALFA); and three MLA Board members.

The Selection Committee undertakes a comprehensive selection process in order to identify the best candidates for election at the MLA annual general meeting and is supported by an external board recruitment specialist. In order to commence the recruitment process each year, the Selection Committee meets to discuss the current skills of the directors who will be retiring at the upcoming AGM. The Selection Committee then extensively reviews the skills of all directors, and the balance of those skills, in light of the retiring directors and any changing circumstances which need to be accommodated. To assist the Committee a skills matrix is analysed which identifies the skills of each director and highlights any gaps which may result from the retirement of the directors. The matrix is reviewed annually by the MLA Board as part of this process.

Under MLA's constitution, the directors of MLA must be elected by members by resolution of the AGM. Since the inception of MLA, 35 Board directors have been elected to the MLA Board.

4.4.2 Seeking to change Selection Committee process

There have been several proposals put to MLA's AGMs to increase the direct influence of producers over MLA's governance and Board selection.

At the 2001 AGM, the MLA Board proposed removing two directors from the Selection Committee and replacing them with two additional producer members: one grass-fed cattle producer and one sheep producer member (which would have brought producer representation on the Selection

Committee to five: two grass-fed cattle producers, two sheep producers and one grain-fed cattle producer). This structure proposed that the Chair of MLA would be the only director on the Selection Committee. The resolution was not successful, achieving 69 per cent support where 75 per cent support is required to make any constitutional change.

Following the Senate Inquiry into the Australian meat industry consultative structure and quota allocation in 2002, one of the recommendations made by the Rural and Regional Affairs and Transport Committee was:

The Committee recommends that the MLA board consult with its membership on democratic reform of the MLA's Articles of Association. In the absence of progress on this matter before the 2003 MLA Annual General Meeting, the Committee recommends that the Minister engage in detailed and open consultation with levy payers on reform options for a more democratic board selection process.

In response to this recommendation, MLA consulted widely with members and industry on the reform of its constitution to address concerns about producer representation in the director election process. Amendments aimed to give greater producer participation in selecting director candidates while maintaining a skills-based board essential for the effective management of the company were proposed to the 2003 annual general meeting. The resolution received 73 per cent of votes cast by MLA members in favour of the changes, however this was less than the 75 per cent required for constitutional change. In 2005, MLA's Chair, Managing Director and senior staff appeared before the Rural and Regional Affairs and Transport Legislation Committee to provide information relating to progress against the committee's 2002 recommendation. MLA advised that while the two resolutions that had been put to the 2001 and 2003 annual general meetings had not been successful, MLA was exploring ways to improve the system and was commissioning a report to assess automatic calculation of voting entitlements (see section 4.6.3 for detail on McGrath Nicol report).

In 2004, MLA members considered a special resolution proposed by a group of members that MLA's constitution be amended to enable direct election of up to six Directors (including one processor) and four specialist Board Members chosen by the selection committee. The resolution received 31.2 per cent votes from MLA members in favour of the change, which required 75 per cent for constitutional change. In 2005, MLA members considered the same resolution, again put forward by a group of members, with only 24.2 per cent votes cast by MLA members in favour of the change.

While there have been no formal resolutions put to the MLA annual general meeting on director selection since, MLA has periodically reviewed the appropriateness and effectiveness of these arrangements. Most recently, this has been considered in relation to the Rural R&D Policy Statement enacted in 2012 (see section 2.3.2) which included changes to the board selection processes for Government-owned RDCs to make board selection committees independent and skills-based rather than made up of industry representatives. As MLA is an industry-owned RDC it considered that strong industry representation on the Selection Committee should remain.

4.5 MLA facilitates robust evaluation of its marketing and R&D program and reports results back to industry

MLA is committed to subjecting all of its programs to evaluation that is credible, rigorous, comparable and that is resource efficient. MLA conducts several levels of evaluation of its programs – at the project or program level in relation to its objectives, at the company-level with tracking against MLA's key performance indicators (KPIs) and in terms of the broader industry return of major MLA program areas.

4.5.1 Evaluation of specific programs and projects

A major element in the delivery of all projects and programs across MLA is evaluation against their strategic objectives. Continued funding for programs are based on the delivery of significant outcomes from levy and government investments in line with these objectives. This requires a level of evaluation by suppliers and assessment by program managers within MLA taking into account the program outputs and their impact on industry. For marketing programs, for example, this often includes some evaluation of the impact of a specific promotional campaign on consumer behaviour and ultimately product sales. For RD&E programs, this may include assessment of the productivity impacts of a research output or the impact on producer behaviour of an extension or adoption program.

4.5.2 Reporting against company KPIs and key milestones

The first level of program evaluation at MLA involves setting and reporting against a comprehensive set of KPIs across MLA programs. These KPIs are outlined for a five-year period in MLA's *Corporate plan* across each MLA strategic imperative, which are broken down into annual key milestones that are outlined in MLA's annual operating plans.

These KPIs fall into two categories. Output KPIs refer to direct products arising from a marketing or R&D program and reflect the extent to which program and project milestones have been met. Outcome KPIs are observable and measurable changes in practice and behaviour that result from the program investment, measuring adoption as well as the resultant benefit when the program output is adopted.

MLA performance against output and outcome milestones is outlined in its annual operating plans and is referenced each year in its annual reports. In 2012-13, MLA achieved almost 76 per cent of its documented key milestones (69 from 91) including more than 72 per cent of its marketing milestones and 78 per cent of its R&D KPIs. MLA has consistently achieved more than 60 per cent of its annual milestones over the past three years.

4.5.3 Benefit:cost evaluation of programs

Over the past seven years, MLA has devoted significant effort to improving its program evaluation framework. The framework now used by MLA is compatible with the evaluation framework developed by the Department of Finance and Administration and with the Guidelines on Evaluation Practice developed by the Council of Rural Research and Development Corporations. MLA's approach to evaluation was described as "robust" by the independent Arche performance review.

The framework periodically evaluates the extent to which MLA programs are delivering economic, environmental and social benefits to the Australian meat and livestock industry and to the wider community. This impact assessment of MLA's programs represents the second level in MLA's evaluation framework.

Since 2005 MLA has established a standardised approach for assessing the triple bottom line impact of its programs and has dedicated resources to establish, implement and manage the process. Independent advisors were appointed to develop a systematic evaluation framework, and assist MLA in implementation. A rolling program of evaluations has been in place since 2007 and all evaluations are published on the MLA website.

Program strategy	Completed	Time period	Investment value	Benefit:cost ratio value estimate
Enhancing product integrity (food safety)	2006	1996-2006	\$4 million	11:1
Maintaining and improving market access	2006	1998-2006	\$50.5 million	8:1
Improving eating quality	2005	1998-2006	\$223 million	5:1
Enhancing the nutritional reputation of beef and lamb	2007	2001-2007	\$43 million	n/a
Increasing cost efficiency and productivity – on-farm (beef)	2007	2000-2007	\$93 million	3.4:1
Improving industry and market information	2008	1998-2008	\$45 million	5.6:1
Ensuring sustainability	2009	1996-2008	\$30 million	n/a
Aggressive promotion of Australian beef in Japan and Korea	2010	2000-2009	\$173 million	4.7 to 5.8:1
Developing new markets and products	2011	1998-2008	\$21 million	4.5 to 9.9:1
Aggressive promotion in the domestic market (beef)	2012	2004-2010	\$52 million	n/a

4.6 MLA is accountable to its members through the AGM voting process

4.6.1 All levy payers can be MLA members

All levy paying cattle producers, lot feeders, sheep producers and goat producers are eligible to become members of MLA. However, levy payers are not automatically members of MLA as imposing membership obligations without consent upon producers is not allowed under corporations law.

MLA membership is a voluntary system where being a member of the company and having voting entitlements is open and available free to all levy payers. As at 31 December 2013, 48,787 levy payers were members of MLA.

4.6.2 Member voting entitlements

All MLA producer members are entitled to vote at its annual general meeting and can also put special resolutions to these annual general meetings provided these resolutions meet the requirements laid out in MLA's constitution and under corporations law.

Members' voting entitlements at the MLA annual general meeting are determined according to the level of their levy contribution during the financial year immediately prior to the annual general meeting. Each year members are invited to return a levies notice, where the member nominates the amount of levies they paid over the previous financial year. Members are entitled to a single vote if they decide not to return a levies notice, the voting entitlements of those that submit levy notices are calculated according to the following scale:

Levies paid	Voting entitlement
\$0 to \$29,088	One vote for each \$1.00 paid
\$29,089 to \$87,263	29,088 votes plus 0.75 votes for each \$1.00 paid in excess of \$29,088
\$87,264 or more	72,719 votes plus 0.5 votes for each \$1.00 paid in excess of \$87,263

The scale is amended every three years in accordance with the formula set out in MLA's constitution.

4.6.3 Reviewing the membership and voting system

The current membership and voting entitlement system is well established and is a relatively efficient process, however some members of the industry have expressed concern with the process over time.

In recognition of this, in 2005 MLA, supported by the then Parliamentary Secretary for Agriculture, Senator The Hon. Richard Colbeck, convened a cross-sectoral meeting of industry and government representatives to identify issues requiring improvement and processes for achieving reform with a focus on improving the membership and voting entitlements processes.

McGrath Nicol Corporate Advisory were commissioned to conduct a feasibility study into areas of MLA membership. The review evaluated options in relation to membership eligibility, membership application process, voting entitlements process, voting allocation, and other matters including timing of the AGM and auditing issues.

The review consulted with producers, producer organisations, agents, processors, feedlots, Government and service providers and made several recommendations including those listed below (listed from McGrath Nicol, 2005):

Issue	Recommendation	MLA action
1. Membership eligibility	<p>Update MLA's definition of membership, by allowing traders to be eligible for membership.</p> <ul style="list-style-type: none"> ▪ The change enhances equity, as traders who are levy payers would be eligible for membership. <p>The change provides for greater consistency with the <i>Primary Industries (Excise) Levies Act 1999</i> and the <i>Primary Industries (Customs) charges Act</i>.</p>	MLA put forward a resolution at the 2005 AGM to broaden the membership categories that was passed by members

2. Membership application processes	<p>It was found that levy payers cannot automatically be made members of MLA, unless each levy payer first consents to become a member by way of a membership application process.</p> <ul style="list-style-type: none"> ▪ We note that the Review found additional opportunities to promote membership, and recommend these be considered by MLA. <p>It was also found that should recommendation 3 be accepted, an automated voting system may also provide a further opportunity to promote membership to levy payers.</p>	See below
3. Voting entitlement process	<p>MLA, in conjunction with the LRS, develop a new system to collect levies paid data, to facilitate the calculation of voting entitlements for MLA members.</p> <ul style="list-style-type: none"> ▪ The automation of voting entitlements addresses the major concern raised during the course of the Review's consultation - the current application process for votes is seen as a disincentive for MLA member's to vote. ▪ The automated processes can improve the accuracy of votes allocated. ▪ The additional cost appears affordable and is comparable to shareholder and membership costs that other organisations fund. ▪ The proposal also provides an opportunity to identify members and prospective members. <p>The Review also found that for this model to be acceptable to stakeholders, it will be necessary to develop information protocols to maintain the privacy and confidentiality of producer information submitted.</p>	See below
4. Voting allocation	<p>No change is recommended in relation to the scale for the allocation of votes.</p> <ul style="list-style-type: none"> ▪ The existing sliding scale for vote allocation was intended to encourage voter participation by small and medium sized members. ▪ This rationale remains relevant and reflects the current diversity in the size and structure of the meat industry. 	No action
5. Timing of the annual general meeting	<p>MLA to notify members of AGM resolutions, prior to the return date for levies notices.</p> <ul style="list-style-type: none"> ▪ This provides members with the opportunity to review issues and would assist members in deciding to submit levies notices. ▪ It was also found that should recommendation 3 be accepted, this particular timing issue could also be addressed as members would not be required to complete and submit levies notices. 	MLA put forward a resolution at the 2005 AGM to allow members to be informed as to the business of the AGM prior to the close of the period for lodging levies notices for calculation of full voting entitlements
6. Auditing and verification	<p>An independent audit role be introduced to conduct an annual review of MLA members register and vote allocation.</p>	Introduced an external audit of the vote allocation process

4.6.4 MLA response to the recommendations

A resolution to change MLA's constitution around membership eligibility and the timing of the AGM were put to the membership at the 2005 annual general meeting. The resolution read:

That MLA's constitution be amended, as proposed by the board and set out in this notice of meeting, to broaden the eligibility requirements for membership and to amend the timing provisions to enable the return date for levies notices to occur after the date on which members' resolutions are due.

This resolution passed by an overwhelming 97 per cent of the 3,529 votes cast at the AGM.

MLA also acted on the recommendations to promote membership by embarking on a series of campaigns to encourage levy payers to sign up as MLA members. This included promoting MLA membership more consistently through MLA events and programs, direct mail to producers identified through a number of sources, and advertising. These promotions successfully grew MLA's membership base from 33,000 in June 2005 to almost 45,000 in mid-2008.

Two other recommendations around membership application and voting entitlements were considered by an industry committee established in 2007 to consider the McGrath Nicol recommendation to assess the cost-benefit implications of implementing automatic voting entitlements. This committee included MLA, AMIC, Australian Livestock and Property Agents Association, ALFA, SCA, CCA and GICA.

The committee considered and consulted with representative collection points (in 2007 it was estimated there were a total of 2,500 intermediaries including agents, abattoirs, feedlots, private sales), along with key stakeholders in the data collection process including Department of Agriculture, Computershare and MLA, this feedback and costing (where applicable) were considered.

It is recognised that automatic voting entitlements would be useful, but was seen as cost prohibitive at the time. McGrath Nicol assessed the costs to be close to an additional \$1.48 million (or 2.2 per cent of levies collected in 2005-6) annually if all sectors were supported in improved data collection by the levy. This was on top of the then current costs of \$1.1 million (1.6 per cent of levies collected in 2005-06). It was therefore seen as an unnecessary cost burden on levies received, with no guarantee of greater involvement of levy payers. Therefore it was concluded and supported by peak councils and industry bodies that resources would be better spent on marketing and R&D programs, however this may be revisited in the future.

Case study 6: Leucaena

Developing new forage varieties to improve the northern feedbase

Leucaena is a high quality, long-lived forage tree that was first introduced by CSIRO in the 1950s for extensive grazing systems in northern Australia. It produces a palatable, nutritious, high protein leaf for cattle giving liveweight gains that are between two and three times that of grass-only pastures.

Over the past decade, MLA has invested \$2.8 million in leucaena R&D across 17 different projects to conserve genetic diversity, develop a psyllid-resistant line, assess the need for a sterile variety to avoid unwanted spread, ensure a robust supply chain for the rumen bug inoculum to improve efficacy, assess regional persistence and productivity, and evaluate establishment techniques.

Much of this R&D involved exploration of different aspects of leucaena establishment and management over long time frames. For example, one of the earlier MLA projects assessed the extent and causes of leucaena toxicity. Up to 50 per cent of mobs appeared to be at risk of DHP-induced depressions in productivity, and this led to a series of studies investigating ways to ensure cattle are fully protected via inoculation with DHP-degrading rumen bacteria. DHP is a by-product of ruminal breakdown of mimosine which occurs at various concentrations in the leucaena plant.

