



Quality Assurance for the Egg Industry

Final Project Report

**A report for the Australian Egg
Corporation Limited**

by de Vos Consulting

May 2014

AECL Publication No. 1EQAA

© 2014 Australian Egg Corporation Limited.
All rights reserved.

ISBN: 1 920835 72 5

Project Title: Quality Assurance for the Egg Industry

AECL Project Number: 1EQA

The views expressed and the conclusions reached in this publication are those of the author and not necessarily those of persons consulted. AECL shall not be responsible in any way whatsoever to any person who relies in whole or in part on the contents of this report.

This publication is copyright. However, AECL encourages wide dissemination of its research, providing the Corporation is clearly acknowledged. For any other enquiries concerning reproduction, contact the AECL Project Manager on 02 9409 6999.

Researcher/Author Contact Details:

Name: Richard de Vos
Principal – de Vos Consulting
Address: 10/41-49 Darley Street East
MONA VALE NSW 2013
Phone: 0413 588 054
Email: devos.avalon@gmail.com

In submitting this report, the researcher has agreed to AECL publishing this material in its edited form.

AECL Contact Details:

Australian Egg Corporation Limited
A.B.N: 66 102 859 585
Suite 4.02, Level 4, 107 Mount St
North Sydney NSW 2060

Phone: 02 9409 6999
Fax: 02 9954 3133
Email: research@aecl.org
Website: <http://aecl.org/r-and-d/>

Published in June 2014

Foreword

This project was conducted to provide information and recommendations that will assist the Board of Australian Egg Corporation Limited (AECL) to determine its future position and policies in relation to industry Quality Assurance (QA) activity and programs.

This project was funded from industry revenue that is matched by funds provided by the Australian Government.

This report is an addition to AECL's range of peer reviewed research publications and an output of our research and development (R&D) program, which aims to support improved efficiency, sustainability, product quality, education and technology transfer in the Australian egg industry.

Most of our publications are available for viewing or downloading through our website:

<http://aecl.org/r-and-d/>

Printed copies of this report are available for a nominal postage and handling fee and can be requested by phoning (02) 9409 6999 or emailing research@aecl.org.

Heather Palmer
Project-Manager
Australian Egg Corporation Limited

Acknowledgments

We take this opportunity to acknowledge the assistance of all who provided input and advice for this project:

- Producers were generous with their time and frank with their input;
- Those from the major retail chains also provided a valuable perspective and had useful suggestions;
- The State department personnel interviewed provided their own perspective and also highlighted areas where the AECL QA program may be enhanced;
- We spoke to managers of other produce schemes;
- Auditors and audit managers drew on considerable experience to provide their own perspective; and
- And importantly AECL's management and staff provided much background information, answered many questions and provided their own, quality input.

The AECL provided the funds that supported this project.

About the Author

Richard de Vos, de Vos Consulting, is an independent consultant working mostly for industry associations and statutory authorities in the fields of strategic planning, governance, structural change and marketing/communications.

Over the past five years or so, de Vos Consulting clients have included (either directly or through Horticulture Australia Ltd (HAL)):

- The Australian Almond, Citrus, Mango, Turf and (fresh) Tomato industries;
- Australian Institute of Horticulture;
- Australian Mushroom Growers Association;
- Irrigation Australia;
- Meat & Livestock Australia;
- New South Wales (NSW) Farmers Association;
- NSW Department of Primary Industries and Victorian Department of Primary Industries;
- Northern Territory Horticultural Association;
- Plant and Food Research and AusAid; and
- Plant Health Australia.

For four years, until December 2005, Richard was Chief Executive Officer of Nursery & Garden Industry Australia, the peak national body for Australia's \$6 billion nursery & garden industry. In that role he:

- Oversaw the operations of the association, including government liaison, issue and crisis management, industry advocacy, training, and a research and development and marketing program with a budget in excess of \$3 million per annum;
- Facilitated the development of 2 national and 4 state/territory strategic plans; and
- Oversaw the management and growth of two industry-owned accreditation schemes.

Richard has prepared submissions to the National Food Plan and other government inquiries and is currently Chair of the Macadamia Industry Advisory Committee.

Table of Contents

Foreword	ii
Acknowledgments	iii
About the Author	iii
Table of Contents	iv
List of Tables	v
Abbreviations	vi
Executive Summary	vii
Overall Conclusions	xii
1 Introduction	1
1.1 Background	1
1.2 How this project was undertaken	1
1.3 Interview sample size and scope	2
1.4 A word about current QA management at AECL	3
2 Answering three fundamental questions	4
2.1 Is owning and managing a QA scheme legitimate and core AECL business?	4
2.2 What is the level of participation in ECA now and what has been the recent trend?	5
2.3 How is AECL's QA program funded now and what does it cost?	5
2.3.1 Income	6
3 Consultation findings	7
3.1 Producers	7
3.1.1 Why do you participate in AECLs ECA scheme?	7
3.1.2 Do you have any concerns or challenges with the scheme?	7
3.1.3 Should the industry continue to have an industry-owned QA program?	9
3.1.4 Who should own such a program?	9
3.1.5 Who should manage such a program?	9
3.1.6 Comments on the proposed Egg Standards of Australia (ESA) scheme	10
3.1.7 Other comments or observations	10
3.2 Major retail chains	10
3.2.1 QA/Food Safety Requirements	11
3.2.2 Attitude to ECA	11
3.2.3 Awareness of ESA & relationship with AECL	12
3.2.4 Ownership of AECL QA schemes	12
3.2.5 Management of AECL QA schemes	13
3.2.6 Other matters	13
3.3 State Government Department Health Regulators	13
3.3.1 Relevance of ECA to their role and responsibilities	14
3.3.2 Relationship with AECL	14
3.3.3 Awareness of ESA	14
3.3.4 Ownership of egg QA scheme	14
3.3.5 Management of egg QA scheme	14
3.4 State Government Departments responsible for animal welfare	15
3.4.1 Relevance of ECA to their role and responsibilities	15
3.4.2 QA scheme Ownership and Management	15
3.4.3 Relationship with AECL	15
3.4.4 Review of the Model Code	15
3.5 Animal Health Australia	15
3.5.1 Ownership and Management	16
3.5.2 Relationship with AECL	16
3.6 RSPCA	16
3.6.1 Support of AECL's QA Scheme	16

3.6.2	Consumer perceptions	16
3.6.3	Ownership and management	16
3.7	Commonwealth Department of Agriculture.....	16
4	Key questions and recommendations	18
4.1	Question 1: Does the egg industry need an industry QA program?.....	18
4.2	Question 2: If the answer is yes, who should own the scheme and who should manage it?	19
4.3	Question 3: And, what are the resources and structure required to effectively operate a QA scheme with integrity?	19
4.3.1	Structure	19
4.3.2	Resourcing the AECL QA program.....	22
4.3.3	Recommended Program Budget	23
5	Other issues and recommendations.....	24
5.1	QA Program 3-year Strategic Plan.....	24
5.2	Overseas Market Opportunity	24
6	Appendix	25
6.1	Terms of Reference for the Standards and Audit Committee (Draft)	25
6.2	Terms of Reference for the Industry Input Panel (Draft).....	26
6.3	Position Description for the AECL Program Manager QA (Draft)	28
6.4	Scope of work for the independent Program Manager (Draft)	29

List of Tables

Table 1: Recommended first year budget for proposed QA scheme	xi
Table 2: Detail of interviews conducted as part of this project	3
Table 3: Total direct costs for AECL QA Program 2009-2013 (5 years).....	5
Table 4: Comparison of operating costs for industry-owned QA schemes - pork, fresh produce and eggs	6
Table 5: Recommended first year budget for proposed QA scheme	23

Abbreviations

ACCC	Australian Competition and Consumer Commission
AHA	Animal Health Australia
APIQ	Australian Pork Industry Quality Assurance Program
AECL	Australian Egg Corporation Limited
ECA	Egg Corp Assured
ESA	Egg Standards of Australia
FSANZ	Food Standards Australia New Zealand
GFSI	Global Food Safety Initiative
HAL	Horticulture Australia Limited
KPI	Key Performance Indicator
QA	Quality Assurance
QSR	Quick Service Restaurants
R&D	Research and Development
RSPCA	Royal Societies for the Prevention of Cruelty to Animals
SFA	Statutory Funding Agreement

Executive Summary

This project seeks to provide information and recommendations that will assist the Board of Australian Egg Corporation Limited (AECL) to determine its future position and policies in relation to industry Quality Assurance (QA) activity and programs. Three key questions are to be answered:

- Does the Egg industry need an industry QA scheme?
And, if the answer is 'Yes',
- Who should own the scheme and who should manage it?
And,
- What are the resources and structure required to effectively operate a QA scheme with integrity?

Investigation for the report and recommendations has come from:

- In-depth interviews with a range of egg producers;
- Extensive discussions with AECL management and staff;
- Desk research covering AECL documentation, past reviews, financial data and other sources; and
- Interviews with:
 - QA executives of three major retail chains;
 - Senior managers at State departments responsible for Food Safety;
 - Senior managers at State departments responsible for Animal Welfare;
 - Executives of Animal Health Australia;
 - A representative of Royal Societies for the Prevention of Cruelty to Animals (RSPCA);
 - Egg Corp Assured (ECA) auditors and audit managers; and
 - Managers of other produce QA programs.

