



Dáil Éireann

An Coiste um Chuntais Phoiblí

An Chéad Tuarascáil Eatramhach don bhliain 2004

**(Éisteachtaí an Choiste sa tréimhse Deireadh
Fómhair 2005 go dtí Iúil 2006)**

MediaLab Europe

Eanáir, 2007

Dáil Éireann

Committee of Public Accounts

First Interim Report for 2004

**(Hearings of the Committee in the period October
2005 to July 2006)**

MediaLab Europe

January, 2007



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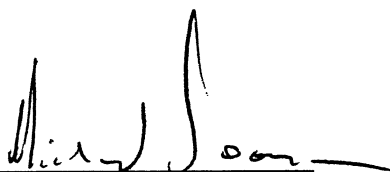
Chairman's Preface

This interim report of the Committee of Public Accounts continues the process of the Committee, which commenced in 2005, of reporting periodically on a thematic basis. The matter was brought directly to the attention of the Committee by way of the chapter on the Department of Communications, Marine and Natural Resources in the Annual Report of the Comptroller and Auditor General, 2004. The subject matter of this report details the Committee's consideration of that Chapter.

In compiling this report the Committee met with the Secretary General of the Department as it is he who is the Accounting Officer, as well as with officials from the Department of Finance. In addition, the Committee received three written submissions from the Massachusetts Institute of Technology. These submissions were considered at length by the Committee during its deliberations and have been included in full in the appendix of this report.

This is the first of the Committee's interim reports on the 2004 report of the C&AG. It details the role played by the various agencies in the establishment of the Media Lab project, the funding arrangements that materialised, the governance issues that evolved and the lessons to be learned. The Committee made a number of findings and has, in addition, proposed recommendations for ventures involving substantial levels of State funding in the future.

We recommend this report to the Houses of the Oireachtas.

A handwritten signature in black ink, appearing to read 'Michael Noonan', with a horizontal line underneath it.

Michael Noonan, T.D.,
Chairman.

January, 2007

Members of the Committee of Public Accounts

FIANNA FÁIL

Seán Ardagh T.D.	Dublin South-Central
John Curran T.D.	Dublin Mid-West
John Dennehy T.D.	Cork South-Central
Seán Fleming T.D.	Laois-Offaly
John McGuinness T.D. (<i>Vice-Chairman</i>)	Carlow-Kilkenny
Michael Smith T.D. ¹	Tipperary North

FINE GAEL

John Deasy T.D. ²	Waterford
Tom Hayes T.D. ³	Tipperary South
Michael Noonan T.D. ⁴ (<i>Chairman</i>)	Limerick East

LABOUR

Joan Burton T.D. ⁵	Dublin West
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GREEN PARTY

Dan Boyle T.D.	Cork South-Central
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SOCIALIST PARTY

Joe Higgins T.D.	Dublin West
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¹ Deputy Michael Smith replaced Deputy Batt O’Keeffe by order of the House on 16th November, 2004.

² Deputy John Deasy replaced Deputy Paul Connaughton by order of the House on 20th October, 2004.

³ Deputy Tom Hayes replaced Deputy John Perry by order of the House on 20th October, 2004

⁴ Deputy Michael Noonan replaced Deputy Padraic McCormack by order of the House on 18th June, 2003 and was elected as new Chairman on 21st October 2004

⁵ Deputy Joan Burton replaced Deputy Pat Rabbitte by order of the house on 29th November, 2005

Orders of Reference of the Committee of Public Accounts

156. (1) There shall stand established, following the reassembly of the Dáil subsequent to a General Election, a Standing Committee, to be known as the Committee of Public Accounts, to examine and report to the Dáil upon—
- (a) the accounts showing the appropriation of the sums granted by the Dáil to meet the public expenditure and such other accounts as they see fit (not being accounts of persons included in the Second Schedule of the Comptroller and Auditor General (Amendment) Act, 1993) which are audited by the Comptroller and Auditor General and presented to the Dáil, together with any reports by the Comptroller and Auditor General thereon:

Provided that in relation to accounts other than Appropriation Accounts, only accounts for a financial year beginning not earlier than 1 January, 1994, shall be examined by the Committee;
 - (b) the Comptroller and Auditor General's reports on his or her examinations of economy, efficiency, effectiveness evaluation systems, procedures and practices; and
 - (c) other reports carried out by the Comptroller and Auditor General under the Act.
- (2) The Committee may suggest alterations and improvements in the form of the Estimates submitted to the Dáil.
- (3) The Committee may proceed with its examination of an account or a report of the Comptroller and Auditor General at any time after that account or report is presented to Dáil Éireann.
- (4) The Committee shall have the following powers:
- (a) power to send for persons, papers and records as defined in Standing Order 83;
 - (b) power to take oral and written evidence as defined in Standing Order 81(1);
 - (c) power to appoint sub-Committees as defined in Standing Order 81(3);
 - (d) power to engage consultants as defined in Standing Order 81(8); and
 - (e) power to travel as defined in Standing Order 81(9).
- (5) Every report which the Committee proposes to make shall, on adoption by the Committee, be laid before the Dáil forthwith whereupon the Committee shall be empowered to print and publish such report together with such related documents as it thinks fit.

- (6) The Committee shall present an annual progress report to Dáil Éireann on its activities and plans.
- (7) The Committee shall refrain from—
 - (a) enquiring into in public session, or publishing, confidential information regarding the activities and plans of a Government Department or office, or of a body which is subject to audit, examination or inspection by the Comptroller and Auditor General, if so requested either by a member of the Government, or the body concerned; and
 - (b) enquiring into the merits of a policy or policies of the Government or a member of the Government or the merits of the objectives of such policies.
- (8) The Committee may, without prejudice to the independence of the Comptroller and Auditor General in determining the work to be carried out by his or her Office or the manner in which it is carried out, in private communication, make such suggestions to the Comptroller and Auditor General regarding that work as it sees fit.
- (9) The Committee shall consist of twelve members, none of whom shall be a member of the Government or a Minister of State, and four of whom shall constitute a quorum. The Committee and any sub-Committee which it may appoint shall be constituted so as to be impartially representative of the Dáil.

The Report

MediaLab Europe

1. Proceedings of the Committee

1.1 The Committee heard evidence from Mr Brendan Tuohy, Secretary General, Department of Communications, Marine and Natural Resources (the Department) and his officials; from officials of the Department of Finance; and from the Comptroller and Auditor General on 13 October 2005. In addition, the Committee received three written submissions from the Massachusetts Institute of Technology (MIT) dated 10 October 2005, 23 February and 5 December, 2006.

2. The Background

2.1 MediaLab Europe (MLE) was established as a company in May 2000 and went into liquidation in early 2005. The operation of the company was governed by a series of collaborative agreements involving the Government, MIT and the company itself. On foot of these agreements, the State made payments totalling €35.5 million, that is, €10.6 million directly to MIT and €24.9 million to the company. It also made a property which had cost €22.5 million available to the company for its operations at a nominal rent. MIT is a charitable non-profit educational institution that depends on endowments to pursue its mission. It provided management expertise and technical support, and was to help to secure sponsorship and private contributions. At no stage did MIT commit to provide funding for the venture. It was envisaged that the level of sponsorship would grow as MediaLab Europe's reputation and output increased with the expectation that the company would become self-sufficient in due course.

2.2 The work to be undertaken by the company, which is referred to as blue sky or non-directive research, was inherently high risk. Some members of a State task force expressed concern about the disproportionate risk to be borne by the Exchequer. The initial period of operations coincided with a severe downturn in the technology market, with a consequential negative effect on attracting sponsorship for research. The scale of the unprecedented global downturn in the ICT industry, after early 2000, undermined the MediaLab model at an early stage of its development in Dublin and it became increasingly difficult to attract corporate sponsorship for research and development. The crisis in the technology sector is reflected in an almost 70% reduction in the value of the Nasdaq Stock Exchange between 2000 and 2001. Large ICT manufacturers and service providers sharply curtailed their research and development activities. The value of ICT venture capital investment declined by over 50% in the 2000-01 period.

2.3 The business attitude to the model of non-directed research also changed during the 2000 to 2004 period. Principally, the downturn in the technology market in the latter half of 2000 and also the tragic events of September 11, 2001 had a direct and negative effect on the technology companies whose sponsorship was expected to underpin MLE. As a result, funding was not forthcoming from the corporate sector. As companies attempted to correct their financial position, corporate research and development focused more and more on the

commercialisation of research. MLE failed to adapt sufficiently quickly to the new environment. By late 2001, just over one year into MLE's operations, the Government liaison committee noted that the company was not achieving its funding targets and expressed concerns about the finances of MLE. It was clear to the Department by 2003 that MLE was significantly under-performing. Corporate income was significantly below projections. MLE appeared not to display the ability to work its way quickly enough through the difficult environment, even though this would have meant a re-evaluation of the basic business model of the organisation and probably a new strategic direction.

2.4 By the end of 2003 serious questions were being asked about the financial sustainability of the company and these led to a demand for a strategic plan. The Department appointed financial consultants in May 2004 to review the strategic plan and later commissioned an expert in the field to carry out an assessment of the company's performance against its funding objectives. The financial review confirmed that the company would be unable to implement a strategic plan without significant further funding from the State, was highly critical of the company's performance and very pessimistic about its prospects. For example, the strategic plan included an assumption for revenue growth in the order of 32%, a rate that had never been achieved previously. The new strategic plan required €9 million over three years in Government funding. In contrast, MIT would receive payments of more than €11 million in the period 2004 to 2010, having already received almost €22 million since the foundation of MLE. A financial analysis of the strategic plan suggested that the Government funding requirement could be as high as €35 million if the optimistic assumptions for revenue were not met. In the latter part of 2004 the State attempted to negotiate a restructuring of MLE to place it on a long-term viable path. The Department was disappointed with the level of MIT's commitment to MLE, particularly its unwillingness to agree to commercially driven research or to commit finances to a restructured company. MIT, for its part, maintain that it was unable to agree to commit its faculty to the pursuit of commercially driven research in view of its mission to focus on education and basic research to increase knowledge for the public good. Also, as a charitable educational research university, which primarily depends on endowments to pursue research activities for the public good, it could not commit funding. The Committee acknowledges that MIT fulfilled all of its legal and contractual obligations as a result of agreements entered into with the Government.

2.5 Oversight of MLE by the Government was the function of a liaison committee but its oversight role was effectively circumscribed by the agreements in place between the Government and MLE. There were limited actions that could be taken under the agreement but the liaison committee did monitor the financial performance of MLE which led ultimately to the decision not to provide further funding.

2.6 There were positive aspects to the MLE project. The lab attracted significant international interest and the presence of MLE facilitated the early growth of the Digital Hub. The presence of Media Lab Europe acted as a magnet for the Digital Hub. It enabled Enterprise Ireland to attract international organisations including Google and Yahoo to the location. The Digital Hub was seen as an important component to an industry which was worth €50 billion to the economy. There are now approximately 50 companies located there. A number of collaborative research projects with students from Irish third level institutions were also successful. There

was also a positive social benefit to the local community with the establishment of the Intel clubhouse in the grounds of MLE.

3. *The Accountability Issues*

3.1 The issues considered by the Committee were:

- Formation of MediaLab Europe
- Key formative issues
 - Risk-taking
 - Nature of work at MLE
 - Corporate funding
 - Commitment to non-directive research
 - Degree granting programme
 - Intellectual property
- Governance issues
 - Role of the Department
 - Role of the Department of Finance
 - Board of Directors
 - Government liaison committee
 - Analysis of governance issues
 - Governance – Salary information
 - Review of strategy in 2004
 - Decision to liquidate
- Overall assessment
 - Positive achievements
 - Value for Money obtained
 - Limited achievement of objectives
 - Discrepancies over measured outputs
 - Lessons learned

4. *Examination of the Issues*

Formation of MediaLab Europe

4.1 The model of getting people into Ireland interested in establishing a leadership position was successfully used in the past in financial services when the IFSC was set up and in electronics, software, pharmaceuticals and bio-pharmaceuticals. The need for innovation is important for the economy in the future. The economy grew by 70% in the 1990s and the productivity within this was phenomenal by any standard. There was a huge upside if the MLE project worked out right and a downside, particularly a financial downside, if it did not. It was thought that MLE would be one part of the broader area of the digital hub which is a site of about nine acres in the Liberties.

4.2 The Department of the Taoiseach had a co-ordinating role and holds responsibility for information society issues. It took the lead in establishing MLE. In March-April 1999 an *ad hoc* steering committee was set up involving all the different Departments and agencies. In April 1999 the first draft memorandum of understanding (MOU) was prepared. In May-June 1999 discussions took place between the steering group and MIT. In July 1999 the Government made its first decision indicating a willingness, in principle, to establish MLE but a lot of other issues needed to be negotiated. A further Government decision was taken on 30 November to proceed with MLE on the basis of an MOU, to establish a task force and to broadly consider this concept of the digital hub in that context. From December 1999 to May 2000 a series of legal contracts had to be drawn up. In February 2000 there was a Government decision to approve funding for MLE. On 11 May 2000 the collaborative agreements were signed. The company was set up by way of sets of agreements between the Department, MIT and Media Lab Europe. There is no shareholding.