Another strand of this R&D has focussed on identifying particular breeding lines of leucaena that are best suited to various production systems and environments in northern Australia. One of these projects includes funding the University of Queensland to conserve 62 lines of leucaena obtained from the University of Hawaii.

UQ researchers are also in the final stages of developing a psyllid-resistant line of leucaena, important to control a pest that limits leucaena establishment in many more humid environments. Productivity of leucaena can be limited by psyllids, leaf-sucking insects especially damaging in coastal areas.

MLA has also completed a scoping study into the development of a sterile variety, as a means of reducing the risk of leucaena spreading into ungrazed areas.

MLA has supported many extension activities and demonstration sites which have contributed to a 50 per cent increase in the area established to leucaena-based pasture, now estimated to be over 250,000 ha.

5. MAXIMISING THE ABILITY OF PRODUCERS TO RESPOND TO CHALLENGES AND CAPTURE OPPORTUNITIES IN MARKETING AND R&D

In relation to “*Maximising the ability of producers to respond to challenges and capture opportunities in marketing and R&D*”, MLA offers the following broad principles for the Committee to consider:

- Industry investments have greatest impact when addressing market failure
- Opportunities are maximised when programs specifically focus on encouraging producers to take advantage of marketing and R&D outputs
- Investments need to be of an appropriate scale to maintain the effectiveness of industry marketing and R&D programs
- The long-term nature of industry marketing and R&D investments means they need to be forward thinking
- Many of the opportunities for industry with the greatest potential involve taking a whole of supply chain approach

5.1 MLA’s mission

MLA’s mission is to create opportunities across the cattle, sheep and goat supply chains by optimising the return on collective investment in marketing and R&D. Delivering on this mission, ensuring that these collective industry investments provide a significant return back to the farm gate is fundamental to the way that MLA operates. MLA’s strategic imperatives hone in on the key drivers of this – marketing to grow demand and improve market access, and R&D to increase productivity and support sustainability. Together, these programs aim to deliver benefits to producers that help them improve their profitability.

5.2 Industry investments have greatest impact when addressing market failure

As discussed previously, addressing market failure is the main criteria for the investment of industry levy funds. Delivering marketing and R&D programs with benefits that spillover across industry (and the broader community) is an important reason for MLA’s existence. The high prevalence of market failures in livestock industries, dominated as they are by small- to medium-sized enterprises that leads to scale and free-rider issues, are effectively addressed through collective levy investments assisted by targeted public funding.

A demonstration of the positive impact of focussing on an area of market failure is MLA’s investments over a sustained period of time in programs that have improved market access for industry. These programs have included work to develop and deliver industry systems that underpin product integrity and food safety, and work to assist industry and government to maintain and liberalise world meat markets.

Improving export market access is frequently cited by cattle producers as being a critical industry priority that impacts on their businesses (see section 2.5). However, in the absence of collective investments by industry and government, there is good reason to believe that this would be an

area of significant under-investment by individual enterprises and supply chains. Modelling by the CIE into payoffs from investments along the agricultural food value chain has shown that the greatest aggregate returns to farming come from improvements in export demand – with a one per cent improvement in export demand returning an estimated more than \$200 million to farming, more than double any of the other changes modelled (domestic demand, processing, agricultural inputs and farming margins) (CIE, 2012). However, these export markets are far removed from the farm gate and many producers only see the impact of any improvements indirectly.

In 2012-13, MLA invested more than \$3.5 million of grass-fed cattle producer levies into programs to liberalise world meat markets and deliver industry systems (MLA AOP objectives 1.1 and 1.2). In helping maintain and liberalise world meat markets, MLA supports industry and government to defend favourable access conditions, position industry in free trade agreement (FTA) negotiations, identify high priority technical trade barriers and assist in alleviating their impact through the provision of science and technology. MLA's work in developing industry systems includes programs to conduct scientific research to enhance food safety systems and managing meat and livestock traceability systems such as NLIS. These efforts involve close partnerships between government, industry and MLA and as such any outputs from these programs can be considered jointly achieved.

In MLA's evaluation series (see previous), these activities were amongst those with the highest cost:benefit ratios of any MLA program, with the CIE finding MLA's market access program had returns of \$8 for every dollar invested while the food safety research program had returns of \$11 for every dollar invested. As part of the implementation of mandatory NLIS, a number of states were required to prepare regulatory impact statements which considered the benefits and costs of NLIS in those states. These ranged from the NSW government, which found a benefit:cost ratio of 4:1 through to the Queensland Government which estimated a return of \$625 million per year on a cost to industry there of \$32.5 million.

5.3 Opportunities are maximised when programs specifically focus on encouraging producers to take advantage of marketing and R&D outputs

As mentioned, MLA's mission is to create opportunities across the cattle, sheep and goat supply chains by optimising the return on collective investment in marketing and R&D. This is based on the assumption that individual enterprises are best placed to make decisions about measures they take to improve their own profitability. Rather than making direct investments into production systems, the bulk of MLA's investments are geared towards creating tools, information and systems that producers can then choose to adopt or participate in. In order to function most effectively, this means that MLA must also invest in programs that give producers every opportunity to be aware of these tools, information and systems, and every opportunity to participate in them. MLA's model of investing in marketing and R&D also delivers increased adoption by focussing on activities with a commercial return. By engaging industry in program development and delivery, the RDC model enables greater adoption of opportunities by industry through a greater sense of shared ownership than through government investment alone.

Case study 7: Free trade agreement (FTA) negotiations

Supporting industry and government to deliver global competitiveness

One of the key areas in liberalising global trade is the progressing of FTAs with major trading partners and MLA assists to position industry in these negotiations. With other beef supplier nations pursuing market access improvements through FTAs, they continue to be an important avenue to create export opportunities.

Australia currently has seven FTAs in place with New Zealand, the United States, Chile, Thailand, Malaysia, Singapore and ASEAN nations and a further eight under negotiation including with two of Australia's largest beef export destinations Japan and China.

Negotiations for an FTA with South Korea concluded in December 2013 and, following ratification, the current 40 per cent tariff on Australian beef will be eliminated over 15 years. Failure to secure an FTA with this important export market was estimated by the CIE to potentially cost the Australian industry \$1.4 billion over 15 years - as competitor nations secured tariff removal through their own FTAs.

Some of the benefits that accrue to industry from liberalising trade are evident following the Australia–Chile FTA that came into force in March 2009. The FTA included elimination of a six per cent tariff on all red meat imports and a side commitment from Chile to recognise the Australian meat industry classification system AUS-MEAT. These outcomes enabled Australian beef to become more competitive and allowed Australia to grade beef for the purpose of export to Chile (previously a technical trade barrier).

Australian industry was an active participant throughout the FTA negotiations which commenced in 2007. MLA assisted via the co-ordination of industry submissions and was involved in representations to Australia's FTA negotiators via the reinforcement of industry priorities.

Following the FTA coming into effect, Australian beef exports to Chile have exhibited considerable growth. Exports went from being relatively small and irregular – with a value of \$7.9 million in 2010 – to reach \$81.2 million in 2011 and \$95.3 million in 2012 although exports declined significantly in 2013 with increased competition from Brazil, Argentina and Paraguay following their re-entry into the market.

The effectiveness of this approach can be clearly seen in the case of MSA, where producers can make the commercial decision to participate in the program weighing up the net benefit of the premiums paid for MSA-graded product versus any costs that are involved to make any required changes in their on-farm practices to increase compliance with MSA standards. MLA encourages producer engagement with MSA to increase adoption and compliance through communications and producer workshops, as well as conducting R&D to increase the number of producers eligible to supply MSA-graded cattle. Similarly, MLA conducted communications and engagement to increase participation in other market-specific industry programs such as the Pasture-fed Cattle Assurance System and European Union Cattle Accreditation Scheme.

MLA also invests in a specific strategic objective to increase producer engagement with MLA information and tools to build capability. It includes activities to influence producers' enquiry and experimentation through the delivery of online decision-making tools and on-farm publications and through programs such as the delivery of the More Beef from Pastures (MBfP) program and other R&D extension activities particularly FutureBeef, a collaborative program for the northern Australia beef industry between MLA, the Queensland Department of Agriculture, Fisheries and Forestry, the Northern Territory Department of Primary Industry and Fisheries and the Department of Agriculture and Food Western Australia. It also aims to involve producers in programs to improve their industry, including the producer demonstration site program with 27 producer-driven projects delivering practical solutions to on-farm issues that have engaged more than 800 individual producers.

Combined, these activities have contributed to strong engagement from producers with MLA's extension programs. In MLA's 2013 member survey, approximately 56 per cent of cattle members agreed that they have either engaged with an MLA tool or report online or participated in an extension event.

5.4 Investments need to be of an appropriate scale to maintain the effectiveness of industry marketing and R&D programs

5.4.1 Multiple participants in RD&E funding

It is important to consider industry's collective marketing and R&D investments in the context of the contributions of other industry participants. While targeted for maximum impact, MLA's investments are usually a small percentage of the total invested in marketing and R&D by governments, other service providers and private enterprises.

A CIE evaluation of domestic beef marketing found that MLA's budget averaged 0.45 per cent of total consumer expenditure on beef over the six years from 2004 to 2010. Private enterprises – including retailers, foodservice, exporters and brand owners – invest significantly higher amounts in their marketing strategies (CIE, 2012). Total cattle industry marketing levies (grass-fed and grain-fed) of \$50.3 million last financial year were approximately 0.4 per cent of the total export and domestic consumption values of beef (\$11.7 billion) (see MLA annual report).

Case study 8: More Beef from Pastures

Engaging producers with practice change and returning \$4.40 per dollar invested

More Beef from Pastures (MBfP) is a communication and extension program developed by MLA in 2004 to provide all southern beef producers with opportunities to build skills and capability that will reduce their costs of production, improve pasture utilisation and maximise enterprise profit.

MLA's investment of \$2.4 million over the past three years (2010-13) has enabled over 500 activities to be delivered to nearly 12,000 beef producers. A survey of participants indicates 76 per cent of southern beef producers who participated in the MBfP program implemented management practice changes, predominantly in pasture and grazing management. Estimated benefits per head of cattle are presented in the table below, highlighting improvements in pasture management providing the highest return. An ex-poste evaluation of MBfP conducted in 2013 estimated the investment benefit:cost ratio at 4.4 to 1 with a net present value to industry of \$21.5 million (Beattie, 2013).

Estimated per head benefits for MBfP practice change categories (\$)

Practice Change Category	\$ per Head Benefit**
General/Business Management	\$9.88
Animal Health	\$9.65
Marketing	\$9.39
Genetics	\$8.71
Animal Production	\$12.03
Pastures	\$12.30
Animal Handling	\$7.21

The program is delivered by a national network of state coordinators – usually government extension officers or private agricultural consultants.

Activities are based on large part on the MBfP producer manual which is available online where it has on average 1,270 unique visitors per month. The manual has modules on pasture growth, pasture utilisation, cattle genetics, weaner throughput, herd health and welfare, and meeting market specifications. Other online initiatives support the program including decision-making tools such as the popular beef cost of production calculator, stocking rate calculator, and the feed demand tool. The program also delivers a quarterly MBfP e-newsletter which has over 2500 subscribers.

**Five-year average beef prices provided by MLA for a range of livestock categories were used to quantify the income impacts of practice change productivity changes and actual or expected costs of implementing the change were based on farmer inputs provided.

In R&D, MLA's levy investment in agricultural RD&E is dwarfed by the contributions of state governments and the Australian Government. Analysis of RD&E investments in 2007-08 found that MLA's total RD&E investments (including matching government contributions) made up 12.5 per cent of total national RD&E investments in the northern cattle industry and 13.2 per cent in the southern industry. This would mean that cattle transaction levies contributed less than six per cent of total RD&E investment. State government DPIs, by comparison, invested more than 54 per cent of the total RD&E investment in both northern and southern Australia. (CIE, 2009)

With this in mind, levy investments need to complement the scale of these other larger investments in order to amplify the outcomes from this funding. One of the rationales for the Australian Government providing MLA with matched government funding to R&D levy investments is to ensure that this funding is aligned and outcomes amplified. A major aim of the National Beef Production RD&E Strategy is to ensure that government, levy and other private funding for R&D is appropriately aligned (see section 3.6.1).

5.4.2 Leveraging marketing levy investment

A key focus of MLA's marketing programs in export markets is the development of new business opportunities for Australian beef. This includes targeting potential accounts for Australian beef including major retail and foodservice chains, and leveraging the marketing levy investments by partnering with their supply chains to promote Australian product to their consumers. Australian beef is also capitalising on the growing interest in niche products (organic, grass-fed, grain-fed) at foodservice and retail, and the strong recognition of Australia's capacity to supply these segments.

MLA has several mechanisms to further this and ensure private and levy funds complement each other. These include partnerships with major retailers and foodservice operators both in Australia and overseas to leverage marketing investments to build the brand positioning of Australian beef or specific programs such as MSA. It also includes domestic marketing programs to increase merchandising and value-added options versus competitor proteins with independent butchers and foodservice operators.

One of the most important of these are industry collaborative agreements (ICAs) – where MLA provides marketing levy funds on a dollar for dollar basis to supply chain participants where brand marketing activities build recognition and positioning of beef. ICAs are currently available for individual exporters and importers, and for brands underpinned by MSA in the domestic market.

ICAs work off the principle that growing overall demand for beef relies on a balance between category (generic) and brand marketing. Most of MLA's marketing budget is directed at market analysis and strategy, business development activities and generic brand strategy in global markets. Retailers, processors and exporters increasingly invest in promotional campaigns to create and build beef and private label brands. ICAs attempt to leverage these investments and encourage brand-owner investments in sustainable brand growth to grow overall demand for beef in global markets. The model has widespread industry and peak industry council support.

In 2012-13, MLA invested approximately \$3.5 million of beef marketing levies in ICAs with 63 Australian companies across markets including Australia, Japan, Korea, China, South East Asia, North America, the Middle East and other emerging markets. This funding contributed to a range of activities including trade missions, sampling, demonstrations, brand development, digital marketing and training seminars. The companies that participate in the ICA program and the value of the investments are detailed in MLA's annual report.

Case study 9: Marketing in the United States

Strategic niche marketing to grow demand for grass-fed beef

Strategic investments of cattle producer levies over the past decade have positioned Australia to capitalise on growth in the niche grass-fed and organic segments of the US protein market. In the most recent study on consumers' retail attitudes *The Power of Meat* released annually at the American Meat Institute conference, US consumer demand for a natural or organic meat product grew 44 per cent between 2010 and 2013 with 26 per cent of consumers saying they have purchased a natural or organic meat in the past three months. MLA-commissioned research confirms increased demand from retailers and foodservice professionals.

