

WHERE HAVE WE COME FROM? ¹

Although this document is future oriented and inclusive of all our current delivery services, we consider it necessary to provide enough history of verification to make it clear why we do what we do. In this dialogue we highlight key themes that continue to direct our business.

With an 80 year history of predominantly butter, lamb, mutton and quarter-beef exports to the UK (with minimalist regulatory interventions and official assurances), the post-WWII era saw the UK moving ever closer to Europe forcing New Zealand to expand its marketing efforts. It also meant looking at the potential ramifications of the UK joining the EU with a requirement that UK 'health' requirements were harmonised with those existing in the EU at the time, as well as understanding specific requirements for new markets.

This period coincided with the growth of the ground-meat business in the United States lead by a rapidly expanding McDonald's fast food chain. The United States required increasing volumes of lean boneless beef to blend with their own prime off-cuts to make hamburger patties and this was a boon for New Zealand providing a home for meat from cull cows and bulls.

Where the UK's meat hygiene standards focussed on removal of defects detected at post-mortem inspection (resulting in the presence of meat inspectors in abattoirs), the United States made significantly more demands both in terms of post-mortem inspection, and premises and product hygiene. The United States Department of Agriculture (USDA) demanded increased veterinary presence and required beef coming from New Zealand to be processed and inspected to standards 'at least equal' to their own. It was basically a 'do it this way or we will ban imports' approach by the USDA and given the economic position NZ was in we became 'takers' of any requirement that was demanded of us - but that is not to say that our food safety approach did not need to improve. The result was that New Zealand enacted the Meat Act 1964, with Meat Regulations promulgated in 1969; both echoed the United States regulatory standards.

By the early 1960's not only were standards changing for beef, but also game, farmed deer and fish with export certification necessitating new standards and inspection systems. The same was true for lamb and sheepmeat as New Zealand sought to diversify to markets other than the United Kingdom.

The UK joined the EU in 1972 failing to re-negotiate the draft Third Country Veterinary Directive (applying to meat imports from third countries and based on the 1964 Intra-Community Veterinary Directive) that was passed by the EU Council a week before the UK joined. Discussions between NZ and the EU Commission ensued during the 1970s culminating in inspection visits in the early 1980s to 'list' NZ animal product processing premises.

NZ MAF's Meat Division was the primary negotiator over this period of major change in expectations by importing countries. NZ lacked the scientific support to negotiate 'equivalent' hygiene standards, the political will to challenge the EU and United States, and the modern international Sanitary/phyto-sanitary framework, thus our negotiating stance was weak at best. Interestingly, while the US approach was always about the cleanliness of product and its immediate environment, the EU approach was much more focussed on the environment in a more general sense and of course their own experiences with meat shortages post war, all under the oversight of veterinarians. The importing country 'audits' became more frequent and the 'auditors' effectively became the drivers of the NZ meat hygiene programme.

The United States had a permanent presence with a USDA veterinarian stationed in New Zealand. The 'auditors' modus operandi was based on a 'command and control' approach which matched their own very prescriptive legislation (and that which we had also introduced), and they forced NZ into meeting their at times absurd demands that we expect were not even able to be enforced in their home country.

¹ This section draws on Derek Robinson's book "No News is Good News – A History of New Zealand's Meat Hygiene Service" and has been edited by Andrew McKenzie, contactor to the Meat Industry Association.

The EU veterinary inspectors started off with a similar approach and in the late 1980s had produced a 'vadae mecum' that described what their legal requirements actually were and began enforcing this despite it not having a legal base.

As a result of the expansion of trade to the United States, and with the UK joining the EU, veterinary numbers in Meat Division increased to around 80 to satisfy US demands for one veterinarian per slaughterhouse, with the target number being 175 as agreed with the EU based on one veterinarian per slaughter floor.

During this same period the New Zealand Dairy Board (who had acquisition rights to dairy products) had begun diversifying markets and were promoting removal of inspectors from factories in favour of quality assurance programmes with verification by government. There was a progressive consolidation of dairy produce processors and construction of modern premises producing a range of export products. Exports to the United States were constrained by the Grade A milk standard but exports of powders were possible. United States milk produce imports were administered by the Food and Drug Administration (FDA) who had a fundamentally different approach to product safety and suitability compared with the USDA.