4.3 In its submission to the Committee, MIT acknowledge that MIT Media Lab and the Government approached the MLE negotiations in good faith with an understanding that MLE involved significant risks. MIT agrees that all the risks were clearly identified. In communications with the Government, MIT asserts that it indicated it could take as long as ten years for MLE to become a self sufficient, world class research organisation capable of attracting its own private funding. However documentation relating to the agreed contract which was examined in the course of the audit process clearly indicates that it was anticipated that MLE would become self financing after five years.

4.4 At the time of the formation of MediaLab Europe, MIT Media Lab was in discussions with the Indian Government and subsequently set up a collaborative project there in 2001. Although MediaLab Asia was a very different project, there were some similarities with the arrangements MIT made there and with the Irish Government. Reports suggest that the Indian Government felt it was investing but getting very little in return and its involvement with MIT MediaLab ended in 2003. Some comments that characterised that episode could be transferred to the Irish environment, for example, the project was full of high ambition rather than specific outcomes. MIT disagree with this and argue that MLE cannot be fairly compared with other MIT – Government endeavours.

4.5 The main feature shared between MLE and Media Lab Asia is that the corporate funding failed to materialise. In fact no funding materialised in India. MLE at least received something in the region of €7 million in corporate sponsorship.

Key formative issues

Risk-taking,

4.6 The Committee considered that part of the reason for the current situation was that the business risks were not managed properly and that the risk to the Government was not reduced at the outset. On the positive side, there was a huge potential, bearing in mind the economy and the opportunities in the ICT sector at that time. When the task force reported to the Department of the Taoiseach, one of its

responses was to hire a consultant who reported back before the agreement was signed with MIT. In the opinion of the consultant, MIT could deliver the facility along the lines proposed but this should have been conditional on a number of factors, including a full commitment by MIT, securing brand identification for MLE, substantial commitment of MLE staff, collaboration between MIT and MLE staff and students and clear agreements covering fundraising. The consultant did not consider the proposed financial arrangement to be important, despite the fact that the cost of providing the number of places was 80% higher than in a third level setting. The consultant's report dealt with the MLE project as being in a rapidly growing sector, as being very important for the economy and as offering significant opportunities. The link with MIT was a brand recognition issue because a brand cannot be bought and built up in a short space of time.

4.7 On the other hand, in a 1999 report from the task force on the proposal to establish MLE, words such as "dismal", "surprisingly weak", "inexplicably dismal", "mediocre", "flaky", "not sufficiently industry focused", "very mediocre" and "disappointing" are used. The task force considerations were brought to the attention of the Government in weighing up the balance in making the decision. The Government was made fully aware and balanced the information. Negotiations between the Government and MIT were very detailed and took place over a period of more than a year before they were concluded. The Committee felt that once the decision to proceed was made there was an onus to ensure the Government side would not be hamstrung by the contractual arrangements. In a certain sense, what emerged was that the State viewed itself as being restricted by the lack of flexibility from MIT on the terms under which it was willing to proceed. MIT for their part maintain that during the negotiations there were concessions made on both sides. There is a further need, in any project evaluation with a built-in optimism bias, to discount for that bias especially where matters of sponsorship are involved. This had not happened in the case of MLE. Nobody predicted the massive downturn in the technology sector. Of all the issues, this was the single biggest trigger of the subsequently disastrous ripple effect.

Nature of work at MLE

4.8 A benefit from the project was the presence of a hard working and committed work force and the emphasis on technological issues which was relatively new to Irish academia. There was no previous tradition of this in Irish academia, although there is a tradition of publishing papers. That was one of the issues which arose when the conflict took place between MediaLab Europe and the traditional academics. Academics traditionally publish in learned journals, but much of what they did in MediaLab Europe involved the demonstration of technologies. It held an open day every month which was attended by hundreds of people at which researchers demonstrated their technology. It regarded this as a more practical and pragmatic approach.

Corporate funding

4.9 There was a commitment given in the legal agreement that MIT would assist with fundraising for MLE. The original idea was that there would be an opportunity for MLE to draw on companies in Europe. There were no specific targets set but the

reality is that there was little fundraising. MIT indicated that MIT MediaLab personnel raised private gifts and pledges of over IR£3.5 million. Whilst other sponsorship payments amounted to US\$168,750 the Department felt that the amounts raised did not match what had been projected. It also notes that MIT did not in any way reduce its demands for payments from MLE allowed for under contracts even when it was clear that the company was not going well.

4.10 MLE's perspective was that the funding model and the company's objectives were realistic as they were based on the MIT view that private funding for non-directive research is a viable model. This was the prevailing view in the late 1990's. The Department does not share that view now. It notes that until recent years MIT was funded primarily by the private sector, by investment from companies. Subsequent to the downturn in the technology sector, funding was provided much more by the Government and this is the general international experience. The MIT disagrees with this view. It has indicated that MIT Media Lab continues to operate with private funding to support its non-directed research programme and pointed out that it has the benefit of a broad private sponsor pool developed over 20 years.

Commitment to non-directive research

4.11 MIT is very committed to non-directive or blue sky research. The Government initially found this appealing because many of the most productive technological advances come from research activities that are founded in basic intellectual curiosity and free inquiry. It believes that innovation comes from non-directive research. This is based on the idea from Professor Friedman (MIT) that if you know what you are looking for, you are limited by what you know.

4.12 The Department's view on the changes that have occurred between 1999 and 2004 is that a model based on purely private funding for non-directed research is unlikely to be viable in light of radically changed commercial and research environments. The focus on private sponsored research has shifted towards commercialisation of research and development. In this new environment, it is unlikely that significant levels of non-directed research can be conducted without public funding.

Degree granting programme

4.13 MLE was not originally set up to be a degree awarding institution but there was an aspiration that it would eventually develop degree-granting programmes. However, Section 9 of the Collaboration Agreement between MIT and MLE recognised that in the early years MLE would not be able to grant degrees and so would need to collaborate with Irish universities. MIT recommended that MLE should be affiliated with Trinity College Dublin from the outset. The Government did not favour affiliation to one university as it preferred collaboration with many universities. During the negotiations, and later when the company was up and running, there were discussions about having an MIT qualification. Part of the problem MIT faced was that if people could get a cheaper version of their qualifications in Dublin, it would undermine its programme in the United States. During the discussions, MIT indicated that MLE students would have to spend time in the United States to gain the qualification. The Department made the point that

MIT had facilities that enabled people to spend time on campus at MIT in short bursts and, therefore, they did not need to live on campus for two or three years. There was no willingness on the part of MIT to go beyond exploring the idea. The Department tried to address the issue and get MIT to grant qualifications on its own or in conjunction with Irish universities.

4.14 A view was sought from Irish universities and from the Department of Education and Science and the HEA. An evaluation done by the HEA on the MLE proposal was very positive. Some universities were very vociferous in stating the money should go to Irish universities. On the other hand, €1.25 million was allocated to 83 collaborative projects between MLE and Irish universities and this had a positive impact.

Intellectual property

4.15 MIT operated a collective intellectual property based on the idea of undirected research. This involved people putting money into a collective pot and being given access or licence, albeit not exclusively, to any of the intellectual property to emerge from the project. If ten companies invested money, they all would be given access to everything to emerge from the venture. MLE had access to the intellectual property of MIT in Boston.

4.16 Twelve applications for patents were filed in the name of MLE. There is not a long tradition in Ireland of the universities filing a great number of applications. The Department has discussed with the liquidator and Enterprise Ireland the maintenance of the patents *pro tempore*. It is very difficult to put a value on intellectual property until somebody commercialises it. The overall package is such that the assets would pass to the new entity. There is a facility for this on foot of the wind-up covered in the initial contract. The Committee noted that the liquidator had stated in an interview with *The Irish Times* in 2005 that the intellectual property and patents arising from MLE were worthless. According to the liquidator's account filed at the Companies' Office, patent filing costs of €7,366 were incurred and a sum of €20 was received in respect of patents sold. More recently and following the filing of the liquidator's account a further sale was completed for the value of €40,000. This is expected to be shown in the accounts for the second year of liquidation.

Governance issues

Role of the Department

4.17 Responsibility for MLE transferred to the Department of Communications, Marine and Natural Resources (the Department) in June 2002. In October 2003 the Department asked MLE whether MIT was discharging its obligations and questioned the financial sustainability of MLE. The Department was concerned as the financial projections were not being met. In early 2004 more information was received and a strategic plan was specifically requested. This was a revival plan to see where the company was going. When the Department received this in May 2004, it was not happy with the content of the plan and had concerns about some of the assumptions made in it. The two areas of concern were the assumed growth rates which had never been achieved and the lack of a financial MIT commitment. The Department

commissioned an external evaluation of the plan by financial advisers and had a review done of the quality of the work done in MediaLab. Final discussions were held in late 2004 when various proposals were made but neither MIT nor the department were prepared to move on certain issues.

Role of the Department of Finance

4.18 The Department of Finance was involved in the MLE project from the beginning through its participation in the Government liaison committee. It raised a number of concerns, all of which were put on the table when the decision to proceed was being made. MLE was not like a normal State company in which the Department could intervene. The Government liaison committee did not have that level of control.

Board of Directors

4.19 There were nine people on the board: three nominated by MIT, three by the Government, and three who were jointly agreed. The chairman, Mr. Nicholas Negroponte, was from MIT. He was also the founder of MIT MediaLab in the United States. On the Irish side, there were a number of eminent people, as were the joint appointees who were international.

4.20 The financial problems were originally flagged in 2001 and continued to be flagged as Exchequer funding continued through 2003. The Board changed its strategy a number of times to try to deal with the situation as it found it. It maintained the principle of non-directive research. As it evolved, the Department found the board was not fund raising. The Government liaison committee stated that the board was not raising revenue as predicted through the policy of non-directive research and that the issue should be examined, including the issue of granting degrees.

4.21 A review of MLE stated that, while the Exchequer was the main funding source for MLE, it effectively did not have control over the board which was under the chairmanship of a representative of MIT. Some decisions were taken without reference to the Exchequer. MIT strongly disagree with the assertions that it controlled the board or the management of MLE. It points out that board appointees served in their personal capacities and not as representatives of their appointing authority. While this is true, the Department feels that MIT had significantly more influence on the Board. It notes that MIT was unwilling to agree to a Government suggestion for one of the joint nominees to the board in 2004.

4.22 In August 2004 Mr. Matti Packalén from Finland was appointed co-chair largely at the initiative of the Government. His role was to deal with the Government's concerns and those of the Government liaison committee about the functioning of the board because the Department wanted to see changes taking place. The Department was restricted in what it could do by the contracts in place, however, it tried to move within this and drive change particularly in terms of the strategies for funding and for non-directive research.

Government liaison committee

4.23 The Government liaison committee was set up in September 2000 comprising members of Government Departments, MIT Media Lab and MLE executives. The purpose of the liaison committee was to foster communications between MLE, MIT Media Lab and the Government. MLE was required to report on its operations and financial status. A financial sub-group was set up in autumn 2001. The Committee felt that because of the risk element involved with MLE, a mechanism for financial review and monitoring should have been in place at a much earlier stage. The Department accepted this point but noted that any new company or organisation such as this needs to be given the opportunity to set up.

4.24 MLE commissioned an external review in late 2001 which was made available to the liaison committee. There was concern that some of the income figures were not coming up to the level expected. The financial sub-group of the liaison committee met in November 2001 and reported that the model and plan as originally envisaged were not being adhered to. MLE had external reviews that were looking at what sort of model it needed going forward because the environment in which it found itself was not returning the revenue streams at which it was looking. The board of MLE was concerned and put a lot of work into getting a level of certainty around the type of strategy that it was pursuing. The Government liaison committee was expressing its concerns not just about the financials but about the general direction of MLE.

4.25 MIT consider that the Government received meaningful information about MLE's progress and had the ability to oversee and influence that progress. MIT have stated that the arrangement whereby MLE was subject to a board, as well as being answerable to a separate Government liaison committee, proved to be ineffective and did little to facilitate direct and effective communication between MLE, the Department and MIT. The dual oversight structure, ultimately, did not serve MLE or the stakeholders well. There was tension between the Government liaison committee and MIT throughout the process. Because of the strategy being pursued, the Government liaison committee was very circumscribed in its role. The Department considers that the notion that the Government liaison committee provided "dual oversight" is a clear overstatement.