In response, Australian industry has developed a coordinated strategy that includes generic promotion of Australian grass-fed beef's food safety, traceability, sustainability, eating quality and shelf-life benefits – claims underpinned by industry food safety, environment and animal welfare research programs and operating under the generic brand 'Australian beef: Wholesome is our nature'.

A critical pillar of this strategy involves developing new business opportunities for grass-fed beef that enhance this natural positioning. This work involves working closely with exporters, importers and end-users to identify networks, generate sales leads, facilitate trade show presence and account management.

MLA further supports demand for these products through co-operative funding of branded programs under the ICA program. Several of these programs involve higher prices being paid to cattle producers in Australia over the prevailing market.

This industry-wide approach is beginning to see results with more than eight retailers beginning in-store promotions of Australian grass-fed beef representing more than 3,000 stores. These promotions were supported by MLA business development activities and co-funded point-of-sale materials and advertising.

While the US continues to be an important frozen manufacturing beef market for Australia, growth in chilled grass-fed products has been steadily rising from approximately 16,100 tonnes in 2005, to a record of approximately 33,350 tonnes in 2013. This has continued strongly in January 2014 with volumes up 34 per cent on January 2013.

This growth will come under pressure in coming years as supply is forecast to decline and the continued competitiveness of China and other emerging markets draws product away from the US for higher prices, however we have now struck an important foothold for acceptance of grass-fed beef in the market.

5.5 The long-term nature of industry marketing and R&D investments means they need to be forward thinking

While marketing and R&D programs need to be strategic to ensure they are appropriately targeted in the context of complex industry and supply chain arrangements, the long-term nature of these industry investments makes the importance of a strategic focus doubly important. Industry's five-year planning cycle – and even longer-term planning around specific programs – attempts to address some of these timescale issues. The long-term nature of these investments is a major factor in the long lag times between investment and return of benefit to producers (see section 2.2.2).

The success of marketing programs relies particularly on increasing market knowledge, sustaining business relationships and building brand position over the course of many years to grow trust, requiring a long-term strategic commitment to particular markets and stakeholders. The importance of this trust can be illustrated by MLA's commitment to emerging Asian markets, with an in-market presence in China from 1998 and several other South East Asian markets from the early 2000s assisting industry to take advantage of these now important export markets.

Similarly, the open-ended nature of much scientific inquiry means that R&D can take years or decades of work between the identification of a problem through to the commercialisation of a product to address it and its widespread uptake. An example of an innovative long-term R&D program that has delivered strong returns back to the farm gate has been industry investments in the genetic development of the Australian cattle herd through improved genetic evaluation and trait improvement.

While industry has been investing in cattle genetic R&D over many decades, MLA's investments since its inception in 1998 have focussed primarily on enhancing the BREEDPLAN and BreedObject technologies, on gene markers through the Beef CRC and CSIRO to simplify selection for traits that are difficult to measure such as marbling, tenderness and feed efficiency, and into eating quality markers. Together these developments have delivered a substantial aggregate value return to industry with an estimated benefit:cost ratio of quantitative genetics research of 3.6 to 1 (CIE, 2009).

Case study 10: BREEDPLAN

Genetic improvements creating opportunities to boost profitability

BREEDPLAN is a modern genetic evaluation system for beef cattle breeders offering bull breeders the potential to accelerate genetic progress in their herds, and to provide objective information on stock they sell to commercial breeders.

BREEDPLAN technology is kept at the leading edge by continuous research. It uses the world's most advanced genetic evaluation system (based on best linear unbiased prediction technology) to produce estimated breeding values (EBVs) of recorded cattle for a range of important production traits such as weight, carcase and fertility.

The BREEDPLAN software has been developed by the Animal Genetics and Breeding Unit (a partnership between the University of New England and NSW Department of Primary Industries) and the technology is marketed by the Agricultural Business Research Institute. MLA has invested approximately \$29 million of levy and government funds in research and development that has been subsequently delivered through BREEDPLAN between 2001 and 2011.

BREEDPLAN EBVs and selection indexes provide producers with powerful information to take the herd forward through genetic improvement, and can put the business in a stronger position to combat the cost-price squeeze and gain productivity and profitability. BREEDPLAN delivers additional on-farm returns totalling up to \$20 million each year through improved growth rates, carcase composition, feed efficiency and maternal ability.

Current adoption of BREEDPLAN stands at more than 70 per cent of bulls with breeding values in British breeds, 60 per cent in European breeds and more than 15 per cent in tropical breeds (where more than 50 per cent of bulls either have EBVs or are sired by bulls with EBVs).

The resulting rate of five-year average annual genetic progress was estimated at \$3.09/DSE (dry stock equivalent) per cow in 2012 compared to \$2.06/DSE in 2001 among British breeds; \$1.60/DSE per cow in 2012 compared to \$0.60/DSE in 2001 amongst European breeds; and \$1.08/DSE per cow in 2012 compared to \$0.48/DSE in 2001 among tropical breeds.

5.6 Many of the opportunities for industry with the greatest potential involve taking a whole of supply chain approach

MLA strongly supports a whole-of-supply chain focus as this ensures both that on-farm R&D is consumer and customer driven and that marketing activities are driven by claims supported by on-farm practices. For instance, innovations that improve quality on-farm (for example, improved food safety, product traceability or better environmental performance) must be protected and enhanced through the supply chain in order for the desired outcome to be realised and for the customer to recognise and value the innovation.

This whole-of-supply chain approach has led to some of the industry's biggest breakthroughs:

- MSA required R&D effort along the supply chain to investigate all the practices on-farm, during transport, at the saleyards, and during processing and storage that have an impact on quality. This R&D effort informed the development of an integrated quality system that covers all participants in the supply chain and is growing demand of beef and delivering returns back into industry.
- Livestock traceability systems have provided assurance around on-farm practices that have underpinned product safety claims, market access and the reputation of Australian beef around the world delivering a strong return to industry in keeping markets open and insurance in the face of potential animal health incidents. It also helps position product in emerging Asian markets where food safety is a 'top of mind' attribute to consumers when purchasing meat.
- MLA's market information services provide intelligence on all points of the supply chain back to industry participants from the farm gate, saleyard, export facility and global consumer, and are amongst the most highly valued MLA services to industry.

Whole-of-supply chain approaches have been facilitated by a number of elements including the MOU, planning process which involves consultation and input from all industry sectors, all major groups along the supply chain paying levy contributions, and broad supply chain collaboration.

One of the most important elements has been the integration of marketing and R&D service provision within one organisation. With the amalgamation of the AMLC and MRC in 1998, combining these functions has reinforced the importance of customer-driven innovation and has better facilitated innovation through the supply chain.

MLA's overseas offices, which are located in all major meat markets, have proven invaluable in transferring clear customer and market signals back to the farm gate. The integration of marketing ensures that R&D works in concert with production, processing and marketing initiatives and creates greater efficiencies and increased adoption of R&D outcomes.

Case study 11: Meat Standards Australia

Supply chain program delivers producer return of \$5.30 per dollar invested

Meat Standards Australia (MSA) is industry's supply chain program designed to give consumers a consistent eating quality experience of beef. Launched 15 years ago, MSA was developed to scientifically assess the impact that livestock management practices, processing systems, cuts, ageing periods and cooking methods have on eating quality as assessed by consumer preferences gauged through more than 683,000 beef taste tests.

The model grades 136 cut by cooking methods for beef, and assuring the eating quality of MSA beef requires standards to be maintained from paddock to plate. Cattle are graded by an MSA accredited grader at a licensed processor according to a range of carcase data with an eating quality grade assigned for each individual cut.

MLA manages MSA on behalf of industry, aiming to increase the volume of MSA-graded product by encouraging more producers to register and generating more MSA-graded product volume per carcase, reducing eating quality variability within brands, and continuing R&D to strengthen the predictive model that underpins the program.

MSA has been taken up strongly by producers, processors, food service outlets and retailers. More than 2.4 million head of cattle were MSA-graded in 2012-13 and more than 31,500 producers are currently registered with the program to supply cattle.

This translates through the supply chain with 41 licensed processors and more than 1,590 end user licenses representing more than 2,300 retail outlets including all the major supermarkets and 650 independent butchers. According to MLA market research, more than 51 per cent of consumers are aware of the MSA-graded symbol.

MSA is generating significant returns back to supply chains and ultimately back to the farm gate. An independent review by CIE in 2008 revealed that a planned \$210 million investment in beef eating quality by MLA and its research partners over 30 years should return a net industry benefit of \$932 million – a benefit:cost ratio of 4 to 1.

There is significant evidence that this is an underestimate of returns from the program. In 2012-13 alone, MSA-graded yearling cattle generated an average premium of \$0.28 per kg across all weights translating to an estimated total return to the farm gate of \$170.1 million last financial year alone.

A further CIE report into more recent program performance estimated that MSA had delivered net benefit to producers of \$440.9 million by the end of 2010-11 with a benefit: cost of 5.3 to 1 over this period. The total industry-wide net benefit of MSA was estimated at between \$967.1 million and \$1,043.4 billion with a benefit:cost ratio of between 3.7 and 4.7 to 1 (CIE 2012).

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APPENDIX 1:

Deed of Agreement between Australian Government and MLA



Australian Government
Department of Agriculture,
Fisheries and Forestry

2012-16 DEED of AGREEMENT

between the

Commonwealth of Australia represented by the Commonwealth

Department of Agriculture, Fisheries and Forestry

ABN 24 113 085 695

and

Meat & Livestock Australia Limited

ABN 39 081 678 364

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DEED dated

BETWEEN **THE COMMONWEALTH OF AUSTRALIA** (represented by the Australian Government Department of Agriculture, Fisheries and Forestry) ABN 24 113 085 695.

AND **MEAT & LIVESTOCK AUSTRALIA LIMITED (MLA)**
ABN 39 081 678 364.

RECITALS

- A. The Commonwealth of Australia (Commonwealth) and Meat and Livestock Australia (MLA) are parties to a Memorandum of Understanding in relation to the meat and livestock industry dated 27 April 1998, which provided for MLA to be declared to be the industry marketing body and the industry research body for the purposes of sections 60(1) and (2) of the *Australian Meat and Live-stock Industry Act 1997* (Cth) (the Act).
- B. MLA was subsequently declared to be the industry marketing body under section 60(1) of the Act and the industry research body under section 60(2) of the Act.
- C. Under the Act, payments of Levy Funds and Commonwealth Matching Funds are made to MLA subject to conditions agreed between the Minister and MLA.
- D. A Deed of Agreement between the Commonwealth and MLA came into effect on 1 July 1998 agreeing the conditions for payments by the Commonwealth to MLA under the Act. This was supplemented by the *MLA Research and Development, Commonwealth Matching Payments Policy Framework, January 1999*. A further Deed of Agreement (the Former Deed) came into effect on 1 June 2007 replacing the earlier Deed of Agreement and supplement.
- E. The parties wish to terminate the Former Deed and enter into this Deed to make provision (among other things) for revised arrangements and conditions for payment to take account of changes to Commonwealth requirements.

DEED OF AGREEMENT

1. DEFINITIONS

In this Deed:

Act means the *Australian Meat and Live-stock Industry Act 1997* (Cth), including any regulations or other instruments made under that Act.

Agri-Political Activity means engaging in or financing any form of external or internal political campaigning, but does not include activity required or authorised under the *Corporations Act 2001* (Cth) or another law. Clause 8.6 provides examples of activities which are not Agri-Political Activity.

Annual Operating Plan means a plan prepared by MLA in accordance with clause 13.

Annual Report means a report prepared by MLA in accordance with Schedule 2.

Approved Donor means a body declared to be an approved donor under section 61 of the Act.

Business Day means a day on which Australian banks are open for general banking business in the Australian Capital Territory, excluding Saturdays and Sundays.

Business Hours means the hours between 9.00am and 5.00pm on a Business Day.

Certification Report means a report prepared in accordance with clause 18.3.

Commonwealth Matching Funds means funds paid to MLA under section 66 of the Act.

Compliance Audit Report means a report prepared in accordance with clause 18.1.

Confidential Information means information for which the following requirements are satisfied and including, but not limited to, Levy Payer information:

- (a) the information is given by one party (the disclosing party) to the other (the receiving party) for or in connection with this Deed;
- (b) the information is by its nature confidential; or
- (c) before or when the disclosing party gives the information to the receiving party, the disclosing party informs the receiving party that the information is confidential or 'in confidence' (which may be by marking a document including the information that is given by the disclosing party to the receiving party as mentioned in paragraph (a) of this definition to the effect that the information is confidential);

but does not include information that:

- (d) is or becomes public knowledge other than by breach of this Deed or by any other unlawful means;
- (e) is in the possession of the receiving party without restriction in relation to disclosure before being given by the disclosing party; or
- (f) has been independently developed or acquired by the receiving party.

Cost Allocation Policy means the policy for allocating MLA's direct and indirect costs to its Research and Development Program and Marketing Program (see Schedule 4).

Deed Date is the date on which this Deed was signed by both parties.

Department means:

- (a) the Australian Department of Agriculture, Fisheries and Forestry; or
- (b) if the Act is administered by a Minister of State other than the Minister—the Department of State administered by that Minister.

Director means a person who is for the time being a member of the board of directors of MLA.

Donor Funds means amounts paid to MLA by Approved Donors which are matched by the Commonwealth under section 66(1)(b) of the Act.

Financial Year means a period of 12 months starting on 1 July.

Former Deed means the deed mentioned in Recital D, which came into effect on 1 June 2007.

Fraud Control Plan means a plan maintained by MLA specifying measures to minimise the risk of fraud within MLA in accordance with clause 14.1 (b).

Funds mean any or each of the following:

- (a) Levy Funds;
- (b) Commonwealth Matching Funds;
- (c) income earned or derived by MLA from the Levy Funds and Commonwealth Matching Funds;
- (d) proceeds of the sale or other disposition of assets acquired with Funds referred to in paragraph (a), (b) or (c) of this definition; and
- (e) Donor Funds.

Guidelines mean each of the following:

- (a) the National and Rural Research and Development Priorities;
- (b) other priorities or directions communicated to MLA by the Minister in writing;
- (c) the Levy Principles and Guidelines relating to the introduction of new levies or changes to existing levies; and
- (d) any other guidelines relating to the Funds agreed between the parties including those included in Schedules 4 and 5.

Industry means the Australian red meat and livestock industry.

Industry Representative Body means a peak industry body or a body with similar industry advocacy or agri-political objectives.

Insolvency Event means any of the following:

- (a) MLA disposes of the whole or part of its assets, operations or business other than in the ordinary course of business;

-
- (b) MLA ceases to carry on business;
 - (c) MLA ceases to be able to pay its debts as they become due;
 - (d) any step is taken by a mortgagee to take possession or dispose of the whole or part of MLA's assets, operations or business;
 - (e) any step is taken to enter into any compromise or arrangement between MLA and its creditors or a class of them;
 - (f) any step is taken to appoint a receiver, a receiver and manager, a trustee in bankruptcy, a provisional liquidator, a liquidator, an administrator or other like person to the whole or part of MLA's operations or business.

