

Australian Egg Corporation Limited 3-Year Performance Review

Report

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Prepared for



Prepared by

AgEconPlus
CONSULTING

ABN 41 107 715 364

Michael Clarke

P: (02) 9817 5888

M: 043 8844024

E: clarke@AgEconPlus.com.au

W: www.AgEconPlus.com.au

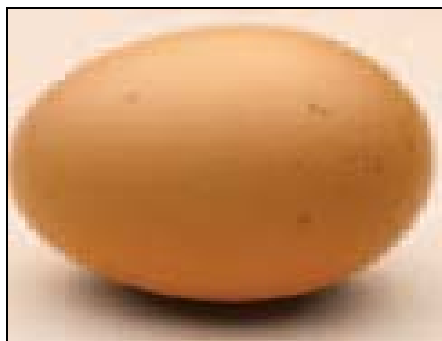


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Abbreviations and Glossary

ABARE	Australian Bureau of Agricultural and Resource Economics
Act	Egg Industry Services Provision Act 2002
AECL	Australian Egg Corporation Limited
AEIA	Australian Egg Industry Association
AEE	Australian Egg Export Pty Ltd
AICD	Australian Institute of Company Directors
ASIC	Australian Securities and Investments Commission
AOP	Annual Operating Plan
CBA	Cost Benefit Analysis
CRC	(Poultry) Cooperative Research Centre
DAFF	Australian Government Department of Agriculture Fisheries and Forestry
DEST	Australian Government Department of Environment Sport and Territories
DoFA	Australian Government Department of Finance and Administration
DPI	(state based) Department of Primary Industries
GP	General Practitioner
ICC	Industry Consultative Committee
IP	Intellectual Property
IRA	Import Risk Assessment
KPI	Key Performance Indicator
R&D	Research and Development
RDC	Research and Development Corporation
ROI	Return on Investment
SFA	Statutory Funding Agreement
SWOT	Strengths Weaknesses Opportunities and Threats (analysis)
U&A	Usage and Attitude study on eggs
WTO	World Trade Organisation

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Executive Summary

This document is the first 3-year performance review of the Australian Egg Corporation Limited (AECL). The review has been completed in accordance with the requirements of the Statutory Funding Agreement (SFA) between AECL and the Australian Government.

From consultation with stakeholders, analysis of plans and reports and completion of a series of cost benefit analyses of AECL's investment in promotion, the review finds:

Meeting of Obligations Under the Statutory Funding Agreement

AECL has met its obligations under the Statutory Funding Agreement (SFA). AECL is properly constituted as a public non-listed company limited by guarantee; income has been directed at the objects of the Company, an appropriate Board of directors has been appointed, audits have taken place and the Company has managed its responsibilities in relation to agri-political activity. Funds have been allocated in accordance with strategic plan priorities.

Development and Implementation of Plans

AECL has developed and implemented a 3-year Strategic Plan in accordance with the Statutory Funding Agreement (SFA). The 3-year Strategic Plan is updated and actioned through systematic and comprehensive annual operating plans, which provide specific projects/activities and serve as a 'blueprint' for AECL management. AECL has also prepared and implemented an appropriate Risk Management Plan, Fraud Control Plan and Intellectual Property Management Plan.

AECL Efficiency and Effectiveness in Carrying Out its Plans

The review has uncovered no evidence of waste or inefficiency in preparation or in giving effect to its plans. AECL has been efficiently managed as a small autonomous industry service provider with limited resources.

AECL has effectively addressed the objectives it developed with the egg industry which are articulated in its 3-year Strategic Plan. Most progress has been made in promoting eggs – a principle reason for the Company's establishment. Pleasing progress has been made in driving the uptake of innovation (R&D) and creating/nurturing the capability of AECL. AECL has been effective in identifying and facilitating alternative marketing opportunities for eggs. Less progress has been made in securing business inputs at competitive prices and addressing government and public perceptions of the industry. Certainly some progress has been made in increasing Australian Parliamentary Backbencher awareness of key egg industry issues.

Delivery of Industry Benefits Foreshadowed in its Plans

Three types of benefit are foreshadowed by AECL from the investment by levy payers in the implementation of the 3-year Strategic Plan. They are marketing to increase the demand for eggs, R&D to enhance the competitiveness of stakeholder businesses and industry services.

The review finds that AECL has positively influenced the Australian market by changing the attitudes, perceptions and opinions of consumers and key healthcare professionals in a number of important areas identified as barriers to increasing egg purchase and consumption. Quantitative analysis undertaken by the review provides support for the proposition that during the review period, industry returns were boosted by AECL marketing investment and that additional revenue generated exceeding program costs. Key milestones in delivering this result include the achievement of the Heart Foundation's 'Tick of Approval' for eggs for only the second time anywhere in the world.

AECL has appropriately focussed its R&D program on immediate producer priorities and broadly defined its investments to include the whole supply chain. AECL has also invested in R&D for the long term through the Poultry CRC. AECL's R&D program is strategic and efficiently managed. It includes a commendable producer initiated R&D component. After only three years of operation evidence is not available to conclude on the effectiveness of AECL's R&D program and a cost benefit analysis of individual project returns is beyond the scope of this review.

Policy services are seen by AECL as a secondary activity after marketing and R&D. This prioritisation is consistent with the Statutory Funding Agreement (SFA). Nevertheless, AECL has represented egg producers with Federal and State governments in relation to animal health and welfare, crisis and issues management and regulatory activities. For example AECL was able to respond rapidly and with authority in 2006 to claims of substitution of cage laid for free range eggs. However, AECL needs to do more work in including small to medium producers in national policy making and the communication of policy decisions to these producers. Hen layer cage adjustment assistance is one case in point. Some egg producers felt their interests were not fairly represented in this instance and strategy was not appropriately communicated to them.

Review Conclusions

The review concludes that AECL is a professionally managed industry services body, investing efficiently and effectively in marketing/promotion, R&D and policy services. AECL has been effective in developing and implementing a strategic plan to deliver benefits for the Australian egg industry in the three years 2003 to 2006.

1. Introduction

1.1 Purpose of the Review

The Australian Egg Corporation Limited (AECL or the Company) is committed to completing a 3-year review of its performance and activities consistent with its Statutory Funding Agreement (SFA) with the Australian Government.

The review is to assess AECL's performance against its strategic and annual operating plans and take into account:

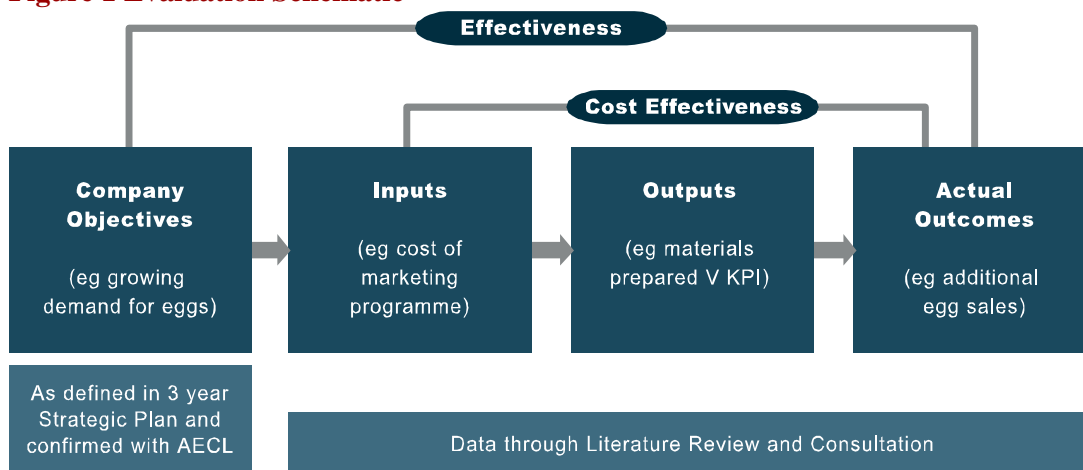
- 1) The performance of the Company in meeting its obligations under the SFA;
- 2) The Company's development and implementation of its strategic, operating, risk management, fraud control and intellectual property plans, and the Company's effectiveness in meeting the priorities, targets and budgets set out in those plans;
- 3) The efficiency with which the Company carried out those plans; and
- 4) The delivery of benefits to the industry foreshadowed by the Company's strategic and operating plans.

