

FULL LIST OF RECOMMENDATIONS

The following list of recommendations by the Inquiry is drawn from Section I of the report (Overview and Questions) which should be read to provide the necessary context for the recommendations. It may be added that many of the “operational” recommendations overlap with those of Fonterra’s internal Operational Review (see Appendix J), and are already being implemented.

Operational

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| <p>(R1) Ensure that Fonterra’s specifications (and associated testing) for potential food quality and safety (FQS) issues across nutritional product ingredients manufactured for Fonterra are of “best in class” standard: consistent with the most rigorous requirements of customers, and with international best practice.</p> | <p>(R8) Overhaul the procedures for non-routine microbiological testing within Fonterra to ensure senior management oversight of proposals for low probability/high risk internal work, and that such proposals are thoroughly assessed in advance for utility and the full range of possible consequences.</p> |
| <p>(R2) Develop and implement freshly considered procedures and criteria for reworking of product identified as unfit for intended purposes, consistent with customer expectations and international best practice.</p> | <p>(R9) Establish a revised protocol for engagement of external scientific and diagnostic resources to ensure that any work commissioned is by institutions or practitioners of international standing, is appropriately undertaken for, and funded by, Fonterra (i.e. asking whether the proposed work is not better undertaken on a pan-industry basis), and that the analyses sought will yield results that are robust.</p> |
| <p>(R3) Improve understanding of, and criteria for, change control procedures when any non-routine use is made of equipment used in relation to nutritional products and their ingredients.</p> | <p>(R10) Improve batch tracing systems across the Fonterra organisation to enable prompt and definitive product recalls to be undertaken at a “global best practice” level, including regular training and monitoring.</p> |
| <p>(R4) Revise operational “cleaning in place” programmes to address the desirability of acid washes for pipes and equipment that have been unused for 24 hours or more.</p> | <p>(R11) Clarify and emphasise risk management protocols for early escalation to senior management of potential reputational risks, especially in relation to FQS matters, including regular training and monitoring. This includes establishing a reporting line between the National Quality Manager and the Group Director Food Safety and Quality. (In turn, the Group Director Food Safety and Quality should directly report to both the CEO and the Chairman of the Risk Committee: see Recommendation 27.)</p> |
| <p>(R5) Avoid use of flexible hoses in production processes, and particularly in processes involving nutritional products. Use of fixed stainless steel piping is preferable because it can be cleaned to a higher standard than flexible hoses.</p> | <p>(R12) Revise the crisis management arrangements across the organisation to “best in class”, recognising that FQS reputational risks are likely to affect every market in which Fonterra has a presence (and differently). These arrangements should include regular and realistic simulations at least once (and preferably twice) a year</p> |
| <p>(R6) Undertake a review into the use of bactofuges in particular production lines (e.g. nutritional products) to assist with removal of potential contaminants from product.</p> | |
| <p>(R7) Elevate FQS understandings and procedures to the same impressive levels as those for health and safety for all Fonterra personnel, through revised training, incentives and monitoring processes, and with consistent and conspicuous leadership from the directors and senior managers.</p> | |