The report details the results of these investigations and provides five recommendations, which appear at the end of this summary.

This project was not designed to look at the content of the AECL QA Program itself. Nor was it to specifically address the stocking density matters related to the Egg Standards of Australia (ESA) program (and associated activity with the Australian Competition and Consumer Commission [ACCC]). However both matters did arise in very many of the interviews conducted.

Is owning and managing a QA program legitimate and core business for AECL?

Analysis of the Statutory Funding Agreement (SFA) covering the funding arrangement between the Commonwealth and AECL; the AECL Constitution; and the AECL's current Strategic Plan show that involvement in QA can most definitely be considered a responsibility of AECL. Indeed, it might be argued that from the risk management perspective (both for the industry and for public health), QA should be seen as part of AECL's core business.

Current participation and funding

Currently, some 174 producers are licensed under the ECA scheme. These represent approximately 44% of all AECL registered producers but some 76% of the national laying flock. By produce industry QA standards, these figures are very reasonable. However the trend of slight growth in number of licensed ECA businesses has plateaued, for various reasons suggested in the report. This should be a matter of concern and must be addressed.

The AECL's financial commitment to its QA activity and program is very modest. The \$92,885 (not including salaries) expenditure in 2013 represented just 3.1% of expenditure in the 'Credibility' pillar; and only 1.2% of total 'Projects/Activities' expenditure for the year.

On the face of it, this is a limited commitment to an area that some may consider important (or even critical) to the industry's credibility, risk management; and to public health generally.

Input to the report and recommendations

What do producers say?

- Many producers participating in ECA see it as something the "must" do if they wish to be able to supply certain high volume supermarkets. The program's benefit in risk management both on farm and for the wider industry is rarely mentioned;
- Almost all see that there should continue to be an 'industry' QA scheme and that AECL are the logical owner and custodian of such a scheme and the standards it embodies;
- For most, who actually manages the scheme is not critical. Much more important to them is it's efficient and effective management; and they detailed a number of areas where they felt current management was not as good as it should be; and
- A particular concern for producers is the multiplicity of audits they are now subjected to, just to secure business with particular customers. This is resulting in both a financial and human resources burden that is increasing. They look to AECL's QA Program to help resolve this.

What do the major retail chains say?

Chains are estimated to represent more than 75% of retail egg sales. Their influence over the total market for eggs; the business of egg producers; and QA and community food safety cannot be underestimated. They consider:

- The ECA program as an important part of their overall risk management/QA activity in the egg category. It is specified by all three;
- Development in egg QA overseas is an ongoing interest, as is their desire to see the ECA standards regularly reviewed and updated. Chains too have some complaints about aspects of management of the ECA program and these are detailed in the full report;
- A higher level of interaction by ECA management with the Chains would be beneficial (though they do note that AECL has been trying and that arranging meetings with senior chain management is not easy); and
- The industry should continue to have its own QA Program and that AECL is the most appropriate owner. With regard to management, like producers, they have no clear preference. Again, efficiency and effectiveness of management is what they want.

What do State health departments say?

Here the QA situation is viewed as a matter of government's responsibility for food safety risk management. The State agencies interviewed specifically avoided discussion on areas such as animal welfare and environmental impact. While these may be aspects of an egg QA program, they are considered the responsibility of other State departments or agencies. In summary:

- Each State regulates and oversees food safety differently and each department refers to or utilises the ECA program differently. However all see the ECA program as an important tool for producers in managing their own risk and ensuring the production of safe food;

- On the question of ownership, all see that the AECL is the most appropriate body to own an industry scheme. They refer to this helping the integrity of the program and the strict absence of bias or influence;
- With regard to management, they do not have an opinion one way or the other about internal (AECL) management or contracting-out the function; and
- As with the Chains, they would like a higher level of regular interaction and with AECL and the QA program and particularly raised the need for information about any new proposed scheme, its standards and management.

What do State departments responsible for Animal Welfare say?

- The industry's QA Program plays a very important role in helping them discharge their own responsibilities. Without it, the inspection and compliance burden on producers would likely be greater;
- AECL is the natural and most appropriate owner of the scheme; and
- Who manages is not as important as ensuring management is handled professionally and with integrity.

What does Animal Health Australia say?

- The QA Program is a vital part of the industry's biosecurity risk management and preparedness – and it must be maintained; and
- Perhaps AECL should consider a management/administration model for its scheme similar to that used by Australian Pork Limited for its quality assurance program (APIQ).

What does RSPCA say?

- RSPCA supports the AECL QA Program and would like to see it embrace a continuous improvement ethos, so that animal welfare standards are gradually lifted, over time; and
- They are curious about the stalled ESA scheme and keen to see AECL re-commit to its launch and promotion.

Three Key Questions

Does the Egg industry need an industry QA scheme?

The answer is an unequivocal, 'Yes'. The AECL ECA scheme is:

- An essential risk management tool, covering some 44% of producers and over 76% of the national laying flock;
- Considered by producers supplying major customers as an essential business system as it is required by those customers as a pre-requisite for supply; and
- Recognised by food safety regulators as important in helping to ensure supply of safe eggs to consumers, food service and industry.

Who should own the scheme and who should manage it?

From all discussions, the most appropriate owner of a QA Program is AECL. Specifically, AECL:

- Has the standing, legal power and widespread support to be the owner and custodian of an industry program;
- Is considered by many to be, in effect, the industry's peak body. It can command respect and speak with authority; and
- Is whom regulators and the media turn to for industry representation and comment in the event of a food safety or other outbreak.

The management task should be split, with:

1. Reporting to the AECL Managing Director and Board, the strategic direction and promotion of AECL's QA Program to be managed by a dedicated 'Program Manager – QA'; and
2. Actual day-to-day management of the industry's QA Program to be contracted-out to an independent commercial organisation.

This separate, contracted management function thus ensures the scheme is managed by independent professionals with the specialist skills and resources required. This is the model currently being used successfully for the 'Freshcare' program for fresh produce; and the AusMeat Limited management of various certification programs in the meat industry.

What are the resources and structure required to effectively operate a QA scheme with integrity?

In terms of structure, significant changes are recommended to the delivery of AECL's QA Program. A summary of the proposed structure has been provided below, with full details provided in further sections of this report.

Standards and Audit Committee

The appointment by the AECL Board of an independent committee is proposed. Primary functions of the Committee are to:

- Provide advice and formal recommendations to the AECL Board on changes to standards, audit procedures and other related matters; and
- Act as a tribunal to adjudicate on matters of dispute related to any specific audit or audit process.

Industry Reference Panel

The Industry Reference Panel is the mechanism by which producers have input to the QA standards and audit requirements. Its primary function is to, as required by the Standards and Audit Committee, provide producer input on any proposed changes to the standards and audit requirements of an AECL QA Program.

Program Manager – QA

This should be the key role of AECL, with overall responsibility for the efficient operation of the QA Program. It is a strategic role focussed on oversight, development and promotion of the QA Program. Primary functions of this role are:

- Close and regular liaison with the Independent Program Manager (described below);
- Liaison with and promotion of the QA Program to major customer stakeholders such as retail chains, food service suppliers, institutions and quick-service restaurants; and State government departments responsible for food safety regulation and enforcement;
- Develop and implement a program to encourage higher levels of producer participation in the QA Program;
- With AECL's Communications Manager and Program Manager – Marketing, develop and implement a program to educate the public and other identified target groups about the QA Program and its benefits;
- Manage the process of and provide secretariat services to the Standards and Audit Committee and the Industry Reference Panel; and
- Liaison with the owners and managers of other Australian produce QA programs, as well as the owners and managers of egg QA programs overseas.

Independent Program Manager

It is envisaged that the Independent Program Manager will be an already existing organisation with demonstrated skills and existing processes and systems for management of QA programs.

The Independent Program Manager is responsible for all aspects of day-to-day management of the QA Program. This includes:

- Provision of information and resources for the QA Program (though these may be available through the AECL web site);
- Overall management of the audit program (though this may be through AECL-appointed audit providers);
- Maintenance of the database of certified businesses and issuing of certificates;
- Training of auditors;
- AECL-approved training for QA Program participants; and
- First point of contact for disputes over audit findings and where necessary, preparation of briefing, background for the Standards and Audit Committee.

Financial resourcing required

Based on the structure proposed, a first year budget of \$665,000 is recommended. Detail and breakdown of this budget has been provided in **Table 1**.

Table 1: Recommended first year budget for proposed QA scheme

Category	Amount	Comment
Standards and Audit Committee	\$75,000	Includes per-diem fees; meeting costs; travel and accommodation etc.
Industry Reference Panel	\$25,000	Includes meeting costs and travel and accommodation.
Program Manager – QA	\$140,000	Full time employee of AECL. Includes salary and associated costs; travel and accommodation; sundry other expenses.
Independent Program Manager	\$300,000	All costs associated with operational program management, training etc.
Database and website development	\$75,000	A sophisticated, web-based database of certified businesses plus a dedicated QA program database for use by the public, stakeholders and industry participants.
Provision for other costs	\$50,000	Covers legal and other specialist fees; printing etc.
TOTAL	\$665,000	

In addition it is suggested that:

- Additional funding sources be explored (detailed in the report); and
- The annual certification fee is substantially increased.