This time period also saw the World Health Organisation and the Food and Agriculture Organisation of the United Nations jointly form the Codex Alimentarius Commission. Codex was commissioned to ensure the quality and safety of food and to prevent unjustified barriers to food trade. A goal being to coordinate the preparation and acceptance of standards published as codes. New Zealand strategically initiated the Codex meat hygiene committee.

Success was initially limited. It was not until the 1990s that much headway was made at a multilateral level. The conclusion of the Uruguay GATT Round and the creation of the WTO with promulgation of the attendant Sanitary/phyto-sanitary (SPS) Agreement in 1995 gave impetus to more modern approaches to SPS matters across the board. For New Zealand this improved our ability to influence the international approach to meat hygiene and reducing many historical barriers to trade with the acceptance of science and risk based approaches to standards development and an outcome focus to process control.

As a result of the increased standards and market expansion and expectation, through the 1960's the numbers of inspectors including veterinarians virtually doubled, but still numbers fell behind the export markets' expectations.

In response to the demand for veterinarians, the veterinary faculty was established at Massey University with the first graduates qualifying in 1968, and New Zealand sought veterinarians from Europe and elsewhere under three year contracts (but some had difficulty fitting into the New Zealand culture). Veterinarian recruitment and retention of competent professional veterinarians became an important concern for MAF.

Moving into the 1970's one of the key changes that was required was for the meat, game and fish industries to understand and accept that a basic principle of exporting animal products was them taking on responsibility for meeting the requirements of the markets concerned, no matter how illogical or unfair they were considered to be. As a consequence the meat industry was forced to modernise and spend large to upgrade works to satisfy importing countries, and to bear the labour costs of ever increasing inspection and verification requirements – including EU's Third Country Veterinary Directive published in 1972 which required 'continuous veterinary supervision' at every slaughterhouse to qualify for EU listing, and also sought to harmonise community import rules.

It seems that from the 1960's and 70's New Zealand's veterinary shortage was just compounding. One example statistic is that in 1976 there were 82 meat veterinarians when the EU requirement was for 130. Another is that the EU requirement would have translated into 300 veterinarians being required in 1983, New Zealand had negotiated this target back to 174 (on the basis of one veterinarian required per slaughter chain), but there was only 131. From the EU's perspective this situation was grossly inadequate.

Market access negotiations continue to focus on reducing veterinary full time supervision, while ensuring the adequate supply of competent professional veterinarians to meet current and future expectations.

NZ has had veterinary recruitment issues dating right back to the late 1960s when we used to advertise in Europe and other countries. Indeed, even now at an international level there is a recognised shortage of well qualified meat hygiene veterinarians. Veterinary capability and competency remain fundamental to providing effective verification services to the red meat industry.

In 1983 Cabinet was questioning the meat hygiene system that had developed by importing country demands in New Zealand. A review was initiated, known as the 'Hinchcliff report' after the reviewer's leader. A major recommendation was for government to look at ways to minimise direct government involvement (policeman), including reducing full time veterinary supervision, by looking for ways to transfer some tasks to companies and lay inspectors; conducting regular reviews of inspection tasks so as to minimise inspection activities; and limit the government's involvement to auditing of approved company quality management programmes.

A significant event occurred in 1984 regarding funding. Meat inspection fees on a per animal basis had been introduced in 1908 but lifted during WWII. They were reintroduced in 1969 but removed again in October 1978 under the Muldoon regime. In the Labour budget of November 1984, the Minister of Finance announced that: "All product inspection services provided by MAF will be put on a cost recovery basis". This was progressively put in place. MAF interpreted 'all product inspection services' to include all quality assurance, inspection, and monitoring services, thus it included the veterinarians providing regulatory oversight. The cost recovery funding base for Verification Services remains today.