- involving stakeholders such as customers, industry associations, scientific experts and regulators, ensuring that lessons from exercises and earlier crises are applied and incorporated into an ongoing crisis readiness programme. These simulations should include scenario testing of international product recall procedures and high-level media engagement.
- (R13) Establish a permanent (but not full-time) multi-disciplinary Incident Management team (*IMT*) whose members will be able to apply additional training, a regular and stakeholder-engaged crisis simulation regime and specialist experience to advise on and manage emerging issues, potential crises and realised new crises (and who will be linked in to the Food Integrity Council, the relevant Board Committee and other relevant parts of Fonterra).
- (R14) Establish a Crisis Management Plan (“owned” by the proposed *IMT*) establishing best practice capability including: clear lines of command, highly-trained and credible spokespeople, use of dedicated *IMT* rooms on declaration of a crisis incident, template preparation (including backgrounders on all operating units and appropriate protocols for any likely crisis scenario such as a product recall, Q & A, timelines), “ghost” website readiness, social media strategy, third party endorsers, and translation and language capability in all markets.
- (R15) Establish and sustain (with *IMT* oversight) protocols with key customers to enable the most effective responses to future critical incidents, including product recalls, with clear communication lines and constructive understandings about engagement with regulators and media. (Involving key customers in simulation exercises will also strengthen Fonterra’s relationships with those customers.)
- (R16) Establish and sustain (with *IMT* oversight) relationships with a pool of scientific experts in food quality and safety who can speak to the media and the public in the event of an incident.
- (R17) Continue building a directly-employed strong, specialist and experienced communications team, including in key global markets, supplemented with contracted high calibre local expertise where appropriate. (This is in line with Fonterra’s 2012 Communications Review recommendation, including advice from McKinsey & Co, and in part already acted upon.)
- (R18) Develop (through the communications team) a best practice “Master Communications Crisis Management Plan” aligned with the *IMT*’s Crisis Management Plan, as well as template documents for all foreseeable scenarios, and capable of being adapted by regional offices for local market conditions and stakeholder requirements.
- (R19) Develop a communications style and approach which better reflect Fonterra’s values and aspirations as well as best practice risk communications, to enhance trust in Fonterra.
- (R20) Conduct a systematic review of the quality of Fonterra’s relationships with key stakeholders in all its markets to assist in enhancing trust and with effective management of any future critical event.
- (R21) Consider the appointment of local advisory boards in each key foreign market to enhance capability, engage more sources of high-level advice and provide depth of knowledge of the politicians, regulators and opinion shapers.
- (R22) Establish a best practice digital and social media strategy, including stand-alone elements in, and responsive to the needs and nuances of, each key market.
- (R23) Enhance and sustain programmes for community investment, volunteering and giving as an investment in stakeholder engagement and goodwill.

Governance

- (R24) The Board should explicitly endorse two unambiguous objectives as essential for Fonterra’s future, and consistent with its cooperative ethos –
- (a) a “one company” approach (with appropriate incentives, governance and management processes) to ensure that Fonterra as a whole performs consistently in the manner expected of a leading global food products organisation, and
 - (b) recognition of the paramount importance of Fonterra’s global reputation, and the need to achieve and sustain a reputation second to none for the quality and safety of its food ingredients and products.
- (R25) The Board should explicitly accept responsibility for oversight of progress towards those objectives, including appropriate engagement with senior managers across the organisation, in particular with those managers responsible for championing the FQS imperatives.
- (R26) The Board should develop its own protocol for crisis management, including: the roles of the Chair and the CEO; the means for ensuring that sufficient timely and accurate information is available for all directors to assess their regulatory obligations; and the expectations of directors’ availability.
- (R27) The Board should transfer the Risk component of the Audit, Finance & Risk Committee’s load to a separate Risk Committee, which should be expected to oversee the work of the proposed permanent Incident Management Team, with the expectation of direct engagement by the Committee with the leaders of that team.
- (R28) The Board should review the charter for its Co-operative Relations Committee with a view to ensuring that it gives greater prominence to establishing and sustaining relationships with key external stakeholders, not least those within New Zealand’s government infrastructure.
- (R29) The Board should consider enhancing a programme of proactively developing and sustaining its acquaintance and relationships with Ministers, MPs, senior officials, overseas diplomats, industry allies and other “NZ Inc” leaders.
- (R30) The Board should develop and articulate an explicit position regarding the relevance (and, importantly, the limits) of Fonterra’s “national champion” role in relation to Fonterra’s aspirations, behaviours and relationships.
- (R31) The Board should encourage renewed investment by Fonterra to maximise the constructive collaboration with the New Zealand Government (including regulatory agencies), and the alignment between Fonterra’s quality and commercial aspirations and the New Zealand Government’s economic, food safety and diplomatic objectives and responsibilities.
- (R32) The Board should encourage investment by “NZ Inc” (including the NZ Government, Fonterra itself and other food products firms) in ensuring that New Zealand has pre-eminent scientific and diagnostic resources for FQS purposes.
- (R33) The Board should consider inviting the independent WPC80 Committee members, and the Inquiry team principals, to meetings in the third quarter of 2014 and again in the second quarter of 2015 to review Fonterra’s responses to the Inquiry’s recommendations.