The review was therefore to assess the performance of AECL against its strategic and annual operational and other plans since commencement in February 2003 including the cost benefit achieved for stakeholders given levy funds invested.

1.2 Review Methodology

A review framework was prepared using program logic to systematically analyse AECL inputs, outputs and outcomes against planning objectives and strategies. See Figure 1 below.

Figure 1 Evaluation Schematic



Source: Adapted from Australian Government Department of Environment Sport and Territories (DEST) Evaluation Guidelines 1997.

In its simplest form program logic reviews ‘*what AECL said it would do*’ alongside ‘*what has been done*’ in a systematic and transparent way.

In addition to a review framework based on program logic, a cost benefit analysis framework was used to determine the level of net benefits delivered to the industry by AECL from industry’s levy investment.

The cost benefit analysis made use of the AECL R&D projects titled *Optimal Egg Marketing Under Changing Market Structures* and *Generic Promotion in the Food Marketing Chain*. Dr John Freebairn, Professor in the Department of Economics at the University of Melbourne, led both research teams. These research reports provide an objective performance indicator suitable for measuring the return on investment achieved from generic shell egg advertising.

The program logic and cost benefit analysis frameworks were populated with data from AECL’s 3-year Strategic Plan, Annual Operating Plans (AOP), other planning documents, annual reports and stakeholder consultation. Three full years of AECL financial data (i.e. 2003/04, 2004/05 and 2005/06) were available for the review.

Selected stakeholder interviews were completed with large producers, small producers, government (the Parliamentary Secretary to the Minister for Agriculture, Fisheries and Forestry and DAFF), AECL management and directors. AECL management also placed a notice in the 28 August 2006 AECL fortnightly newsletter, ‘EggCorp EggsPress’ requesting stakeholder submissions to the review and direct AECL member communications with the appointed consultant.

1.3 AECL Background

AECL is a public non-listed company, which commenced operations on 1 February 2003. The company is Australian egg producer-owned and undertakes marketing, R&D and policy services for the benefit of stakeholders who contribute financially to the AECL business.

AECL’s principal stakeholders are levy-paying egg producers who distribute a range of products to the Australian market. Eggs produced by AECL’s principle stakeholders include caged eggs, barn-laid eggs, free-range eggs and specialty eggs (eg eggs with anti-oxidants, organic eggs, vegetarian eggs, etc).

The company also works cooperatively with supply chain partners and external service providers to achieve the objectives and strategies detailed in its 3-year Strategic and Annual Operational Plans for the benefit of all stakeholders.

AECL is principally funded through statutory levies collected under the *Egg Industry Service Provision Act 2002*. A compulsory 32.5 cents per chick purchased for egg production is levied on egg producers for promotion and a further 7.2 cents per chick purchased is levied for R&D. The Australian Government contributes financially to AECL through matching funds for the purposes of R&D and is therefore a stakeholder.

AECL attracts revenues of approximately \$5 million pa.

The *Egg Industry Service Provision Act 2002*, the SFA and AECL's Constitution provide a legal framework for company operations in addition to the Corporations Act 2001 to which the AECL reports to ASIC. AECL company duties and responsibilities for management of levy funds are outlined in the SFA. In addition, the SFA helps to ensure effective corporate governance and diligence in fulfilling the company's duties. Clause 12 of the SFA clearly enunciates the need for AECL to undertake a performance review after three years of operation.

The Company's strategic plan and annual reports spell out its vision, mission and objectives. To assist AECL management implement projects/activities to generate outcomes that address the company's objectives, five program pillars have been constructed. These are market awareness, market education, supply chain enhancement, on-farm innovation & efficiency and public affairs & stakeholder relations.

The Company was founded to boost the levels of resources available to the industry for advocacy and promotion. Many egg producer stakeholders see AECL's core objective as being to increase domestic egg consumption.

AECL has limited resources relative to other Industry Service Providers in larger and therefore better-resourced industries. For example, AECL has an annual operating budget of \$5 million and the next smallest industry-owned Service Provision company is Australian Pork Limited with an annual operating budget of \$20 million. Some industry observers and stakeholders questioned AECL's viability as a stand-alone organisation when established in 2003.

2. Legal Framework for AECL Operations

2.1 Enabling Legislation

The Australian egg industry established AECL to undertake Industry Service Provision, including Marketing, R&D and Policy Services for the benefit of Australian egg producers and the Australian egg industry as a whole.

The *Egg Industry Service Provision Act 2002* was enacted by the Commonwealth to provide, amongst other things, for:

- The Minister or his or her authorised representative, on behalf of the Commonwealth, to enter into a contract with an eligible body that provides for the Commonwealth to make Promotion Payments, R&D Payments and Commonwealth Matching Payments to the body on the terms and conditions set out in the contract; and
- The Minister or his or her authorised representative, to declare an eligible body with which such a contract has been made to be the Industry Services Body for the Industry.

The *Egg Industry Service Provision (Transitional and Consequential Provisions) Act 2002* was enacted by the Commonwealth to provide, amongst other things, for the transfer of the assets and liabilities of the egg sub-program of the Rural Industries Research and Development Corporation (RIRDC) on abolition of that program to the first body declared to be the Industry Services Body.

The Minister agreed to contract with AECL on terms and conditions as per the SFA.

The initial term of the SFA was three years commencing 1 February 2003. A new SFA must be renegotiated prior to 31 January 2007.

2.2 Statutory Funding Agreement

The SFA is a contract between the Commonwealth of Australia and AECL for the purposes of the *Egg Industry Service Provision Act 2002*. The SFA entails a set of obligations for AECL. In summary, the agreement's provisions cover:

1. **Definitions**
2. **Operation of the Agreement** – specifies items such as initial agreement term and agreement confidentiality.
3. **Constitution** – as described in SFA Schedule 2 and described in greater detail in the sections below.
4. **Payment of Levy Funds and Matching Funds** – the Commonwealth must pay AECL Promotion Payments, R&D Payments and Matching Payments.
5. **Application of the Funds** – consistent with AECL's strategic plan, operating plan and guidelines, funds are to be spent on Promotion, Industry Service Provision (membership register, general meetings), Remuneration, Borrowing, use of Matching Payments for R&D, R&D activities, use of Transferred Funds (from the previous Industry Services Body) and prohibition on use of funds for Agri-Political Activity. Application of funds is described in greater detail in the sections below.
6. **Funds Bank Account** – AECL must have a dedicated Australian bank account, keep accounting records that can be audited and separately report Promotion, R&D, Matching Payments and Transferred Funds.
7. **Management of Transferred Assets and Liabilities** – funds transferred from the previous Industry Services Body must be managed on the same basis as new funds.
8. **Use of Transferred Assets and Liabilities** – to be managed on the same basis as new assets and liabilities.
9. **Strategic and Operational Plans** – prepare a rolling three year strategic plan, update the strategic plan on an annual basis, make the plan available to levy payers, consult levy payers during its preparation, be consistent with Government R&D priorities, notify any human health impacts associated with egg consumption and adopt best practice. Strategic plan requirements are described in greater detail below. Each annual operating plan must detail Promotion, R&D and Industry Service Provision programs, be mindful of the strategic plan and Government objectives for R&D, detail performance indicators, timetables and milestones, provide income and expenditure estimates and be provided to the Commonwealth within 7 days of finalisation.
10. **Other Plans** – a Risk Management Plan, a Fraud Control Plan and an Intellectual Property Management Plan must all be prepared and implemented.