Analysis of governance issues

4.26 The legal arrangement which established MLE turned out, in the view of the Department, to be a weakness in the project. The Department acknowledge that MIT Media Lab itself was set up in a similar vein and MLE was modelled on that. At the time there was a real belief that the market was going skywards and that there were huge opportunities. Concerns were expressed before MLE was set up. A risk was taken and there was ongoing monitoring. The Department view is that there seems to have been reluctance or an inability to change its business plan to survive and that the company appeared to ignore the input of the State. Eighteen months is a long time in that sector. The company may have felt it had a revenue stream from the Government that would take it through the period. Part of the problem was that it never really reached critical mass either as the problems emerged so quickly after its start. MIT had an issue with making a financial commitment. It was not prepared to put any of the money back into restructuring MLE. MIT, on the other hand disagree with this viewpoint, as they point out that MIT Media Lab has been successful for more than 20 years as it has built up a base of corporate sponsors which support its non-directed

research programmes. MIT cite the down turn in the technology sector, whilst MediaLab Europe was in its infancy, as being the prime cause for the venture not being successful. In addition, MIT Media Lab point out that during the course of negotiations to establish MediaLab Europe and in subsequent talks, it emphasised its governing charter as a charitable educational research institution which is reliant on endowments to pursue activities for the public good. Whilst MIT were prepared to make an investment in terms of reputation, resources, staff, faculty, expertise and name at no stage was there a contractual obligation on MIT to make a financial contribution to the project. MIT was prepared to make similar commitments to a restructured venture but it pointed out that the Department changed its focus away from the original non-directed concept which had been appealing to the Government.

4.27 The Committee observed that monitoring performance depends on the quality of information available. The MLE experience is underlined by the lack of proper information being given to the Government. When it was run by the Department of the Taoiseach, reports on project monitoring were produced in November-December 2000. MLE commissioned two external reviews in 2001 and 2002 which were forwarded to the relevant Departments.

4.28 An organisation is only as good as its management. The first director left in 2001. Then there was an acting director for a period of approximately 12 months before another director was appointed. The management and the board were the hands-on people dealing with MLE. The Government liaison committee expressed its concerns, asked for specific information and called in these people. The Department's ability to intervene in that was limited.

Governance – Salary information

4.29 In the course of the audit, the C&AG asked for details of staff numbers employed by MLE by year, average salary cost per staff member by year, annual remuneration of each chief executive officer/managing director and severance packages agreed in respect of each departing chief executive officer/managing director. The Accounting Officer indicated that the Department had requested this information on a number of occasions but, to date, the company secretary refused to release this information. Attempts to receive this information continued after MLE was placed in liquidation. Prior to the Committee hearing, the Accounting Officer had asked that the liquidator should bring the request for salary information to the attention of members. The MIT Board members signalled their support for releasing the requested information. Legal advice provided to the liquidator was that the provision of the information would leave him open to an action for breach of the Privacy/Data Protection Laws.

4.30 The remit of the C&AG does not extend to private companies and MLE was not a semi-State company so there was no automatic right of access to the information sought. As the activities of such a company are being publicly funded, the Committee felt there should be a degree of transparency about its operations. The C&AG had sought the information to establish value for money in the situation where there was a high turnover at chief executive level. The C&AG could only seek the information through the Department which had funded MLE to a large degree.

The Department is totally in favour of the principle of making such information available. It has a principle of openness and transparency in that regard.

4.31 The liquidator provided extracts from the audited accounts of MLE for the years 2000 to 2003 which include details of aggregate directors' remuneration and wages and salaries. The information provided was as follows:

	2000	2001	2002	2003	2004
Average number of Staff	15	29	60	66	65
	€	€	€	€	€
Wages and Salaries	258,323	2,206,154	4,012,331	3,501,438	2,851,474
<u>Directors' emoluments</u>					
For services as directors	90,836	93,029	57,138	-	Not provided
For other services	-	400,729	360,296	-	Not provided
Compensation for loss of office	-	-	394,124	-	Not provided

As MLE was funded in excess of 50% by the Exchequer it fell within the remit of the C&AG to carry out an inspection in certain circumstances. However, the substance of legal advice received on this matter was that it would be inappropriate to undertake an inspection in this particular case.

Review of strategy in 2004

4.32 When the Department looked at the strategy in 2004, it was not prepared to sign off on future projections of approximately 30% compound aggregate growth rates for revenue when MLE did not have a track record of achieving such rates.

4.33 The Department held the view that a new strategy for research and financing was needed. It was unable to reach agreement with MIT on these two fundamental issues. MIT have stated that they supported the continuation of a restructured MLE and offered support on pursuing an affiliation with an Irish university and a withdrawal of their right to appoint board members. It asserts that it was willing to work with a restructured MLE. The Committee is of the view that the basis of the conflict in the negotiations between MIT and the Department was the future direction of the research to be undertaken. MIT was prepared to provide advice, expertise and support but was not prepared to have its faculty subject to direction by a third party in relation to research issues. In short, MIT felt it could not agree to the Department's wish that MediaLab Europe commit to more commercially directed research.

4.34 From the start, MIT made it clear it could not commit funding to the MLE project. It points out that it was willing to commit other substantial assets.

Decision to liquidate

4.35 The decision to liquidate was made by the members when the Department made clear it would not provide further funding. The company went into voluntary liquidation because it could see that its immediate revenue stream would be insufficient to keep it afloat. It made the decision well in advance of the money running out.

4.36 The liquidator became involved in February 2005. It was a voluntary liquidation. A schedule of assets was drawn up. The liquidator's account shows that receipts of €1,026,014 were obtained and payments of €579,425 were made, leaving a residual cash balance of €446,589. Intellectual property formed part of the assets. Under the terms of the agreement, the assets are to be used for charitable and scientific purposes after the liquidation. The agreement was that the assets would pass to the new National Digital Research Centre. MIT accepted this and the new body which will replace it will take over responsibility. The building was always in State ownership.

Overall assessment

Positive achievements

4.37 At the time the decision to proceed was made, nobody disputed the upside potential and nobody knew the abyss that lay ahead in 2000 when the technology bubble burst.

The digital hub would not have been developed without MLE. There are more than 50 companies involved which are employing in excess of 400 people. It involves a huge education and outreach agenda. It is about regenerating an area and using the digital backdrop to see what can be done through the use of modern technologies.

4.38 Ireland has a good track record for being ahead of the curve and this was the objective. A national digital research centre (NDRC) is set up in place of MLE which confirms that it remains an important policy area in which there is significant potential. There is also a clear recognition that Ireland needs to begin to commercialise more of the research. The Department felt a need to move from some of the blue sky thinking to develop the equally important side of commercialisation.

4.39 Another positive aspect of MLE was the considerable engagement with the local community. In the clubhouse model the students and postgraduates of MLE as well as students from other colleges were providing evening tuition for young people from the inner city. It was not just about the economic side, there is also the social side.

4.40 On the economic side, MediaLab was multi-disciplinary, which is important, given the research in which Ireland is trying to engage. Disciplines from one area are applied in others. The Irish have a strong track record in creativity but matching this with digital technologies and establishing a leadership position is important. That will come from the NDRC which will build on the MLE experience.

Value for Money obtained

4.41 The price was high at €35.5 million. The value obtained for this in the long term can only be seen in the perspective of the overall economy. The ICT sector, including the digital hub, is worth €50 billion to the economy. MLE's role was positive at a difficult time. Many companies which set up in Ireland visited the MLE premises, including Yahoo, Google and others. The founders of Google cited MLE as one of the reasons their company came to Ireland. The sum of €35 million must be placed in the context of overall economic development.

4.42 The Department considers that overall and given the context, MLE has been a positive experience in the broad economic sense. It is easy to focus on the money spent but very difficult to measure the tangibles which occurred in the broader economy. It is difficult to place a value on some of the new concepts around demonstration, multi-disciplinary research and so forth. The Committee asked whether, on that basis, a case could be made for investing a further €35 million in MLE rather than liquidating it. It noted that the original contributors and sponsors did not stay engaged with MLE, even when circumstances were beginning to improve. Practically all of them did not renew their sponsorship. The Department indicated that the issue was one not only of money but also structures and the type of research to be undertaken. In negotiations between the Department and MIT there was a conflict of views between that of the Department which pushed the need for a more commercially driven strategy in relation to research whilst MIT felt that this was unacceptable and ran contrary to the basis that underpinned the project in the first place. The failure of the two sides to reach agreement on this point led to the closure of MediaLab Europe.

Limited achievement of objectives

4.43 An evaluation of MLE against the original objectives reached very negative conclusions. The original primary objective of MLE was to develop intellectual property through non-directive research. There were also secondary objectives, that the project would deliver research grant or contract income. A consultant's report states that not alone was no contract or research income forthcoming but none was sought. Another objective was that the existence of Media Lab Europe would encourage inward investment such as in the case of Google. The consultant stated the effect was quite marginal in respect of high quality foreign investment. A further objective was to strengthen the prospects for emerging indigenous companies. The consultant said there was no impact on the development of existing indigenous enterprise or on the stimulation of new technology based start-ups as spin-offs from its research. An additional objective was the training of Irish and European graduates and postgraduates by providing research experience. The conclusion is that it made little more than a token contribution to this objective. A further secondary objective was that there would be beneficial co-operation with development agencies in universities. The consultant's conclusion is that there is little evidence that MLE engaged in any significant way with either educational institutes or the development agencies. There was a consideration that the site would be an attractive conference centre. The conclusion is that only 11 MLE international conferences, which were non-research conferences, were held in the period under review. According to the consultant, on any fair evaluation of the project, it failed completely on all secondary objectives.

4.44 The Department informed the Committee that the founders of Google were very specific when they came to Dublin. They said part of the reason they came here was MLE, which they visited. In its contacts with different businesses and foreign direct investment multinationals, the Department is satisfied that the existence of MLE was positive at a time when there was a significant downturn in the sector. Companies were asking what was going on at MLE and this brought about an interest in Ireland. Whether it is Yahoo, Amazon, the Microsoft research and development centres, Xilinx, Dell Engineering or any of the companies that have come to Ireland in recent years, one cannot show the cause and effect between any one of these. However it was thought that MLE had a positive rather than a negative impact at the time.

Discrepancies over measured outputs

4.45 The consultant concluded that the scientific output of the laboratory could be only described as dismal, with just 24 publications in international scientific literature since its establishment. Productivity appeared to be very low. A total of 15 refereed papers were produced from 172 person years of research. Assuming MLE was not motivated towards publication of its work, it was difficult to see what alternative path was available or was being pursued by it towards international recognition in the world of science and technology. MLE demonstrated its technology as an alternative to publishing papers. MIT also claims additional refereed papers were produced over the period.

4.46 MIT disputes the figures quoted above. It claims that MLE produced 21 refereed journal articles, 59 refereed full papers for conferences, and 62 refereed shorter papers, giving a total of 142 refereed works, which is more than the 24 cited in the consultant's report. This was a different type of research. It was practical in the sense that it was demonstrable research, rather than just refereed papers and MLE should be evaluated on that basis. MIT's figures were based on data gathered by faculty members and from information forwarded to it by MediaLab Europe. The Committee noted that the consultant's report was carried out with the full co-operation of MLE. One would expect there would be a level of intellectual property in the case of patents taken out and developed into real applications as a result of this kind of research. However, there is not much evidence of that.

Lessons learned

4.47 The Committee considered whether lessons had been learned from the warning sign references to MLE in the C&AG's 2002 report. Once the revenue stream was not coming in on target, alarm bells began to ring. That is when the Department and the Government liaison committee began to push the board to take certain directions. It is much more courageous to take a decision to close something rather than let it continue. Within the controls available to it, the Department tried to put a structure in place to enable MLE to continue. It pushed through the strategic plan with performance indicators but there was a survival issue, together with a haemorrhaging of cash. MLE was burning cash at the rate of approximately €500,000 a month.

4.48 A lesson to be learned is that regardless of the nature of the activities the State involves itself, it must maintain control and ensure democratic accountability in

whatever structures are established. The Department has learned this from MLE. It recognises that it would have had problems in such circumstances irrespective of how well the venture was structured or what control the Government exercised over it. There were ideological or philosophical differences between the Department and MIT about the research agenda and the questions of directive versus non-directive research and blue sky versus greater commercialisation. There is no doubt that internationally there has been a shift from blue skies thinking and research. The industry is now much more oriented towards commercialisation, which is at the opposite end of the chain to blue skies thinking.

5. Adoption of Reports

5.1 The Committee disposed of Chapter 11.1 of the Report of the Comptroller and Auditor General, 2004.

6. Findings and Recommendations

The Committee of Public Accounts:

1. Payments totalling €35.5 million were made in support of the MLE project and a property costing €22.5 million was made available to MLE.
2. The risks involved in going ahead with the MLE project were recognised by the Government in making its decision.
3. There were inadequate structures to provide for meaningful State influence in the affairs of MLE bearing in mind the scale of public investment.
4. The appointed liaison committee was not effective as a communication channel between the State, MLE and MIT.
5. MIT fulfilled all of its legal and contractual obligations under the agreements entered into with the Government in the formation of MediaLab Europe.
6. Whilst information regarding salaries in respect of individual executives and board members of MLE was not forthcoming figures provided by the liquidator from the audited accounts suggested that average staff and board remuneration was high.
7. The level of anticipated corporate sponsorship was not achieved, primarily because of a severe downturn in the ICT industry and the events of September 2001.
8. There was a difference of opinion between the State and MIT on developing degree programmes and links with Irish universities. No real progress was made in this regard.