Overall Conclusions

Five formal recommendations are proposed for consideration by the AECL Board, as follows:

Recommendation 1 - Support for QA Program

That the Board of AECL formally re-confirms its support for an industry QA Program.

Recommendation 2 - QA Program Ownership

That the AECL Board formally re-confirm that it will be the owner of any QA Program developed by AECL.

Recommendation 3 - Management and operational structure

That the AECL Board accepts in principle, the QA program management and operational structure proposed; with the detail to be finalised by the Managing Director and presented again for formal approval, together with a detailed Strategic Plan including an income and expenditure budget.

Recommendation 4 - QA Strategic Plan

Following its decisions on Recommendations 1,2 and 3, the Board requests AECL management to prepare and submit for approval a comprehensive 3 or 5 year Strategic Plan for AECL's QA Program and associated activity.

Recommendation 5 - Overseas Market Opportunity

AECL carry out initial investigations to determine the likely opportunity for overseas sale/licensing of the Egg Standards Australia (ESA) program once it is launched and operating effectively in Australia.

1 Introduction

1.1 Background

Australian Egg Corporation Limited (AECL) has achieved much in the Quality Assurance (QA) field. In just nine (9) years the company has launched and developed the industry-leading Egg Corp Assured (ECA) QA Program. That program now covers licensees representing the significant majority of the national egg laying flock. ECA is recognised and supported by major retail chains and other industry stakeholders.

In recent years, AECL has moved to develop a new and more comprehensive QA scheme, Egg Standards of Australia (ESA). ESA is ready to be launched, subject to resolution of a number of issues currently being considered by the AECL management and Board.

AECL has determined the time is now right to stand-back and examine how QA should be handled in Australia's Egg industry, into the future. With probably less than 10% of its funding generated through license fees, the ECA program draws significantly on AECL's levy and matched funds. Without change, that would continue to be the case, no matter what scheme is owned and managed by the company.

There has been some degree of criticism that AECL should not be owner and manager of the industry's certification program. That to do so leaves the program open to criticism related to perceived governance shortcomings and self-interest.

With ECA having run now for almost 10 years; and ESA developed and ready for launch, this review is appropriate and timely.

Importantly, this review was not commissioned to analyse the content of the AECL QA Program itself. Rather, it answers the key questions:

- Does the Egg industry need an industry QA scheme?
If the answer is 'Yes',
 - Who should own the scheme and who should manage it?
- And,
- What are the resources and structure required to effectively operate a QA scheme with integrity?

1.2 How this project was undertaken

This project involved a five-stage approach as detailed below.

Many interviews were conducted face-to-face or otherwise, via extended telephone conversations. The producers consulted covered the range of small, medium and large as well as different production methods.

In addition to the interviews originally planned, following specific representation from producers in Western Australia we conducted an extended group interview in Perth with nine producers.

1. Project start-up and desktop review

Aim: To gather the best possible background to the task – highlighting issues, concerns, opportunities and past experience.

Comprehensive background gathered from AECL staff. Relevant documents and data gathered and analysed.

2. Consultation with stakeholders

Aim: Understand the range and strength of opinions in relation to:

- *The industry's QA needs;*
- *How those needs should be addressed;*
- *Who should own QA schemes;*
- *Who should manage the schemes; and*
- *How they should be funded.*

In-depth discussions with various stakeholders in Egg industry QA and the ECA scheme – including producers, retail chains and State Government Departments responsible for food safety and animal welfare, Animal Health Australia, the RSPCA and the Commonwealth Department of Agriculture.

3. Consultation with other scheme managers and service providers

Aim: To thoroughly understand how other schemes are owned, managed and funded. Also to examine options for 'outsourcing' the operation of Egg industry QA schemes and any other management models.

In-depth discussions with the managers/owners of other similar schemes.

4. Review and analysis

Aim: Distil and analyse learnings from Stages 1-3, to develop options and recommendations.

Analysed the interview responses to determine the existence of any common or dominant themes or clear differences of opinion and then amalgamated this information into the report and recommendations.

5. Draft and Final reports

Prepared the draft and final project reports.

1.3 Interview sample size and scope

In total, fifty (50) interviews across multiple stakeholder groups were conducted during this project. Detail and breakdown of those interviewed has been provided in Table 2.

Table 2: Detail of interviews conducted as part of this project

Representative stakeholder	No.	Details
Egg producers	20	<p>One group interview and individually either face to face or by extended phone interview. The group covered growers of various sizes and production types.</p> <p>Five (5) were known to not be participating in the ECA program. Their reasons for non-participation were varied, but mainly they said they “did not need to” because they were not supplying major retailers; and/or had another QA program in place.</p> <p>Some interviewees were responsible for production and QA across a number of farms and so the responses received relate to at least thirty (30) farms and, we estimate, in excess of 50% of the egg laying flock.</p>
Three (3) major retail chains	8	With three (3) senior QA executives in each of two chains and two (2) in the third chain.
State Government Health Departments / Food Authorities	3	With the Senior Manager responsible for Food Safety in each of the three (3) States.
State Government Departments responsible for animal welfare	3	With the Senior Manager responsible for Animal Welfare in each of the three (3) States.
Animal Health Australia	3	Three (3) senior executives.
RSPCA	1	One (1) senior executive.
Commonwealth Department of Agriculture	4	Relevant manager and three (3) other staff.
Auditors and Audit Managers	4	Two (2) senior and experienced ECA auditors, and the responsible senior manager from AECL’s two (2) audit management companies.
Other schemes	4	<p>The manager of the ‘Hencare’ program.</p> <p>Managers of the program for fresh produce, pork and the various meat industry programs.</p>

1.4 A word about current QA management at AECL

Within this report are some comments or criticisms related to the operation of the ECA program and the development of ESA. However when talking about actual QA program management at AECL, interviewees, with only one exception, were complimentary about the commitment and work of AECL’s QA Project Manager. Their criticisms are not about personnel, but rather shortcomings in systems, communication, standards review etc. Some commented on what they considered to be a significant workload for the QA Project Manager.

2 Answering three fundamental questions

As a starting point, it is appropriate to address three core questions.

2.1 Is owning and managing a QA scheme legitimate and core AECL business?

AECL is the declared¹ “Industry Services Body” for the Australian Egg industry and as such is the organisation with responsibility for expenditure of the statutory promotion levy (“Egg Levy”) and Research & Development (R&D) levy (“Laying Chicken Levy”) and Commonwealth matching funds.

AECL is a limited liability company, owned by egg producers/levy payers.

A Statutory Funding Agreement (SFA) between the Commonwealth and the AECL² details (among other things) the scope and limitation of activities that may be undertaken by the company and funded by the *Laying Chicken Levy* (Marketing) and/or the *Egg Levy*, plus matching Commonwealth funding (R&D). The SFA also requires that such activities be in accordance with AECL’s Strategic Plan and Annual Operating Plans.

The Objectives of the company, as detailed in the AECL Constitution³, specifies the activities the company may undertake and thus enable AECL to provide services in the area of QA. Specifically AECL may:

“Provide leadership on Industry Service Provision including, Promotion and R&D services that advance the interests of the Australian Egg Industry;

Provide cost-effective services that enhance the competitiveness of the Australian Egg Industry throughout the Australian Egg Industry’s supply chain;

Manage, develop and exploit intellectual property from Promotion and R&D activities, and to receive the proceeds of such development and exploitation;

Provide services to Australian Egg Producers; and

Engage in any other activities in the interests of the Australian Egg Industry, in each case for the benefit of the Australian Egg Industry”.

In the AECL’s current Strategic Plan⁴, the “Quality Assurance Program” is part of the ‘Credibility’ pillar and sits under Strategy 3:

“Identify, measure and address inefficiencies in the Australian egg production and supply chain through benchmarking, research and analysis”.

It is clear therefore, that AECL has the legal authority to develop and implement QA programs for the benefit of the industry and that such activity is identified in the current Strategic Plan as core business for AECL.

¹ Egg Industry Service Provision Act 2002

² Statutory Funding Agreement 2011-2015

³ AECL Constitution

⁴ AECL Strategic Plan 2012-2016

2.2 What is the level of participation in ECA now and what has been the recent trend?

In December 2013, 174 (44%) of 388 AECL registered producers were licensed under the ECA scheme. While this is not the majority, AECL estimated that these producers are responsible for the significant majority (approximately 76%) of the national laying flock⁵.

After steady increase for some years, the past 2-3 years has seen the number of producers participating in ECA level off. This should not necessarily be seen as a concern. It has been suggested that producers who might have joined may have delayed their decision, pending the anticipated launch of the new Egg Standards of Australia (ESA) program. In addition, AECL's own promotion of ECA to potential participants was scaled-back, again in anticipation of the ESA launch.

For producers, the very significant driver for participation is that ECA certification is a pre-requisite to supplying certain types of customers. The idea that a QA Program would help to minimise risk for a business (and the industry overall), was rarely mentioned, unprompted. Yet it is risk management that drives major customers to insist on supply from licensed producers.