Intellectual Property means all copyright and neighbouring rights, and all rights in relation to inventions (including patents), plant varieties, registered and unregistered trademarks, registered designs, Confidential Information (including trade secrets and know how) and circuit layout rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

Intellectual Property Management Plan means a plan maintained by MLA specifying the procedures for management, adoption and commercialisation of Intellectual Property owned or licensed by MLA in accordance with clause 14.1(c).

Levy Funds means Marketing Funds and Research and Development Funds.

Levy Payer means a person liable to pay a levy or charge referred to in section 63 or 64 of the Act.

Levy Regulations means regulations under which levies and charges mentioned in sections 63 and 64 of the Act are imposed.

Marketing Funds means amounts paid to MLA under section 63 of the Act.

Minister means the Minister having responsibility for the Act and includes a delegate of the Minister.

MLA Constitution means the Memorandum of Association and Articles of Association for MLA to which the Minister had regard in relation to declaring MLA to be the industry marketing body and the industry research body for the Industry under sections 60(1) and 60(2) of the Act, and includes any amendment to that Constitution.

MoU means the Memorandum of Understanding referred to in Recital A.

National and Rural Research and Development Priorities means the Research and Development Priorities communicated to MLA, from time to time, by letter from the Minister.

Nomination Committee means a committee which is established by the board as set out in Recommendation 2.4 of the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, Second Edition, August 2007*.

Peak Industry Body means a prescribed industry body for the purposes of section 59 of the Act, which is also a member of MLA.

Performance Review means a review conducted in accordance with clause 17 that takes into account:

- (a) the performance of MLA in meeting its obligations under this Deed;
- (b) the implementation of MLA's Strategic and Annual Operating Plans and the effectiveness of MLA in meeting the targets and budgets set out in those plans;
- (c) the operation of MLA's Fraud Control, Risk Management and Intellectual Property Management Plans and the effectiveness of MLA in complying with the requirements set out in those plans;
- (d) the efficiency with which MLA carried out those plans;
- (e) the delivery of the benefits to the Industry from investments in marketing as foreshadowed by Strategic and Annual Operating Plans
- (f) the delivery of the benefits to the Industry and/or the community in general from investments in Research and Development as foreshadowed by Strategic and Annual Operating Plans; and
- (g) other matters required to be covered by the Minister.

Performance Review Report means a report prepared in accordance with clause 17.1(a).

Program means a group of Marketing Activities (a Marketing Program) or a group of Research and Development Activities (a Research and Development Program) that collectively deliver services to Industry and/or the community in general with the aim of achieving a planned outcome.

Program Framework means the Framework set out in Schedule 5 to this Agreement based on the Department of Finance and Deregulation (DOFD) "Outcomes and Programs Framework".

RDCs means the statutory research and development corporations which operate under the *Primary Industries and Energy Research and Development Act 1989* (Cth) and the declared agricultural industry owned companies, including MLA, operating under a statutory funding agreement or deed with the Commonwealth.

Research and Development means systematic experimentation or analysis in any field of science, technology, economics or business (including the study of the social or environmental consequences of the adoption of new technology) carried out with the object of:

- (a) acquiring knowledge that may be of use in achieving or furthering an objective of the Industry, including knowledge that may be used for the purpose of improving any aspect of the production, processing, storage, transport or marketing of meat or livestock, or goods that are derived from them; or
- (b) applying such knowledge for the purpose referred to in paragraph (a).

Note: Schedule 3 includes examples of activities that may be Research and Development for Commonwealth matching purposes.

Research and Development Funds means amounts paid to MLA under section 64 of the Act.

Risk Management Plan means a plan prepared and maintained by MLA which specifies the measures to manage its material, commercial, legal and administrative risks in accordance with clause 14.1(a).

Secretary means the Secretary of the Department and includes a delegate of the Secretary.

Skills Based Board means a board which would possess an appropriate mix of the following qualifications and experience:

- (a) corporate governance;
- (b) livestock production;
- (c) business management;
- (d) finance;
- (e) the promotion of products;
- (f) the international marketing of products;
- (g) administration of research and development;
- (h) commercialisation of the results of research and development; and
- (i) conservation and management of natural resources, and environmental and ecological matters.

Note: It is expected that the skills required to effectively manage a Company would be reviewed by a Nomination Committee before each board selection process.

Strategic Plan means a plan prepared by MLA in accordance with clause 12.

2. TERM AND OPERATION OF THIS DEED

- 2.1 This Deed commences and takes effect on the day following the Deed Date and terminates four years after the Deed Date.
- 2.2 The parties agree that the Former Deed terminates immediately before this Deed commences.
- 2.3 The termination effected by clause 2.2 does not affect the rights of a party accrued on or before termination or any contingent liability under the Former Deed.
- 2.4 The parties must, at least 9 months prior to the termination of this Deed, commence negotiations in good faith with a view to renewing this Deed either on the same terms and conditions or on varied terms and conditions as agreed by the parties.
- 2.5 In negotiating the renewal of this Deed the outcomes of the most recent Performance Review shall be taken into account.
- 2.6 MLA must publish this Deed on its web-site.

3. MLA CONSTITUTION AND MEMBERSHIP

- 3.1 MLA must:

- (a) consult with the Minister on changes proposed by MLA to the MLA Constitution;
 - (b) advise the Minister of any resolution proposed by members of MLA to amend the MLA Constitution as soon as reasonably practicable after the resolution is accepted by MLA;
 - (c) give the Minister a copy of each notice of a motion to modify the MLA Constitution, at the same time as it gives notice of the motion to members of MLA; and
 - (d) as soon as practicable after any modification of the MLA Constitution is made, give the Minister notice setting out the modification and explaining its effect.
- 3.2 MLA must do all things necessary so that it remains representative of the Industry's marketing, promotion and research and development interests.
- 3.3 Without limiting clause 3.2, MLA must:
 - (a) ensure that the MLA Constitution entitles any person that is a producer of livestock and has paid levies or charges referred to in section 63 or 64 of the Act during the financial year in which the person applies for membership or either of the two preceding financial years to be a voting member of MLA; and
 - (b) establish suitable communications programs in MLA's strategic planning process to help ensure that persons that are entitled to, but are not members of MLA, are encouraged to become members of MLA.
- 4. **MoU**
- 4.1 MLA must do all things necessary to remain a party to the MoU and must comply with its roles, responsibilities and other obligations under the MoU.
- 5. **BOARD CORPORATE GOVERNANCE**
- 5.1 MLA should have a framework of good corporate governance practice in managing and investing the Funds drawing on the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, Second Edition, August 2007*, and any updates to these principles and recommendations, as appropriate. In particular, MLA should aim to have:
 - (a) a board which is structured to add value as outlined in Principle 2 of the abovementioned ASX Corporate Principles and Recommendations;
 - (b) a Skills Based Board recommended by a Nomination Committee (subject to retirement and election requirements under the MLA Constitution); and
 - (c) a process for evaluating the performance of the board and its committees.

-
- 5.2 MLA must report to the Minister in the meetings held under clause 15.2 of steps taken to improve Board corporate governance and performance in accordance with clause 5.1.

6. PAYMENT OF FUNDS

- 6.1 For the purposes of sections 63, 64 and 66 of the Act, the parties agree the time and the manner in which the amounts payable to MLA under those sections are to be paid are as set out in Schedule 1.

Note: Section 63 of the Act deals with Industry Marketing Funds, Section 64 deals with Industry Research and Development Funds and Section 66 deals with Commonwealth Matching Funds.

- 6.2 MLA agrees that the Commonwealth may either invoice MLA, or deduct from relevant payments to be made to MLA:

- (a) amounts referred to in section 67(1)(a) or 67(2)(a) or payable by MLA under section 68 of the Act; and
- (b) any reasonable expenses incurred by the Commonwealth in connection with any changes to the Act, the Levy Regulations or this Deed initiated by MLA or the Industry, subject to any budget that may be agreed between the Commonwealth and MLA.

- 6.3 MLA must pay any amount so invoiced to the Commonwealth within 28 days after receipt of the invoice.

Note Section 67(1)(a) permits MLA to apply Marketing Levy Funds to repay the Commonwealth its expenses incurred in relation to the collection or recovery of amounts referred to in section 63 of the Act and the administration of section 63. Section 67(2)(a) permits MLA to apply Industry Research Funds to repay the Commonwealth its expenses incurred in relation to the collection or recovery of amounts referred to in section 64 of the Act and the administration of section 64. Section 68 states that if the Commonwealth pays a refund in respect of an amount of levy or charge referred to in section 63, 64, 64A or 64B, MLA must pay to the Commonwealth an amount equal to the refund.

- 6.4 The Commonwealth must provide to MLA, prior to the commencement of each financial year, an indicative, non-binding, budget and plan for the financial year in relation to the Commonwealth's collection and recovery of levies.

7. MANAGEMENT OF FUNDS

- 7.1 MLA must establish such accounting systems, processes and controls as are necessary to ensure:

- (a) the Funds are used only in accordance with the Act and this Deed;
- (b) all dealings with the Funds are properly authorised, conducted and accounted for; and
- (c) an auditor is able to verify readily that the Funds have been used only in accordance with the Act and this Deed.

-
- 7.2 The accounting systems, processes and controls to manage the Funds established in accordance with clause 7.1 are required to take into account the Risk Management and Fraud Control Plans developed under clauses 14.1(a) and (b).
- 7.3 MLA must, on request, notify the Minister of the details of the systems, processes and controls established in accordance with clause 7.1.
- 7.4 MLA must keep complete and detailed accounts and records of receipt and expenditure of the Funds and must do so separately in relation to Marketing Funds, Research and Development Funds and Commonwealth Matching Funds. The accounts and records must be kept in accordance with good accounting practice including all applicable Australian accounting standards.
- 7.5 MLA must keep accounts and records referred to in paragraph 7.4 to enable reporting of expenditures on Research and Development and Marketing Programs under Schedule 2.
- 7.6 If any additional systems, processes and controls to meet the requirements of this Deed are required, they should be progressively implemented during the term of the Deed.

8 APPLICATION OF THE FUNDS

- 8.1 MLA must apply all Funds only in accordance with sections 67 and 68 of the Act, including in meeting the obligation to apply Commonwealth Matching Funds only in accordance with section 67(3) of the Act.
- 8.2 MLA must spend Commonwealth Matching Funds only on Research and Development, and must comply with the obligations in Schedule 3 in relation to that expenditure.
- 8.3 MLA must spend the Funds in a manner that is consistent with:
- (a) the Strategic Plan;
 - (b) the Annual Operating Plan; and
 - (c) the Guidelines
- and must apply the Funds in a manner that is efficient, effective and ethical.

Note: the requirement to apply the Funds efficiently, effectively and ethically is derived from the *Financial Management and Accountability Act 1997* (Cth) which requires that chief executives manage their agencies in a way that promotes the proper use of the Commonwealth resources for which they are responsible. The “proper” use means that the use is not inconsistent with the policies of the Commonwealth. Guidance on the interpretation of these particular terms can be found on the Department of Finance and Deregulation’s web-site. For example Financial Management Guidance 14 states “Ethical behaviour encompasses the concept of honesty, integrity, probity, diligence, fairness, trust and consistency. Ethical behaviour includes avoiding conflicts of interest and not making improper use of an individual’s position”.

- 8.4 The Commonwealth may amend the Guidelines referred to in paragraphs (a) and (c) of the definition of the Guidelines, being the National and Rural Research and Development Priorities and the Levy Principles and Guidelines, provided it gives

MLA such period to implement the variation to these Guidelines as the Commonwealth, after consulting with MLA and taking into account such consultations, considers reasonable. An amendment does not affect any liabilities of MLA accrued before that time.

- 8.5 MLA must not engage in or use the Funds for Agri-Political Activity. For the avoidance of doubt, MLA must not apply the Funds to act as, or promote itself as, an Industry Representative Body.
- 8.6 Agri-Political Activity does not include any of the following:
- (a) the Board or an individual director from recommending a candidate for election;
 - (b) a candidate funding his or her own campaign activities;
 - (c) use by another person, for political purposes, of a report or other publication prepared or financed by MLA in accordance with this Deed;
 - (d) MLA making statements or providing information to the Industry on matters related to its objects in the proper performance of its functions and the proper furtherance of its objects.
- 8.7 MLA shall not spend the Funds on making payments to Industry Representative Bodies, except in relation to:
- (a) payments by way of membership fees where that membership contributes to MLA pursuing its objects;
 - (b) payments on an arm's-length commercial basis to acquire goods or services or fund research and development or marketing activities; or
 - (c) costs of consultation covering for example consultation costs incurred by an industry representative officer including travel and accommodation expenses.
- 8.8 MLA may, at any time, seek consultations with the Department in relation to any matter connected with this Deed (including whether a proposed expenditure would amount to engaging in Agri-Political Activity).

9 SUSPENSION OR TERMINATION OF FUND PAYMENTS

- 9.1 Subject to clause 9.2 the Commonwealth may, by giving written notice to MLA, immediately:
- (a) suspend or terminate payment of any or all of the Funds;
 - (b) reduce the amount of a payment of the Funds that would otherwise be made;
 - (c) direct MLA to deal with all or any of the Funds in a certain way, taking into account MLA's contractual obligations and liabilities; and/or
 - (d) terminate this Deed;

if:

- (e) an Insolvency Event occurs; or
- (f) MLA is in breach of its obligations under this Deed or the Act including, without limitation:
 - (i) a breach of its obligations under clause 8.3; or
 - (ii) a failure to provide a satisfactory report or explanation under clause 16; or
 - (iii) a failure to take any remedial action referred to in clause 16.3 either at all or within the time frame agreed under clause 16.3;
- and
- (iv) MLA has not provided the Commonwealth with a satisfactory report in relation to the breach within 28 days of becoming aware of it and/or has not undertaken remedial action within the time specified in that report; or
- (v) MLA has not rectified the breach within 28 days of receiving a notice to do so from the Commonwealth; or
- (g) the Commonwealth considers that it is reasonable to do so because of a change to the MLA Constitution;
- (h) the declaration of MLA under the Act as the industry marketing body or the industry research body is revoked; or
- (i) there is a change in Commonwealth policy relating to the raising or spending of the Levy Funds or the payment or spending of Commonwealth Matching Funds.

9.2 The Commonwealth must not issue a notice under clause 9.1 on the ground stated in clause 9.1(i) unless it has:

- (a) given MLA 12 months notice of the proposal to issue the notice; and
- (b) had regard to any matters raised by MLA in response (including matters related to any long term commitments of MLA).

10. REPAYMENT OF FUNDS

10.1 Subject to clause 10.3, if any of the Funds have been used or expended by MLA otherwise than in accordance with this Deed or the Act, the Minister may, by written notice to MLA, require MLA to repay any monies paid by the Commonwealth, by the time specified in the notice, the amount specified in the notice as the amount that has been so used or expended.

10.2 If this Deed is terminated under clause 9.1, the Minister may, by notice to MLA, require MLA to repay to the Commonwealth, by the time specified in the notice, all

or a specified amount of the Funds held by MLA at the time of the notice (other than Donor Funds and so much of the Funds as are required by MLA to meet liabilities properly incurred in accordance with this Deed).