9. There was very little interest in applications for patents resulting from MLE research. In the liquidation of MLE, one patent was sold for a nominal consideration of €20 while the others were sold for €40,000 to a group headed by a former employee who had been engaged by the liquidator to provide technical assistance and to protect the patent applications.
10. The Board of MLE did not respond adequately to the failure to meet business targets, especially financial targets.
11. The Government's decision not to provide additional financial support for MLE was justified.
12. MLE served as a useful marketing tool for the IDA in attracting major ICT companies to Ireland.
13. MLE had a beneficial effect on the educational development of disadvantaged children from the area by giving them the opportunity to experience and learn from digital technology.
14. Collaborative research with Irish third level students was successful where it was undertaken.
15. MLE had only peripheral interaction with the other enterprises in the Digital Hub.
16. MLE was not subject to the normal code of corporate governance for State sponsored bodies.
17. Neither the Department of Communications, Marine and Natural Resources nor the C&AG could access information from the liquidator on MLE transactions. This prevented the Committee from fulfilling its role of reporting to Dáil Éireann on the funds granted to MLE and the C&AG from discharging his functions in a satisfactory manner.

And recommends in general that

1. While acknowledging that new forms of arrangements may be necessary to enable the State to facilitate the development of research capabilities, those arrangements should be based on full risk assessment, appropriate corporate governance, detailed monitoring procedures and the supply of information.
2. In major projects financed by State grants, payments should be linked to the achievement of performance targets.
3. The State's partners in high risk ventures should underpin their participation with appropriate financial contributions.
4. In the case of substantial State investment, a robust structure for protecting the State's interest and securing public accountability should be developed and

should not be compromised in the course of negotiation. Expressing the State's contribution merely as an inducement is inappropriate.

5. Contractual arrangements should ensure that the State is in a position where it can have a measure of control to enable it to reshape the project and, if necessary, stop the financing in the event of serious underperformance.
6. Where significant State funding is being made available, the terms of agreement should provide for access by the supervising Department and the C&AG.
7. The existing inspection provisions in the legislation governing the C&AG should be reviewed with a view to overcoming the access problems encountered in this case.

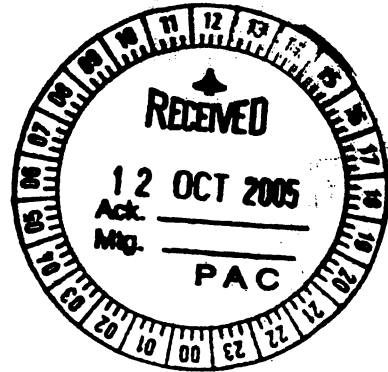
Appendix:

Three submissions from Massachusetts Institute of Technology

First Submission from Massachusetts Institute of Technology

October 10, 2005

Mr. Michael Noonan TD
Chairman
Public Accounts Committee
Dail Eireann
Kildare Street
Dublin 2



**Comptroller and Auditor General
Annual Report 2004**



Dear Mr. Chairman:

The Massachusetts Institute of Technology (MIT) understands that the Public Accounts Committee (PAC) will shortly be reviewing chapter 11.1 of the 2004 Report of the Comptroller and Auditor General (C & AG), which concerns Media Lab Europe (MLE).

Thank you for this opportunity to provide additional information and perspectives on MLE, which were not available to the C & AG when he prepared his Report. This information is pertinent to certain of the facts and conclusions cited in the Report concerning MIT and the MIT Media Lab. We understand that the C & AG's statutory focus does not extend to non-governmental entities and that MIT's perspective was not included as a matter of course.

We are not critical of the C & AG's work, but rather are providing this information in the hope that it will be helpful to the PAC in attaining a thorough understanding of the MLE undertaking.

The following provides MIT's information and perspectives concerning some important points on MLE in the C & AG Report.

1. MIT & Media Lab

It may assist the PAC if I outline some background concerning MIT and the MIT Media Lab.

MIT is an internationally renowned research university with five schools, 34 academic departments and many interdisciplinary labs, centers and programs. The Institute, which was established in 1861, exists to advance knowledge and to educate students in science, technology and other areas of scholarship. Among its most notable contributions to the world in the past few years is MIT OpenCourseWare, which makes the contents of MIT lectures and courses freely available to anyone in the world with access to the Internet. Sixty-one current and former members of the MIT community have won the Nobel Prize, including Richard R. Schrock, who is co-recipient of the 2005 Noble Prize in chemistry.

The Media Lab is an interdisciplinary laboratory in MIT's School of Architecture and Planning. The 20-year-old Media Lab is an accomplished center of research and education, which has pioneered numerous discoveries of societal and economic benefit.

2. The Establishment of MLE

MIT is honored that the Government of Ireland sought to work with our Media Lab on the important MLE undertaking that, under different market conditions, could have made a major contribution to the productivity and creativity of digital technology and communication research in Ireland and Europe. MIT Media Lab and the Government of Ireland approached the MLE negotiations and undertaking in good faith, with an understanding that MLE involved significant risks, and with every expectation that, in a robust technology market, MLE offered the potential of significant benefits for Ireland and Europe.

MIT shares the sentiments expressed by Noel Dempsey TD, Minister for Communications, Marine and Natural Resources that MLE was a risk worth taking, and that it is often necessary to take risks in technology endeavors in order to succeed. The C & AG Report notes (page 86) that Secretary General Tuohy as Accounting Officer, also stated that the Government decision to invest in MLE was made in the light of "identified risks." MIT agrees that all of these risks were clearly identified and that both the Irish Government and MIT entered the arrangements with high expectations, but with a realization that the financial sustainability of MLE was dependent, to a large extent, on securing sponsorship from private firms, particularly in the technological sector. In communications with the Government regarding the establishment of MLE, MIT made it clear that it could take as long as 10 years for MLE to become a self-sufficient, world-class research organization capable of attracting its own private funding. In light of the inherent risks, the

Government had the right to reduce and then terminate funding and end the Government's agreements with MIT and MLE, and the parties then had the right end the endeavor, if projections for private funding were not met.

At the time the agreements to establish MLE were concluded, none of the parties could have envisaged the scale of the downturn in the technology market that would begin in the latter part of 2000 or the events of September 11, 2001, both of which had a profoundly adverse effect on the companies that it was envisaged would provide sponsorship to MLE. These events proved impossible to overcome.

3. The Feasibility of the Original Model for MLE

The following statements in the Report question whether the original model for MLE was viable or flawed and MIT's perspectives are necessary to gain an accurate understanding of this issue:

- The Department said that MIT agreed that the original model for MLE is flawed and that MLE was unsustainable. (Page 92)
- The Government implied it was misled by MIT as "the model sold to the Government was one that purported to be self-financing." (Page 92)
- There was a "revelation" to the Department in June 2004 that MIT paid its faculty (i.e., professors with tenured or tenure-track appointments who have research and teaching responsibilities) at MIT Media Lab. (Page 92)
- Following the conclusion of the agreements between the Irish Government and MIT "It subsequently came to light that the MIT Media Lab, the role model for MLE, is not self-financing in this new industry climate." (Page 87)
- The September 2004 Performance Review by a consultant for the Government liaison committee concluded that "the business model was inappropriate and that the founding objectives were too ambitious and unrealistic." (Page 90)

We do not believe that the model or the objectives of the MLE were unrealistic, or that MIT hid our Media Lab's funding model from the Government, as discussed in the sections that follow.

MIT's Perspective

The model of private sponsorship for non-directed research at MLE was based on the MIT Media Lab model, which is sustainable and has operated effectively at MIT Media Lab for 20 years.

The original business plan for MLE did fail, and MLE did not achieve its full potential. This was not because the model was unsustainable generally or was too ambitious in the robust technology market in which it was conceived, nor

was it due to any lack of commitment by MIT. In fact, at the inception of MLE in 2000, MIT Media Lab personnel raised private gifts and pledges of over 3.5 million Irish Pounds for MLE. Rather, it was largely due to the unexpected downturn in the technology market beginning in the latter part of 2000 and to the events of September 11, 2001, which had a profoundly adverse effect on technology companies everywhere, including those companies that it was hoped would be MLE sponsors. These events, occurring so soon after MLE's establishment, are the primary reason why MLE failed to meet projections for private funding and ultimately failed to be self-sustaining. This is what happened and this is what MIT's appointees to the MLE board expressed to the Government.

During the negotiations with the Government to establish MLE, MIT Media Lab did not hide the fact that MIT supports our professors' (i.e., faculty's) salaries. In fact, the cash flow chart provided in MIT Media Lab's February 1999 proposal to the Irish Government states:

"MIT fully supports the academic year salaries of Professors, Associate Professors and Assistant Professors...."

MIT provides faculty salary support through a combination of central MIT funds and endowments raised by MIT units for faculty chairs. About half of MIT Media Lab's faculty's (nine of 19) salaries are funded by endowments raised by Media Lab.

MIT Media Lab provided this information at the start of the negotiations with the Irish Government; it cannot be fairly characterized as a later "revelation." The Department of Communications, Marine and Natural Resources (Department) was not involved in the initial discussions for the establishment of MLE and only assumed responsibility for MLE after all of the agreements were signed and MLE was created. The timing of the Department's involvement in MLE, rather than a lack of candour on the part of MIT, may explain the Department's lack of awareness of these key aspects of the negotiations.

Unlike MIT's faculty, the researchers, fellows and students at MIT Media Lab are entirely self-financing. They are paid from research sponsorships, just as their counterparts at MLE were paid.

MLE did not have staff in positions equivalent to MIT Media Lab faculty in the early years because MLE was not itself envisioned to be a degree-granting institution at that time. It was anticipated that MLE would eventually develop a degree-granting program. MLE's financial model contemplated that MLE would have to raise endowments to cover its faculty salaries, just as MIT Media Lab has done for a significant number of its faculty, and that MLE researchers and other non-faculty personnel would have to raise sponsorships and research

funding to cover their salaries, just as MIT Media Lab non-faculty personnel must do.

MIT Media Lab also experienced a reduction in private support during this difficult market period beginning in the latter part of 2000; however, unlike MLE, Media Lab had the benefit of a broad and deep sponsor pool developed over 20 years to sustain it.

It was also helpful to MIT Media Lab that it is part of a larger university and it certainly would have provided MLE with greater stability if MLE had affiliated with an Irish university from its inception, as the MIT Media Lab had recommended. This would have provided a cadre of faculty (some of whom may have been supported by their university), as well as ready access to researchers and students and greater stability for MLE. However, with the severity of the technology market downturn and of the effects of the events of September 11, 2001, an affiliation with an Irish university may still not have sustained MLE at such an early stage in its development. Financial projections for private support developed in the robust technology market could not be met in the new environment. Without additional Government funding, MLE's personnel would still have had to support themselves through research funding and sponsorships that were scarce during this time, just as MIT Media Lab's non-faculty personnel had to do.

4. Collaboration between MLE and Irish universities

We believe our perspective may also be helpful regarding the following assertions of a "lack of engagement" by MLE with third level institutions in Ireland (page 92):

- "...the lack of educational qualifications such as Masters or PhDs meant that MLE became paid work experience for students." (page 92)
- there had been slow progress on "formal academic linkages" and degree granting programmes. (Page 93)
- there was no "appreciable engagement in education and training programmes of Irish third level institutions." (Page 90)

MIT's Perspective

The MIT Media Lab personnel who were involved in the initial negotiations with the Government recommended that MLE be affiliated with Trinity College because it has been helpful to MIT Media Lab to be part of MIT. The Government recommended against affiliation with a single university and in favor of collaborations with many universities. Sections 8 and 9 of the collaboration agreement contemplate involvement by MLE with faculty and students of Irish universities through collaborations for granting degrees, guest lectureships, complementary research and sharing of personnel. In support of its recommended approach, the Government created a fund that was

administered by the Higher Education Authority to provide grants to Irish universities to collaborate with MLE. This grant program was announced simultaneously with MLE. The report (page 94) acknowledges that this program was very successful.

However, collaborations are not as stabilizing or as effective as actual affiliation, and MIT renewed its advice that MLE should affiliate with a specific Irish university in 2004, when MLE's board, MIT and the Government were discussing ways of sustaining MLE in an improving, but still not as robust, technology market. The Government elected to chart a different course by seeking to establish a new research institution affiliated with a consortium of universities at the Digital Hub.

It was difficult to find support for the development of an MLE degree-granting program among Irish third level universities. Had MLE continued, MIT and MLE had agreed in principle to an MLE/MIT Media Lab master's program in which students would apply to MIT Media Lab and, if admitted under Media Lab's generally applicable admissions standards, would pursue master's degrees at Media Lab and undertake collaborative research at MLE. Two students participated in a pilot program in the 2004 to 2005 academic year.

5. Availability of MIT Staff to MLE

With regard to the availability of MIT Media Lab staff to MLE, we would offer our perspective on the points raised on page 92 of the Report:

- The Government believed that “at the time of the agreements, MIT did not have the agreement of staff to offer their services to MLE.”
- “[C]onsequently, MLE had to pay for many of these fellowships on a consultancy basis.”