11. **Reports and Meetings** – prepare an annual report consistent with Schedule 6 of the SFA; 6 monthly financial statements to be prepared and submitted to the Commonwealth, any significant matters to be reported to the Commonwealth on a 30 day basis, meet with the Minister at 6 monthly intervals.
12. **Review of Performance** – consistent with requests made by the Government on an *ad hoc* basis, undertake a formal Performance Review after the first 3 years of operation from the Commencement Date.
13. **Access to Records and Use of Information** – AECL records must be made available to the Commonwealth and the Commonwealth must protect commercially sensitive information.
14. **Audit** – an annual audit must be completed at AECL’s cost. The audit provisions of SFA documents with all Industry Service Providers, including AECL, were strengthened in July 2004 with additional emphasis placed by the Commonwealth on systems, processes and controls.
15. **Indemnity** – AECL indemnifies the Commonwealth against breach of the SFA and any loss or damage caused by its actions.
16. **Suspension of Fund Payments** – may occur if AECL is in breach of the SFA or fails to comply with a Ministerial directive.
17. **Termination and Recovery** – the Commonwealth may require repayment of funds associated with a breach in the SFA.
18. **Conflict of Interest** – AECL warrants there are no current conflicts of interest and that it will notify the Minister should any conflict of interest arise in the future.
19. **Acknowledgement of Funding** – AECL to acknowledge Commonwealth funding contribution in relevant publications and publicity.
20. **Authorisation of Persons to Act** – the Minister may authorise an APS employee to act on their behalf.
21. **Relationship** – the SFA does not create an employment, agency or partnership relationship between the Commonwealth and AECL.
22. **Further Action** – both parties must make all effort to give full effect to the SFA.
23. **Resolution of Disputes** – legal action to be used as a last resort in solving disputes between the Commonwealth and AECL.
24. **Assignment** – AECL may not assign any rights under the agreement to other parties without prior consent.
25. **Entire Agreement** – the SFA is the entire agreement and supersedes any prior understandings.
26. **Alteration** – change to the SFA can only be made in written and signed form.
27. **Waiver** – of any part of the SFA must be made in written and signed form.
28. **Severability** – any illegal or unenforceable part of the SFA may be removed.
29. **Governing Law and Jurisdiction** – the law of the Australian Capital Territory applies.
30. **Notice** – in relation to matters arising from the SFA must be provided in writing.

31. **Interpretation** – grammatical and administrative clarifications.

The substantive components of the SFA relevant to a review of AECL performance relate to the Constitution, audit, the application of funds, strategic and operating plans, risk management, fraud control and intellectual property plans. The requirements of these components along with AECL performance in their delivery are spelt out in the sections below. A comment on whether AECL has appropriately addressed the more general requirements of the SFA is also provided.

3. Performance in Meeting SFA Obligations

3.1 Company Constitution

Consistent with the SFA, AECL warrants that at all times during the operation of the SFA the Company's Constitution will contain rules to the following effect (SFA Schedule 2):

- (a) That the Company must be limited by guarantee;
- (b) That the income and property of the Company shall be applied solely towards the promotion of the objects of the Company and that the Constitution may permit:
 - (i) The payment of remuneration to officers and employees; and
 - (ii) The payment of interest on borrowings and rent for premises;
- (c) That all Levy Payers are entitled to become members of the Company;
- (d) That all members of the Company are entitled to vote at general meetings and in the election of directors;
- (e) That all members of the Company are entitled to vote on resolutions concerning proposed changes to Levies;
- (f) The Company must not engage in Agri-Political Activity;
- (g) Directors must inform the Minister in relation to any activity that constitute Agri-Political Activity;
- (h) Directors must have the following skills;
 - (i) Egg production;
 - (ii) Production or processing of egg products;
 - (iii) Product promotion;
 - (iv) Business and financial management;
 - (v) R&D, technology transfer, commercialisation of research, and innovation;
 - (vi) Conservation and management of natural resources; and
 - (vii) International market development, international trade and the WTO.
- (i) A director highly skilled in corporate governance is required;
- (j) That the Board comprise up to four directors elected from direct nominations by members and up to three members appointed by the Board;
- (k) That the Managing Director and at least one specialist member be appointed within six months of the Commencement Date;
- (l) That after the first six months after the Commencement Date, any ongoing vacancies be filled on an interim basis; and
- (m) That the Company shall not spend Funds on making payments to industry representative bodies specifically intended for Agri-Political Activity.

AECL will notify the Commonwealth of changes to its Constitution.

Review Findings: Examination of the AECL Constitution (AECL 2005) reveals AECL is properly constituted as a public non-listed company limited by guarantee; income has been properly directed at the objects of the Company; a complying Board of directors has been established and the Company has managed its responsibilities in relation to agri-political activity (See also Chapter 6 of this report for more detail).

3.2 SFA General Requirements

Research and consultation undertaken by this review reveals that in relation to the SFA:

- AECL has received all relevant funds from the Commonwealth and these have been paid into appropriate Australian bank accounts. There have been no difficulties with the application of new or transfer funds.
- Government has been satisfied with AECL's management of funds in respect of 'Agri-Political Activity' and the Company's acknowledgement of funding provided by the Commonwealth.
- AECL has complied with all Government reporting, record keeping and audit requirements. AECL makes use of an external auditor and is in compliance with the relevant Australian accounting standards and International Financial Reporting Standards (IFRS).
- SFA compliance requirements in relation to auditing were strengthened for all industry service providers, including AECL, during AECL's second year of operation. Additional emphasis was placed in the revised SFA on systems, processes and controls and the change was made to all industry company funding agreements. AECL is considered by DAFF to have complied with these revised audit requirements. Compliant audit reports have been provided to the Australian Government.
- Government has received all reports from AECL to an appropriate standard. There were some delays in preparing fraud control, risk management and intellectual property management plans and the company's annual operating plan for 2004-05. Extensions were sought by AECL and subsequently granted by the Commonwealth.
- Meetings between AECL and the Parliamentary Secretary for Agriculture have occurred at six monthly intervals and are productive and informative for both parties. R&D is a particular focus of attention at these meetings.
- A 3-year AECL performance review will be completed in accordance with the SFA. AECL requested a delay in the commencement of the Performance Review to enable inclusion of financial and other data for three full financial years and the Commonwealth granted this change.
- Suspension of funds payments, termination and recovery, conflict of interest and resolution of disputes have not risen as issues between the parties.
- The SFA has not required revision as a result of any action taken by AECL. This is itself an indicator that the Agreement has functioned appropriately.