- 10.3 The Minister must not issue a notice under clause 10.1 (the repayment notice) unless:
- (a) he or she has first given MLA a notice (the show cause notice) requiring MLA, within a reasonable period specified in the notice, to show cause why the repayment notice should not be given; and
 - (b) either:
 - (i) MLA does not respond to the show cause notice within the specified period; or
 - (ii) having regard to MLA's response to the show cause notice, the Minister still considers that the repayment notice should be given.

10.4 MLA must comply with a notice under clause 10.1 or 10.2.

11. ACCESS TO RECORDS AND USE OF INFORMATION

- 11.1 The Commonwealth, the Auditor-General and any duly authorised representative of either of them, may, for the purpose of monitoring compliance by MLA with this Deed and the Act:
- (a) have access to premises occupied by or under the control of MLA; and
 - (b) have access to data, records, accounts and other financial material, and any property of the Commonwealth, in the possession or under the control of MLA; and
 - (c) examine and copy MLA's accounts and records relating to this Deed or the Act.
- MLA must grant this access, on request:
- (d) during Business Hours—at any time; and
 - (e) outside Business Hours—on reasonable notice given to MLA and marked for the attention of the Company Secretary of MLA, with a copy given to MLA marked for the attention of the Managing Director of MLA.
- 11.2 MLA must provide access to all its accounts and records relating to this Deed and the Act and otherwise co-operate fully with the requests of the Commonwealth, the Auditor-General and any duly authorised representative of either of them to enable those persons to exercise rights in connection with the operation of clause 11.1.
- 11.3 Without limiting clause 11.2, MLA must, as appropriate:
- (a) provide documents or information; and

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- (b) make available relevant MLA personnel to provide information or answer questions on any matter that relates to MLA's obligations under this Deed or the Act.
- 11.4 The Commonwealth must use reasonable endeavours to ensure that the activities of the Commonwealth, the Auditor-General and any duly authorised representative of either of them do not unreasonably interfere with the ordinary business operations of MLA.
- 11.5 Each party must, in respect of Confidential Information given by the other party:
- (a) use that Confidential Information only for the purposes of administering or enforcing this Deed, the Act or the *Primary Industries Levies and Charges Collection Act 1991*(Cth); and
- (b) not disclose that Confidential Information to any person without the prior approval in writing from the other party and subject to any reasonable conditions or restrictions imposed by the other party in giving its approval;
- provided that a party is not in breach of this clause to the extent that it is legally obliged to make a particular use or disclosure of the Confidential Information.
- 11.6 MLA agrees that neither the Minister nor the Commonwealth is in breach of clause 11.5 for disclosing Confidential Information given by MLA and held by the Department in accordance with a request made by a House or a committee of the Parliament for that information to be given to the House or committee, provided that the Department notifies the House or committee of the confidential nature of the information and requests the House or committee to hold and deal with that information on an *in camera* basis.
- 11.7 Subject to clauses 11.5 and 11.6, MLA grants the Commonwealth a licence to use the copyright in any MLA document provided to the Minister or the Commonwealth under this Deed in any way for any purpose of the Commonwealth. A MLA document is a document in which MLA owns or is a licensee of copyright (whether alone or with one or more other persons). This clause does not amount to an assignment of copyright.

12. STRATEGIC PLAN

- 12.1 MLA must maintain a 3 to 5 year Strategic Plan and must:
- (a) review and, if necessary, update the Strategic Plan at least once each 12 months;
- (b) work with the Department over the term of this Deed to ensure that its Strategic and Annual Operating Plans meet the intent of the Program Framework as set out in Schedule 5; and
- (c) make the Strategic Plan generally available to Levy Payers and Peak Industry Bodies.

12.2 The Strategic Plan should be prepared in accordance with good planning practice and, subject to clause 12.1(b), in accordance with the Program Framework. The Strategic Plan may comprise more than one document and must cover matters such as:

- (a) MLA's vision or mission;
- (b) an assessment of MLA's operating environment including its strengths, weaknesses, threats and opportunities, current and future trends and their implications;
- (c) the objectives and priorities of MLA for the delivery of marketing and research and development services to Industry for the period covered by the plan;
- (d) the outcomes planned from the expenditure of Marketing Funds, Research and Development Funds and Commonwealth Matching Funds;
- (e) the Programs MLA intends to adopt to achieve the planned outcomes;
- (f) key deliverables which contribute to achieving the planned outcomes;
- (g) performance indicators that enable progress being made towards achieving the planned outcomes to be monitored and reported upon;
- (h) collaboration with research providers on priority research and development issues;
- (i) how the activities to be funded align with, and give effect to, the Guidelines;
- (j) consultations with industry and an explanation on the extent to which industry priorities are reflected in the plan;
- (k) the degree of consistency of MLA's proposed expenditures with the National and Rural Research and Development Priorities;
- (l) broad resource allocation including estimates of income and expenditure on the Research and Development Program and Marketing Program for the life of the Strategic Plan;
- (m) a corporate statement which outlines MLA's roles and responsibilities as the declared Industry Marketing Body and the Industry Research Body under the Act including:
 - (i) its mutual obligations as partner with the Commonwealth in delivering Research and Development and Marketing Programs to the Industry and/or the community; and
 - (ii) its responsibilities for the custody and investment of the Funds.

12.3 In developing the Strategic Plan, MLA must:

- (a) take into account its obligations under the MoU;

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- (b) take into account input received from Levy Payers through MLA's consultative processes;
 - (c) consult with the Minister on the Strategic Plan and on the consultation process to be followed; and
 - (d) take into account the Guidelines.
- 12.4 MLA must within 28 days after the date the Directors pass a resolution to accept a Strategic Plan or an amendment of the Strategic Plan, provide the Commonwealth with a copy of the Plan or amended Plan.
- 12.5 The Commonwealth must treat the Strategic Plan, and each amendment of the Strategic Plan, as Confidential Information until the Strategic Plan or amendment is publicly released by MLA.

13. ANNUAL OPERATING PLAN

- 13.1 MLA must, prior to 1 September each year, provide to the Commonwealth a copy of its Annual Operating Plan. The Annual Operating Plan must be developed to implement the Strategic Plan and must set out:
- (a) the intended operations of MLA for the current financial year;
 - (b) key activities to be funded under each of the Marketing and Research and Development Programs;
 - (c) key deliverables arising from the activities being funded;
 - (d) how the activities to be funded align with, and give effect to the Guidelines;
 - (e) performance indicators which enable the progress which is being made towards achieving the planned outputs and outcomes to be monitored and reported upon;
 - (f) estimates of income and expenditure for the year setting out planned expenditures on key activities being funded under each of the Research and Development and Marketing Programs; and
 - (g) any other matters that MLA considers should be set out in the Annual Operating Plan.
- 13.2 In developing its Annual Operating Plan MLA must consider:
- (a) any directions under this Deed;
 - (b) community and levy payer expectations when setting MLA senior executive and board remuneration packages;
 - (c) investments to support the development and implementation of the National Primary Industries Research, Development and Extension Framework;
 - (d) collaboration with other RDCs on priority research and development issues; and

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- (e) the establishment of a structured evaluation framework for the systematic evaluation of the costs and benefits of MLA investments in research and development. In this regard MLA must:
 - (i) participate in any evaluation project established for all RDCs such as the Evaluation Program established by the Council of RDC Chairs; and
 - (ii) provide adequate funds for this purpose.
 - 13.3 In preparing plans under this Deed, MLA must ensure that during the term of the Deed systems, processes and controls are put in place to enable it to deliver the planned outcomes and to meet its reporting obligations under Schedule 2.
 - 13.4 MLA must submit all plans developed in accordance with this clause, and all material variations or updates of such plans, to the Commonwealth within 28 days of the plans or variations being adopted by MLA.
 - 13.4 The Commonwealth must treat the Annual Operating Plan as Confidential Information until the Annual Operating Plan is publicly released by MLA.
- 14. OTHER PLANS**
- 14.1 MLA must maintain the following plans:
 - (a) a Risk Management Plan;
 - (b) a Fraud Control Plan; and
 - (c) an Intellectual Property Management Plan.
 - 14.2 MLA must review each plan at intervals of no more than 3 years and must, within 28 days after the date its Directors pass a resolution to accept a plan or an amendment of a plan, provide the Minister with a copy of the plan or amended plan.
 - 14.3 The Commonwealth must treat a plan or an amended plan as Confidential Information until it is publicly released by MLA.

15. REPORTS, MEETINGS AND CONSULTATIONS

- 15.1 MLA must provide the Minister with four copies of an Annual Report prepared in accordance with Schedule 2 at the same time as the *Corporations Act 2001* (Cth) requires an annual report to be given to members.
- 15.2 The Chairperson of MLA, or in his or her absence, his or her nominee must meet the Minister at not less than six monthly intervals, and at any other time requested by the Minister on reasonable notice, to brief the Minister on MLA's performance of its functions and including the matters set out in clauses 5.2 and 17.1(f) and any such other matters as the Minister may require.

15.3 MLA must meet with the Peak Industry Bodies at least twice a year to:

- (a) review industry priorities for research and development and marketing investments; and
- (b) report on its performance.

15.4 If the Commonwealth becomes aware of a proposal for the issue by the Minister of a direction under this Deed (including a direction referred to in paragraph (b) of the definition of Guidelines in clause 1):

- (a) the Commonwealth agrees to use reasonable endeavours to inform MLA of the proposal; and
- (b) if the Directors of MLA are of the reasonable opinion that the proposed direction would, if issued, require the Directors to act, or omit to act, in a manner that is likely to breach the duties owed by the Directors to the members of MLA or in contravention of any law, MLA will notify the Commonwealth of this; and
- (c) the Commonwealth and MLA will engage in discussion about the relevant issue, including to consider whether there is a mutually acceptable resolution.

16. ADDITIONAL REPORTS

- 16.1 MLA must report to the Commonwealth, within 28 days after any significant matters come to its notice that will materially impact its ability to achieve the objectives stated in its Strategic Plan or comply with its obligations under this Deed or the Act during the relevant financial year.
- 16.2 MLA must give the Commonwealth, within such reasonable period as the Commonwealth specifies, any other report or explanation relating to expenditure of the Funds that the Minister requires from time to time.
- 16.3 Where relevant, when giving the reports or explanations referred to in clauses 16.1 and 16.2, MLA must consult with the Commonwealth as to the nature of any remedial action required and, if any is required, must take that remedial action within a timeframe agreed with the Commonwealth.

17. PERFORMANCE REVIEW

- 17.1 MLA must complete a Performance Review at least six months before the expiry of this Deed and must:
 - (a) engage an independent organisation to undertake the Performance Review and instruct it to prepare a report on all matters dealt with in the Performance Review (Performance Review Report);
 - (b) agree the terms of reference of the Performance Review with the Department to ensure that the Performance Review will meet the requirements under the Deed;

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- (c) provide the Minister with a copy of the draft Performance Review Report within 7 days of the MLA Board receiving a copy;
 - (d) give the Performance Review Report to the Minister within 14 days of acceptance by the Board;
 - (e) provide the Minister with a detailed response to the recommendations of the Performance Review Report and a proposed implementation plan including dates and milestones within 28 days of the board's development of a response to the Performance Review Report, being a date within three months of the board's acceptance of the Performance Review Report;
 - (f) report to the Minister in the meetings required under clause 15.2 of the progress being made in implementing the Performance Review Report Recommendations;
 - (g) publish the Performance Review Report on the MLA website; and
 - (h) make available copies of the Performance Review Report at its next annual general meeting.

17.2 The organisation engaged to carry out the Performance Review must be an organisation that has not, within the previous 4 years, carried out any corporate governance reviews, performance audits or similar reviews of MLA (but this does not prevent an organisation from being engaged on the basis that it has merely carried out evaluations of specific projects, or conducted the performance review under the Former Deed).

18. COMPLIANCE AUDIT AND CERTIFICATION REPORTS

Compliance Audit Report

18.1 MLA must within five months after the end of its financial year give the Minister a Compliance Audit Report providing an audit opinion on whether MLA has complied with its obligations under clauses 7 and 8 during the financial year. A Compliance Audit Report must:

- (a) be prepared in accordance with relevant Australian Auditing and Assurance Standards;
- (b) include a review of the efficacy of the accounting systems, processes and controls required under clause 7.1;
- (c) indicate whether any qualification to the Compliance Audit Report, and any non-compliances that have come to the auditor's attention, are material. If any non-compliances are, in his or her opinion, material, provide an explanation of the non-compliance; and
- (d) include a statement that the Compliance Audit Report has been prepared for the Commonwealth for the purposes of this Deed and an acknowledgment that the Compliance Audit Report will be relied upon by the Commonwealth.

18.2 A Compliance Audit Report does not need to include an opinion on whether the Funds have been applied for the benefit of Industry, or efficiently, effectively and

ethically, or towards Agri-political Activities.

Certification Report

- 18.3 MLA must, within five months after the end of its financial year, give the Minister a report signed by the Chairperson of the Directors and the Managing Director of MLA:
- (a) certifying whether MLA has complied with its obligations under the Act and this Deed during the financial year;
 - (b) stating whether, in their opinion, any non-compliances are material; and
 - (c) if any non-compliances are, in their opinion, material, giving an explanation of the non-compliance.

Other Audit Reports

- 18.4 If in the reasonable opinion of the Commonwealth, MLA is, or may be, in breach of this Deed or the Act, the Commonwealth may request an audit report or opinion on any matter relevant to MLA's compliance with this Deed or the Act.
- 18.5 If the Commonwealth requests an audit report or opinion under clause 18.4, MLA must at its own expense:
- (a) obtain the audit report or opinion from MLA's auditor; or
 - (b) if, in the opinion of the Commonwealth, the audit report or opinion cannot be properly given by the MLA's auditor, engage another auditor to conduct an audit and give the audit report or opinion; and
 - (c) give a copy of the audit report or opinion to the Commonwealth within 14 days after MLA receives it.

19. ACKNOWLEDGMENT OF FUNDING

Unless the Commonwealth otherwise agrees, MLA must ensure that all significant publications and publicity by MLA in relation to matters on which Commonwealth Matching Funds were expended, acknowledge the provision of Matching Funds by the Commonwealth.

20. CONFLICT OF INTEREST

- 20.1 MLA warrants that, at the date of this Deed, no conflict exists or is likely to arise in the performance of its obligations under this Deed.
- 20.2 If a conflict of interest or risk of a conflict of interest arises in the performance of MLA's obligations under this Deed, MLA must notify the Minister of that conflict or risk and take steps acceptable to the Minister to resolve or avoid the conflict.

21. AUTHORISATION OF PERSONS TO ACT

- 21.1 The rights, functions and powers of the Commonwealth under this Deed may be exercised and performed on behalf of the Commonwealth by the Minister or the Secretary, or a delegate of the Minister or the Secretary.

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- 21.2 Performance of an obligation of the Minister or the Commonwealth under this Deed by the Secretary, or a delegate of the Minister or the Secretary, is taken to be performance of the obligation by the Minister or the Commonwealth.