It is in the industry's overall benefit to have and be able to promote, an increasing level of participation in its QA Program. Risk is reduced and public confidence increased. Continued promotion of the AECL QA Program to both existing and non-participants is important and warrants specific attention.

2.3 How is AECL's QA program funded now and what does it cost?

The current management and operation of the AECL QA Program is considered to be R&D and is therefore funded via the Egg Levy with matching Commonwealth contribution. Total direct costs in the last 5 years (2009-2013) have been provided in **Table 3**.

Table 3: Total direct costs for AECL QA Program 2009-2013 (5 years)

Year	QA program costs
2009	\$103,464
2010	\$140,044
2011	\$174,496
2012	\$159,993
2013	\$92,885

Notes:

- These totals include the development costs of the new ESA scheme for 2012 and 2013.
- Not included in these figures is the salary and associated costs for the QA Project Manager and a proportion of the salary and associated costs for other staff who may from time to time work on the QA program. Also not included is any allocation for basic office overheads such as rent, IT, furniture and fittings etc.

⁵ Calculated using ABS and AECL data

The QA Program costs seem small as a proportion of total R&D and Marketing program expenses. In 2013 they represented 3.1% of 'Projects/Activities' expenditure in the 'Credibility' pillar; and 1.2% of total Projects/Activities' expenditure for the year.

One question that might be asked is: "How does the Board determine the relative priority and importance of the industry's QA programs and therefore the budget allocated to them?"

See **Table 4** for comparison of the approximate operating expenditure between eggs and two other produce industry-owned schemes (pork and fresh produce).

Table 4: Comparison of operating costs for industry-owned QA schemes - pork, fresh produce and eggs

Scheme	2013 Expenditure (approx.)	No. of certified businesses	% of producers/sites certified (approx.)	% of production	FTE personnel employed
APIQ (pork)	\$540,000	525	35%	88%	2.5
Freshcare (Fresh produce)	\$420,000	2,580	29%	40%	4
ECA (Eggs)	\$93,000	174	44%	76%	0.6

2.3.1 Income

Certification fees do generate some income for AECL, though only a very limited amount (approx. \$6,700 in 2013). These fees are or are taken-up as general income to AECL and are not specifically directed to expenditure on QA.

3 Consultation findings

Interviews were undertaken to provide input from stakeholders on their attitudes to:

- AECL's involvement in QA;
- The ECA and proposed ESA programs; and
- Future ownership, management and resourcing of an industry-owned QA program.

The key findings from those interviews are reported in this section.

3.1 Producers

It should be noted that this project did not allow for a widespread survey of producers. A selection of producers was chosen from among some recommended by AECL and also a much longer list of all producers.

AECL also actively promoted this project through its communication channels, encouraging producers to contact the consultant if they had points they wished to make. Just two producers did that – one by phone and another by email.

Almost all interviews covered much ground and some lasted well over an hour. Producers sometimes wanted to talk about company specific issues related to their own experience with the scheme. Some others wanted to make personal comments about AECL staff. Both of these areas are not within the scope of this project and are not reported.

3.1.1 Why do you participate in AECLs ECA scheme?

A mandatory requirement for supply

The predominant reason given by most is that ECA Certification is a mandatory requirement for supply to major customers such as retail chains like Coles, Woolworths and Aldi; fast food chains like McDonalds and Yum Foods (KFC and Pizza Hut) and food service operators. Participation in the scheme is seen as a 'cost of business' if the producer wants to supply such customers.

Sound business practice

On further questioning, most say that the QA process does help to ensure good production practices – but this was by no means top-of-mind.

Of note, almost no one talked about the scheme as being a valuable risk management tool and process – yet this is the very reason their customers insist upon it. Perhaps risk management is self-evident and simply the result of good QA. But as it is probably the key outcome of the industry's QA program, it is worth recognising and promoting.

3.1.2 Do you have any concerns or challenges with the scheme?

General concerns (i.e. not specific audit related) expressed, sometimes very strongly, by many producers were as follows;

The cost of audit

Almost all complained of the increasing cost of ECA audit. Many feel that AECL's move to contract the audit process through two audit manager companies has been the driver of the cost increase. Some highlighted that their audit cost increased by over 100% under the new arrangement.

Audit duplication

Related to audit cost is the overall cost of audits and compliance. If a producer wishes to supply a number of larger commercial customers then they find themselves subject to multiple audits and audit requirements – almost all of which have to be paid for by the producer. They see this as duplication and are looking for someone (perhaps even AECL) to help streamline the process (and thus reduce duplicated costs to their business).

Of note, AECL has been working for some time on this issue and anticipate the new ESA program (if/when launched) will start to address it. It does take time, dedicated effort and much liaison with others (e.g. retail chains and State Departments).

This challenge is not unique to eggs and two other produce QA schemes are addressing it:

- The fresh produce industry 'Freshcare' scheme has similar issues and has been working on audit and process harmonisation for some time. They originally hoped to develop a single audit, accepted and adopted by various bodies (e.g. retailers; Quick Service Restaurants (QSR) and food service operators). This has not been possible, however some significant modifications and streamlining and cost savings are being achieved; and
- In the Pork industry the APIQ program has been able to "bolt-on" the major retailer requirements to their scheduled audit format and process, for those producers where it is required.

Of course the audit process is an income stream for some businesses and individuals. So harmonisation and efficiencies resulting in a reduction in the number of audit occasions, or simplification of audits, may not be welcomed by them.

Auditor competence/suitability

Some producers are quite comfortable with the competence and professionalism of their regular auditor, while others are very unsatisfied. There seems to be a feeling that auditors should be more than 'box-tickers' and actually have some depth of knowledge about egg production. Producers value a positive and instructive relationship with an auditor.

Auditors and audit management need to manage this issue carefully. Auditors must not and should not try to be farm consultants. Ongoing training of auditors and AECL's audit processes and policies should address this. It is noted later that formal ECA auditor training has been somewhat limited in recent years, once again due to focus on transition to ESA and the decision to conserve resources.

Time delays in administration

Quite a number of producers complained about the delay taken between ECA audit and receipt of their certificate, mentioning it may take 3-9 months. This was considered inefficient and embarrassing, particularly as some were asked by customers for a copy of their most recent certificate.

Some, who did seem to know more about the process suggested the delays, while unacceptable, may have been caused by:

- AECL's procedures which require every audit to be reviewed by one of two separate auditors, before any certificate is issued; and
- Limited staff resourcing by AECL for the QA Program.

From broader observations and analysis the primary problem seems to be one of workload at AECL. With only one full-time staff member dedicated to the development, management and administration of the AECL's QA Program the delays experienced are understandable.

A question about adequate technical expertise at AECL

Possibly linked to the resourcing issue mentioned above, some felt that the AECL office (and therefore the ECA administration) did not have adequate technical expertise available to it. They mentioned both expertise in the application of QA programs; and in operation of an egg production or grading facility.

However, this issue may be more one of communication with industry, rather than an actual gap in expertise. AECL's farm extension, quality and training consultant is available at any time to provide technical input to the QA Program. In addition, AECL does have the capacity to retain specialist services, as required.

3.1.3 Should the industry continue to have an industry-owned QA program?

From producers participating in ECA the strong response is 'Yes'. They consider ECA as an essential part of their business and that it should be maintained. When asked what might happen if the scheme was terminated, they said that individual customers (e.g. retail chains) would move to adopt or develop another program, which might be more costly and may even be more onerous.

The small number of non-participating producers interviewed did not appear to be against the industry having a scheme, just that they did not feel it was necessary for their own business; and/or was an unnecessary cost.

3.1.4 Who should own such a program?

All producers interviewed felt that a whole-of-industry QA program should be owned by AECL. Their view is that AECL is their "industry body" and the natural organisation to be the guardian of QA, food safety and other related matters, on behalf of the whole industry.

The only exception to this view was expressed by a number of West Australian producers at a group meeting in Perth. They felt the industry would be better served by a series of state-based and state-managed schemes, tailored to the needs of industry in that state. No other producers raised this prospect and the question must be asked – Would such an arrangement be acceptable to national retail customers?

For producers, it is clear that AECL should be the owner and custodian of their levy-funded industry QA Program.

3.1.5 Who should manage such a program?

The options of having a QA scheme administered either by AECL or an independent, contracted manager was raised. Among the producers interviewed there does not seem to be a strong opinion or preference one way or the other. Though discussion on this point did raise again the issues of:

- Adequate administrative resourcing;
- Ensuring whoever manages a scheme has access to appropriate technical skills and production experience; and
- Past frustrations with delays in audit processing and certificate issue.

The issue seems to be not so much who manages the industry QA scheme, but ensuring that the management is professional and efficient.

3.1.6 Comments on the proposed Egg Standards of Australia (ESA) scheme

A few interviewed say they know quite a deal about the new proposed scheme, presumably because they have had some involvement in its development. Many others however said they have little knowledge.

Even though AECL has been communicating with producers about ESA, questions were raised regarding the specifics of the scheme, including:

- Will it be more stringent than ECA?
- Will both schemes run in tandem for a time?
- Will audits cost more?
- Who will manage it and who will manage the audits process?
- Are supermarkets etc. aware and going to be requiring ESA certification?