The content of the current SFA should guide a new statutory funding agreement.

3.3 Application of the Funds

The SFA requires that funds available to AECL from the marketing levy, R&D levy, Commonwealth matching payments and other sources be allocated respectively for marketing, R&D and industry service provision in accordance with agreed plans. Table 3.1 below summarises budget allocation from the three-year strategic plan alongside actual expenditure reported in AECL's annual reports.

Table 3.1 Application of Funds - Budget versus Actual (\$'million)

	Budget 04	Actual 04	Budget 05	Actual 05	Budget 06
Income					
Marketing Levy	3.2	2.2	3.3	3.5	3.4
R&D levy+ Govt Matching	1.7	2.4	1.5	1.5	1.5
Other income	0.2		0.3		0.3
Total	5.1	4.6	5.1	5.0	5.2
Expenditure					
Growing demand/Marketing	1.9	1.3	3.3	2.7	3.9
Enhancing competitiveness/R&D	1.8	2.4	1.4	1.6	1.0
AECL capability/Administration	0.8	0.5	0.7	1.0	0.7
Total	4.5	4.2	5.4	5.3	5.6

Source: AECL Strategic Plan 2003-2006 and AECL Annual Reports

Review Findings: AECL resources have been appropriately allocated in accordance with strategic plan priorities. Both DAFF and the specialist director with expertise in corporate governance report that there are very few 'financial surprises' with this organisation.

In the early days of the organisation AECL underspent on marketing and promotion. This was a deliberate policy of holding back resources in reserve until underpinning research was completed and funds could be invested with confidence. This policy is consistent with prudent financial management.

Egg producer concern was expressed during consultation regarding AECL's reserves policy and its corresponding capacity to address unforeseen contingencies such as the funding of a vaccination program in the event of an exotic disease outbreak (as it did with the outbreak of Newcastle's Disease) or the mounting of an information program prior to a change in egg import policy. The consultants note that other Industry Service Provision bodies have formal policies in this regard and recommend AECL give consideration to adopting a similar position.

The current 'book entry' issue relating to un-spent funds rolled over from RIRDC needs resolution to ensure that egg producers do not believe the Company is under-funding R&D by building reserves in this area.

AECL's performance in developing and implementing strategic, annual operating and other plans is detailed in the chapter below.

4. Performance in Developing and Implementing Plans

4.1 Strategic Plan 2003 to 2006

SFA Requirements for a Strategic Plan

The SFA clearly articulates a requirement for AECL to develop and adopt a 3-year strategic plan. Table 4.1 lists SFA requirements for a 3-year strategic plan alongside AECL's response.

Table 4.1 SFA Requirements for an AECL Strategic Plan

SFA Requirement	AECL Response
Develop and adopt a written 3-year strategic plan	3-year plan prepared for the period 2003 to 2006 in close consultation with egg producers.
Review and update the strategic plan at least once per year	Strategic issues updated each year through the Annual Operating Plan.
Make the strategic plan generally available to levy payers	Printed copies of the strategic plan were distributed to all egg producers and not just members. The strategic plan is available on the members' only section of the AECL website.
Coverage	
Include a <i>vision</i> statement	<i>AECL will facilitate the sustainable and profitable growth of the Australian egg industry.</i>
Include a <i>mission</i> statement	<i>To create an industry operating environment that assists to minimise barriers and costs for Australian egg producers and to maximise benefits and revenue for the industry through integrated marketing, R&D and policy services.</i>
State the <i>objectives</i> and <i>priorities</i> of AECL over the plan period	<ol style="list-style-type: none">1. Growing demand for eggs in Australian market.2. Enhancing the competitiveness of stakeholder businesses.3. Creating and nurturing the capability of AECL.
Assessment of the <i>operating environment</i> including SWOT, trends and implications	Challenges identified as: <ul style="list-style-type: none">• Ensuring demand for eggs – address declining consumption and poor market knowledge• Increase positive perceptions of eggs and the industry• Managing industry adjustment pre introduction of 2008 cage legislation• Assist egg producers to manage their compliance burden• Ensuring industry competitiveness

Table 4.1 SFA Requirements for an AECL Strategic Plan (continued)

<p>Views of key stakeholders and clients</p>	<p>Views of stakeholders drive the three AECL Strategic Plan objectives, which were developed through a structured and independently, facilitated consultation process.</p>
<p>A corporate governance statement outlining the directors' responsibilities</p>	<p>A corporate governance statement is included in the 3-year strategic plan. The directors' responsibilities are to:</p> <ol style="list-style-type: none">1. Set company policies2. Appoint the MD, provide direction on staff3. Approve strategies, plans and budgets4. Assess and review company performance5. Respond to management recommendations6. Approve capital expenditure7. Ensure legal and ethical behaviour8. Ensure AECL operates within the SFA <p>The AECL directors have discharge these responsibilities.</p>
<p>The strategies AECL intends to adopt in order to achieve its objectives</p>	<p>AECL have focussed on three core strategies:</p> <ol style="list-style-type: none">1. Growing demand for eggs in Australian market<ul style="list-style-type: none">• Promote eggs and the Aust egg industry• Identify alternative market opportunities2. Enhance the competitiveness of stakeholder businesses<ul style="list-style-type: none">• Drive uptake of innovations• Business inputs competitive prices3. Creating and nurturing the capability of AECL<ul style="list-style-type: none">• Skilled resources, streamlined systems• Integrated services• Create links

Table 4.1 SFA Requirements for an AECL Strategic Plan (continued)

<p>Proposed corporate <i>outcomes</i> and <i>outputs</i> aligned to AECL's strategies including those sought in relation to broad industry and community benefit</p>	<p>1a Promote eggs and the Australian egg industry</p> <ul style="list-style-type: none">• Understand consumer perceptions• Marketing campaign• Retail environment egg merchandising• Health benefits of eggs• Ongoing consumer monitoring• Improve government/public perception <p>1b Identify and promote alternative market opportunities</p> <ul style="list-style-type: none">• Attitudes – food industry/opinion leaders• Alternative use, distribution, packaging• Facilitate adoption of alternatives <p>2a Drive uptake of innovations that enhance productivity</p> <ul style="list-style-type: none">• Identify inefficiencies in the chain• Initiate innovations• Commercialise innovations• Ongoing monitoring of efficiencies gained <p>2b Facilitate access to business inputs at competitive prices</p> <ul style="list-style-type: none">• Identify overpriced inputs• Facilitate access at competitive prices <p>3a Develop skilled resources, streamlined systems</p> <ul style="list-style-type: none">• Appropriate human resources• Appropriate systems <p>3b Integrated services delivering stakeholder value</p> <ul style="list-style-type: none">• Develop a team culture• Prioritise to achieve greatest benefit <p>3c Create tools and processes to foster productive linkages</p> <ul style="list-style-type: none">• Effective communication• Timely market and industry information
<p>Performance <i>indicators</i></p>	<p>The annual KPIs and measures for operations are identified in the Annual Operating Plans.</p>
<p><i>Government's R&D</i> funding policy, direction and policies</p>	<p>A statement on recognition and alignment with government R&D priorities is included in the 3-year Strategic Plan. The plan is mindful of new technologies, QA, supply chains, increasing consumer emphasis on product quality and integrity.</p> <p>AECL investment in Poultry CRC supports the Government's priority of improving disease preparedness and national biosecurity.</p> <p>Environmental operating guidelines are prepared in close cooperation with the three tiers of government.</p>

Table 4.1 SFA Requirements for an AECL Strategic Plan (continued)

Broad *resource allocation* for the life of the plan by Promotion, R&D and other Industry Service Provision activities.