MIT's Perspective

Sections 7 through 12 of the collaboration agreement between MLE and MIT set out extensive and specific commitments to MLE by MIT Media Lab faculty and staff. In addition to extensive time and effort, MIT Media Lab personnel raised 3.5 million Irish Pounds in private gifts and pledges for MLE in 2000, and MIT agreed that MIT Media Lab would have an exclusive relationship with MLE in Europe and that MLE could describe and market itself as the “European Research Partner of the MIT Media Lab.” As the report notes (page 93), MIT “complied with its personnel commitments, including the attendance of key personnel for the requisite number of days set down in the agreement,” and MIT met its obligations under the contract. These actions and commitments reflect the seriousness and dedication with which we entered and conducted our collaboration with the Government in MLE. MIT and its Media Lab made these major commitments fully and with high hopes and

every expectation of a long and fruitful collaboration with their Irish and European colleagues in MLE.

Completely separate from MIT's contractual and overall commitment to MLE, MLE entered into consultancy agreements with some MIT Media Lab personnel for work on their personal time. MIT faculty are permitted a day a week for private consulting. Section 8 of the collaboration agreement requires MLE to develop similar policies to allow for private consulting. Such policies recognize that consulting on personal time is a valuable experience and does not detract from primary commitments. If MLE decided to make consultancy arrangements with individuals, those arrangements neither diminished, nor interfered with, MIT Media Lab's contributions and commitment to MLE. The MIT Media Lab personnel who entered consultancy agreements with MLE could have, instead, consulted for other institutions rather than committing additional effort to MLE on their personal time.

6. Operation of MLE

MIT's information and perspective are important to reach an accurate understanding of the issues raised by the following statements in the C & AG Report:

- “While the Exchequer was the main funding source for MLE, the Board was under effective MIT control and decisions were taken without reference to the Exchequer.” (Page 88)
- MIT told the Department that the structures, management and way of doing business at MLE were indefensible. (Page 92)
- The Department believed that the liaison committee's oversight role was circumscribed and limited. (Page 91)

MIT's Perspective

MIT did not control the MLE Board or its management, either in a legal sense or in practice. MLE is an Irish registered company limited by guarantee and not having a share of capital under the Irish Companies Acts, 1963 to 1999, to advance charitable, scientific and educational purposes. Once established, MLE was to be managed and governed as an entity independent of MIT and the Irish Government. MLE is not a part of MIT or of the Government and neither MIT nor the Government is a member (i.e., shareholder) of MLE. In fact, although the agreement between the Government and MIT to establish MLE provided the Government and MIT with board appointment power, the agreement also provided that, once appointed “[a]ll appointees [to the MLE board] shall serve in their personal, individual capacities and not as representatives of their appointing authority.” (Section 4 of the Establishment Agreement)

MIT and the Government had equal rights to appoint members of MLE's board and corporation (i.e., each was empowered to appoint three members and both were empowered to jointly appoint three for a total of nine). The Government was free to appoint any individuals it wanted for its appointees and presumably appointed individuals it thought would appropriately oversee the operation and direction of MLE. MIT did the same, although the establishment agreement between the Government and MIT requires one of MIT's three appointees to be the chair of the MIT Media Lab (because his commitment was an important consideration for the agreement) and he was also to be the chair of MLE's board for five years and to have a tie-breaking vote if necessary.

In addition to the Government's equal board and member appointment powers, the MLE agreements provide for the establishment of a Government liaison committee comprising members of Government agencies, MIT Media Lab executives and MLE representatives. The Government liaison committee was responsible for fostering communications among the Government, MLE and MIT Media Lab, and MLE was required to report on MLE's sponsorships, gifts, research contracts, patent applications, licensees, research volume, masters degree graduates, Ph.D. graduates, and refereed publications, as well as financial status to the Government liaison committee and MIT. Because the Government had the power to appoint board members and received reports through the Government liaison committee, the Government received significant meaningful information about MLE's progress and had the ability to oversee and influence that progress.

Some representatives of the Department, MLE and MIT Media Lab had divergent views and did not work as constructively together as would have been desirable in the early years. The arrangement whereby MLE was subject to a board as well as being answerable to a separate Government liaison committee proved to be ineffective and did little to facilitate direct and effective communications between MLE, the Department and MIT. This dual oversight structure proved to be a dysfunctional arrangement, which ultimately did not serve MLE or the stakeholders well.

MLE's independent board was responsible for hiring the company's top management executives, who were in turn responsible for managing the company. MIT agrees that MLE's board did not operate effectively in the early years, and when the Government appointees and Government liaison wanted new leadership on the board, MIT was responsive and proposed a co-chair structure. MIT agreed to the Government's suggestion to appoint Matti Packalen as co-chair of the board, and we believe that improvements were realized with his additional leadership. MIT also agrees that there were management difficulties at MLE, but the board was engaged and attempting to resolve the difficulties and had made progress.

The MLE research model was new in Ireland and posed a challenge for the board, management and the Government liaison committee. MIT does not

believe that this was the determining factor in MLE's closure, however; the downturn in the technology market and the effects of the events of September 11, 2001 were such a dominant negative effect early in MLE's existence, that they would have been hard to overcome by the most well-functioning management.

7. The Closure of MLE

Concerning the closure of MLE, the C & AG Report (page 92) stated the following, and MIT's perspective is important to reaching an accurate understanding of these points:

- MIT was "unwilling to accept the Government terms" for the restructuring and continuation of MLE and
- Was unwilling to repay any moneys it received under the original agreements.

MIT's Perspective

MIT supported the continuation of a restructured MLE. MIT offered to advise the Government and MLE without charging for our time and expertise (and only requiring our out-of-pocket costs to be covered) while they explored an affiliation with an Irish university, a new focus and a new structure. MIT also said that we would not retain any right to appoint board members so that the Government could appoint the board with an Irish university. MIT said the MIT Media Lab would be happy to apply to the restructured MLE for non-directed research funding on a project-by-project basis and would not expect any commitment of fixed payments upfront. However, the Government did not accept MIT's offer and MIT could not accept some of the Government's terms.

Chief among the Government's terms that were fundamentally impossible for MIT to accept were the Government's wishes for MIT to commit our faculty to directed research and to commit upfront to exclusivity with MIT Media Lab for a restructured undertaking, before the parties, terms and scope of the research program were defined.

MIT consistently explained that we cannot commit our faculty to directed research. There would be no point in purporting to do so because MIT faculty focus on research that freely explores new ideas without the limitation of a pre-determined objective and cannot be forced to pursue research that does not interest them. MIT was open to the Government's desire for the restructured MLE to have directed research as part of its focus. However, MIT could not commit MIT Media Lab upfront to as robust a collaboration with a restructured MLE without knowing whether there would be a significant enough non-directed research component and adequate funding for which MIT Media Lab could apply on a project-by-project basis, and without knowing

whether MIT Media Lab's faculty would have research interests in common with the restructured MLE and its affiliated Irish university.

MIT's faculty is committed to non-directed research and the Government initially had found MLE's focus on such research to be appealing because many of the world's most productive technological advances come from research endeavors that are founded in basic intellectual curiosity and free inquiry. The MIT Media Lab's creative environment has led to many ideas that, while their commercial applications may not have been immediately apparent, over time have contributed to successful products. These include the following products whose companies are listed in parentheses:

- Rainbow Hologram (many applications)
- E-Field Sensing technology (Smart Air Bag systems produced by Elesys Corp./Motorola)
- Electronic Ink (E Ink Corp. <http://eink.com/technology>)
- Lego Mindstorms (Lego Group (<http://mindstorms.lego.com/eng/default.asp?domainredir=www.lego.com/mindstorms.com>))
- Audio Spotlight (Holosonics <http://www.holosonics.com>)
- Photomosaics (Runaway Technology <http://www.photomosaic.com>)
- Symphony Painter (Fisher-Price Symphony Painter <http://www.fisher-price.com>)
- Tangible Media (Ambient Devices <http://www.ambientdevices.com/cat/index.html>)
- Distributed networks (Ember Corp. <http://www.ember.com>)
- DiabetNet (Dimagi <http://www.dimagi.com/index/php>)

MIT Professor Jerome I. Friedman, winner of the Nobel Prize in physics in 1990, speaks of the importance of basic research in his article, *Will Innovation Flourish in the Future?* (American Institute of Physics, 22 The Industrial Physicist, December 2002/January 2003):

"[i]nnovation is the key to the future, but basic research is the key to future innovation. Although applied research and invention play an important role in innovation, they do not generally produce the major conceptual breakthroughs necessary for creating radically new technologies."

Professor Friedman points out that *"[i]f you know what you are looking for, you are limited by what you know. As inventive as Thomas Edison was, he could not have created the transistor—perhaps the most important invention of the 20th century."* It took scientific exploration with no apparent connection to what later became the transistor, from the mid-1800's through 1959, to develop all of the scientific understanding and technologies needed to create the transistor.

This is the work and approach of MIT, and we would not have agreed to engage in the MLE collaboration for other purposes in 2000, and could not agree to do so in 2004. We were willing to continue to work with the restructured MLE, even if it had a greater focus on directed research, as long as there was a significant non-directed research program as well.

The Government liaison to MLE and some of the Government appointees to MLE's board asked MIT in 2004 to contribute funding to sustain MLE through a period of possible restructuring and refocus.

MIT is a charitable educational and research university that depends on endowments to pursue our activities for the public good. MLE paid MIT for MIT Media Lab's commitments to MLE. MIT agreed that the MIT Media Lab personnel would raise private gifts and pledges for MLE at its inception, agreed that MIT Media Lab would maintain an exclusive relationship with MLE in Europe, agreed that MLE could identify itself as the "European Research Partner of the MIT Media Lab," and committed a level of effort by MIT Media Lab personnel to MLE that is unusually specific and extensive and is set out in the collaboration agreement. Although MLE's full potential was not realized, this was primarily a result of an adverse change in market conditions and the effects of the events of September 11, 2001, not a lack of commitment by MIT and not a failure to meet contractual obligations. These factors are recognized in the C & AG Report (pages 87 and 93).

MIT undertook the MLE endeavor because it provided an important opportunity to support the advancement of digital technology and communication research and education in Ireland and Europe. MIT was clear from the start that we would not guarantee the funding provided for MIT Media Lab's participation based on particular performance outcomes because endeavors to advance technological research are inherently risky.

As a charitable institution, we cannot pursue our research mission, with its inherent risk, without receiving funding for our commitment of expertise and effort, regardless of whether the inherent risk of our work is realized in the end. MIT was willing to commit other substantial assets, including our name, time, expertise and effort, but we could not commit funding. This was made very clear to the Irish Government from the outset of the discussions over MLE.

8. MIT & Spain

The C & AG Report makes a reference to an attempt to establish a Media Lab in Spain by MIT Media Lab in apparent breach of the obligations of exclusivity conferred by MIT to the Irish Government.

MIT provides the following information to make clear that MIT fulfilled MIT Media Lab's exclusivity commitment.

The MIT Media Lab did not attempt to set up a Media Lab in Spain. The Spanish Government approached MIT Media Lab about the possibility of a Spanish Media Lab. MIT Media Lab explained this was not possible. The MIT appointees to the MLE board discussed with their fellow board members and MLE management ways in which MLE activities throughout the European Union might support the success of MLE, including MLE's (not MIT Media Lab's) expansion to include Spain. However, the other board members were not supportive, the MIT appointees dropped the idea of MLE expanding to include Spain, and MLE's activities in the EU were limited. MIT fulfilled its exclusivity commitment to MLE under provisions of the establishment agreement and collaboration agreement.

9. Record of MLE

We also offer our perspective on that section of the C & AG Report (pages 88-90) that includes findings by a consultant for the Government Liaison Committee:

- A “dismal” scientific output
- Low productivity
- Little or no value as a driver of foreign investment, indigenous enterprise and technology spin offs
- No meaningful impact on education and training programmes at Irish universities
- Limited positive outcomes

MIT's Perspective

MLE did not achieve its potential for scientific output and productivity and could not have been expected to do so when it was struggling for its existence in a dramatically changed environment less than one year after it was created. However, the consultant's remarks quoted in the Report exaggerate the negatives and understate the positive achievements of MLE, including the following outcomes noted in the Report (page 94):

- The highly successful collaborative research projects with students and researchers from Irish third level institutions.
- The international interest that MLE attracted to the Digital Hub.
- The impact that MLE had on facilitating the growth of the Digital Hub by attracting enterprises to the area.
- Jobs and positive benefits to the local community.
- Attracting attention to research in key fields of digital technology.
- A willingness by the Irish Government to be innovative in harnessing the potential of evolving technologies and to take quantified risks to advance the potential of Ireland as a centre for the development of digital technology in Europe.

In addition, the productivity of MLE was understated in the Report. MLE produced 21 refereed journal articles, 59 refereed full papers for conferences and 62 refereed shorter papers for conferences, for a total of 142 refereed works (not only the 24 cited in the Report). In addition to 83 highly successful, HEA-funded collaborations, there were 17 other collaborations. Hundreds of individuals and several delegations or groups visited MLE.