And importantly:

- What is happening with the Australian Competition and Consumer Commission (ACCC) situation; and
- What are AECL's plans for launch and timing?

It would seem that even if AECL has been trying to keep producers updated, the information is not getting through. Producers need to be better informed (and then supportive) of AECL's plans in this most important area.

3.1.7 Other comments or observations

Opinions of AECL

Some of those interviewed wanted us to know that they feel the largest producers have an undue influence over the operation of AECL's QA Program. They believe that decisions were being taken which favour larger producers over smaller ones.

On further questioning, they were not able to give specific examples of how this perceived influence has been exercised – other than in the development of the new ESA scheme. In this case, specifically, they felt the issue related to stocking density proposed under the scheme; and the rejection of the trademark application by the ACCC, is an example of larger producer influence.

It would seem that this concern about undue influence on AECL is not primarily related to the QA schemes, but reflects a (sometimes strongly voiced) discontent with AECL per-se.

Industry R&D Corporations like AECL are often the target for all manner of complaints and criticism– some of it justified and others not actually the corporation's responsibility.

3.2 Major retail chains

With an estimate more than 75% of retail eggs sold through the supermarket chains, the views of this important sector in the supply chain are very important. Their influence over the business of producers and the sale of eggs must not be underestimated.

3.2.1 QA/Food Safety Requirements

All three chains interviewed talked about the importance of ECA certification in their management of QA and food safety. ECA certification is a mandatory requirement for supply to each chain.

Beyond that, each chain has its own additional requirements for all or certain classes of products (such as own-brand). These additional requirements are constantly under review and are generally separately audited.

3.2.2 Attitude to ECA

ECA is considered a sound QA management program. It is a vital component of the chains' overall management of QA. However all three chains talked about the "changing landscape" for quality assurance and food safety. They mentioned their regular process of review of standards – always with an eye to what is required and developing in this area overseas. One chain is very much influenced by the policies and requirements of its parent company overseas. This would also be the case for major QSR chains.

The other influencing factor (mentioned by all three), is consumer attitudes and preferences; and the influence of the media and vocal interest groups. This is an area of very real interest (and concern) to the chains.

Audit duplication

All three chains expressed frustration at the process of audit duplication and seem to expect AECL and its QA program to be doing something about that. They point to the Pork scheme, APIQ, or the 'Freshcare' scheme for fresh produce. The APIQ audit incorporates the individual chain requirements, while the fresh produce industry and the chains have been working solidly for 2 years to achieve better 'harmonisation' of audits. While full harmonisation has not been possible, some significant streamlining and cost savings are being achieved.

One chain highlighted that they had worked closely with AECL on this in the development of the ESA program. They were positive about that process and expected that the result would be good for both their contracted producers and themselves. But they now describe the situation as "extremely frustrating" as everything has stopped with ESA. They say they then had to go it alone with their own audit program – at their own cost.

Of note, AECL have been working on this harmonisation process as part of the development of ESA. But with that new program 'on hold' there is little opportunity to address this problem.

There are various levels of 'harmonisation' that can be developed – but it requires dedicated effort and resources. Whatever might be achieved, it has the potential to reduce costs and would address one of the single biggest frustrations in egg QA.

If AECL is not to progress with ESA, then renewed efforts in this area must be made under the ECA program.

Global Food Safety Initiative recognition

All three raised the issue of Global Food Safety Initiative (GFSI) and the trend toward achieving GFSI recognition. They specifically asked what AECL's position is on this and if AECL is working on achieving recognition for ECA. They are aware of (and have been consulted on) other produce industries' efforts in this area.

Audit to Certification delay

One of the chains was aware of the sometimes-lengthy delay between audit date and issue of a Certificate. They asked why this is so, when such delays are not experienced with other produce QA schemes.

This issue has been raised earlier. The on-line processes and systems associated with ESA will go a long way to addressing the problem. Again, if ESA is not to be pursued, then attention must turn to the resources available and how the delays can be addressed, within the ECA program.

3.2.3 Awareness of ESA & relationship with AECL

When asked about the new ESA scheme, they said they are somewhat in the dark. Two said they:

- Were not consulted much in its development; and
- Do not know if their separate individual audit requirements had been considered/included.

All three said they:

- Are very aware of the stocking density, influence groups, media and ACCC interest; and
- Have not been kept informed of AECL's position and plan, since the ACCC ruling.

While they said they have no real problems with AECL, they do feel somewhat ignored. They point to experience with other produce schemes where there is much more regular contact and consultation.

Of note, AECL's QA Project Manager has had contact with the chains and tried to keep them updated, but the lack of continuity of staff has been a factor. In regards to this study, just to see the right people at the three chains took over 20 emails and probably just as many phone calls.

Communication and interaction with these essential supply chain stakeholders is critical. It has to be a priority. The relationship with them needs to be nurtured as part of the Corporations ongoing commitment to QA.

Influence over AECL

Somewhat surprisingly, two chains also raised the issue of largest producers' influence over the decisions and operations of AECL. When further discussed, this influence seems (to them) understandable, given the AECL voting mechanism.

The potential areas of influence were not further explored. However the free range stocking density issue for ESA was mentioned.

3.2.4 Ownership of AECL QA schemes

On the issue of ownership, chains believe that AECL is the most appropriate and logical owner. It is felt an industry body such as AECL is the only logical guardian of the QA program standards and processes.

That said, note should be taken of the earlier comments regarding adequate liaison with the chains on any future scheme or modification of existing schemes.

Here again, AECL is seen as the logical owner of the industry's QA program.

3.2.5 Management of AECL QA schemes

On the issue of ‘who should manage?’, chains did not have a particular view. Their requirement is simply for efficient and timely management.

In that regard, mention was made by two, that it seemed AECL had only limited internal resources (people) dedicated to what they consider to be a vitally important area for the industry.

3.2.6 Other matters

No cage eggs after 2018

The matter of Woolworths’ stated policy that by 2018 no Cage-laid eggs (or products containing cage-laid eggs) will be sold was raised. A question which might be asked is: How such a policy would be policed – particularly if the egg-containing product (or some ingredients for it) is sourced overseas?

It was noted that Sainsbury’s had successfully introduced this policy some years ago and their experience and process may be a guide.

Auditor quality and pool

One voiced a feeling that the “quality of audits is slipping” and that the skills of some auditors may not be as high as expected. They felt the pool of experienced and skilled Egg QA Auditors is diminishing.

This comment is a little surprising, as it is not clear how the chain would know about the quality of audits and auditors – unless they found a supplier received an ECA certificate, but then fell short of the chain’s own requirements. It was suggested they take this matter up directly with AECL.

Egg stamping and traceability

All three chains highlight this as very important for them. Product traceability is critical. They highlight frustration with the various state regulatory bodies’ differences in approach, legislation and time of implementation.

3.3 State Government Department Health Regulators

In each interview, the Department personnel wanted to highlight that their responsibility was purely for the regulation and enforcement of food safety legislation and requirements – and not overall QA. While their responsibility aligns very much with industry QA, they were at pains to point out that the whole area of animal welfare (and also environmental impact) is outside their remit. When asked, all were very aware of the current debate related to stocking levels and the ACCC’s decisions and actions, but were unprepared to comment further. The same applied to any comment on environmental aspects covered in a QA program.

The significant differences between States in how they regulate and enforce food safety are reflected in the different structures, legislation, state resourcing etc. However it is clear that food safety is considered very important; and therefore link the with egg QA programs is obvious.

Each state formally recognises the Food Standards Australia New Zealand (FSANZ) “Primary Production and Processing Standard for Eggs and Egg Products (Standard 4.2.5)”.

3.3.1 Relevance of ECA to their role and responsibilities

In each state interviewed, the AECL ECA program is considered an important tool in helping to ensure food safety. They recognise that producers certified under ECA are following certain procedures that help them meet the states' food safety requirements.

The formal recognition of the scheme varies from state to state.

Most were cautious about passing any comment on the specifics of the ECA program. Some did want to however, but such feedback is outside the scope of this project and report.

Two suggested that AECL should be doing more to promote ECA to non-participants. Put simply, the more participating, the less is the food safety risk.

3.3.2 Relationship with AECL

The Departments' relationships with AECL are limited. They say that AECL acts as the industry's peak body and is responsive when contacted.

All interviewed were positive about the suggestion of a more pro-active relationship – especially around any changes to ECA or the proposed new ESA scheme.

3.3.3 Awareness of ESA

One interviewee seemed familiar with the ESA scheme and described it as “well-intentioned, well developed and honourable”. The others interviewed had very little awareness of the scheme and felt that it had not been ‘tested’ within their own processes to see how well it matched their own requirements.

All were aware of the ACCC matters and curious that “It has all gone very quiet” regarding AECL's plan for ESA.

These food safety regulatory departments are important partners in industry QA. They and AECL have a strong, shared interest in risk management – and department personnel could be advocates for ECA and ESA. It would seem that a more pro-active approach in liaison with them would be valuable – particularly if AECL moves to put life back into ESA.

3.3.4 Ownership of egg QA scheme

They say, the logical owner of any industry QA scheme is AECL. The corporation has the legal standing and integrity required; and is effectively the representative for the whole industry.