Strategic plan details expenditure by objective. AECL Board places greatest emphasis on Objectives 1 and 2

Plan Development

Use reasonable endeavour to *consult* with stakeholders

Industry consultation involved:

- Survey of industry representatives.
- Exploratory workshop of members, interested stakeholders, AECL Board and management.
- Draft report compiled and circulated to workshop attendees and made available to egg producers for comment.

Take into account Government's broad R&D *priorities* and guidelines

R&D projects are reported by Government priority:

- National R&D priorities
- Rural R&D priorities

Take into account the *human health* impacts of consumption of eggs

AECL has commissioned an independent global review of the scientific literature on eggs and nutrition, human health and disease. The literature review is updated annually and has not revealed negative human health impacts from egg consumption.

Adopt *best practice* including any relevant Australian Standards

- Strategic plan workshop with an independent facilitator
- Draft plan coordinated by independent strategic planner
- Accounting standards, plans, etc are all best practice

Review findings: AECL has addressed all of the SFA requirements for a 3-year Strategic Plan.

AECL Effectiveness and Efficiency in Strategic Plan Delivery

This section of the review summarises strategic plan initiatives (i.e. proposed corporate outcomes and outputs) alongside the level of achievement attained. Data to populate the table was sourced from AECL Marketing Research Outcomes and Strategy documentation, Annual Operating Plan projects, activities and KPIs, AECL annual reports, and consultation findings.

Table 4.2 Promoting Eggs and the Australian Egg Industry

Initiative	Attainment Achieved
Understand consumer perceptions	<ul style="list-style-type: none">• National qualitative and quantitative Usage & Attitude (U&A) market research completed July to December 2003.• ACNielsen ‘homescan’ data service – monthly ongoing retail tracking/monitoring research.• Periodic Newspoll research undertaken among consumers to identify market movements – 4 surveys conducted to date.• Decision Research – GP Reach – market research among General Practitioners – 2 surveys conducted to date.• National consumer sensory research undertaken – September 2006.
Promotion campaigns	<ul style="list-style-type: none">• Preparation of a strategic plan, marketing strategy and related programs for the promotion of eggs in Australia.• The objective of the marketing strategy was to grow the demand for eggs in Australia through promotion.• Two types of market promotion campaigns developed: an awareness campaign and an education campaign.• Awareness campaign to address lack of long-term category support and growth.• Education campaign to dispel health and nutrition myths.• Support/enabling objectives address supply chain efficiency and product differentiation.• Awarded the Golden Egg Award for marketing excellence by the International Egg Commission (IEC) in September 2004.
Retail environment egg merchandising	<ul style="list-style-type: none">• Addressed through the supply chain efficiency objective of the marketing campaign.• Informed by an AECL retail category management audit, which identified eggs as a ‘low priority’ for retailers.• Includes a category management trial with Coles supermarkets in Melbourne and development of a store specific best practice manual.• Retail Category Management (RCM) programs extended in Sydney and Brisbane markets with Coles supermarkets.• National retail planogram reset with Coles supermarkets covering over 600 stores.• Ullage audit undertaken identifying key measures to reduce egg wastage in the supply chain.

Table 4.2 Promoting Eggs and the Australian Egg Industry (continued)

Health benefits of eggs	<ul style="list-style-type: none">• Education component of the egg marketing campaign targets the dispelling of health and nutrition myths through evidence based messages.• Education component backed with an authoritative review of the scientific literature including evidence on eggs, nutrition, human health and disease.• Heart Foundation ‘Tick of Approval’ achieved by AECL. Aust only the second country worldwide to achieve this.• Establishment of the Egg Nutrition Advisory Group (ENAG) to assist communicate latest science and research on nutritional messages and de-bunk adverse health myths.• Awarded the National Golden Target Award from the Public Relations Institute of Australia, Health Organisations Category – 2006
Ongoing consumer monitoring	<ul style="list-style-type: none">• Consumers in target market sectors are regularly surveyed and data collated on a monthly basis.• Consumer monitoring addresses penetration, demographics, buying rates, purchase frequency, and inter-purchase intervals.• Consumer and trade tracking research.
Improve government/public perception of the egg industry	<ul style="list-style-type: none">• AECL has made available the findings from the review of scientific literature on eggs and human health.• Crisis and Issues Management Plan prepared to counter negative media.• Federal Parliament backbenches informed on implications of changed layer cage requirements.• Highly Commended Award Winner for Best Food-based Website, Vittoria Australian Food Media Awards 2006• AECL do not appear to have proactively addressed govt/public perception of the industry on welfare, consumer concerns about chemical, antibiotic use, etc. However, significant efforts have been spent on attempting to gain agreement to a national framework through regulation for the introduction of the Code of Practice for the Welfare of Animals – Domestic Poultry.

Review Findings: Strategy 1a to ‘*promote eggs and the Australian egg industry*’ has been effectively addressed by AECL with particular emphasis on egg promotion, the principle reason for the Company’s establishment. In recognition of this, the International Egg Commission (IEC) has awarded the Australian egg industry with the Golden Egg Award in September 2004.

Although related, AECL has been less proactive in its first three years in addressing government and public perceptions of the egg industry.

Table 4.3 Identify and Facilitate Alternative Market Opportunities

Initiative	Attainment Achieved
Attitudes – food industry/opinion leaders	<ul style="list-style-type: none"> • Retail attitudes investigated through the retail category management audit of large, medium and small outlets. • Retail attitudes addressed through a supply chain enhancement strategy. • Opinion leaders were surveyed during national U&A market research in 2003 that laid the foundations for the industry’s marketing strategy. • Opinion leaders were targeted in resulting market education campaigns. • Health care opinion leaders canvassed at General Practitioner Conference & Exhibition (GPCE) events and the Egg Nutrition Advisory Group (ENAG). • Media opinion leaders targeted through the launch of the egg food media club in two states and food media events in Adelaide, Hobart and Melbourne.
Alternative use, distribution, packaging	<ul style="list-style-type: none"> • National qualitative and quantitative market research July to Dec 2003 allowed AECL to objectively assess all market opportunities for the egg category. • Industry Partnerships Program, Taking Stock & Setting Directions developing new and innovative ideas for eggs and egg waste products. • Industry Partnerships Program, Action Partnerships, developing and undertaking market trials of new, innovative products.
Facilitate adoption of alternative market opportunities	<ul style="list-style-type: none"> • AECL has developed an export trading company called Australian Egg Export Pty Ltd (AEE), a wholly-owned subsidiary.

Review Findings: AECL has effectively and efficiently addressed Strategy 1b to ‘*identify and facilitate alternative market opportunities for eggs*’.

In addressing this strategy AECL has established Australian Egg Export Pty Ltd (AEE), an export trading company that is a wholly owned subsidiary of AECL. The AEE moved egg pulp to the Hong Kong market on behalf of the Australian egg industry to ensure it did not end up on the domestic market as shell egg and place downward pressure on price. AECL will continue to use AEE where appropriate to help maintain domestic pricing levels for the benefit of egg producers. AEE functions as a facilitator of export sales and is not a profit entity passing all sales revenue to suppliers. Nevertheless the review considers AEE’s activities should be addressed in the Company’s Risk

Management Plan and include explicit statements about under what conditions it will facilitate the export of pulp, powder or shell eggs.