10. Variable Sponsorships

The C & AG Report (page 93) recites the finding of a Government review that MIT did not make any variable sponsorship payments required under the MLE agreements. However, MIT Media Lab's records show that MIT paid MLE \$168,750 in variable sponsorship payments as required by Section 7 of the collaboration agreement. Additionally, at the early termination of the MLE agreement with MIT, MIT relinquished approximately €866,675 in variable endowments and grants that would otherwise be due to MIT under the contracts between MIT and MLE had they remained in effect until the contracts' earliest termination date.

Conclusion

MIT respectfully submits this letter to assist the PAC in its consideration of Chapter 11.1 of the C & AG Report and respectfully requests that this letter be considered by the Committee as part of the record. If we may be of any further assistance or provide additional clarification to the PAC in this matter, please feel free to contact me.

Yours sincerely,

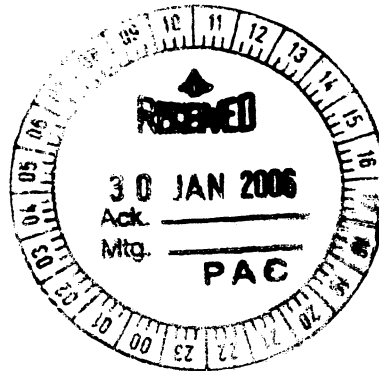


William J. Mitchell
Alexander W. Dreyfoos, Jr. Professor of Architecture and Media Arts and Sciences
Former Academic Head, Media Arts and Sciences Program, and
Former Dean, MIT School of Architecture and Planning

Second Submission from Massachusetts Institute of Technology

January 24, 2006

Michael Noonan TD
Chairman
Public Accounts Committee
Dail Eireann
Kildare Street
Dublin 2
Ireland



Re: Chapter 11 of the 2004 Controller and Auditor General Annual Report

Dear Mr. Chairman,

Massachusetts Institute of Technology would welcome the opportunity to correct some points and clarify some issues raised during the Public Accounts Committee's October 13, 2005 hearing on Chapter 11 of the Controller and Auditor General's (C&AG) 2004 report concerning Media Lab Europe (MLE). We respectfully request the Committee to enter this letter in the Committee's record on MLE.

As discussed in our letter to the Committee of October 10, 2005, we believe that MIT's perspective is important to a thorough and accurate understanding of MLE.

1. Value of MLE.

Although MLE did not achieve its full potential, it was a highly innovative, worthwhile initiative that has yielded clear benefits for Ireland. It is untrue to characterize MLE as a failure, and to do so diminishes the positive effect that MLE has had on Ireland's continuing progress as a leader in the technology marketplace.

The Irish Government sought to establish Ireland as an international center of digital media research, and by its willingness to take the risks attendant to such technology ventures, Ireland began to develop a reputation for being a fertile environment for technological innovation. From 2000 to 2004, Ireland's MLE was the "European Research Partner of MIT Media Lab," a right that gave MLE worldwide recognition and marketing ability. The Secretary General testified at the Committee's October 2005 hearing that Google visited MLE and then decided to locate in Dublin in part because of MLE; that MLE had a definite positive effect on Ireland being regarded by a number of companies such as Yahoo, Amazon, the Microsoft research and development centers, Xilinx, and Dell Engineering as a good location for technology companies; and that venture companies considered MLE to encourage interest in Ireland.

MLE had many other positive achievements over the relatively short period it existed, including:



- The international interest MLE attracted to the Digital Hub, and MLE's impact on the growth of the Digital Hub, including the attendant jobs and other positive benefits to the local community;
- The 21 refereed journal articles, 59 refereed full papers for conferences and 62 refereed shorter papers for conferences that MLE produced;
- The 83 highly successful HEA funded collaborations of students and researchers at Irish third level institutions with MLE;
- And the hundreds of other individuals and delegations that visited MLE.

The assessment of MLE has not given due consideration to MLE's broader impacts. MLE did not achieve its potential for scientific output and productivity or private support, and could not have been expected to do so when it was struggling for its existence in a dramatically and adversely changed technology market environment less than one year after it was created. But MLE did provide value to Ireland.

2. MIT's Appointees to MLE's Board Want The Liquidator to Provide Information on Executive Compensation to the Government.

MIT did not realize until the October 13, 2005 hearing that the C&AG and Secretary General had requested and been unable to obtain documents from the MLE liquidators concerning executive compensation and severance. Those requests rightly went to MLE's liquidator and not to MIT, because MLE is a separate entity and is responsible for responding to requests concerning its employees' compensation. MIT's appointees to MLE's board no longer have involvement in the company now that it is in liquidation.

MIT's appointees to the MLE board, however, recently responded to a letter from the liquidator by urging the liquidator to take all necessary steps to be able to satisfy the C&AG's requests. That letter is attached. (See Attachment 1.)

3. MLE's Failure to Reach its Full Potential Was the Result of External Adverse Market Changes.

The severe downturn in the technology market beginning in the latter half of 2000 less than a year after MLE was created, and the events of September 11, 2001, had such a dominant, negative effect on the technology companies that were expected to sponsor MLE, and these events occurred so early in MLE's existence, that they would have been hard to overcome regardless of other factors.

4. MIT is Not Commercially Focused But Was Supportive of the Inclusion of a Commercial Component for MLE.

MIT is a university whose mission is focused on education and basic research to increase knowledge for the public good. Basic research underlies the health of a nation's people and economy. (Please see Attachment 2 for examples.) Our work and that of our peer institutions lay the critical foundation for the subsequent development of commercial products and for scientific advances that serve some of humanity's greatest needs.

There are other types of institutions that have a more direct commercial focus; MIT is not that type of institution and is forthright in making our focus clear. MIT

consistently explained to the Government, both during initial negotiations and throughout MLE's existence, that there would have been no point in purporting to commit our faculty to commercially directed research, because MIT faculty focus on research that holds the promise of discoveries that can only be achieved without the limitation of a pre-determined objective. MIT cannot force MIT faculty to pursue any particular research.

Nevertheless, MIT's appointees to the MLE board were supportive of MLE having a commercially focused component within its research agenda, as well as a non-directed basic research component, even though MIT could not commit MIT faculty to participate in the commercial component.

5. MIT Committed Valuable Assets to MLE Other Than Funding.

At all times, MIT was very candid with the Government that, as a university, MIT could commit its most valuable assets -- time, effort, expertise and name -- to the MLE endeavor, but MIT could not commit funding. MIT fulfilled all of its commitments to MLE, as the C&AG report and the Government have acknowledged.

Also, because there is inherent risk in university basic research and because outcomes cannot be guaranteed, MIT relies on endowments, gifts and sponsorship to fund its efforts without regard to whether a particular outcome is achieved, as long as MIT fulfills its commitment of effort. We could not otherwise afford to take the risks that must be taken to advance the basic knowledge on which essential benefits for humankind and commercial products are ultimately based. When our faculty commit their time and effort to one endeavor they must forego participation in other endeavors, and this commitment has a real opportunity cost to MIT and to the careers of its faculty.

MIT Media Lab was well-suited to achieve the goals and aims of MLE as they were originally defined. However, the events of September 11, 2001 and the severe downturn in the technology market that began in the latter half of 2000 made it impossible for MLE to flourish as originally intended. Once this happened, the Government desired to change MLE's original basic research focus to a heavy commercial directed-research focus. While MIT was supportive of the Government's desire to do this, MIT could not commit its faculty to participate in commercially directed research.

There are times when a particular type of endeavor is unsuitable to the fundamental nature and mission of a particular institution. Because of MIT's mission as an educational and basic research institution, we could not have entered into an agreement that required our commitment to commercially directed research or that conditioned payments on a particular outcome in 2000, nor could we have done so in 2004.

6. Evaluation of the Contributions of MIT and the Government.

The primary contributions by the Irish Government to the establishment of MLE were the provision of premises and funding, the appointment of half the board of MLE, and the establishment of a Government Liaison Committee to help guide its progress. (At the hearing, a witness stated that MIT received almost 22M Euros from the Government and this is incorrect. Although MIT did receive substantial funding from the Government, the amount was 15.2M Euros.)

MIT's contributions were research program expertise and technical support (two of MIT's most highly prized assets), the appointment of the other half of the board, and conferring with the Government on MLE's progress.

MIT also lent its name to MLE as the "European Research Partner of MIT Media Lab," and committed to significant trans-Atlantic efforts, to an exclusive affiliation of MIT Media Lab to MLE in Europe, as well as to raising 3.5M Irish Pounds in gifts and pledges for MLE.

Both the C&AG and Secretary General Tuohy recognize that MIT fulfilled all of its contractual obligations under the MLE agreements, as stated at the October 13, 2005 hearing and in the C&AG's Report.

7. MIT Did Not Control the Negotiations or the Board. The Irish Government and MIT Had Equal Roles In Appointing The Board.

MIT and the Irish Government approached the negotiations to establish MLE in good faith, with full recognition that MLE involved significant risks. Both parties had every expectation that, in a robust technology market, MLE offered the potential of significant benefits for Ireland and Europe. That the Government recognized the risks has been acknowledged by the C&AG report in 2004, the Government's testimony in October 2005, and the Government's public statements.

Negotiations lasted for more than a year and there were concessions made by both MIT and the Government, as would be expected in any serious negotiation. Among the concessions that MIT ultimately agreed to are:

- MIT Media Lab personnel would be obligated to raise 3.5M Irish Pounds in gifts and pledges for MLE up front, to be paid to MLE for its use;
- Irish law rather than U.S. law would govern the agreements;
- the funding obligation would be defined in Irish currency, not US currency;
- the trademark "Media Lab Europe" would be owned by MLE, not merely licensed to it;
- the commitment to exclusivity in the relationship would be one-way in MLE's favor;
- the variances from private funding projections and proportions that would allow the Government to reduce its support in the third year and to terminate the undertaking after five years, would be a 20 percent variance rather than a 33 percent variance;
- and the maximum Government funding commitment (subject to the right to reduce support if projections weren't met) would be fixed at 28M Irish Pounds.

Neither MIT, nor the Government, controlled the MLE board or its management, either in a legal sense or in practice. It is incorrect to suggest that MIT had a disproportionate influence or control over MLE.

MLE is an independent entity, not a part of the Government or of MIT. The Government and MIT had the right to appoint equal numbers of MLE board members. Each appointed three and they jointly appointed three, for a total of nine. While it is true that the establishment agreement required one of MIT's appointees to be the chair of the MIT Media Lab and provided for him to be the chair of MLE's board for five years, this was necessary to ensure his commitment to MLE as required by the Government. His experience and contacts were important consideration for the Government's agreement.

Even so, when the Government's liaison wanted new leadership on the board, MIT was responsive and agreed to the Government's suggestion to appoint Matti Packalen as co-chair of the board.

8. MIT Media Lab Continues to Be Predominantly Privately Sponsored, For Non-directed, Basic Research.

At the previous hearing of the Committee, it was stated by a witness that the MIT Media Lab is now 85 percent government funded and that the privately supported "blue sky" thinking of the late 1990s is no longer its focus. This is not true.

MIT Media Lab continues to operate on the basis of its original model of predominant private support for non-directed research. The percentage of MIT Media Lab's total expenses that were funded by the U.S. government in fiscal year 2000 was only 4.3 percent. In fiscal year 2005, that percentage was 24.7 percent. A significant proportion of this increase is due to one federally funded research project that was awarded to one faculty member of the Media Lab.

While it is true that MIT Media Lab also experienced a reduction in private support during the adverse market period that began in the latter part of 2000, MIT Media Lab, unlike MLE, had the benefit of a broad, private sponsor pool developed over 20 years.

9. MIT Honored MIT Media Lab's Exclusivity Agreement With MLE.

MIT did not approach the Spanish Government to establish a media lab in Spain. I have confirmed at MIT that the Spanish Government approached MIT Media Lab with the idea of a collaboration and the Media Lab personnel advised the Spanish Government of the exclusive arrangement that MIT Media Lab had with MLE in Europe. MIT Media Lab suggested that the Spanish Government deal directly with MLE in Dublin.

10. MLE Cannot Be Fairly Compared With Other MIT-Government Endeavors.


The **Cambridge MIT Institute (CMI)** is not an MIT Media Lab endeavor and is successful. It is an institution-wide collaboration of professors and students of two world-renowned universities and does not concentrate on a single lab. Under a traditional university funding model, CMI was intended from its inception to receive substantial U.K. government funding; its viability was never based on private funding. CMI has had a highly successful exchange of students between the two institutions every year since 2001, and, after a gradual start in formulating joint research projects and expending research funds, the faculties of the two institutions are collaborating successfully. CMI is a successful initiative.

Media Lab Asia (MLA) is entirely different from MLE. Because both parties had some questions at MLA's inception, MIT's Media Lab collaborated with the Indian Government on a one-year pilot project to test whether a longer term MLA endeavor would be worthwhile to all parties. The goals of MLA include the expansion of local economies and the improvement of health in India and Asia, particularly in rural areas. The Government of India, which had experienced a change in administration during MLA's one-year pilot period, decided not to continue working with MIT Media Lab and their one-year agreement ended naturally when the parties did not take affirmative steps to extend it. But MLA still exists. The pilot achieved its intended purpose.