3.3.5 Management of egg QA scheme

They have no view on the most appropriate structure for management of an egg QA scheme – saying that it is a commercial decision for AECL. Efficient and effective management is the key for them.

AECL needs to ensure that any new or revised management structure is aware of and working with these State Departments.

3.4 State Government Departments responsible for animal welfare

Here, as with health/food safety, each State handles its responsibilities and enforcement differently. This situation is frustrating and difficult for those businesses and organisations (like AECL and national egg producers) that have a national responsibility or operation, but it is an inevitable result of our federated structure.

3.4.1 Relevance of ECA to their role and responsibilities

Each of the State Departments sees that AECL's QA scheme is valuable and plays an important role in helping them discharge their own responsibilities. For example, one State said that if a producer can show that they are licensed under ECA, then they move "to the bottom of the list for regular State inspections". While this may not literally be true, it definitely shows that ECA assists the State Departments do their job.

In short, to the question, "Do you think the industry should continue to have an industry-owned QA program? - the answer was a very strong "Yes".

3.4.2 QA scheme Ownership and Management

Those interviewed generally felt that the scheme should continue to be owned by the industry. However two highlighted the risks associated with that, in the perception of conflict of interest. They agreed this could be managed by appropriate structures and transparency.

Regarding management of the scheme, they said they had no view on whether the scheme should be managed internally by AECL or by some other contracted body. They overriding factor to them, was that the management process have integrity, be open to scrutiny and have the required mechanisms for oversight and governance.

3.4.3 Relationship with AECL

All three said they had had some dealings with AECL regarding the QA scheme. They were however positive about the suggestion of more regular communication as there were changes in the scheme or as AECL felt there were issues that needed to be discussed. They felt an annual AECL-facilitated meeting or workshop of State Departments could be considered (so long as it had a focussed agenda and intended outcome).

3.4.4 Review of the Model Code

The need for review of the Model Code was raised by two representatives. This has apparently been on the agenda for a couple of years and is important, as there are, in their view, a number of "grey areas" that need clarifying.

There is concern that the current Commonwealth Government has dismantled the process for review of a Model Code and there appears to be no clear indication of the replacement mechanism. In this vacuum, it was suggested that perhaps industry should take the initiative and spearhead the process. This they felt, would be good for the industry's reputation, though they did admit there may be industry participants that would not want to see AECL taking this initiative.

3.5 Animal Health Australia

We spoke with two executives of Animal Health Australia (AHA) and had email input from another.

AHA sees biosecurity and biosecurity risk mitigation and education as important industry responsibilities – and as such the industry's QA Program plays a very significant role. They

consider it extremely important the AECL maintain and continue to develop and promote its QA scheme.

3.5.1 Ownership and Management

The view was expressed by one AHA interviewee that the scheme ought not to be owned by an R&D Corporation established under Commonwealth legislation. Rather, it was felt the scheme should be owned by the industry's peak policy body; though it was thought that no such body currently existed for the Egg industry. The model used by the Pork industry, with their scheme administered and overseen by a separate company, was suggested for consideration by AECL.

It was felt that AECL could do more to promote to its industry the value of their scheme and the value of their ownership of it.

Regarding the options for actual management of the scheme, interviewees had no comment or preference

3.5.2 Relationship with AECL

AHA interviewees felt that AECL is responsive and helpful and ready communicators when necessary.

3.6 RSPCA

3.6.1 Support of AECL's QA Scheme

RSPCA recognises and supports AECL's QA scheme as it is an important tool for producers in complying with the Model Code. They see it as essential the industry maintain its QA program. Of course, the Society would like to see standards higher than the Code, but accepts that, for now, the Code is the industry's 'baseline'.

They believe that the QA scheme should be used by industry for continuous improvement and so the standards should be open for regular review and lifting.

3.6.2 Consumer perceptions

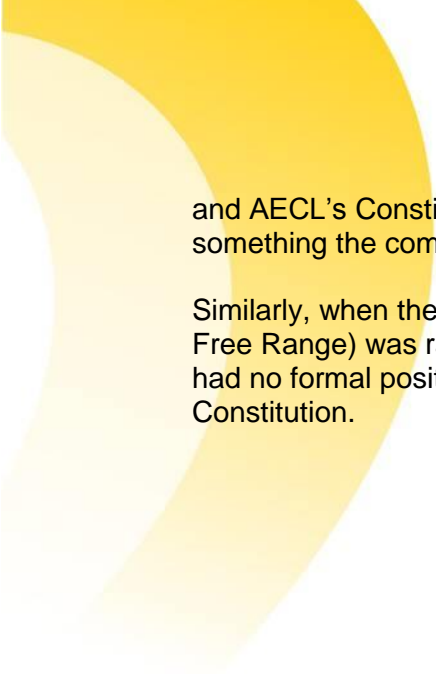
RSPCA are acutely aware of consumer interest in animal welfare – and the resulting responses by major customers such as the retail chains. They are convinced this will only grow and feel it is vital the Corporation has its finger on the pulse and is adjusting its QA Program and communications accordingly. It is felt that perhaps AECL is not promoting its scheme strongly enough within the industry, to the public and to other stakeholders.

3.6.3 Ownership and management

As the industry is the key stakeholder and beneficiary of the scheme, RSPCA sees AECL as the logical owner. Who manages is not the issue. The priority must be transparency, sound process and integrity in the management - leading to strong public confidence.

3.7 Commonwealth Department of Agriculture

The interview with Commonwealth Department of Agriculture (DA) management and staff was primarily to assist in answering the first of the three fundamental questions, is owning and managing a QA scheme legitimate and core AECL business? In essence, DA's view is that if the ownership and management of a QA scheme is within the scope of both the SFA



and AECL's Constitution, then it is a matter for the AECL Board to decide if this is something the company should be doing. DA had no formal view one way or the other.

Similarly, when the issue of stocking density and description of production methods (e.g. Free Range) was raised, DA staff said they were well aware of the matter and publicity; but had no formal position. Again, we were referred back to the terms of the SFA and Constitution.

4 Key questions and recommendations

This project asks three key questions. Answers and recommendations for each of these questions have been outlined below, for AECL Board's consideration. A number of other related matters have also been addressed, with recommendations provided for each.

4.1 Question 1: Does the egg industry need an industry QA program?

The answer is an unequivocal, 'Yes'.

AECL's ECA scheme:

- Is an essential risk management tool, covering some 44% of producers and over 76% of the national laying flock;
- Is considered by producers supplying major customers as an essential business system as it is required by those customers as a pre-requisite for supply;
- Is recognised by food safety regulators as important in helping to ensure supply of safe eggs to consumers, food service and industry;
- Is seen by those with State responsibility for animal welfare as an important tool to help them discharge their responsibilities;
- Is a vital part of the industry's essential biosecurity risk management and preparedness; and
- Has the support of the RSPCA, a key animal welfare group.

Only one other dedicated egg production QA/food safety scheme exists ('Hen Care') and while only in the early stages, its reach and coverage in the production sector is limited. It has however been accepted by one of the major retail chains.

Two other options may be considered by the Board but are not recommended.

Option 1 – no further involvement in QA programs

If the Board were to decide to vacate the QA space and close-down it's scheme:

- Other arrangements would take its place. Retail chains would, for example adopt another program (possibly from overseas), or develop their own standards and requirements – each different. This would inevitably result in higher cost to producers;
- Media and others could criticise the Corporation for vacating this public health/safety space;
- It might be argued that the Corporation is not properly fulfilling the requirements of its funding deed with the Commonwealth or its own Constitution;
- The considerable investment in the AECL schemes would be lost; and
- And possibly, food safety (i.e. public health) risk could be increased – at least for a time.

Option2 – sell the intellectual property in the current ECA program and the IP thus far developed in ESA.

One might question if there would be a buyer. After all, the current and future schemes are not profit making and unlikely to be so. Any new owner would probably seek to extract maximum return – increasing certification fees and audit cost.

Recommendation 1: Support for QA Program

That the Board of AECL formally re-confirms its support for an industry QA program.

4.2 Question 2: If the answer is yes, who should own the scheme and who should manage it?

Ownership

From all discussions, the most appropriate owner of a QA program is the Corporation.

- The AECL has the standing, legal power and widespread support to be the owner and custodian of an industry program;
- AECL is considered by many to be, in effect, the industry's peak body. It can command respect and speak with authority; and
- In the event of a food safety or other outbreak, it is AECL to whom regulators and the media turn for industry representation and comment.

Recommendation 2: QA Program Ownership

That the AECL Board formally re-confirms that it will be the owner of any QA program developed by the Corporation.

Standards integrity and audit referral

The issue of integrity of the QA standard has been raised often in interviews. So too has been the process to be followed when a producer wishes to challenge an audit finding.

We believe the potential for a conflict of interest exists here and it can be addressed through the establishment (and active promotion) of an independent Standards and Audit Committee. This is dealt with in more detail under the next question.

Management

To date, the industry's QA programs have been managed entirely internally. This has its advantages and disadvantages and on balance, we now believe that the management task should be split.

- Reporting to the AECL Managing Director and Board, the strategic direction and promotion of the Corporations QA program should be managed by a dedicated 'Program Manager – QA'; and
- Actual day-to-day management of the industry's QA program to be contracted-out to an independent commercial organisation.