22. INDEMNITY

- 22.1 MLA indemnifies the Commonwealth and its officers and agents against all expenses, losses, damages and costs (on a solicitor and own client basis and whether incurred by or awarded against the person claiming the indemnity) sustained or incurred as a result, whether directly or indirectly, of:
- (a) a breach of this Deed by MLA; or
 - (b) loss of or damage to property or injury to or death of any person caused by a negligent act or omission or wilful misconduct of MLA or its officers or employees.
- 22.2 The amount payable under an indemnity under clause 22.1 is reduced to the extent that the expenses, losses, damages and costs concerned were caused or contributed to by a breach of this Deed by, or a negligent act or omission of, the Commonwealth, or a negligent act or omission or wilful misconduct of an officer or agent of the Commonwealth.
- 22.3 MLA agrees that a person indemnified under clause 22.1 may recover a payment under an indemnity in this Deed before the person makes the payment in respect of which the indemnity is given.
- 22.4 The indemnities in this Deed are irrevocable and survive the termination of this Deed.
- 22.5 MLA agrees that the Commonwealth holds the benefit of an indemnity under clause 22.1 in favour of an officer or agent of the Commonwealth in trust for the officer or agent.

23. RELATIONSHIP

This Deed does not create a relationship of employment, agency or partnership between the parties.

24. FURTHER ACTION

Each party must use its best efforts to do all things necessary or desirable to give full effect to this Deed, including the execution of any document requested by either party.

25. RESOLUTION OF DISPUTES

- 25.1 A party must not start arbitration or court proceedings (except proceedings seeking interlocutory relief) in respect of a dispute arising out of this Deed (Dispute) unless it has complied with clauses 25.2 and 25.3.

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- 25.2 A party claiming that a Dispute has arisen must notify the other party, giving details of the Dispute.
- 25.3 During the 28 day period after a notice is given under clause 25.2 (or a longer period agreed to in writing by the parties to the Dispute) each party must use its reasonable efforts to resolve the Dispute.
- 25.4 Despite the existence of a Dispute, each party will (unless requested in writing by the other party not to do so) continue to perform their obligations under this Deed.
- 25.5 This clause 25 does not apply to action by the Commonwealth under clauses 9 and 10, nor does it preclude either party from seeking urgent interlocutory relief.

26. ASSIGNMENT

- 26.1 MLA must not assign this Deed or any right under this Deed unless it:
- (a) is not in breach of this Deed; and
 - (b) obtains the prior written consent of the Commonwealth; and
 - (c) ensures that the assignee agrees to be bound by all of MLA's obligations under this Deed.

27. ENTIRE AGREEMENT

- 27.1 This Deed:
- (a) constitutes the entire agreement between the parties as to their subject matter; and
 - (b) in relation to that subject matter, supersedes any prior understanding or agreement between the parties and any prior condition, warranty, indemnity or representation imposed, given or made by a party.

28. ALTERATION

Except as expressly permitted under this Deed, this Deed may be altered only by agreement in writing signed by each party.

29. WAIVER

- 29.1 Waiver of a provision of or right under this Deed:
- (a) must be in writing signed by the party entitled to the benefit of that provision or right; and
 - (b) is effective only to the extent set out in any written waiver.

30. SEVERABILITY

Any provision of this Deed that is illegal or unenforceable must be severed, and does not affect the enforceability of the remaining provisions of this Deed.

31. GOVERNING LAW AND JURISDICTION

- 31.1 This Deed is governed by the law applicable in the Australian Capital Territory.
- 31.2 Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of the Australian Capital Territory in relation to matters arising in connection with this Deed.

32 NOTICE

- 32.1 A party giving a notice or notifying under this Deed must do so in writing:
- (a) directed to the recipient's address specified in this clause, as varied by any notice; and
 - (b) hand delivered or sent by prepaid post to that address.

The parties' addresses:

Commonwealth	The Secretary Department of Agriculture, Fisheries and Forestry GPO Box 858 CANBERRA ACT 2601
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MLA	Managing Director Meat & Livestock Australia Limited Level 1, 165 Walker Street NORTH SYDNEY NSW 2060
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- 32.2 A notice given in accordance with clause 32.1 is taken to be received:
- (a) if hand delivered—on delivery; or
 - (b) if sent by prepaid post—3 days after the date of posting.

33. INTERPRETATION

- 33.1 In this Deed, unless the contrary intention appears:
- (a) headings are for ease of reference only and do not affect the meaning of this Deed;
 - (b) the singular includes the plural and vice versa and words importing a gender include other genders;
 - (c) other grammatical forms of defined words or expressions have corresponding meanings;
 - (d) a reference to a clause, paragraph, schedule or annexure is a reference to a clause or paragraph of or schedule or annexure to this Deed;

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- (e) a reference to a document or agreement, including this Deed, includes a reference to that document or agreement as novated, altered or replaced from time to time;
 - (f) a reference to A\$, \$A, dollar or \$ is a reference to Australian currency;
 - (g) a reference to a specific time for the performance of an obligation is a reference to that time in the State, Territory or other place where that obligation is to be performed;
 - (h) a reference to a party includes a reference to its executors, administrators, successors and permitted assigns;
 - (i) words and expressions importing natural persons include partnerships, bodies corporate, associations, governments and governmental and local authorities and agencies;
 - (j) a reference to any legislation or statutory instrument or regulation is construed in accordance with the *Acts Interpretation Act 1901* (Cth); and
 - (k) a reference to writing includes typewriting, printing, lithography, photography and any other method of representing or reproducing words, figures or symbols in a permanent and visible form.
- 33.2 A provision of this Deed must not be construed to the disadvantage of a party merely because that party was responsible for the preparation of the Deed or the inclusion of the provision in the Deed.
- 33.3 The schedules are provisions of this Deed, but notes and headings are not provisions of this Deed.

Schedule 1 - Payment of Funds

1. The Commonwealth must pay the Levy Funds to MLA as soon as reasonably practicable after the Commonwealth receives the relevant levy or charge payments in cleared funds. Payments to MLA must be made as soon as reasonably practicable after the 15th day and the final Business Day of each month.
2. The Commonwealth must use its reasonable endeavours to pay the Commonwealth Matching Funds to MLA within 1 calendar month after receiving from MLA a claim for payment, together with evidence reasonably satisfactory to the Commonwealth that the MLA has already spent the amount that forms the basis of the claim on Research and Development.
3. For the purposes of clause 2 of this Schedule 1, a certificate signed by the Managing Director (or equivalent), the Chief Executive Officer, the Chief Financial Officer or the Secretary of MLA, certifying that MLA has spent a particular amount on Research and Development, is reasonably satisfactory evidence, in the absence of any evidence to the contrary.
4. Payment must be by direct deposit or cheque or other method agreed between the parties.

Schedule 2 - Annual Reports

1. MLA must prepare an annual report that complies with the financial reporting and other reporting requirements of the *Corporations Act 2001* (Cth). It also must meet the requirements of this Deed. Additional information beyond the requirements of the *Corporations Act 2001* (Cth) required to meet the requirements of this Deed can be provided to the Commonwealth separately if so desired by the MLA. The Annual Report should include reasonably comprehensive coverage of:
 - (a) sources of income allowing for separate identification of Marketing Funds, Research and Development Funds and Commonwealth Matching Funds;
 - (b) significant activities and transactions undertaken in the year in the conduct of MLA's functions as the industry marketing body and industry research body;
 - (c) progress made in implementing plans, including progress against key marketing and research and development performance indicators specified in the plans;
 - (d) collaboration with Industry and other research providers;
 - (e) collaboration with other RDCs to fund research and development to address the National and Rural Research and Development Priorities;
 - (f) collaboration with other RDCs to deliver research and development or marketing services in a more efficient and effective manner;
 - (g) outcomes of the key evaluations undertaken;
 - (h) commercialisation;
 - (i) intellectual property creation and protection, including management of intellectual property arising from research and development activities or acquired with Funds;
 - (j) subsidiaries and joint ventures formed;
 - (k) material changes to MLA's membership;
 - (l) how MLA responded to any directions given by the Minister;
 - (m) how MLA contributed to the priorities of Levy Payers, the National and Rural Research and Development Priorities and supported the National Primary Industries Research, Development and Extension Framework;
 - (n) funds spent on Research and Development and Marketing Programs, allowing clear identification of the full cost of the Marketing Program, and the Research and Development Program (with cost being allocated according to the Cost Allocation Policy when it is implemented);
 - (o) details of senior executive and board remuneration including that of the Managing Director (specific Government disclosure requirements will be advised by the Department in the lead-up to the preparation of each annual report);

- (p) key research and development agreements entered into by MLA with third parties;
- (q) corporate governance practices in place during the financial year;
- (r) consultation with Levy Payers and key stakeholders on its Strategic and Annual Operating Plans, and its Research and Development; and
- (s) other significant matters notified to MLA by the Commonwealth.

Schedule 3 - Research and Development

1. RESEARCH AND DEVELOPMENT

Examples of activities that may be Research and Development are:

- (a) Research and Development projects;
- (b) the development of workforce skills, education and the training of people to undertake Research and Development and/or apply the outcomes;
- (c) the building of strong research and development leadership capacity and encouraging diversity of people across the Industry;
- (d) the investigation and evaluation of the requirements for Research and Development in relation to the Industry, and, on the basis of such investigation and evaluation, the preparation, reviewing and revising of Research and Development plans;
- (e) the carrying out, and the coordination and funding of the carrying out of Research and Development;
- (f) the monitoring, evaluating and the reporting to the Commonwealth and the Industry on Research and Development;
- (g) facilitating the dissemination, adoption and commercialisation of the results of Research and Development or of practices or technological developments that have been designed or adapted to improve the operation or efficiency of the Industry;
- (h) dissemination of information related to any aspect of Research and Development, whether electronically, by print or by any other means;
- (i) improving the accountability for expenditure on Research and Development;
- (j) the development in the Industry of an awareness of the contribution that can be made by Research and Development in improving its efficiency and competitiveness;
- (k) the collection of statistical information relating to the Industry;
- (l) any other activity approved by the Commonwealth in writing from time to time;
- (m) activities incidental but considered important to an activity referred to in clause (a) to (j) of this Schedule 3; and
- (n) engaging directors, employees, consultants and agents of MLA and meeting administration, operating or capital expenses (including lease costs and legal and other professional expenses) reasonably necessary or appropriate to be incurred by MLA to support its activities in relation to clause (a) to (m) of this Schedule 3.

2. DIFFERENTIATION OF RESEARCH AND DEVELOPMENT AND OTHER EXPENDITURES

MLA must ensure that there is a clear distinction between expenditure on Research and Development and expenditure on other activities.

3. RESEARCH AND DEVELOPMENT EXPENDITURE MANAGEMENT

MLA must implement a documented system and appropriate internal controls to ensure:

- (a) that Commonwealth Matching Funds are only spent on Research and Development; and
- (b) that expenditure by MLA on Research and Development is within the research and development component of the MLA Strategic and Annual Operating Plans as appropriate; and
- (c) clear lines of accountability are present and identifiable.

Schedule 4 - Cost Allocation Policy

1. Objective

The intent of this cost allocation policy is to provide guidance to MLA on the Government's expectation about the minimum standard to be adopted in the acquittal of expenditures on marketing and research and development. This is so that cost allocation is undertaken in a transparent and auditable manner to foster accurate reporting on the full cost of key Research and Development and Marketing Programs and associated deliverables.

2. Key Requirement

A cost allocation policy is required for the effective implementation of the Program Framework. A plan for the implementation of the cost allocation policy should be agreed with the Department as appropriate.

3. Background

Good practice management decision-making is fostered when the programs are clearly defined and full-costs are routinely generated in a consistent and transparent basis in line with generally accepted accounting principles. The availability of this information fosters efficient resource allocation, informed decision-making and transparency in accounting for expenditures.

4. Key Cost Allocation Principles

Key principles to be adhered to are:

- (a) *all costs for an activity* funded under a program area should be allocated to that program;
- (b) *reasonableness*: costs should reflect what a comparative service would be expected to cost in a competitive market;
- (c) *suitable basis*: costs should be based on benefit derived, cause and effect, or other equitable relationship;
- (d) *consistently treated*: like costs must be treated the same in like circumstances;
- (e) *one beneficiary*: if a cost solely relates to one program outcome, it should be charged entirely to that service;
- (f) *plural beneficiaries*: if a cost benefits two or more program outcomes:
 - costs should be allocated according to the proportion of benefit provided to each of the outcomes. An expenditure that benefited two or more services should not be charged solely to one service;
 - when it is not possible to determine the proportional benefit to each outcome. The cost can be distributed on any reasonable and rational basis that will promote efficient resource allocation. The basis of the allocation should be documented to facilitate audit and review processes.

5. Costing Definitions under the Program Framework

5.1. Program Costs means direct and indirect costs of all activities funded under a Program.

5.2. Direct program costs

- (a) Direct program costs are those costs of an activity (or project) that can be directly assigned to a program outcome relatively easily and with a high degree of accuracy. Direct program costs would normally include as part of the cost of an activity, an “overhead” costs component. For example, labour costs would include direct salary costs as well as salary “on-costs” which would be relatively constant for similar employees.
- (b) As well as wages and salaries, direct program costs would include the cost of materials and equipment, consultants, legal services and travel which should be able to be readily assigned to particular activities and programs.
- (c) It should be possible to readily allocate costs such as telephone charges, computer usage, printing, postage, office supplies and program administrative assistance to particular activities or programs with a high degree of accuracy. In this regard, as a matter of policy:
 - (i) all costs for activities funded under a single program area should be identified and allocated to that program;
 - (ii) where an activity contributes to more than one program area (a shared activity), costs should be allocated based on the potential contribution the expenditure makes to achieving the respective outcomes ie the ‘user pays principle’; and
 - (iii) if it is not feasible to make an allocation based on the potential contribution to outcomes, another suitable methodology should be selected, documented and employed on a consistent basis.

5.3. Indirect program cost

- (a) Indirect costs are those for services that benefit more than one program outcome and can include rent, utilities, administrative and finance staff, security, audit, equipment rental, depreciation, maintenance, chief executive officer and board costs. Their precise benefits to a specific program outcome are often difficult or impossible to objectively trace. In the short term indirect costs are usually constant for a range of outputs and there are a number of methodologies which can be employed including to allocate these costs, for example:
 - (i) *usage*: costs can be allocated based upon the quantity of a resource used by each program;
 - (ii) *time*: cost can be allocated based upon the number of hours that a resource is used by each program;
 - (iii) *space*: accommodation costs can be proportionately allocated based upon the square footage occupied by the respective program staff;
 - (iv) *clients served*: cost of communications allocated based upon the number of clients served by each program;

- (v) *proposals*: the cost of the Board and Managing Director allocated based upon the number, value or time taken on proposals developed by each business unit for the Board's decision;
- (vi) *clients served*: the cost of communications allocated based upon the number of clients served by each service;
- (vii) *staff*: the cost of renting space allocated based upon the number of full-time employees working on each program.

The basis of the allocation should be documented to facilitate audit and review.