Conclusion

MIT believes that the Irish Government was visionary in pursuing MLE and wishes the Government every success in establishing the new national Digital Media Research Laboratory. We would be delighted to see Ireland become an established technology hub of Europe and believe Ireland's rich history of creativity and willingness to take necessary risks in technology endeavors position it well to succeed in this endeavor.

Sincerely,



William J. Mitchell

Alexander W. Dreyfoos, Jr. Professor of Architecture, Media Arts and Sciences
Former Academic Head of the Media Arts and Sciences Program and Former Dean
of the School of Architecture and Planning

ATTACHMENT 1

Nicholas Negroponte
In Care Of Massachusetts Institute of Technology
77 Massachusetts Avenue
Cambridge, MA 02139

November 18, 2005

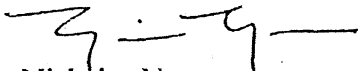
David M. Hughes, Liquidator
Media Lab Europe Ltd
C/O Ernst & Young
Ernst & Young Building
Harcourt Centre
Harcourt Street
Dublin 2
Ireland

Dear Mr. Hughes:

Thank you for your letter of November 4, 2005. I understand that a similar letter was sent to all individuals who served as Chief Executive Officer of Media Lab Europe. However, the subject of compensation and severance for Chief Executives of MLE does not apply to me.

Although I served as Acting Chief Executive of MLE until the first regular Chief Executive was hired, I did not receive any compensation or severance package from MLE for my service. My service was part of Massachusetts Institute of Technology's commitment to support the establishment of Media Lab Europe under MIT's collaboration agreement with MLE.

Sincerely,



Nicholas Negroponte
MLE Board Member

ATTACHMENT 1

Phillip L. Clay
William J. Mitchell
Nicholas Negroponte
In Care Of Massachusetts Institute of Technology
77 Massachusetts Avenue
Cambridge, MA 02139

November 18, 2005

David M. Hughes, Liquidator
Media Lab Europe Ltd
C/O Ernst & Young
Ernst & Young Building
Harcourt Centre
Harcourt Street
Dublin 2
Ireland

Dear Mr. Hughes:

Thank you for your letter of October 20, 2005, which we received on October 31, November 1, and November 15, concerning the Department of Communications, Marine and Natural Resources', Irish Comptroller and Auditor General's, and Public Accounts Committee's requests for information about average compensation and executive compensation and severance packages at Media Lab Europe. We understand from your letter that MLE's legal counsel has advised you that there are certain legal limitations on the production of at least some of the requested information and that you have requested of the Department the legal authority to produce the information.

We no longer play a significant role in the company, having voted on February 1 with the rest of MLE's board and members to authorize the Irish appointees to make a recommendation on the disposition of remaining assets, but we hope that you will do whatever you are legally able to do to fully cooperate with the Irish Government's requests.

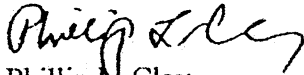
When the company initiated voluntary solvent liquidation on February 1, 2005, the company's lawyers advised the board and members that you, as liquidator, have broad authority and responsibility to wind up the company's business and satisfy its obligations. We understand that as directors and members of a company in voluntary solvent liquidation, our authority and responsibility is limited to voting on the disposition of any assets remaining after you satisfy all obligations of the company and for the formality of attending annual meetings of the company (if any) and a final meeting of the company.

Page Two

It is nevertheless our hope and expectation that you will do whatever you are legally able to do to fully cooperate with the C&AG, the Department and the Public Accounts Committee to make the requested information available.

If it is necessary for the appropriate entity or governmental authority to exercise its rights to compel production of the information by seeking a court order or otherwise, we hope and expect that such rights will be exercised. If average compensation information can be legally produced without further authorization, we hope you will do so, and that you will provide average salary by category of staff member so that it will be as meaningful as possible.

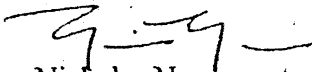
Sincerely,



Phillip D. Clay
MLE Board Member



William J. Mitchell
MLE Board Member



Nicholas Negroponte
MLE Board Member

Attachment 2

The Importance of Basic Research

Many of the world's most productive technological advances come from research endeavors that are founded in basic intellectual curiosity and free enquiry. The creative environment at MIT's Media Lab has led to the development of many ideas that may not have had an immediately apparent commercial application, but over time have contributed to successful products.

The words of MIT Professor Jerome I. Friedman, who was the Nobel Prize winner in Physics in 1990, are particularly relevant in the context of the work of MIT Media Lab. Speaking of the benefits of non-directed research, Professor Friedman states:

“If you know what you are looking for, you are limited by what you know.”

Recent products that grew out of basic research at the MIT Media Lab include:

- **Smart Air Bags** - A collaborative development between the Media Lab's Physics and Media research group, Motorola Semiconductor Products and Elesys North America has yielded an electric field microchip. This enables systems and products as diverse as automobile air bags and wheelchairs to “sense” how they should react in particular circumstances. For example, an airbag could deploy in a certain manner depending on the direction of impact of the car accident involved. A wheelchair could interpret its direction, angle of ascent or descent, or whether or not an obstruction is present and automatically adjust its bearing, or alert the user, to ensure safe carriage. This project began as a music and physics research initiative.
- **Lego Mindstorms**- The highly successful Mindstorms product has grown out of LEGO's 20-year collaboration with the Media Lab. Brought to market in 1998, Mindstorms is based on the Media Lab's Programmable Brick technology, where a tiny computer is embedded inside a traditional LEGO brick. The brick interacts with the physical world through sensors and motors, and lets children build and program small robots and other contraptions.
- **The Audio Spotlight**: Imagine listening to a symphony in your living room and being able to walk between the instruments. Joseph Pompei, a student in the Media Lab's Music, Mind and Machine group envisioned such a scenario and created a system that transmits sound to a specific location as an ultrasonic beam. A lab spin-off company (Holosonics) is currently bringing this technology to market.

- **Tangible Media:** Early alert systems for hurricanes and devices which reflect trading levels on the stock exchange are among the applications being examined by the Media Lab's Tangible Media Group. Devices are possible which convert digital information (e.g., raw weather statistics or stock exchange trading volumes) into visual or audio signals, e.g., colour displays of red, amber or green which are easily interpreted by users. Some of the group's work has already reached the market via NTT Comware of Japan, which is applying the research to help organizations create emergency response models, for example, in the event of earthquakes or hurricanes. A separate start-up company (Ambient Devices) is also using this concept to develop products such as the Stock Orb and the Weather Beacon - objects that transmit information through color shifts.
- **Electronic Ink:** In the mid-1990's, the Media Lab's Joseph Jacobson developed micro-encapsulated electronic ink displays. These can be used in a wide range of applications including programmable electronic books (a growing market), electronic signs and portable hand-held devices. Jacobson founded E Ink Corporation, which is now a leading provider of electronic display technologies.
- **Photo-mosaics:** Books, calendars, puzzles and collectibles now frequently include the photo-mosaics of Media Lab graduate Robert Silvers. These are images generated by software that uses hundreds of tiny images as elements. Silvers invented the process while a student at the Media Lab and later formed a spin-off company (Runaway Technology) that has more than 100 Fortune 500 companies as clients.

Third Submission from Massachusetts Institute of Technology

Massachusetts Institute
of Technology
20 Ames Street
Cambridge, Massachusetts
02139

William J. Mitchell
Smart Cities, E15-001
tel: (617) 253-9880; fax: (617) 253-9835

Brian Hickey
Clerk to the Committee
Committee of Public Accounts
Leinster House
Dublin 2

December 4, 2006

***Re: Interim Report on Hearings of the Committee of Public Accounts in
the period October 2005 to July 2006 regarding Media Lab Europe***

Dear Mr. Hickey,

Thank you for your letter of November 3, 2006 enclosing the Public Accounts Committee (the Committee) draft report on Media Lab Europe ("MLE") arising from the Annual Report to the Comptroller & Auditor General for 2004.

The Massachusetts Institute of Technology ("MIT") is grateful to the Committee for giving us the opportunity to review the draft prior to the final consideration of the matter by the Committee and to make a further written submission. We are also grateful to the Committee for allowing us the time to consider the draft report and prepare this written submission.

This submission is in addition to MIT's prior submissions of October 10, 2005 and January 24, 2006. The primary focus of this additional submission is to address some of the significant factual inaccuracies which appear in the draft report, primarily arising from comments by the Department of Communications, Marine & Natural Resources (the "Department") in relation to previous submissions by MIT, or specific Departmental comments on the establishment, operation and cessation of MLE. MIT respectfully requests that in the interests of fairness and accuracy these factual inaccuracies should be corrected in the final report. To assist the Committee, I will detail below the key areas where we believe the report, by reflecting the Department's observations on some issues, creates an unfair and inaccurate impression and account of the involvement by MIT in MLE.

Before dealing with these matters in detail, we think it would be helpful to address some issues that are central to understanding and assessing the involvement of MIT in MLE.

MIT fulfilled its obligations to the Irish Government and MLE.

In the interests of fairness and accuracy, MIT requests that the final report should recognize that MIT fulfilled all of its contractual obligations to the Irish Government (the "Government") under the agreements between MIT and the Government. There is no suggestion from any quarter that MIT was in breach of the executed legal agreements which had been negotiated for over a year, culminating in a Memorandum of Understanding for the establishment of MLE, signed by the Department of An Taoiseach and MIT on December 3, 1999.

However, a review of the report as currently drafted does not clearly state that MIT had in fact fully complied with all of its legal obligations under this agreement and the subsequent Collaboration Agreement between MIT and MLE. Given the interests of fairness and balance, we believe that it is important that this fact is recorded in the report

MIT is a charitable non-profit educational and research university.

I also believe that it is important that the final report should recognize the nature of MIT's structure, mission and funding. MIT is a charitable educational and research university that depends on endowments to pursue its mission for the public good. As a charitable educational institution, MIT cannot pursue its research mission without receiving funding for the commitment of expertise and effort and regardless of the inherent risk that the research may not achieve its full potential.

At all times, from the initial negotiations and throughout MLE's existence, MIT acted in good faith and was fully candid with the Government about the type and extent of the commitment that MIT could provide to the MLE endeavor, specifically indicating that MIT could not commit funding. MIT did commit some of its most substantial assets, including its faculty time and expertise, and its name.

MIT was also clear and direct in explaining to the Government that MIT could not commit or force MIT's academic faculty to pursue commercially directed research. MIT's faculty are committed to non-directed research to explore fundamental science and engineering concepts.

Indeed, it was this aspect of MIT's focus that the Government initially found appealing because many of the world's most productive technological

advances arise from research endeavors founded on basic intellectual curiosity and free inquiry. MIT simply would not have agreed to engage in the MLE collaboration with the Government for another purpose in 2000 or in the context of failed renegotiations on MLE in 2004.

The impact of the ICT market downturn was significant.

MIT also believes it is important to give consideration to the extraordinarily difficult economic and operating environment that affected MLE shortly after its establishment. The severe downturn in the technology market in the latter half of 2000 and the subsequent tragic events of September 11, 2001 had a very direct and negative effect on the technology companies whose sponsorship was expected to underpin MLE.

As the draft report notes, the 70 percent reduction in the value of the NASDAQ stock exchange between 2000 and 2001 and the decline in the value of ICT and venture capital investment for the same period by 50 percent, adequately sets the backdrop against which MLE had to seek corporate sponsorship for research and development.

It remains MIT's perspective that the single greatest contributing cause of the closure of MLE was the result of this unprecedented global downturn in the ICT industry at such an early stage of its development, which presented a challenge that would have been hard to overcome regardless of other factors identified in the report. Although MLE did not achieve its full potential, it was a highly innovative initiative that yielded clear benefits for Ireland and Ireland's continuing progress as a leader in the technology marketplace.

We remain of the view that the Irish Government was visionary in pursuing MLE.

Factual matters

There are a number of factual inaccuracies arising from the draft report which MIT believes in the interests of fairness and accuracy should be corrected in the final report. To assist the Committee I will identify the key aspects in sequential form below:

1. Paragraph 2.4

The draft report states:

“The Department was disappointed with the level of MIT’s commitment to MLE, particularly its unwillingness to agree to commercially driven research or to commit finances to a restructured company.”

We believe that it would be fair to record and we respectfully request that the final report state that MIT has complied fully with its legal obligations under the contractual arrangements between the Government and between MLE and MIT.

In addition, MIT has been openly candid at all times with the Department and the Government that it was unable to agree to commit its faculty to commercially driven research, given MIT’s mission to focus on education and basic research to increase knowledge for the public good. The MIT administration cannot force faculty to pursue particular research. Thus, it would have been impossible for MIT to commit those faculty to the pursuit of commercially focused research. MIT could not alter its core focus or mission, especially where this original mission was what had originally appealed to the Irish Government. The fact that the Department subsequently may have decided that this approach was not to its liking should not be allowed to cloud the nature of the original commitments given by MIT to the Government and MIT’s adherence to these commitments.

