

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 9/19/2013

GAIN Report Number: NZ 1314

New Zealand

Post: Wellington

Fonterra – Whey Protein Concentrate Contamination Issue

Report Categories:

Agricultural Situation

Approved By:

Hugh Maginnis

Prepared By:

David Lee-Jones

Report Highlights:

On August 2, 2013, Fonterra informed the Ministry for Primary Industries (MPI) that tests conducted by AgResearch (a Crown Research Institute) in New Zealand indicated the presence of toxin-producing clostridium botulinum in three batches of whey protein concentrate (WPC80) totaling 38.2 metric tons (MT). Essentially this turned out to be false alarm.

Fonterra – Whey Protein Concentrate Contamination, Summary of Events to Date September 17, 2013

The Issue

On August 2, 2013, Fonterra informed the Ministry for Primary Industries (MPI) that tests conducted by AgResearch (a Crown Research Institute) in New Zealand indicated the presence of toxin-producing clostridium botulinum in three batches of whey protein concentrate (WPC80) totaling 38.2 metric tons (MT). After an announcement to the general public on August 3rd, Fonterra instituted an extensive but clumsily-executed product recall. The product recall was complicated because WPC80 is an ingredient in many consumer products, including infant formula, beverages, food supplements and animal feeds, and further because the WPC80 had been sold to eight external customers for additional processing. The result was the potentially contaminated WPC80 being in several thousand tons of consumer products and tens of thousands of consumer-sized packs spread over several countries. However, MPI had initiated re-testing of the WPC80 in question early in August at two accredited laboratories. By August 28, 2013 this revealed conclusively that the contamination was not clostridium botulinum but the non toxic strain of the same clostridia bacteria: Clostridium sporogenes.

The whole debacle appeared to be a false alarm. It created a big media storm whipped up mainly by the domestic media, and aided to a degree by a few hysterical pieces in the Chinese media. But it did expose some serious lapses in Fonterra's quality assurance systems and in the way the incident was handled as it progressed. A grave error appears to have been made by unfortunately not elevating the matter to the CEO quickly enough, and failing to take the questionable batches of WPC80 out of distribution until testing was conclusive.

Background and Timelines

The sequence of events began in May, 2012 when three batches of WPC80 were produced. Production was complicated because following suspicions a small piece of plastic was in one of the batches, they were all re-processed at the Hautapu plant (Waikato New Zealand), where a non-sterile, little used transfer pipe was used and the WPC80 was exposed to high levels of clostridium bacteria. This was not known at the time and standard testing revealed no problems. The WPC80 was stored until the end of 2012, when 21.1MT was sold and 17.1MT was transferred to three other Fonterra locations for further processing into consumer products. This was completed in March 2013. Testing at the Fonterra site in Darnum Australia was positive for clostridia bacteria. This led to the technical investigation which culminated in AgResearch reporting its findings to Fonterra staff on July 31. The matter was finally elevated to the CEO on August 2nd. While testing for clostridium botulinum was being carried out product containing the affected WPC80 continued to be shipped.

The Immediate Fallout

Within days of the August 3 announcement, China banned the importation of whey protein powder and whey based powder. This ban has now been lifted but there is increased inspection and supervision at the border for New Zealand dairy products, and extra testing may also be required. Russia, Kazakhstan, and Belarus placed a temporary ban on imports, affecting 75% of the categories of dairy products which have access. The Russian ban has now been lifted except some Fonterra plants have been de-listed. Vietnam also ordered an immediate recall and halt of circulation of a milk powder manufactured by Fonterra after the contamination. Singapore and Malaysia also recalled some Fonterra-linked baby milk products as a precaution. South Korea, Saudi Arabia, and Bangladesh are now requiring enhanced levels of testing on some products. The Bangladesh situation is problematic because approximately 600 metric tons of milk powder is trapped at a port waiting for Bangladesh

authorities to complete the extra tests. The access requirements for future shipments to Bangladesh have not been resolved.

The New Zealand dollar depreciated over 1% on receipt of the news but subsequently recovered. Fonterra's listed investment units fell nearly 9% but again have since recovered just about the entire reduction.

Perhaps the most serious effect has been on the infant formula trade into China. It is estimated that infant formula exports worldwide from New Zealand in 2012 totaled \$NZ400 million of which \$NZ160 million represented shipments to China. Any product branded with "made in New Zealand" is having difficulty at present either being shunned by consumers or cautious retailers/distributors reducing their stocks and orders of New Zealand product. There have been reports that European brands have seen an opportunity to challenge New Zealand's premium position as suppliers and are incentivizing Chinese buyers to change.

Longer Term Outcomes

As a result of the debacle four inquiries have been commenced. Firstly Fonterra conducted an operational review which is largely complete and the management has announced wide-ranging changes to its quality assurance and food safety systems. Information from the operational review will feed into a Fonterra Board level inquiry into the matter. Hard on the heels of these reviews MPI announced its own inquiry and there is also a Government Ministerial probe.

However the whole saga so far doesn't seem to have put a dent in the longer term demand for New Zealand dairy products. Pricing on the twice monthly auction Global Dairy Trade which is the sales channel for some 25% of Fonterra's Australian and New Zealand production has remained stable. Fonterra has reported it remains on track to record one of its most successful years, financially. It is forecasting it will pay farmers a record \$NZ 7.80 per kilogram of milk solids for the 2013/14 year (up from \$NZ5.80 for 2012/13). The increase in milk revenue will boost farm gate incomes by \$NZ3.5-4 billion, a handy boost for the economy in general.

In addition, the Government has announced a market recovery plan for affected businesses. A major part of the plan is aimed at the smaller exporters (of mainly infant formula) who find their sales into China plummeting. The Government will provide professional support and co-fund travel expenses for businesses to visit the markets to help rebuild trust with their in-market partners and customers. There will also be a program to ramp up funding for government agencies and overseas embassies to regain any market access which has been lost; and promote New Zealand's food safety and quality assurance systems.