6. Policy for charging between programs:

The flow of services between programs should be on a transparent fee for service basis. For example, where one program "purchases" services from another program the costs should follow the services provided. This will enable the full cost of the services and of delivering a program to be clearly identified.

Schedule 5- Program Framework Guidelines

1. Objective 1

The intent of the Program Framework is to provide guidance to MLA on meeting the Government's requirement for continuous improvement in the delivery of services. The Program Framework seeks to enhance transparency and associated governance processes in the spending by MLA of the Funds and in demonstrating outcomes achieved and the efficiency in which the outcomes were delivered.

2. Key requirement

These guidelines should be implemented in consultation with the Department during the MLA's strategic planning processes since it is critical to establish a program structure which will facilitate proper planning, performance monitoring and reporting and, in particular, to ensure that expenditures on Research and Development can be reported in the with a high level of confidence in the Annual Reports.

3. Introduction to Strategic Planning

Strategic Planning is the process of determining an organisation's long-term goals and then identifying the best approach for achieving those goals. Annual operating plans (AOPs) translate the strategic plan into annual investment plans and consequently AOPs should just be an "extension" of the strategic plan. It is therefore critical that both plans be in alignment.

4. Best practices

There is a number of sound strategic planning models across the government and not-for-profit sectors some of which have been tailored for particular circumstances. The "Programs Framework" was adopted by the Australian Government to manage and report on the expenditure of Commonwealth monies commencing for the 2009-10 Budget.

5. Program Framework

Government budgeting and reporting practices were reviewed in 2008 under *Operations Sunlight* (the Murray Report) to help improve the transparency and quality of Government financial management and accountability processes. The outcomes of *Operations Sunlight* were incorporated into the Department of Finance and Deregulation's (DOFD) "*Outcomes and Programs Framework for the 2009-10 Portfolio Budget Statements*" (Program Framework). In essence the government's policy is now to fund "programs" to deliver agreed outcomes, consequently all expenditures should be for activities undertaken within a program in pursuit of an agreed outcome.

6. Application to Statutory RDCs

The Program Framework was applied by the government to all statutory RDCs for the first time in the 2009-10 Commonwealth Budget and will flow through to their strategic and annual operation plans and reports during the transition process.

7. Classification of RDC R&D Expenditure

Statutory RDC expenditure on R&D has been categorised as an “Advising/Informing Program” with the objective of better informing stakeholders to improve decision-making or altering their behaviour. Consequently all RDC outcome statements were amended in line with this and associated programs developed. An underpinning assumption is that the provision of advising/informing services will enable an individual to make judgements about the advice/information provided and act accordingly. This places additional pressures on those that demand information and knowledge to demonstrate their use of the information and knowledge provided.

8. Possible Application of the Program Framework to MLA

MLA is funded by the Commonwealth through Special Appropriations. Special Appropriations are made through the Agriculture, Fisheries and Forestry Portfolio for which the Minister is accountable to Parliament. Implementation of the Program Framework will assist the Minister to discharge his obligations with respect to the expenditure of the funds to Parliament.

9. MLA outcomes

The application of the Program Framework to MLA suggests the major outcomes: R&D and marketing would seem to align well with the statutory RDCs R&D outcomes and useful guidance can be obtained from the statutory RDC R&D program. A challenge will be to define a similar program model for marketing.

10. Terminology

The terminology in these guidelines is consistent with those put out by DOFD, and is to be used across all future SFAs to promote consistency and transparency. MLA may decide to vary the terms in its own plans and reports to suit its own particular needs: the *intent* of the Program Framework rather than the terminology is important.

11. Strategic and Annual Operating Plans

Clauses 12 and 13 of this Deed covers a number of requirements relating to the development of MLA’s strategic and annual operating plans and should be read in conjunction with these guidelines.

12. Outcomes statement

“Outcomes” are the key statements in the Program Framework and are the results, consequence or impacts of MLA expenditures. They explain the purposes of the expenditures, provide a basis for the Government’s budget allocation to the MLA to assess/measure investment performance. An Outcome Statement should be specific, focused, easily interpreted and:

- (a) identify the intended MLA result(s) with the level of achievement against this intended result(s) being measurable;
- (b) specify the target group(s) where this group can be identified; and

- (c) specify the activities to be undertaken that contribute to the achievement of the intended result(s).

An example of an R&D outcome statement drawn from those of the statutory RDCs is:

“New information and knowledge the adoption of which enhances the profitability, international competitiveness and sustainability of the Australian red meat industry through investment in research and development.”

It is suggested that during the strategic planning processes that all “outcome statements” be endorsed by key stakeholders including the Minister. It is contemplated that this will be achieved through the strategic planning consultative processes required by clause 12.3.

13. Programs

Programs are what are now funded by the Commonwealth and are consequently the primary vehicles for MLA to deliver benefits or services to achieve the intended outcome. Programs should be shaped and structured around contributing to the intended outcomes as outlined in the relevant outcome statement. An example of a R&D program statement is *“The generation of information to foster the viability, productivity and sustainability of farms and the efficiency of value chains.”*

14. Sub-programs

These can be used to differentiate contributions of distinct elements within a program to more clearly articulate the different types of activities which contribute to the broader program. For example, within a program to reduce supply chain costs, a sub-program may be directed to “reducing costs and volatility of costs for feed inputs”.

15. Program cost

This represents the total cost of activities and resources attributable to the delivery, policy development and associated costs of a program. Clarifying total program support provides for transparency of MLA operations and improves information available for MLA decision-making and reporting processes. For these reasons MLA program costing should be supported by the agreed cost allocation policy.

16. Types of Programs

DOFD has provided a menu of six types of common government programs: R&D falls within the scope of an “Advising/Informing” program. The associated DOFD program guidelines around Advising/Informing” programs are useful in developing a structured approach to managing performance and reporting and are summarised below.

17. Advising/Informing Programs

Advising/Informing programs are directed to advising people on an issue in order to alter their behaviours or actions or informing people on a particular topic to improve decisions and choices.

18. Program Deliverables and Services

For each program there will be a number of key deliverables funded under a program to help achieve the planned outcome, for example, “provide investment in R&D that helps industry to adapt to climate change”.

19. Performance information and indicators

In general terms, strategic plan performance indicators should be strategic in nature linking to the planned outcomes to be achieved. AOP performance indicators will likely focus on the deliverables. The annual report should bring these together demonstrating how the deliverables funded advanced the outcomes. To help achieve this, performance information for an advising and informing program might look at such areas as:

- (a) the extent to which the planned deliverables and services were met;
- (b) the effectiveness of the delivery mechanism whether services are delivered by MLA or through a third party;
- (c) whether the deliverables made a contribution to achieving the planned outcome;
- (d) effectiveness of access to information and knowledge provided;
- (e) stakeholder satisfaction, including the extent to which their demands for information and knowledge were met;
- (f) acceptance of advice by the target group including changed behaviour;
- (g) the take-up or adoption of the information; and
- (h) the impact the investments have had on the outcomes sought.

20. Evaluation Framework

An evaluation framework should be established, inter alia, to:

- (i) ensure that performance related information is generated by the Program Framework is routinely collected and monitored;
- (ii) contribute to cost-benefit studies which should be systematically undertaken to provide information on such matters as adoption and impacts of investments; and
- (iii) contribute to RDC wide evaluation processes include that managed by the Council Rural Research and Development Corporations.

21. Performance reviews

Key inputs to periodic performance reviews as required by clause 17 of this Agreement will include information on the extent to which planned services and deliverables were met and the outcomes of evaluations completed. A robust Program Framework including operative evaluation framework will greatly assist this process and foster continuous improvement.

EXECUTED as a deed.

SIGNED, SEALED AND DELIVERED by

Senator the Hon Joseph William Ludwig,

Minister for Agriculture, Fisheries and

Forestry, for and on behalf of the

COMMONWEALTH OF AUSTRALIA in

the presence of:

Signature

Signature of witness

Name

EXECUTED for and on behalf of **Meat &
Livestock Australia Limited** by:

Signature

Signature of witness

Name

Name

APPENDIX 2:

Progress against recommendations of Arche Review

Action checklist (updated November 2013)

Progress on recommendations from the Arche Consulting review of MLA performance



Rec#	Recommendation	Responsibility	Completion date
3.4(a)	Business unit planning: IMES (now Trade and Economic Services)		
	It is recommended that MLA consider revising its approach to planning international activities. This should include consideration of longer term marketing plans for each region, how stakeholders are involved in the planning process and opportunities to streamline annual planning activities.		
	Action/Response:		
	<ul style="list-style-type: none"> MLA held Task Force meetings during October 2010 to propose plans and obtain feedback from peak councils and industry on the formulation of a three to five year business plan. 	General Manager, Trade and Economic Services	Completed
	<ul style="list-style-type: none"> Full three to five year business plans with indicative budgets were developed and presented at the International Marketing Task Force meetings in March 2011. These gained full approval. 	General Managers, Global Marketing and Trade and Economic Services	Completed These plans have been reviewed by Task Forces in 2012 and 2013. Where necessary, revisions have been made in light of changing circumstances. MLA has further developed the Task Force Planning process by bringing forward the main meeting to December 2013, which enables stakeholders including peak councils and industry representatives to input to budget allocation and strategic direction prior to finalisation of plans and budgets for the following financial year.
	<ul style="list-style-type: none"> Future planning will take the same approach with a rolling three to five year strategic marketing plan 	General Managers, Global Marketing and Trade and Economic Services	Ongoing MLA has a five year planning horizon with annual marketing plans, endorsed by industry task forces. This informs the annual operating plan. There are currently no plans to change this to a rolling three to five year plan, although this will be reviewed further under the new MISP planning process.
3.4(b)	Business unit planning: Domestic Marketing (now Global Marketing)		
	It is recommended MLA revise its approach to planning domestic marketing activities. This includes consideration of longer term marketing plans for each species, how stakeholders are involved in the planning process and opportunities to streamline annual planning activities.		
	Action/Response:		
	<ul style="list-style-type: none"> Domestic marketing held a task force meeting on Wed 27 October 2010 to propose plans and obtain feedback from peak councils and industry on the formulation of a three to five year business plan. 	General Manager, Global Marketing	Completed

Rec#	Recommendation	Responsibility	Completion date
	<ul style="list-style-type: none"> Full three to five year business plans with indicative budgets were developed and presented at the Domestic Marketing Task Force meetings in March 2011. These gained full approval. 	General Manager, Global Marketing	Completed These plans have been reviewed by Task Forces in 2012 and 2013. MLA has further developed the Task Force Planning process for Domestic market as well with the bringing forward the main meeting to December 2013. This enables stakeholders including peak councils and industry representatives to input to budget allocation and strategic direction prior to finalisation of plans and budgets for the following financial year.
	<ul style="list-style-type: none"> Future planning will take the same approach with a rolling three to five year strategic marketing plan. 	General Manager, Global Marketing	Ongoing MLA has a five year planning horizon with annual marketing plans, endorsed by industry task forces. This informs the annual operating plan. There are currently no plans to change this to a rolling 3-5 year plan, although this will be reviewed further under the new MISP planning process.
3.4(c) Business unit planning: Livestock Production Innovation			
	It is recommended that MLA harness the opportunity of the new collaboration processes being developed under the National RD&E Framework to formalise and embed a standardised framework into MLA procedures for assessing the value of investment options at program and sub-program levels for on-farm R&D.	General Manager, Livestock Production Innovation	Completed and ongoing An evaluation group developed a consistent evaluation approach to be used under the RD&E strategies. It includes: <ul style="list-style-type: none"> - a Rapid Evaluation Review (RER) based on qualitative assessment of size of sector potentially impacted, likelihood of technical success, and likely adoption rate - following the RER approach, where more detailed assessments of either one or a small number of potential projects is needed, a suite of tools are available, including: - the Rendell-McGuckian model which estimates both on-farm benefit and adoption, and hence return on investment and the development of case studies of typical enterprises adopting, allowing more precise estimation of impact on profit Further enhancements In December 2012, the MLA Board agreed to enhancements to the process which ensure consistency with the Council of RDCs approach to ex-ante reviews.
	MLA's overall evaluation program has been through one complete cycle since 2006. The next phase has commenced and will focus on the sub-program (strategy) level.	General Manager, Finance and Information Technology	Completed and ongoing

Rec#	Recommendation	Responsibility	Completion date
3.4(d)	Business unit planning: Industry Systems		
	It is recommended that MLA, together with industry and government partners, consider alternative approaches to planning, documenting and communicating the longer term objectives and strategies for key industry wide programs. Documenting longer term strategies and objectives would provide a framework to enable the assessment of the net benefits of each program to industry and levy payers. Such an approach would help facilitate a common understanding among stakeholders and levy payers of the future direction and overall value of programs to the industry.		
	Action/Response:		
	<ul style="list-style-type: none"> A five year business plan for eating quality (including MSA) has been developed with industry and endorsed by the MLA Board. Enhancing product integrity (incorporating NLIS and LPA) is under development. 	General Manager, Industry Systems	Completed A comprehensive five-year Eating Quality program business plan was completed and endorsed. The Enhancing Product Integrity program business plan was completed and endorsed. The plan notes the outcomes of the SAFEMEAT Initiatives Review will need to be incorporated into the plan.
	<ul style="list-style-type: none"> Industry and government partners to commence a review of SAFEMEAT's committee structures, planning process and communication mechanisms to identify potential improvements to the planning and communication functions of SAFEMEAT. Future implementation of improvements endorsed by industry and government partners. 	General Manager, Industry Systems	In progress In November 2013 the SAFEMEAT partners approved the recommendations and implementation strategies for the SAFEMEAT Initiatives Review.
	<ul style="list-style-type: none"> An MSA taskforce has been established to represent industry and provide advice to the MLA Board and peak councils on the MSA program. 	General Manager, Industry Systems	Completed
3.4(e)	Business unit planning: Corporate Communications (now Industry Communication and Engagement)		
	It is recommended that MLA, in consultation with stakeholders, review the company's approach to crisis management. This should include consideration of roles and responsibilities within MLA and the support that the company provides industry stakeholders to ensure preparedness in the event of crises.	General Manager, Industry Communication and Engagement	Completed and ongoing The MLA crisis management plan was updated and endorsed by the MLA Executive in 2011. A planned test in June 2011 was delayed due to a new Managing Director being appointed, and subsequent Indonesian live export issue in the latter half of 2011. Significant attention has been given, and progress made, on clarifying the roles and responsibilities of MLA as a marketing and R&D service provider, and the roles of the peak industry representative bodies. The plan has been reviewed again in conjunction with crisis management planning activities being conducted by the peak councils and RMAC and a simulation will take place in early 2014.