Cost of Government verification services is to be transparent and funded under cost recovery principles – there is no provision for a corporate profit component and recognition that industry are entitled to have a say on the cost of service and efficiency.

A follow-up report to the Hinchcliff report was done in 1985: the Pappas-Evans report. Essentially this repeated the recommendations of the Hinchcliff report, but added urgency to the need to review the meat hygiene programme and use inspectors more cost-effectively.

In 1985 a new MAF research programme was established with the aim of developing and justifying a New Zealand meat hygiene programme based on scientific foundations and a risk basis. This approach was world leading at the time and continues today with an even greater focus on a risk basis to the requirements of the programme. Therefore New Zealand utilises a scientific basis to negotiate away many importing countries' requirements that are not based on sound science and to improve the effectiveness and technical efficiency of our own meat hygiene programme.

Sound science will be used as the basis for:

- o Challenging import country expectations and requirements**
- o Justifying alternative approaches and recognition of New Zealand systems - equivalence**
- o Minimising industry costs**
- o Influencing international trade rules including food standards - Codex**
- o The recognition of the regulatory model and risk-based plans and for the management and mitigation of food hazards.**

Therefore, technical knowledge and competency underpins Verification Services' activity.

In regard to biosecurity, MAF had responsibility for verifying transitional facilities under the Biosecurity Act 1993. Both the Environmental Risk Management Authority (ERMA) and MAF did verification of containment facilities (e.g. zoos, universities, Crown Research Institutes) until 2004 when responsibility was shifted to MAF following changes to the Hazardous Substances and New Organisms Act 1996.

The New Zealand government's integrity and credibility, built to a large degree on continued high performance, has continued to grow over the last 25 years and our negotiating strategy built on science/risk, strategic relationships and frequent interchange with key trading partners, has led to less frequent and intense audits by some of our major trading partners and has afforded NZ considerable leverage in negotiating. As examples we have been successful in modifying the USDA's 'Mega-Reg' to accommodate NZ processing, as well as negotiating an equivalency arrangement with the EU, both major gains for NZ.

In 1986 the meat hygiene programme was considered to be running smoothly and the changes initiated by the Hinchcliff report were bearing fruit in the shape of improved efficiencies and a better government-industry relationship. In April 1987 MAF was reorganised into five groups. One of which was MAFQual which covered meat hygiene trade access, dairy, animal health, agricultural quarantine and advisory services. MAFQual was re-branded MAF Quality Management (MQM) in November 1989.

MQM comprised a broad range of functions and activities, some truly regulatory but others that were essentially commercial in their nature. There was a general pressing for a more commercial approach and a scoping group was formed to consider which services should remain in the public sector and which might be privatised. The pressure to act in a commercial manner saw meat inspection activities become meshed with company tasks the preparedness to accept contractual work outside of the regulatory inspection duties. There resulted a growing risk of conflict of interest, and threatening of regulatory integrity. In response to this the Compliance Group was formed in 1990. It was to audit whether regulatory accountabilities were being met by all concerned especially MQM.

From this time, two important reviews and associated Government decisions were instrumental in shaping the verification service as we know it today. The reviews were:

- Price Waterhouse Management Consultants Review 1994: *Future Options for New Zealand's Meat Hygiene Programme* (PW94)
- Roche, Chamberlin, Thompson, O'Hara 1997: *Regulation, Biosecurity and Government; A Strategic Review of MAF* (Roche97)

PW94 explored the operating constraints in the meat hygiene service. This review clearly scripted some important drivers for New Zealand's meat hygiene quality assurance regime. The drivers were: the requirements of overseas markets allowing for flexibility to meet changes to those requirements, cost-effectiveness, and stakeholder acceptance. It was in this review that the three components of the 'regulatory model'² were formulated.

PW94 also recognised that the changing approach to risk management of food safety (HACCP programmes), increased use of verifiable quality assurance methods and the transfer of responsibility to industry provided the potential for advantageous changes to New Zealand's meat hygiene regime.

Roche97 formalised the regulatory model and addressed the issues arising from the progressive development of commercial services within MQM and the increasing pressure to corporatise.

