

Fonterra Independent Board Committee

Media Statement

October 29, 2013

INDEPENDENT INQUIRY INTO FONTERRA WPC80 PRECAUTIONARY RECALL RELEASES FINDINGS

The Fonterra board-commissioned Independent Inquiry has made 33 recommendations to improve and build on changes already underway to address the issues that led to the *WPC80 Precautionary Recall* and affected Fonterra's responses to the event.

In a detailed report, the inquiry found that a number of factors, including a lack of senior oversight of crucial decisions, problems with tracing potentially affected product and belated escalation of the issue, contributed to the event in August this year.

Speaking at the tabling of the inquiry report in Auckland today, Jack Hodder QC, who led the inquiry team, said: "Fonterra is a high quality organisation with talented and dedicated people. The WPC80 Precautionary Recall let them down.

"There were shortcomings in a number of areas, which, compounded by a number of events and coincidences, converged to create this significant issue.

"Our findings and recommendations do not indicate any fundamental problems within Fonterra. That is not our conclusion.

"They do point to a range of improvements Fonterra can make to become an even better company."

The Chairman of the special oversight committee for the inquiry, also an independent Fonterra director, Sir Ralph Norris, said his committee "endorsed the key recommendations and themes identified by the inquiry team... It has undertaken a thorough, consultative, independent and incisive analysis."

The inquiry team was led by a legal team from Chapman Tripp, co-ordinated by senior partner Jack Hodder, QC, and independent experts Gabrielle Trainor, a Sydney-based specialist in crisis management and communication, and international dairy consultant, Jacob Heida of the Netherlands.

"The inquiry team recognises that Fonterra is well advanced on a journey from being a cost-focused dairy ingredients producer to being a customer-focused global foods products supplier that is second to none in its aspirations, standards and people.

"Some areas of weakness have been highlighted, and this has created the opportunity for Fonterra to further strengthen its processes, culture and governance.

“Acting on the recommendations made will lead to Fonterra becoming even more responsive to the global expectations of excellence in food safety and quality, and engaging more comprehensively with stakeholders.

“The findings and recommendations are important foundations for Fonterra’s continued success.”

The Chairman of Fonterra, John Wilson, told the media briefing that the board of Fonterra was fully committed to implementing the recommendations made.

“What directors found encouraging is that this Independent report to the Directors has a significant degree of overlap with management’s Operational Review, which was made public last month.

“There are no contradictions between the two sets of recommendations.

“Much of the recommended change is already underway, or has already been identified as needing to be changed.

“We are committed to adopting a ‘best of class’ philosophy around food safety and incorporating the latest, world class methods into every facet of our operations.”

He said the board had also committed to the reconvening of the Independent Inquiry Committee in 9 months, and again in 18 months, to assist the board in reviewing the progress that has been made against the recommendations.

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*Released on behalf of the **Fonterra Independent Board Committee**, chaired by Sir Ralph Norris, by Network Communication.*

For further information please contact:

Jane Cotty D +64 (0)9 306 5802 | M +64 (0)21 449 146 jane.cotty@networkcommunication.co.nz or

***Dennis Lynch** D +64 (0)9 306 5809 | M +64 (0)21 963 733 dennis.lynch@networkcommunication.co.nz*

(Primary findings below)

Primary Findings

- 1 Fonterra did not include any sulphite reducing clostridia (SRC) tests to any of its production of WPC, notwithstanding its acceptance of SRC tests under at least one contract with a major customer to manufacture products utilising WPC80.
- 2 Some errors of judgment were made in preparation for the reworking process applied to the relevant WPC80 batches.
- 3 The standard pre-start up automatic cleaning regimes used by Fonterra plants required improvement.
- 4 There was insufficient senior oversight of the crucial decision to engage AgResearch to test for *C. botulinum*.
- 5 The commissioning, design and limits of the *C. botulinum* testing were inadequate.
- 6 Fonterra was unable to promptly and definitively track the destinations of the affected WPC80 batches.
- 7 There was only belated recognition (and delayed escalation to senior management and the Board) of the explosive reputational risk involved – a failure to “join the dots” between (a) *C. botulinum* (b) infant food products (c) consumer sensitivities and (d) Fonterra’s global reputation.
- 8 Fonterra’s crisis management planning, including the external communications aspects, was inadequate for a crisis of this kind and scale.
- 9 Fonterra management of the crisis in the critical early period, including the external communications aspects, was not well executed.
- 10 There was some lack of alignment and confidence between Fonterra and the New Zealand Government in the critical fortnight after the contamination concerns were advised to the Government and made public.

Principal Operational Recommendations

- 1 Fonterra’s food quality and safety specifications and testing be reviewed to ensure they are “best in class” standard: consistent with the most rigorous requirements of customers, and with international best practice.
- 2 Risk management and crisis management processes be strengthened, including by establishment of a specially trained and multi-disciplinary (but not full-time) Incident Management Team and regular relevant training, global best practice product tracing systems, and a new Risk Committee of the Board.

- 3 Reputational risk assessment form part of the criteria for escalation and assessment of non-standard external scientific tests.
- 4 Plant cleaning programmes be amended.
- 5 There be continued building of a directly-employed strong, specialist and experienced communications team, including in key global markets, supplemented with contracted high calibre local expertise where appropriate.
- 6 There be enhanced and sustained efforts to address a “Fortress Fonterra” perception held by a material proportion of key stakeholders, by Fonterra redefining the style and substance of its engagement with them.
- 7 The Inquiry be reconvened after 9 months and again after 18 months to review Fonterra’s progress on those recommendations.

Principal Board Recommendations

- 1 The Board should endorse explicitly as a core principle that Fonterra, as “one company”, always strives to perform at the best practice level for leading global food product organisations.
- 2 The Board should explicitly endorse the paramount importance of food quality and safety to Fonterra’s global and local reputation.
- 3 The “risk” component of the Board’s Audit, Finance and Risk Committee should be transferred to, and developed by, a new Risk Committee.
- 4 The Board should accept greater responsibility for developing and maintaining relationships at the most senior levels of Fonterra’s external stakeholders, including in government and media, within and outside New Zealand.
- 5 The Board should actively review ongoing progress towards shedding the adverse “Fortress Fonterra” perception held by a material proportion of external stakeholders.