Rec#	Recommendation	Responsibility	Completion date
3.5	Company strategy and resource allocation		
	It is recommended that MLA, in consultation with its industry stakeholders, consider the overall process for engaging stakeholders in MLA strategic planning activities. Consideration should be given to the purpose and focus of interactions to ensure that industry engagement activities are both effective and efficient.	General Managers, Trade and Economic Services, Global Marketing and Industry Communication and Engagement	<p>Completed As per response to recommendations in 3.4 related to Marketing and Industry Systems, long-term business plans have been developed in consultation with industry for all of MLA's strategic objectives.</p> <p>Further enhancements RMAC is currently working towards the development of MISP4. MLA is supporting RMAC in this process with a view to MISP4 providing the framework for MLA's future strategic planning activities.</p>
	It is recommended that MLA, in consultation with industry stakeholders, review the tools used to make strategic resource allocation decisions. Consideration should be given to the benefits of more structured discussion of strategic alternatives and resource allocation decisions.	General Managers, Trade and Economic Services and Livestock Production Innovation	<p>Completed Specific to RD&E, a paper on Investment Principles was presented to the August 2010 Board meeting. The Board has subsequently agreed a process for developing guidelines around portfolio balance and minimum percentage thresholds for portfolio spread.</p>
	It is recommended that MLA consider approaches to more clearly communicate the roles of business units in delivering MLA's activities. This would aid communication and engagement with external stakeholders, particularly those new to interacting with MLA.	General Manager, Industry Communication and Engagement	<p>Completed and ongoing Direct references have been made to business unit responsibility for delivering MLA strategies in both the Annual Operating Plan and Annual Report since September 2010.</p>
5.4	Consultation, liaison and collaboration		
	It is recommended that MLA, in consultation with its stakeholders, consider a more strategic approach to stakeholder relations to ensure the company continues to improve the effectiveness and efficiency of the company's extensive efforts in liaising with industry, government and key partners and service providers.	General Manager, Industry Communication and Engagement	<p>Completed and ongoing A Business Plan for Stakeholder Engagement and Reporting was developed and approved in 2012 setting out a systematic approach for MLA to engage with its key stakeholder groups. The plan is reviewed on an ongoing basis.</p>
	Given the increasing expectation from industry for MLA to invest in policy research, it is recommended that MLA consider the value of a specific quality framework for these activities. A policy research quality framework would codify the processes for involving stakeholders in research planning and activity, and for peer review. Such a framework would provide stakeholders with confidence of MLA's independent role, and ensure policy research efforts are robust and comprehensive.	General Managers, Trade and Economic Services	<p>Completed The policy research guideline was endorsed by MLA Executive and industry in 2011 and submitted to DAFF.</p>

Rec#	Recommendation	Responsibility	Completion date
	It is recommended that MLA consider mechanisms to improve within company communications to ensure that the contributions of various MLA sections and programs to government, technical and policy issues are aligned and coordinated and delegations are made explicit.	Managing Director and General Manager, Legal and Human Resources	Completed and ongoing MLA has conducted a number of senior managers' workshops covering issues of alignment of individual objectives and KPIs with those of the company and industry. This improvement in alignment has been enhanced by changes to the performance management system for employees coordinated by Human Resources. MLA has also recently moved office, with a key focus on the new office environment being collaboration. MLA has also introduced a company wide reward and recognition program to further embed MLA's values, with collaboration a key value. Work is also underway to introduce a CRM system. Formalised delegations and approval levels exist within MLA with strict application through the SAP enterprise system covering contract and payment approvals.
6.8	Governance		
	It is recommended the MLA Board, together with Selection Committee, give further consideration to succession planning within the board to ensure that loss of corporate knowledge and skill is managed, while balancing the need for renewal.	MLA Board	The Board and Selection Committee assess the Board's skill requirements in April of each year at the commencement of the annual director selection process. Succession planning has been a key focus of the Board this year, with processes introduced to ensure that there is a comprehensive succession planning framework for the Chair.
	It is recommended the MLA Board give ongoing consideration to refining the quality of MLA Board Papers, to ensure that information needs are met with consistency and clarity to assist board deliberation and decision making.	MLA Board	Completed in 2011 and ongoing refinements each year. The Board reviews its board papers regularly to ensure continuous improvement. There has been renewed focus on board papers in the last six months to ensure board reports are succinct, precise and focus attention on the matters requiring Board consideration and input. Since the Arche review, enhancements have included closer linkages within management reports to the Board and the Corporate Plan, five year business plans, AOP, and the Risk Management Plan to ensure active monitoring of risk and mitigation efforts.
	It is recommended the MLA Board give consideration to establishing quantified key performance indicators to actively measure the performance of the company in delivering its strategic plan over the longer term.	MLA Board	Completed and ongoing The Board approved high level measures for the company's strategic imperatives in early 2011. These were refined and incorporated in the next version of the MLA Corporate (Strategic) Plan published in 2012. To provide for additional focus, the company adopted 15 key focus areas for the 2012–2015 period, based on consultation with industry, and published in the Corporate Plan. These will actively guide investment decisions, industry engagement, communication and reporting over the next three years.

Rec#	Recommendation	Responsibility	Completion date
7.5	Company systems and support		
	It is recommended that MLA continue to monitor the balance between focus on internal talent development and promotion and the benefits of bringing new ideas and experience through the recruitment of external candidates.	General Manager, Legal and Human Resources	Completed MLA monitors voluntary turnover and the vast majority of positions are advertised both internally and externally. Internal versus external placement numbers are now reported monthly. In 2012 MLA introduced an internal leadership development program. In 2013, the Business Plan for MLA's Supporting Imperative – People & Values – was endorsed. The development of a more strategic recruitment function is underway as part of the implementation of this Plan.
	It is recommended that MLA maintain focus on strategic human resources issues, to ensure that benefits of recent initiatives are not eroded over time, and that an appropriate focus on further organisation wide improvements is maintained.	General Manager, Legal and Human Resources	Completed and ongoing The HR strategic plan was reviewed in 2011. The internal focus - developed with senior managers and the Executive Team - established a leadership capability framework and associated development programs within MLA, including the accelerated development of highly talented staff. The program began in 2012 with a focus on building skills and capability across the business. A specialised program for identified future leaders is also underway. These programs are feeding into the organisation's succession planning. As mentioned above, MLA's People & Values plan was endorsed in 2013.
	It is recommended that MLA consider giving greater priority to the company's knowledge management initiatives, to ensure that evaluation and program improvement efforts are supported.	General Manager, Finance and Information Technology	Underway and due for implementation in 2013 A system concept and pilot outline for a Knowledge Management system was presented to the Executive Team in December 2010. Work continued throughout 2011 to scope requirements and select a vendor and software platform. A proposal for rollout of the Knowledge Management system was endorsed by the MLA Board in early 2012. iShare, MLA's Knowledge Management system, is currently being rolled out across the organisation with full implementation expected to be complete by end of 2013.

Rec#	Recommendation	Responsibility	Completion date
8.5	Performance		
	It is recommended that MLA further refine its approach to setting key performance indicators and reporting outcomes to stakeholders. Improved clarity will further deliver on MLA's commitment to transparently communicate the company's performance in implementing plans and the benefits it provides levy payers and the industry.	General Manager, Industry Communication and Engagement	<p>Completed and ongoing Work continues on improving KPI setting and reporting. In the 2009/2010 AOP final report, the review process ensured an improved level of reporting directly against the KPI, particularly where it wasn't achieved. The Board approved high level measures for the company's strategic imperatives in early 2011. These were refined and incorporated in the next version of the MLA Corporate (Strategic) Plan published in 2012. The 2012/13 Annual Report provided a comprehensive report against all annual KPIs. In October 2013, the Executive reviewed progress against the company's 5 year KPIs.</p>
	It is recommended that MLA consider revising its evaluation approach to include a consistent ex-ante evaluation process that enables comparison of value to levy payers across programs.	General Manager, Finance and Information Technology	<p>Completed December 2010 Clarify Board expectation through a strategic issue discussion plus presentation from an external expert in the field. Dr Peter Chudleigh presented to the Board various methodologies, issues, strengths and weaknesses in ex-ante evaluations. The current MLA methodology is considered sound. It is generally thought to be unwise to use common methodology across R&D and Marketing programs. There is a need to agree a suitable hurdle rate. Further Board discussion to take place.</p> <p>Completed June 2011 Review all ex-ante evaluation processes currently used across MLA and with the assistance of external resources review alternative options.</p> <p>Further enhancements In December 2012 the MLA Board agreed to enhancements to the process which ensure consistency with the Council of RDCs approach to ex-ante reviews.</p>

APPENDIX 3:

MLA Board of Directors

Michele Allan

Chair

Dr Allan has a broad background in executive and board positions within the pharmaceutical, chemical, biotechnology, packaging, food, agri-business, education and government sectors and brings strong expertise in corporate governance, strategic planning and leadership and commercialisation of intellectual property. Dr Allan is a past executive director and non-executive director of Patties Foods Limited and was previously a non-executive director of the Dairy Research & Development Corporation and Forest and Wood Products Australia. Current board positions include RuralCo Holdings Limited, Grape and Wine Research Development Corporation, Grain Technology Australia Limited and Innovation Australia. She is Chair of the William Angliss Institute and Grains and Legumes Nutritional Council and a Fellow of the Australian Institute of Company Directors.

Scott Hansen

Managing Director

Mr Hansen served as MLA's Regional Manager in North America for two years prior to his appointment as Managing Director in July 2011. Since joining MLA in 2004, Mr Hansen has been General Manager for Corporate Communications and from 2006 also had responsibility for MLA's livestock export program. Prior roles as Executive Director of the Victorian Farmers' Federation Pastoral Group and the Sheepmeat Council of Australia have given him an ideal perspective on both producer and industry interests. He also worked with the Victorian Department of Primary Industries. After graduating with a rural science degree from the University of New England, Mr Hansen spent time working in agricultural industries in Europe and the Middle East. Mr Hansen is also a director of AUS-MEAT Limited and MLA Donor Company Limited.

Please note: Mr Hansen was recently appointed as Director General of NSW DPI and will leave MLA on 1 March to take up his new role.

Lucinda Corrigan

Director

Ms Corrigan is a Director of Rennylea Angus, a leading beef genetics business running 3,000 head of cattle across five properties in the Murray Valley of NSW. Rennylea supplies commercial producers across Australia and genetic products to international markets. Ms Corrigan has skills and experience in R&D, genetics, natural resource management, communications, marketing and advocacy and for 20 years has served as a non executive director on industry bodies and innovation companies. During the last decade she has been a director of four cooperative research centres and was Deputy Chairman of the Future Farm Industries Cooperative Research Centre, retiring in December 2011. She is Chairman of the advisory committee of the Graham Centre, a partnership between Charles Sturt University and NSW Department of Primary Industries. In the Holbrook community, she is convenor of the local beef group's activities. She is a Fellow of the Australian Institute of Company Directors and the Australian Rural Leadership Foundation. Ms Corrigan is a Director of MLA Donor Company Ltd.

Greg Harper

Director

Dr Harper is a career scientist with extensive research experience within universities, CSIRO and cooperative research centres. Dr Harper's research has been into aspects of genetics, biochemistry, and human nutrition and development. He has worked in laboratories in Australia, the USA and Sweden. More recently he has turned his attention to the translation and commercialisation of science for the benefit of the community. Dr Harper is currently the Director, External Engagement for CSIRO's Animal, Food and Health Sciences division, and previously Deputy Chief for Business Development of CSIRO Livestock Industries. He holds a bachelor of science degree as well as a doctorate in biochemistry, a graduate diploma of management majoring in technology, and a company director's diploma from the Australian Institute of Company Directors. Dr Harper is a member of the Selection Committee.

Christine Gilbertson

Director

Ms Gilbertson's family has a long history in the meat industry, commencing in the wholesale meat trade in 1901 to become one of Australia's largest processing businesses. She was a member of the management team of the business from 1989 to its eventual sale in 1997, and performed the roles of Chief Financial Officer and Company Secretary. Ms Gilbertson has held a number of directorships in community services, financial investment and management, and property development. She is

currently the principal of a private consulting practice, a member of NAB's Private Wealth Advisory Council, and a director of a residential property joint venture between her family group of companies and Lend Lease. Ms Gilbertson has a strong accounting, finance, audit and risk management background, having worked as an auditor and management consultant for Ernst & Young.

Geoffrey Maynard

Director

Mr Maynard runs a 10,000-hectare cattle stud seedstock operation near Jambin in central Queensland. He has 35 years experience in northern production systems, and has had significant involvement in collaborative research and genetics programs. Maynard Cattle Company is one of the largest users of embryo technology in northern Australia. He was the Vice-Chair of the Beef Australia Board until 2012 and a past member of the industry advisory committee of the Beef CRC II.

John McKillop

Director

Mr McKillop has extensive agribusiness experience gained through various executive and director roles in the meat and livestock, and grains industries. From 2007 to 2011, Mr McKillop was the managing director of diversified commodities producer Clyde Agriculture, a fully-owned subsidiary of John Swire and Sons. Previous executive roles included general management positions with Elders Australia Limited, and as a senior executive with Stanbroke Pastoral Company. Mr McKillop has considerable experience evaluating R&D proposals, as well as strong skills in global marketing, financial management, strategic planning and corporate governance. He is currently CEO of Australian Farms Funds Management, the manager of Sustainable Agriculture Fund, which owns and operates grain, cotton, beef and dairy farms across NSW, Victoria and Tasmania. He is a non-executive director of Dairy Australia, CS Agriculture (Cubbie Station) and Primary Industries Education Foundation.

George Scott

Director

Mr Scott has a lifelong involvement with the north Australian cattle industry beginning with his early experience with Stanbroke Pastoral Company, and his most recent corporate role as Operations Manager of Georgina Pastoral Company based at Lake Nash Station in the Northern Territory. Mr Scott has a broad knowledge of beef production systems, resource management, genetic development, breeding programs, land management and industry associations. During the past decade, Mr Scott has held senior executive and representative roles in the Northern Territory Cattlemen's Association (NTCA), acted as the NTCA Cattle Council Delegate, and been a member of the Barkly Regional Advisory Committee to the Northern Australia Beef Research Council. Now residing at Thylungra Station in southwest Queensland he is currently Managing Partner of Scott Cattle Company producing commercial cattle in Queensland and SA, and a Director of Thylungra Cattle Co Pty Ltd and Kyabra Creek Pty Ltd.

Peter Trefort

Director

Mr Trefort manages his family's property at Narrogin in WA. He has more than 40 years' experience in sheep and cattle production as well as management across the supply chain. Mr Trefort has worked extensively developing on-farm and processing R&D strategy with the Department of Agriculture (WA), University of WA and Murdoch (WA). In 2007, he received an Honorary Doctorate in Science from Murdoch University. He remains actively involved in the processing sector and has been successful in developing and commercialising innovative ranges of meat cuts for both domestic and international markets. He is a current member of the WA Beef Council and director of the Sheep CRC. In 2010, Mr Trefort was recognised as the Rural Achiever of the Year by the Royal Agricultural Society of WA.

Rodney Watt

Director

Mr Watt is the manager of a family farming partnership based near Cowra NSW, producing Poll Dorset and White Suffolk rams, prime lambs and crops. Mr Watt is past Vice President and Treasurer of Sheepmeat Council of Australia. He is also a past member of the Sheep Genetics Australia Advisory Committee which oversaw the establishment of Sheep Genetics and the development of Merinoselect.