New Zealand law in the area of food primary industries adopts the 'regulatory model' philosophy, clarifying roles and responsibilities and allowing for verification to be contestable and enabling 'third party agencies and persons' to perform verification to a standard. Verification Services will support the regulatory model.

As a result MQM's functions were split in November 1998 as follows:

² Original called the 'optimal regulatory model':

Level I: **Regulatory** Function- standard and system setter and auditor, enforcement.

Level II: **Verification**/Export Certification Functions- to be performed by Government recognised agencies (where able to be contestable).

Level III: **Inspection** Programme- to be devolved to the meat plant or their choice of provider.

- MAF Verification Agency (MAFVA) comprising the meat veterinarians and the travelling meat inspectors took over verification and issuance of official assurances;
- ASURE New Zealand (an SOE) took over frontline post-mortem inspections;
- AgriQuality Ltd (an SOE) took everything else of MQM.

Around this time period, both internationally and in New Zealand, consumer concern was growing around food safety. There had been several significant and globally reported food safety incidents that involved deaths, including child deaths. There was a heightening concern around 'mad cow disease', foot and mouth disease outbreaks in the UK lead to consumers being somewhat less than satisfied with governmental food safety management and questions being asked about trusting the fundamental science/operations around food safety. The consequence was the push for more consumer focused food safety regulations and dedicated food safety competent authorities. For example in the USA, in 1993, an E. coli O157 outbreak in undercooked hamburgers from Jack in the Box restaurants resulted in four children dying and nearly 700 others becoming sick. The consumer outrage resulting from the deaths saw new regulations from the USDA that mandated HACCP and microbial testing in meat processing plants.

It is also noteworthy that such incidents tended to increase the consumer expectation for government inspection services or government regulatory oversight of inspections. Such pressure worked against New Zealand's 'objective to negotiate away the requirements for 'continuous veterinary supervision'. Thus it seems that governments' involvement in inspection supervision will continue, at least to some degree, for the medium to long term. But what we can anticipate is the ongoing negotiation down of the degree or manner that veterinary supervision is actually provided.

New Zealand's negotiation objective remains to move to 'non-continuous veterinary supervision' meaning the premises veterinarian does not need to be on site all the time during slaughter operations. With the technology available today there are many ways of providing regulatory oversight without continuous physical presence. A historical obstacle, particularly in Europe, is that certain Member States remain anchored in the past and fight to protect mandated requirements that underpin full time veterinary presence in Europe, which is more about a lack of trust for certain trading partners than for food safety.

The concerns around food safety and in particular BSE led to the formation of the New Zealand Food Safety Authority (NZFSA) in 2002, combining the animal product standard setters from MAF and the food safety standard setters from the Ministry of Health. The objective of the NZFSA was to administer food related legislation in a form designed to ensure the appropriate level of independence from trade interests while maintaining essential linkages within MAF to fulfil the role of 'Competent Authority' for trade purposes.

In 2004 MAFVA was incorporated into NZFSA as a verification agency and became known as NZFSAVA. The addition of the verification agency provided an opportunity to rethink operational requirements and better align the existing modus operandi to reflect stakeholder needs.

NZFSA started as a 'semi-autonomous agency' in MAF, but on 1 July 2007 became a standalone government agency. But it existed only for three years before being merged back into MAF on 1 July 2010. Then one year later, on 1 July 2011, the Ministry of Agriculture and Forestry and the Ministry of Fisheries merged to create a single agency spanning the whole of the primary sector. The new ministry became the Ministry for Primary Industries (MPI) on 30 April 2012. Verification Agency is now in MPI, as are the standard setters for animal products and food.

MPI Verification Services is recognised as very effective and credible, it tends to be cheaper than other commercial verifiers as its funding is based on cost recovery not profit, and also gives additional value for money in being 'well branded' and carrying the government endorsement.

Verification Services remain cost recovered for all its services, and the greatest portion of its services are mandated so it does not operate in a competitive market. Therefore a high degree of reporting and scrutiny by industry mark the financials of Verification Services.