This separate, contracted management function thus ensures the scheme is managed by independent professionals with the specialist skills and resources required. This is the model currently being used successfully for the 'Freshcare' program for fresh produce; and the AusMeat Limited management of various certification programs in the meat industry.

4.3 Question 3: And, what are the resources and structure required to effectively operate a QA scheme with integrity?

4.3.1 Structure

Following is an explanation of the recommended structure for future management and operation of the AECL QA Program.

Standards and Audit Committee

This is a formal Board-appointed committee with defined Terms of Reference. It is established as separate from AECL management and Board to show independence and integrity – and to address issues of perceived conflict of interest.

The Committee gives producers, auditors and AECL management a place to go when they have concerns about audit outcomes, certification, QA scheme policies and other related matters. They meet formally and as required. The Committee's decisions are final, binding and independent of AECL.

Primary Functions - To:

- Provide advice and formal recommendations to the AECL Board on changes to standards, audit procedures and other related matters; and
- Act as a tribunal to adjudicate on disputes related to any specific audit or audit process.

Membership - The Committee to comprise:

- An independent Chairman appointed by the Board of AECL. In this case, 'Independent' means not a current or past AECL Director; and not an existing egg producer.
- An independent professional with expertise in development and management of QA systems;
- An independent non-egg auditor;
- An AECL member producer;
- An independent producer (i.e. not an AECL member; AECL Director or ex AECL Director)
- A representative nominated by the AECL Board; and
- An individual from the supply chain (e.g. a major retailer).

The committee shall also have the authority to co-opt specialist advice, if required.

Reports to - The Managing Director & Board of AECL.

Meets - Formally, twice per year and as needed by teleconference, to deal with specific issues.

Secretariat - Secretariat services to the Committee to be provided by AECL's Program Manager-QA.

Draft Terms of Reference for the Committee are provided in **Appendix 6.1**.

Industry Reference Panel

The Industry Reference Panel is the mechanism by which producers have input to the QA standards and audit requirements.

Primary Functions - As required by the Standards and Audit Committee, provide producer input on any proposed changes to the standards and audit requirements of an AECL QA Program.

Membership - Panel members to be appointed by the Board of AECL and to comprise two producers from each State. Within that number there must be a spread of small, medium and large producers – all of whom are currently participating in the AECL QA program.

Reports to - Standards and Audit Committee. Note that the Industry Reference Panel is an advisory group to the Standards and Audit Committee. The Panel has administrative role and no direct link to the AECL Board.

Meets - Formally face-to-face, once per year and then, as required, usually by teleconference.

Secretariat - Secretariat services to the Committee to be provided by AECL's Program Manager-QA.

Draft Terms of Reference for the Panel are provided in **Appendix 6.2**.

Program Manager – QA

This is the key role at AECL with overall responsibility for the efficient operation of the AECL QA Program. Unlike the current situation, the role is not day-to-day management of the QA program. Rather, it is a key strategic role focussed more on development and promotion of the QA program.

Primary functions – To:

- Close and regular liaison with the Independent Program Manager;
- Liaison with and promotion of the QA program to:
 - Major customer stakeholders such as retail chains, food service suppliers, institutions and quick-service restaurants; and
 - State government departments responsible for food safety regulation and enforcement;
- Develop and implement a program to encourage higher levels of producer participation in the QA program;
- With AECL's Communications Manager and Program Manager – Marketing, develop and implement a program to educate the public and other identified target groups about AECL's QA program and its benefits;
- Manage the process of and provide secretariat services to the Standards and Audit Committee and the Industry Reference Panel;
- Liaison with the owners and managers of other Australian produce QA programs; and
- Liaison with the owners and managers of other egg QA programs overseas.

Reporting and Review

The position reports directly to the AECL Managing Director. Specific and measurable Key Performance Indicators (KPIs) will be established for the role and reviewed annually.

A draft Position Description for the Program Manager–QA role is provided as **Appendix 6.3**.

It will be important that adequate resourcing be allocated for this role to reflect its responsibility and authority.

Independent Program Manager

It is envisaged that the Independent Program Manager will be an already existing organisation with demonstrated skills and existing processes and systems for management of QA programs.

Primary functions - The Independent Program Manager is responsible for all aspects of day-to-day management of the QA program. This includes:

- Provision of information and resources for the program (though these may be available through the AECL web site);
- Overall management of the audit program (though this may be through AECL-appointed audit providers);
- Maintenance of the database of certified businesses and issuing of certificates;
- Training of auditors;
- AECL-approved training for program participants; and
- First point of contact for disputes over audit findings and where necessary, preparation of briefing, background for the Standards and Audit Committee.

Appointment & review: The Independent Program Manager to be appointed by AECL after a formal expression of interest/tender process, with the initial appointment to be for a period of 3 years, with annual review by AECL against agreed KPIs.

Payment - Under formal contract to AECL. Budget to be as determined through the tender process.

A draft Scope of Work for the Independent Program Manager is provided as **Appendix 6.4**.

Recommendation 3: Management and operational structure

That the AECL Board accepts in principle, the QA program management and operational structure proposed; with the detail to be finalised by the Managing Director and presented again for formal approval, together with a detailed Strategic Plan including an income and expenditure budget.

4.3.2 Resourcing the AECL QA program

Resourcing for the AECL QA program must reflect its importance to the industry (quality assurance) and the community (food safety). From expenditure data noted earlier in this study it would appear that the financial commitment to the program has not been significant in recent years.

Of course it is appreciated that resources are limited and that if additional funds are dedicated to the QA program, then other areas of R&D expenditure may have to be modified.

Before proposing a budget for the program, the following matters should be considered.

Certification fee

At just \$25 to \$267 the certification fee must almost be considered a token payment. It certainly does not reflect the importance of the QA program to participating businesses or the industry as a whole.

Consideration should be given to a substantial increase in the certification fee, with future fees indexed to say the CPI. This fee increase to be implemented at the same time as changes and improvements to the QA program are announced.

Also, it would be appropriate to show, through AECL accounting, that certification fees paid by producers are being specifically directed back into the program to assist funding its development and operation.

A mix of funding sources

In reviewing other produce QA programs we have been impressed with the approach taken by Freshcare to establish additional funding sources.

- Those delivering training to participants provide a per-trainee rebate back to Freshcare;
- Those delivering audit services provide a per-audit rebate back to Freshcare;
- Freshcare maintain a sophisticated database of certified businesses. Others, such as major customers and state agencies can have restricted access to that database, for which they pay an annual fee; and
- All certificates are provided electronically. If a producer wants a hard-copy certificate, they pay an extra fee.

While each of these additional income streams may be small, they all provide a contribution. AECL could consider similar income options.

4.3.3 Recommended Program Budget

The following indicative first year annual budget is proposed for AECL consideration (see **Table 5**). It is recommended that this be funded from AECL's R&D budget.

Table 5: Recommended first year budget for proposed QA scheme

Category	Amount	Comment
Standards and audit committee	\$75,000	Includes per-diem fees; meeting costs; travel and accommodation etc.
Industry reference panel	\$25,000	Includes meeting costs and travel and accommodation.
Program manager – QA	\$140,000	Full time employee of AECL. Includes salary and associated costs; travel and accommodation; sundry other expenses.
Independent Program Manager	\$300,000	All costs associated with operational program management, training etc.
Database and website development	\$75,000	A sophisticated, web-based database of certified businesses plus a dedicated QA program database for use by the public, stakeholders and industry participants.
Provision for other costs	\$50,000	Covers legal and other specialist fees; printing etc.
TOTAL	\$665,000	

Funding promotion of and education about the QA program

It is envisaged that the promotion and education functions would be funded from the Marketing budget and therefore the 'Egg Levy'. However if R&D funds permitted, it can be argued that a substantial proportion of this education program is funded from R&D – and thus be eligible for matching Commonwealth funding.

5 Other issues and recommendations

5.1 QA Program 3-year Strategic Plan

High standards and adherence to QA is a given in any modern any food production and processing. The egg industry's QA Program:

- Has widespread participation by egg businesses representing the substantial majority of the laying flock;
- Is recognised and endorsed by retailers representing the substantial majority of all eggs purchased;
- Is recognised and endorsed by the largest QSR chains and food-service providers;
- Is recognised and used by State health regulatory authorities; and
- Is known and referred-to by the media.

Such an important part of AECL and industry business must have its own 3-5 year Strategic Plan. A plan which:

- Details what must be achieved across all areas of operation including (but not limited to) development of the scheme; revision of standards; management; liaison with stakeholders; and marketing and promotion;
- Has clear and measurable KPI's and is regularly reviewed;
- Details responsibilities, budgets and reporting requirements; and
- Is formally endorsed by the AECL Board and reviewed annually.

Recommendation 4: QA Strategic Plan

Following its decisions on Recommendations 1,2 and 3, the Board requests AECL management to prepare and submit for approval a comprehensive 3 or 5 year Strategic Plan for the Corporation's QA program and associated activity.

5.2 Overseas Market Opportunity

The Corporation has invested significantly in the development of the proposed ESA scheme. In terms of standards, it must be considered world leading; and it is backed-up by considerable systems and technology (e.g. database management; electronic audit input and management etc). We believe the intellectual property developed has considerable value.