Similarly as a charitable educational research university, which primarily depends on endowments to pursue research activities for the public good, MIT could not commit funding. MIT was happy to commit other substantial assets, including our name, time, research program expertise and effort, but we simply could not commit funding to this enterprise as it is not within our authority to do so.

If the Department had expectations that MIT would engage in commercially driven research or commit finances to MLE, these expectations were unrealistic and were not based on any representations advanced by MIT.

The Department’s expectations, as expressed in the draft Report represent a fundamental departure from the initial basis on which MIT had reached an agreement with the Government. In the interests of fairness and accuracy, MIT requests that that this is recognized in the final report.

2. Paragraph 4.2

The draft report states that in February 1999 the first proposal for the establishment of MLE was received from MIT.

This comment could create the incorrect impression that MIT made an unsolicited approach to the Government to establish MLE. MIT did not.

In the first instance, a prominent Irish businessman, Denis O'Brien, who was subsequently a director of MLE, encouraged MIT to consider Ireland as a location for a Media Lab type entity. Subsequently in September 1998, An Taoiseach Bertie Ahern TD indicated that the Government was interested in pursuing the option of an MIT affiliated Media Lab in Ireland. It was only subsequent to this interest that MIT started to prepare the proposal for the Irish Government which was submitted in February 1999.

3. Paragraph 4.3

The draft report states that the Department disputes MIT's assertion that during the negotiations with the Irish State, MIT represented that the MLE venture involved significant risks and that it could take as long as 10 years for MLE to become a 'self sufficient world class research organisation capable of attracting its own private funding'. In particular the report states that the Department as saying it has no evidence to indicate that these opinions were brought up in the negotiations.

The Department was not involved in the negotiations at that time, which were led by the Department of An Taoiseach. Accordingly, it is understandable that the Department may not have access to documents indicating what transpired in the course of the negotiations. The Department only became involved subsequently, once MLE was up and running.

The Department is mistaken when it says that MIT's assertion is false. In communications with the Government regarding the establishment of MLE, MIT made it clear that it could take as long as 10 years for MLE to become self-sustaining research organization.

One such documented representation of MIT's position is in a memorandum, dated November 10, 1999, from MIT's legal counsel, Mr. Fran Meaney of Mintz Levin, to Mr. John Callinan of the Department of An Taoiseach, Mr. Don Thornhill, formerly of the Higher Education Authority, and Mr. Stuart Roche, also of the Higher Education Authority, which was copied to Mr. Dermot McCarthy of the Department of An Taoiseach. In this memorandum, Mr. Meaney stated that it would take 10 years for MLE to be fully self-supporting as an independent research laboratory capable of attracting its own private funding.

We respectfully request that Paragraph 4.3 of the draft report be altered to reflect this. The current form of Paragraph 4.3 implies that MIT has been untruthful in its recollection of the negotiations with the Government. This would be a deeply concerning assertion to maintain when the evidence is to the contrary.

4. Paragraphs 4.4 & 4.5

The draft report makes comparisons between Media Lab Asia and MLE. The report suggests that there were similarities between the two projects in terms of their inability to succeed and that they were in competition for corporate sponsorship.

We believe if the Committee is going to refer to Media Lab Asia in its final report that it is important that the report notes that MLE and Media Lab Asia were very different collaborative projects. Both paragraphs in the report fail to recognize the key fundamental difference between Media Lab Asia and MLE. Media Lab Asia was established as a collaboration between the MIT Media Lab and the Indian Government on a one-year pilot basis to test whether a longer term involvement of MIT Media Lab with Media Lab Asia would be appropriate to the interests of all parties. This one year agreement between the parties ended naturally at the conclusion of the pilot term when the parties decided not to extend it. But the pilot project achieved its goals and Media Lab Asia continues to exist as a not-for-profit company headquartered in Mumbai, India.

The aims of Media Lab Asia were then, and continue to be, entirely different from those of MLE. Media Lab Asia focused on the development of very basic technology to improve health care in India and Asia, in particular in rural areas, and also to expand local economies. The differing aims of the two labs would have commanded very different corporate interests, so the notion that the two were in competition for corporate sponsorship is inaccurate.

We respectfully request that Paragraphs 4.4 and 4.5 be amended to include reference to the fact that the MIT Media Lab's involvement with Media Lab Asia was on a pilot basis for one year and that the pilot achieved its goals. We also ask that the report note that the Media Lab Asia continues to exist today, headquartered in Mumbai, India.

5. Paragraph 4.7

The draft report suggests that MIT was inflexible with the Irish Government and effectively concluded contractual arrangements that hamstrung the Irish Government.

MIT believes that it is important to recognize that the agreement between MIT and the Government was only concluded after lengthy negotiations which lasted more than a year, with significant concessions being made by both MIT and the Government as would be expected in such serious negotiations.

MIT was legally represented in those negotiations by both US and Irish counsel. The Government was represented by the Chief State Solicitor's Office and had the advice of the then Attorney General, Mr. Michael McDowell SC, who provided legal advice to the Government in relation to the agreement and confirmed to MIT that the Government had authority to conclude the deal that was subsequently agreed.

6. Paragraph 4.9

The draft report states that the Department considered that MIT raised little or no funds at the outset for MLE.

This comment is absolutely incorrect. MIT Media Lab did raise IR€3.5million which would otherwise not have been available to MLE. The Department seeks to reduce the significance of these donations by identifying them as being from two individual sources. The fact remains that these donations would not have been available to MLE without the involvement and operation of MIT Media Lab faculty. In addition the Department's position fails to recognize that MIT Media Lab made MLE US\$168,750 in various sponsorship payments as required by Section 7 of the Collaboration Agreement between MLE and MIT Media Lab.

Accordingly, we request in the interests of fairness and accuracy that the final report should correct this inaccuracy.

7. Paragraph 4.10

The Department contends that the absence of funding from the private sector was the reason for the collapse of Media Lab Asia.

Again, the Department's contention is simply not correct. Media Lab Asia continues to exist today as a not-for-profit company headquartered in

Mumbai, India. The MIT Media Lab ended its involvement with Media Lab Asia after one year according to the terms of the pilot project agreement, which was an exploratory period that terminated naturally after a year, unless the parties extended it. During that one-year pilot, there was a change in administration in the Government of India and the new administration decided on a different set of priorities for Media Lab Asia.

8. Paragraph 4.13

This paragraph contains a suggestion that MIT was unhelpful and unwilling in the development of degree granting programs.

This suggestion is incorrect and MIT requests that this be clarified in the final report. At the outset, as the paragraph notes, MIT recommended that MLE should be affiliated with Trinity College Dublin, but the Government did not favor affiliating with one university. It is also important to note, to ensure that the record is accurate, that Section 9 of the Collaboration Agreement between MIT and MLE, recognized that in the early years MLE would not be able to grant degrees and would need to collaborate with Irish universities so that the students working at MLE could obtain degrees from such universities. At a meeting in July 2000 with the leadership of many Irish universities, MIT Media Lab representatives were advised that MLE had been asked by the Irish universities not to establish a degree-granting program independently. In circumstances where affiliation with one university was not acceptable to the Government and the development of a degree granting program was not acceptable to existing Irish universities, MIT was not able to advance this matter.

9. Paragraph 4.21

In the draft report the Department reiterates its assertion that MIT had more influence over the board of MLE than any other party.

It is incorrect for the Department to reiterate the untrue assertion that MIT had a disproportionate influence or control over MLE. The State retained equal, if not greater rights and influence, through its board appointment powers, through its funding of MLE and by participation on the Government Liaison Committee. The Government handpicked people to serve on the board, presumably choosing individuals it thought would appropriately oversee the operation and direction of MLE. The Government certainly appointed notable Irish business people and academics. MIT repeats that it was fully supportive of the proposal to appoint Matti Packalen as Co-Chair.

In the interests of fairness and accuracy, MIT hopes that the final report will correct this inaccuracy.

10.Paragraph 4.26

The draft report states that the legal arrangement for establishing MLE was based on the MIT Media Lab and that was a weakness in the project.

MIT Media Lab has operated successfully at MIT for over twenty years and the business model and legal arrangement under which it was established remain sound. The key difference between MIT Media Lab and MLE is that the latter was in its infancy when the ICT market suffered an unprecedented global downturn. MIT Media Lab on the other hand, had a significant base of corporate sponsors on which to rely as a primary source of funding. It remains the case that MIT Media Lab operates on private funding which supports its non-directed research programs.

11.Paragraph 4.26

In Paragraph 4.26 it also states that "MIT had an issue with making a financial commitment. It was not prepared to put any of the money back in to restructuring MLE."

In the course of the negotiations to establish MLE it was made clear to the Government that MIT would not be committing funding to the venture as it was a charitable educational research institution which is reliant on endowments to pursue activities for the public good. The agreements expressly reflected this and there was no contractual obligation on MIT to make a financial contribution or subsequently to commit funding to MLE. Despite the lack of funding, MIT made a considerable and significant investment in MLE, both in terms of reputation, resources, staff, faculty, expertise and name. MIT was prepared to make similar investments in the restructuring of MLE but these were not sufficient for the Department, which had changed its focus away from the original non-directed concept, which originally made MLE so appealing to the Government.

12.Paragraph 4.33

The draft report notes that the Department felt MIT demands on a restructured MLE were such as to leave very little, if anything, of significance to a new Board.

There is no evidence to support the Department's belief and such comment provides an incorrect impression of what occurred. In discussions on the restructuring of MLE, MIT was prepared to forego the appointment of members on the restructured Board and to provide advice, expertise and support, but was not prepared to have its faculty subject to strategic direction by a third party in relation to research issues. It was fundamentally impossible for MIT to accept the Department's wishes for MIT to commit our faculty to commercially directed research and to commit up front to an exclusive arrangement with MIT Media Lab before a restructured undertaking for the parties, and the terms and scope of the research program were defined.

13. Paragraph 4.42

The draft report implies that because MIT did not accede to the Department's requests on a restructured MLE, it was responsible for the closure of MLE.

MIT rejects this implication and believes that in the interests of both fairness and accuracy, it should not be restated in the final report. The fundamental reason why it was not possible to agree to restructure MLE in terms acceptable to both parties was because the Department was presenting a fundamentally different proposition than that which formed the basis for the original agreement between the Government and MIT.

In particular, the Department wanted a restructured MLE focusing on commercialization, more directed research and dependent on a financial contribution from MIT. MIT had made it clear that it could not agree to participate in such a restructured company. However, MIT supported the continuation of a restructured MLE and offered to advise the Government and MLE without charge while they explored an affiliation with an Irish university, a new focus and a new structure, even though MIT and the MIT Media Lab would not and could not play a significant role in the restructured company.

It is the case that if at the outset of the negotiations between MIT and the Government, there had been demands for a financial contribution from MIT, more directed research and a greater emphasis on commercialization, MLE would not have been established. These were terms that MIT was not prepared to agree at the outset, nor during the currency of the agreement, given that they presented a fundamental departure from the MIT mission of non-directed research as a charitable educational research institution dependent on endowments.

It is unfair of the Department to imply that MIT inflexibility on the core principles underpinning the operation and mission of MIT was the reason for the closure of MLE. Of far more critical importance was the change in the global economy and the fact that the priorities of the Government towards MLE had changed significantly over the period.

14. Paragraph 4.46

The draft report expresses the surprise of the Committee that MIT was able to produce a list of measured outputs from MLE that was more extensive than the list prepared by a consultant who carried out an assessment on behalf of the Department.

The MIT figures are based on data gathered by MIT from faculty members involved in Media Lab and from information supplied by MLE to MIT. In comparison to the MIT figures, the consultant's report understates the output of MLE.

Conclusion

I hope that these observations and comments are of assistance to the Committee in finalizing its report on MLE and that the Committee will be able to note the comments submitted by MIT in the final report.

In particular, in the interests of fairness and accuracy, I hope the Committee takes note of the respectful request from MIT for changes to the draft report which arise as a result of factual inaccuracies, or selective assessments by the Department. It is also important for the accuracy of the public record to reflect that MIT fulfilled all of its contractual obligations to the Government under the agreements concluded between MIT and the Government and would recognize the profound blow that MLE was dealt at an early stage of its operation as a consequence of the global downturn in the technology markets. The impact of this latter event meant that regardless of the structure, MLE faced formidable challenges and shared the fate of many other ICT ventures during that period.

I want again to thank the Committee for providing MIT with an opportunity to review the draft report and hope that the final report can take account of the comments and observations offered above in the context of providing an accurate assessment of MLE and MIT's role.

If I can provide you with any further information or clarification, I hope you will let me know.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'WJ Mitchell', with a long, sweeping underline.

William J. Mitchell

Alexander W. Dreyfoos, Jr. Professor of Architecture, Media Arts and Sciences

Former Academic Head of the Media Arts and Sciences Program and Former Dean of the School of Architecture and Planning.

