

THE HORSEMEAT CRISIS IN EUROPE AND NESTLÉ'S INITIATIVE (A)¹

It was Wednesday, January 16, 2013, when José López, Executive Vice President of Operations – GLOBE (Global Business Excellence) at Nestlé, first read the story in the morning newspapers.

As a result of routine authenticity tests carried out by the Irish Food Safety Authority (FSAI - Food Safety Authority of Ireland) traces of horsemeat and/or pork DNA had been found in certain beef labelled products. The bulk of these fraudulently mislabelled products were frozen beef burgers all of which were sold in a number of high profile supermarkets. Five major distributors were implicated: Tesco², Dunnes Stores³, Aldi⁴, Lidl⁵ and Icelands⁶. Out of a sample of 27 burgers purchased in these 5 chains, 10 burgers were found to have contained strands of non beef DNA later identified as horse meat. One of the burgers analysed, sold under Tesco's 'Everyday Value' brand but produced by Silvercrest, contained up to 29% horsemeat. On the morning of the announcement all the supermarkets implicated removed the offending products from their shelves, which resulted in more than ten million burgers being removed in the space of a few days.

José López was returning to Vevey. As he boarded the plane, before taking off, he called his secretary. As soon as he arrived at head office, he would like to meet his team to discuss the situation in more detail and decide what actions ought to be taken. Following the standard practice at Nestlé in the event of a crisis, he had given

¹ Case prepared by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by Professor Antonio García de Castro, Professor José Antonio Boccherini Bogert and the research assistant Mrs. Rocio Reina Paniagua from Instituto Internacional San Telmo, to be used as basis for classroom discussion, and not to illustrate effective or ineffective management of a specific situation.

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² British multinational grocery and general merchandise retailer. By profit margins Tesco is the second-largest retailer in the world surpassed only by Wal-Mart.

³ Large Irish retail chain.

⁴ German discount supermarket chain.

⁵ German discount supermarket chain.

⁶ Welsh supermarket chain operating in the UK and Ireland.

instructions to cancel all other commitments. For José López, the consumer always came first. Nothing was more important to him than maintaining their confidence in Nestlé and its products. Experience had taught him that a crisis, such as this, can only be properly managed by taking the correct approach from the outset. However such a response would take time and would require him to dedicate his time and all his attention.

IRELAND: THE STARTING POINT

In November 2012, the FSAI launched a new campaign to monitor the content of certain food products, especially beef, one of the country's main food products (see Exhibit 1 for data on the Irish Beef Industry). The study was conducted by obtaining samples at retail level and then subjecting those samples to scientific testing. The laboratory tests carried out on the meat used DNA-based analytical techniques to determine whether the food product contained what it supposed to contain and only that. The DNA testing enabled the identification of various animal species in the food. According to the Irish Minister for Agriculture, Simon Coveney T.D., these routine checks constituted a guarantee to consumers as to the quality and traceability of all products destined for human consumption.

In January the Rapid Alert System for Food and Feed (RASFF⁷) reported that horsemeat had been detected in products labelled as beef. The products concerned originated in Poland and Romania, and had passed through intermediary operators in other member states, including Ireland, the UK, Luxembourg, France, Netherlands and Sweden.

Supermarkets affected by the incident were notified immediately and frozen burgers at these supermarkets were taken off the shelves. The FSAI conducted an investigation into the matter and revealed information which pointed to the intentional and/or negligent introduction of the extraneous offending material into the food chain.

That very day, January 16, Silvercrest, a subsidiary of the ABP Food Group⁸, who had been identified as a supplier of the affected meat products, issued an apology on its website announcing that it would be introducing a new testing system for all its meat products. Exhibit 2 contains the ABP Statement. Horsemeat had been found in 9 of the 13 Silvercrest burgers which had been tested by the FSAI.

⁷ The RASFF (Rapid Alert System for Food and Feed) is an initiative launched by the EC in 1979 to enable the exchange of information between national authorities with regard to consignments of food and feed in cases where a risk to human health has been identified and measures have been taken (e.g. withholding, recalling, seizing or rejecting products). This mechanism allows EU Member States to ascertain whether they have been affected by the cited risk and, if necessary, to take the appropriate action.

⁸ One of Europe's leading processed food groups, with headquarters in Ireland and a large number of premium beef brands.

Silvercrest's County Monaghan based processing plant, with a daily processing capacity of 3.7 million burgers, also announced that it would be suspending its operations indefinitely pending the results of an internal investigations. In late January, it was made public that Silvercrest had lost a series of important supply contracts with Burger King, Tesco, Aldi and the Co-operative Group in the UK. Tesco stated that Silvercrest had negligently used meat sourced by suppliers not contained on a list of approved suppliers.

According to Kantar Worldpanel, in the four weeks following the publication of the first news report⁹, sales of frozen burgers plummeted by 43%, while sales of frozen ready meals fell by 13%.

Mike Gibney, Director of the Institute of Food and Health at Dublin University noted that *"the fact that supermarkets press to get the cheapest price possible could be part of the problem. Beef is three to four times as expensive as horsemeat, which is primarily used in pet food. As you push down the price of the producer, they push down the price of their supplier, there you get into danger"*.

Meanwhile, Silvercrest's parent company ABP Food Group announced that it would begin DNA testing on its own production lines. They also stated that they would now be sending technical experts to examine the meat used in the production plants of all its meat suppliers.

At this stage, DNA testing was not yet being performed on a widespread basis in the food industry. Ireland led the way first carrying out DNA tests in 2011 after it was discovered that a large proportion of fish labelled as cod in Irish supermarkets and sold as cod in fast food restaurants was actually haddock¹⁰, a similar tasting, but cheaper white fish.

As the scandal spread, the European Commission sought to remind consumers that there was no risk to food safety given that horsemeat is suitable for human consumption. Consumers were, however, entitled to be properly informed of the contents of the foodstuffs they consumed. The issue therefore was one of labelling, not food safety, as these products had provided incorrect information as to the meat content of their products.

Whilst horsemeat can be safely consumed by humans, concerns were raised with regard to the presence of phenylbutazone in the horsemeat. Phenylbutazone is a veterinary drug, commonly known as bute and is used to treat pain and fever in animals¹¹. Animals which have been treated with the drug may not however be used for human consumption. According to the FSAI, the highest level of this compound detected in the horsemeat samples analysed was 1.9 mg/kg, between 520 and 1,600

⁹ Being the period ending the 17th of February 2013.

¹⁰ Fish from the cod family.

¹¹ It is also used to treat some conditions in humans, however when combined with many common painkillers, it can cause serious complications.