QA for eggs and egg production (and the inherent food safety/public health issues) must be a matter of interest internationally. This may be particularly the case with the rapidly growing and 'westernising' middle class in countries such as India and China.

AECL could consider if its ESA program can be sold to parties overseas for their own management and implementation. Any license fee generated could provide a valuable income source for the QA program in Australia.

Recommendation 5: Overseas Market Opportunity

AECL carry out initial investigations to determine the likely opportunity for overseas sale/licensing of the ESA program once it is launched and operating effectively in Australia.

6 Appendix

The following Appendix have been included:

1. Terms of Reference for the Standards and Audit Committee (Draft)
2. Terms of Reference for the Industry Input Panel (Draft)
3. Position Description for the AECL Program Manager QA (Draft)
4. Scope of work for the independent Program Manager (Draft)

6.1 Terms of Reference for the Standards and Audit Committee (Draft)

These Terms of Reference have been prepared to explain the role and operations of the Standards and Audit Committee (SAC), a committee established by Australian Egg Corporation Limited (AECL).

Role and Responsibility

The SAC has a clearly defined role and responsibility, as follows:

- Provide advice and formal recommendations to the AECL Board on changes to standards, audit procedures and other related matters;
- Act as a tribunal to adjudicate on matters of dispute related to any specific audit or audit process; and
- Deal with and respond to other specific matters referred to the Committee by AECL.

Independence

The Committee's decisions are final, binding and independent of AECL.

Composition

The composition (membership) of the SAC is to be:

- An independent Chairman appointed by the Board of AECL. In this case, 'Independent' means not a current or past AECL Director; and not an existing egg producer;
- An independent professional with expertise in development and management of QA systems;
- An independent non-egg auditor;
- An AECL member producer;
- An independent producer (i.e. not an AECL member; AECL Director or ex AECL Director);
- A representative nominated by the AECL Board; and
- An individual from the supply chain (e.g. a major retailer).

Appointment

Members of the Committee will be appointed (or reappointed) by the Board of AECL.

Substitutes not allowed

Committee membership is for the role nominated and if unavailable for a meeting, a member cannot nominate a substitute.

Term

The term of Committee membership is 36 months. Members can be re-appointed for a further one (1) 36-month term.

It is recommended that a rollover policy be implemented, whereby one third of the Panel members are eligible for replacement or re-election each year.

Meetings

Dates & Location - Meeting frequency and dates (and location) will be determined by the Chairman in consultation with AECL's Program Manager – QA.

Teleconference, videoconference etc. - Where necessary or appropriate, teleconference and videoconference meetings are acceptable.

Formal Committee decisions can also be managed by email or fax, if necessary.

Secretariat

AECL's Program Manager-QA shall provide full secretariat services to the Committee. This includes but is not limited to, organising meetings; preparation and distribution of papers; preparation and distribution of minutes and action lists etc.

Where further work to support the function of the Committee is required (say special analysis, investigation or advice), this will be identified by the Committee and recommended to AECL for approval and funding.

Committee Costs

Chairman and Members - Committee members will be remunerated on a per-diem basis at rates to be determined by AECL. Members' time charged may include a reasonable allocation for reading of papers for a meeting and travel to and from a meeting.

Chairman's time charged may include a reasonable allocation for liaison with AECL's Program Manager-QA and other administration.

Meetings - Costs for meetings, for example Committee member travel and accommodation, room hire and catering shall all be met from a special SAC allocation in AECL's overall budget for QA.

Advisors - If required, travel and accommodation costs for any specially invited advisors will be met from the same SAC allocation in AECL's overall budget for QA.

6.2 Terms of Reference for the Industry Input Panel (Draft)

These Terms of Reference have been prepared to explain the role and operations of the Industry Reference Panel (IRP), a group of individuals appointed by Australian Egg Corporation Limited (AECL) to provide advice to the Standards and Audit Committee (SAC).

Role and Responsibility

The SAC has a clearly defined role and responsibility, as follows:

- As required by the Standards and Audit Committee, provide producer input on any proposed changes to the standards and audit requirements of an AECL QA Program.

Composition

Panel members to be appointed by the Board of AECL and must comprise two producers from each State. Within that number there must be a spread of small, medium and large producers – all of whom are currently participating in the AECL QA program.

Chairman

A member of the SAC will act as Chair of the IRP.

Appointment

Members of the Panel will be appointed (or reappointed) by the Board of AECL.

Substitutes

Committee membership is for the role nominated and if unavailable for a meeting, a member cannot nominate a substitute. AECL can however nominate an interim substitute Panel member if an appointed Panel member is not available to deal with a particular matter referred to the Panel for input.

Term

The term of Committee membership is 36 months. Members can be re-appointed for a further one (1) 36-month term.

It is recommended that a rollover policy be implemented, whereby one third of the Panel members are eligible for replacement or re-election each year.

Meetings

Dates & Location - The IRP will meet as and when required, however one formal face-to-face meeting per year would be appropriate. Otherwise, it is envisaged that all other meetings will be by teleconference or videoconference.

Formal Panel input can also be managed by email or fax, if necessary.

Secretariat

AECL's Program Manager-QA shall provide full secretariat services to the Panel. This includes but is not limited to, organising meetings; preparation and distribution of papers; preparation and distribution of minutes and action lists etc.

Panel Costs

Chairman and Members - Panel members will not be remunerated for their time.

Chairman's time will be remunerated at a rate determined by AECL and may include a reasonable allocation for liaison with AECL's Program Manager-QA and the Chairman of the SAC.

Meetings - Costs for meetings, for example Panel member travel and accommodation, room hire and catering shall all be met from a special IRP allocation in AECL's overall budget for QA.

6.3 Position Description for the AECL Program Manager QA (Draft)

Primary role

The Program Manager QA has overall responsibility for AECL's QA activity and specifically the development, delivery and evaluation of the Corporations approved and authorised QA program.

Specific responsibilities

1. Prepare, present for approval and implement a 3-5 year Strategic Plan for AECL's QA activity and approved and authorised QA programs.
2. Provide full secretariat services to and support the operations of the SAC and the IRP.
3. Liaise closely with and oversee the operations of the Independent Program Manager
4. Liaise and develop relationships with:
 - Major supply chain businesses;
 - Relevant State departments; and
 - Managers of other produce QA programs and if appropriate, relevant staff in the corresponding R&D Corporation or industry peak body.

Key Performance Indicators

KPI's for the role are:

- Level of participation in the AECL QA program measured by both number of businesses participating and proportion of the national laying flock.
 - Targets to be set and KPI measured each year.
- Effective and efficient operation of the Standards and Audit Committee.
 - As reported to AECL formally by the Chairman of the Committee
- Effective and efficient operation of the Industry Reference Panel
 - As reported to AECL formally by the Chairman of the Panel
- Effective and efficient management of the Independent Program Manager
 - As measured through efficient management of the program and evaluation by AECL's Managing Director.
- Effective liaison and relationship building with major supply chain businesses (supermarket chains, quick service restaurants and foodservice operators).
 - Measured through an independent biennial survey of these corporations
- Effective liaison and relationship building with State government departments responsible for food safety.
 - Measured through an independent biennial survey of these departments.

Remuneration and review

- Remuneration to be determined by AECL's Managing Director in consultation with the Chairman of the SAC;
- Remuneration structure and packaging to be in accordance with AECL HR Policy; and
- Performance and remuneration to be reviewed annually in the anniversary of appointment.

Management and reporting

- The position reports directly to AECL's Managing Director; and
- Formal reports aligned to the QA strategic Plan and the position KPI's, will be prepared for each AECL Board Meeting.

Professional development

- A professional development plan for the position will be developed upon appointment and reviewed annually.

6.4 Scope of work for the Independent Program Manager (Draft)

Following is indicative only. The final scope of work for the appointed Manager would form part of the tender documentation and ultimately the contract between AECL and the contracted entity.

Management

Comprehensive management of the agreed program, including close liaison with the Program Manager-QA; day-to day operations and activity; and all contact, negotiations, recommendations and reporting.

Audit

Management of the audit process including the evaluation of audit providers; evaluation and appointment of auditors; scheduling and reminders regarding audits due; first point of contact for audit challenges or disputes and preparation of papers and recommendations for the Program Manager, QA and the Standards and Audit Committee.

Training

In accordance with the QA Strategic Plan, development and management of all training for certified businesses; those seeking certification and appointed auditors.

Database

Manage and keep updated a database of all certified and past-certified entities; including details of the business, audit history and other information as required.

Certificates

Issue of certificates to approved certified businesses and copies of those certificates to others, subject to permission.

Financial

Work within an approved budget and maintain complete financial records of all income and expenditure, providing reports as required,

Web site

In conjunction with the Program Manager-QA, develop and keep updated an interactive and useful dedicated web site for egg industry QA.

Communications

Manage all communications about the approved QA program with all certified businesses and those interested in certification.

Reporting

Provide reports to the Program Manager-QA and the Standards and Audit Committee as required.

Promotion

Work closely with the Program Manager-QA on the promotion program as detailed in the QA Strategic Plan.