Table 4.4 Drive the Uptake of Innovation

Initiative	Attainment Achieved
Identify inefficiencies in the chain	<ul style="list-style-type: none"> • Supply chain strategy aims to enhance the effectiveness and transparency of the egg supply/demand chain including logistics and development of value-added propositions. • Some 50 R&D projects over 3-years have addressed ‘through chain efficiency’. • Achievements include initiation of an effective supply forecasting report; the encouragement of export opportunities through AEE Pty Ltd; completion of a retail category project in Victoria; rollout of the same project in NSW and Queensland; and reduced egg breakages and ullage in the retail chain.
Initiate innovations	<ul style="list-style-type: none"> • The R&D program aims to improve efficiency, sustainability, egg quality, education and technology transfer in the industry. • Resources have been committed to growing the demand for eggs and enhancing the competitiveness of stakeholder businesses. • For example around 60% of egg production is covered by the AECL initiated egg QA program EggCorp Assured, the national egg quality assurance program. This program commenced operation in November 2004. • Innovation informed by Industry Consultative Committees. • R&D industry survey among egg producers completed in December 2004.
Commercialise innovations	<ul style="list-style-type: none"> • More than half of AECL R&D projects are concerned with commercialisation and implementation of innovation egg training, workshops, videos, forecasting tools, tests, booklets, poster kits, instruction manuals, etc.
Ongoing monitoring of efficiencies gained	<ul style="list-style-type: none"> • Ongoing monitoring through consumer attitude, supply forecasting and informal sources. • R&D program evaluation based on cost benefit analysis required in order to conclude on efficiencies gained.

Review Findings: The R&D program is well considered and appropriate. An R&D program review featuring a cost benefit analysis of funded projects is recommended for the future. AECL may consider accessing the useful and cost effective two-stage approach to R&D cost benefit analysis used by RIRDC.

Table 4.5 Business Inputs at Competitive Prices

Initiative	Attainment Achieved
Identify overpriced inputs	<ul style="list-style-type: none"> • Feed grains dominate cost of production for egg producers.
Facilitate access at competitive prices	<ul style="list-style-type: none"> • Feed grains: active member of the Livestock Feed Grain Users Group (LFGUG), which seeks to influence grain industry policy and secure competitively, priced supplies.

Review Findings: AECL has made some progress with this strategy. Feed grains are a major component of egg production total costs and are the major variable cost input into egg production.

Table 4.6 AECL Skills, Systems, Services and Links

Initiative	Attainment Achieved
Appropriate human resources	<ul style="list-style-type: none"> • AECL team of seven with appropriate capacity to deliver strategic objectives. • Consultants/specialists used where required for additional input. • AECL is a small, tight team with effective informal communication lines and clear responsibilities.
Appropriate systems	<ul style="list-style-type: none"> • Have reviewed and upgraded communications tools such as newsletters, the website and industry forums. • Have adopted a unified, fact-based approach to issues management. • Systems have been established and built from a zero base.
Develop a team culture	<ul style="list-style-type: none"> • Appropriate team culture has developed in the organisation.
Prioritise to achieve greatest benefit	<ul style="list-style-type: none"> • Achieved through strategic plan and reviewed in Annual Operating Plans and with stakeholders in Industry Consultative Committees and industry forums.

Table 4.6 AECL Skills, Systems, Services and Links (continued)

Effective communication	<ul style="list-style-type: none">• Effective communication achieved through a variety of channels and media.• Communications channels with stakeholders is varied and regular and appropriate for the size of the company.
Timely market and industry information	<ul style="list-style-type: none">• Industry information provided through fortnightly and quarterly newsletters distributed to all members.• Market information provided through the members only section of the AECL website.

Review Finding: The Company has delivered on all aspects of objective 3 – creating and nurturing the capability of AECL. Future strategic plans may wish to minimise the focus on AECL development given the organisation is now established.

4.2 Annual Operating Plans

To comply with the SFA AECL must, prior to 1 July each year, develop and adopt a written operating plan setting out:

- (a) The intended operations of the Company for the next financial year;
- (b) The Promotion, R&D and Industry Service Provision programs of the Company;
- (c) Alignment with the 3-year strategic plan and government R&D guidelines;
- (d) KPIs, timetables and milestones relating to proposed activities and expenditure; and
- (e) Estimates of income and expenditure.

The review sourced AECL annual operating plans for 2003/04, 2004/05, 2005/06 and 2006/07. AECL annual operating plans are systematic and comprehensive documents. Recent documents build on foundations laid in 2003/04. Annual Operating Plans provide:

- An industry statistical overview, an industry profile and market situation analysis;
- Industry objectives and a detailed program outline. The program outline reports AECL income and expenditure separately for each of Promotion, R&D and Industry Service Provision. Programs are aligned with 3-year strategic plan objectives and strategies. Programs detail specific projects/activities. Each project/activity is described in terms of anticipated outcomes, measurable outputs/KPIs, timetables for completion, responsibilities for delivery and budgets.
- Alignment with Government R&D priorities including a matrix that crosschecks AECL projects/activities with the Government's National R&D priorities and Rural R&D priorities.
- A budget for the forthcoming financial year detailing, amongst other items, AECL's total qualifying R&D expenditure as well as three-year forward estimates.

- A conclusion on the appropriateness of the plan in guiding AECL's management and the need to consider the plan in conjunction with the AECL 3-year Strategic Plan.

Review Findings: AOPs provide a comprehensive outline of AECL's operation for each forthcoming financial year. They are consistent with the 3-year strategic plan and provide AECL management with a 'blueprint' for their projects/activities for the forthcoming year. AOPs have mostly been provided on time and always to a standard required by DAFF.

4.3 Risk Management Plan

The SFA requires AECL to develop and implement a Risk Management Plan. The Risk Management Plan is to be prepared and maintained by AECL and is to specify measures to be implemented to manage its material, commercial, legal and administrative risks.

The review sourced the AECL Risk Management Plan dated December 2004. The Risk Management Plan is a comprehensive document that details plan background; guiding principles; risk assessment criteria; risk assessment methodology; organisational risks, business risk controls and appendices containing risk assessment data and a framework for a staff policy manual.

The risk assessment underpinning the Risk Management Plan was conducted in association with Ernst and Young (AECL's independent auditors) and the development of a Fraud Control Plan for AECL. A conservative approach to risk management has been adopted including the over design of checks and systems for a company of AECL's size.

The Risk Management Plan identifies 'significant' risks in the following areas:

- R&D;
- Communications;
- Marketing;
- Finance;
- Corporate policies and procedures;
- Delegations and authorisations;
- Audit committee; and
- Financial management and reporting.

The plan identifies 'extreme' risks in association with R&D and finance. Management response actions were proposed in the Risk Management Plan and have been subsequently implemented.

Review Findings: AECL's Risk Management Plan is appropriate and reasonable. An annual risk audit is completed and signed off by the AECL Board.

Some stakeholders are concerned that the marketing of processed egg may be outside AECL's core business and skill set. The review recommends the explicit inclusion of the operations of the AECL's subsidiary, AEE Pty Ltd, in future risk assessments.

4.4 Fraud Control Plan

The SFA requires AECL to develop and implement a Fraud Control Plan. The Fraud Control Plan is to be prepared and maintained by AECL and is to specify measures to minimise the risk of fraud within the company.

A sister document to the AECL Risk Management Plan, the Fraud Control Plan 2004-2006 (Ernst and Young 2004) was sourced by the review. The Fraud Control Plan was prepared in a manner consistent with the *Commonwealth Authorities and Companies Act 1997* and the *Commonwealth Fraud Control Guidelines 2002*. The Fraud Control Plan addresses:

- Fraud control management - overall responsibility for fraud, maintenance of the fraud control plan, monitoring fraud control, qualifications of staff involved in fraud control management, reporting and investigation of suspected fraudulent matters, prosecution of fraud against the Commonwealth and fraud reporting requirements;
- Fraud control mechanisms – policies and procedures, delegations and authorisations, ethical behaviour and culture, internal audit, updating fraud risk assessment data; and
- Required process reviews – information technology, tendering and contracting, purchasing and accounts payable, revenue collections, credit cards, corporate travel, salaries, leave, assets and physical security.

The Fraud Control Plan also includes material that crosschecks Company risk with fraud control, fraud risk assessment data and a fraud control action plan.

Review Findings: The Fraud Control Plan is appropriately signed off by the AECL Board and is reviewed at least on an annual basis. Shortcomings in process that may lead to fraud have been highlighted by the Company's auditors and corrective action taken. Staff receive appropriate training in fraud detection. To date no instances of fraud have been uncovered at AECL. The Fraud Control Plan 2004-2006 will require renewal for the post 2006 period.

4.5 Intellectual Property Management Plan

The SFA requires AECL to develop and implement an Intellectual Property (IP) Management Plan. The IP Management Plan is to be prepared and maintained by AECL and is to specify the procedures for management, adoption and commercialisation of IP created by AECL.

The review sourced AECL's Intellectual Property Management Plan – Policies and Procedures, December 2004. The IP Management Plan was prepared in a manner consistent with the *National Principles of IP Management for Publicly Funded Research September 2001*. The plan addresses background to IP management, guiding principles, and the policy framework – i.e. identification of IP, protection of IP, assessment of existing IP, ownership, management, sharing of benefits, commercialisation, transparency and reporting, skills and potential conflict of interest. The IP Management Plan provides commercialisation guidelines recognising that this is one path available to AECL to realise benefits from IP for its stakeholders.

IP Management Plan includes an AECL Intellectual Property Register that was last updated in June 2005 together with a model for demonstrating the calculation of equity shares in research work undertaken with AECL funding; and an R&D sample project agreement.

Review Findings: The IP Management Plan meets the requirements of the SFA. It is a ‘living document’ that is regularly updated by AECL and reviewed by the Board annually.

5. Delivery of Benefits to Industry

Consistent with SFA requirements, this chapter provides an analysis of the benefits achieved for the egg industry from investment of levy funds in Promotion, R&D and Policy Services.

5.1 Marketing

The principal objective of AECL’s marketing program is to increase Australian demand for eggs. “*Good planning and control of advertising depend on measures of advertising effectiveness.*”¹

Communication Effect

“*Most advertisers try to measure the communication effect of an ad – that is, its potential effect on awareness, knowledge or preference.*”²

Since the commencement of AECL, the company has been able to effect notable movements in the attitudes and perceptions towards the purchase and consumption of eggs. As a basis for measuring shifts in consumer sentiment, the Usage & Attitude (U&A) research undertaken in 2003 provides a benchmark. In so doing, and given the tracking undertaken on an *ad-hoc* basis by ACNielsen, the AECL promotional campaigns have been able to increase the *Egg Lover* consumer segment by 12% at the expense of the *Egg Restrictor* consumer segment which has declined by 9%.

Table 5.1 Movements between consumer segments (household penetration)

	November 2004	March 2005	June 2005	November 2005	% Change
Egg Lovers	42%	40%	44%	47%	+12%
Egg Restrictors	58%	60%	56%	53%	-9%

Source: ACNielsen Homescan data

AECL defines and *Egg Lover* as being someone who eats eggs without restrictions and the *Egg Restrictor* as being someone who places a restriction of any kind on their consumption.

¹ Kotler P (2000), Marketing Management, Prentice-Hall Inc, 594

² Kotler P (2000), Marketing Management, Prentice-Hall Inc, 594

In terms of other measures, Newspoll also undertake tracking on behalf of AECL and the egg industry and have shown significant movements in the attitude consumers have in terms of how many eggs they consider to be healthy. When asked “*if you were thinking about eggs that are prepared on their own or as part of a meal, about how many eggs do you personally think a healthy person should eat per week?*”, there has been a 16% improvement in the volume of eggs consumers consider to be healthy across the total market increasing from 3.8 eggs per week as at August 2004 to 4.4 eggs as at May 2006.

Table 5.2 How many eggs are healthy? (Number of eggs per week)

	August 2004	November 2004	November 2005	May 2006	% Change
Total Market	3.8	4.0	4.3	4.4	+16%
Egg Lovers	5.1	4.9	5.2	5.4	+6%
Egg Waries	3.4	3.5	3.6	4.3	+26%
Egg Restrictors	3.1	3.5	3.7	4.0	+29%

Source: Newspoll, May 2006

When consumers were asked “*and thinking about the effect of eating eggs on increasing a person’s cholesterol level. In general, do you think that eating eggs has a large effect, moderate effect, little effect or no effect on a person’s cholesterol level?*”, there has been a 15.4% improvement among all respondents who suggest eating eggs has no or little effect on cholesterol levels.

Table 5.3 Perception of eggs’ impact on cholesterol levels (total market)

	August 2004	November 2004	November 2005	May 2006
No effect	10%	12%	13%	11%
Little effect	29%	26%	34%	34%
Moderate effect	35%	41%	31%	32%
Large effect	14%	10%	10%	10%

Source: Newspoll, May 2006

In terms of healthcare professionals, additional research undertaken by AECL on GP attitudes, there have also been movement in opinion. When asked “*to what extent do you agree or disagree that the potential increase in serum cholesterol with eggs outweighs any dietary benefits?*”, there have been improvements at all levels.

Table 5.4 Perception of eggs' impact on cholesterol levels (total market)

	August 2004	November 2005	% Change
Strongly agree	4.0%	0.7%	+82.5%
Agree	16.0%	14.7%	+8.1%
Neither agree or disagree	34.4%	29.3%	+14.8%
Disagree	38.4%	45.3%	+18.0%
Strongly disagree	7.2%	10.0%	+38.9%

Source: Decisions Research Asia, November 2005

When GPs were asked “*how often do you counsel the following patients on restricting egg consumption?*”, there were significant improvements in the advice given to hypercholesterolaemia and cardiovascular disease risk patients by their GPs from August 2004 to November 2005. Among hypercholesterolaemia patients, GPs who always counsel patients to restrict egg consumption declined from 20.0% to 17.0% with those who suggest they should never restrict their egg consumption has increased from 10.8% to 23.0%. In terms of cardiovascular disease risk patients, those GPs who always counsel patients to restrict egg consumption has declined from 12% to 11% and those who never counsel patients to restrict egg consumption has increased from 20.0% to 29.0%.

From a GP perspective and as a final measure among this group of key opinion leaders and influencers, when GPs were asked “*what do you believe to be a healthy level of egg consumption per week in the majority of people?*”, there were improvements across the board.

Table 5.5 Weekly egg consumption

	August 2004	November 2005	% Change
1-2 eggs per week	41.2%	34.7%	-15.8
3-4 eggs per week	45.6%	46.0%	+0.9%
5-6 eggs per week	4.4%	8.7%	+97.7%
Up to an egg a day	7.6%	10.0%	+31.6%
Unlimited	1.2%	0.7%	-41.6%

Source: Decisions Research Asia, November 2005

Review findings: AECL has positively influenced the Australian market by changing the attitudes, perceptions and opinions of consumers and key healthcare professionals in a number of important areas identified as key barriers to increasing egg purchase and consumption from the U&A study undertaken in November 2003.

Sales Effect

“Advertising’s sales effect is generally harder to measure than its communication effect. Sales are influenced by many factors, such as the product’s features, price and availability as well as competitors’ actions.”³ In essence, AECL has limited influence over the price, product, position (or distribution) but has some influence over the promotion of the egg brand. As a result, it co-ordinates one of the four key elements of the marketing mix.

The following analysis of the return to industry of AECL’s investment in promotion is facilitated by an R&D project commissioned by AECL entitled ‘*Optimal Egg Marketing Under Changing Market Structures*’. Freebairn, Goddard, Griffith and Shank prepared the study in June 2004 (Freebairn *et al* 2004). It was prepared with appropriate academic rigour and was independently reviewed (AgEconPlus, September 2004).

The purpose of the Freebairn *et al* study was to evaluate the returns to egg producers from a generic or category-based advertising and promotional program funded by a production levy.

Marketing Appraisal Model

Freebairn *et al* proposed that because they did not have access to studies that link changes in demand for shell eggs to advertising and promotion and that their own research showed a poor response to brand or proprietary advertising, that the best way to address the impact of AECL funded generic or category-based advertising and promotion was by a threshold value analysis.

The threshold value analysis would estimate the additional shell egg sales required to justify the additional cost of advertising and promotion to egg producers.

Put simply, the model stipulates that the increase in shell egg sales over current sales must be greater than the retail elasticity of demand multiplied by the ratio of producer levy over retail price. That is, for the benefits of advertising and promotion to exceed the costs of promotion, the:

$$\frac{\text{Increase in Shell Egg Sales}}{\text{Current Shell Egg Sales}} > \text{Elasticity of demand} \times \frac{\text{Producer Levy}}{\text{Retail Price}}$$

If this condition holds then the cost of the levy will be less than the additional net revenue generated and AECL’s investment in advertising and promotion will have been effective in raising egg industry returns.

Freebairn *et al* found that a 0.26% increase in shell egg sales per year is required in order to provide a net return on the levy funds that are invested in advertising and promotion. The current marketing levy is struck at a rate that equates to 1 cent per carton.

³ Kotler P (2000), Marketing Management, Prentice-Hall Inc, 595

Data to Drive the Model

For the purposes of this review the Freebairn *et al* threshold value model is populated with the following information.

Analysis Period

The AECL television, print, PR and retail category management program commenced in February 2004 (the 'AECL campaign'). To gauge the performance of the AECL campaign a base of ACNielsen Homescan monthly average retail sales data for the four calendar years prior to the program (i.e. 2000, 2001, 2002 and 2003) was compared to sales during 2004, 2005 and 2006. The consultants note in passing that 2004 monthly average sales data contains two months of sales prior to AECL program commencement and the 2006 data is an average of the first 10 months of sales history.

Shell Egg Sales

Retail egg sales have been used as the measure of television, print, PR and retail category management program success. They include all retail sales through supermarkets, convenience stores, fruit shops, etc but do not include food service, an area of high and increasing demand, egg exports or processed egg demand. Together food service, exports and processed egg account for 54% of the market (AECL advice).

Average monthly egg sales for the base period (2000 to 2003 inclusive) and each of the three years during the AECL program are shown in Table 5.6.

Table 5.6 Average Monthly Retail Shell Egg Sales ('000 individual Eggs)

	Base Period 2000 to 2003 (no campaign)	2004 (campaign starts Feb 04)	2005 (full 12 month campaign)	2006 (data till Oct)
Sales ('000)	62,223	62,841	62,942	65,622
% Change Over Base	na	0.99	1.16	5.46

Source: ACNielsen Homescan data

Results are positive. Sales have increased in each year of the campaign over those achieved in the base period. One measure of the success of a generic or category based marketing campaign used by Freebairn *et al* is that the increase in sales needs to be greater than 0.26%, at a 1 cent per dozen levy, for a positive return to be achieved for the industry. In each year of the AECL campaign the increase in sales has been greater than a 0.26% increase on the base.

Elasticity of Demand for Eggs

Freebairn *et al* assume a price elasticity of demand for shell eggs of -0.6. This assumption was checked by the review of the Freebairn *et al* study and found to be conservative (AgEconPlus 2004). The average of estimates for the price elasticity of demand for shell eggs was found to be -0.15 by AgEconPlus and would result in a lower

breakeven point in the threshold analysis. The Freebairn *et al* assumed price elasticity of demand for shell eggs of -0.6 has been used in the model.

Retail Price of Eggs

A retail price of \$2.73 per dozen is based on an average of all egg sales and was sourced from ACNielsen Homescan for the AECL campaign period.

Model Results

For the AECL campaign period 2004 to 2006 the relationship described by Freebairn *et al* holds true and the benefits of improved returns to egg producers from additional egg sales exceeds the cost of levies expended in achieving them i.e. a positive return on investment in marketing has been achieved by AECL for egg producers.

Conclusion on Efficiency and Effectiveness

Quantitative analysis undertaken by this review provides support for the proposition that returns to growers were boosted by AECL marketing in the period 2004 to 2006 with additional revenue exceeding program costs. Key milestones in delivering this result include the achievement of the Heart Foundation's 'Tick of Approval' for eggs for only the second time anywhere in the world. The 'Tick of Approval' is valued by consumers and effectively neutralises the eggs and cholesterol myth. Health care professionals, opinion leaders and consumers have all responded positively to this message.

AECL has been efficient and effective in delivering marketing services for Australian egg producers.

5.2 Research and Development

AECL makes investment in R&D on behalf of the Australian egg industry and the community as a whole. The primary aim of AECL's R&D program is to improve Australian egg industry efficiency and sustainability, the quality of eggs produced by the egg industry, to educate stakeholders and the community, and to encourage technology transfer in the egg industry.

Prior to mid-2003, AECL had an R&D program that solely relied on the receipt of Preliminary Research Proposals (PRP) from researchers and research institutions in response to advertised guidelines detailing key research areas of interest to the Australian egg industry. Since mid-2003, AECL has invested \$300,000 per year in the newly developed Poultry Cooperative Research Centre (CRC) as a core-funding partner. Since 2006, the AECL R&D framework has been enhanced and now includes a Basic & Applied Research (BAR) program, reflecting former AECL research initiatives and processes, a producer initiated program titled Egg Producer Research, Innovation & Development (EPRID) which focuses on short term, tangible and practical outcomes for egg producers, an Egg Quality (EQ) program and the continued investment in the Poultry CRC. This 4-part R&D framework provides an enhanced R&D structure with both short and long-term outcomes for egg producers and the community.

The R&D Program

The AECL R&D program is largely articulated under Objectives 1 and 2 of the 3-year Strategic Plan and annual operating plans. Through 2003/04 to 2005/06, resources were committed to growing the demand for eggs and enhancing the competitiveness of stakeholder businesses.

Growing the demand for eggs was expressed through a number of projects and activities including:

- A training program to implement industry Quality Assurance;
- The development of an environmental code of practice and EMS workshops to drive improved environmental management in the egg industry;
- Assessment of the safety of eggs in the diet of children in relation to allergy risk;
- Consumer sensory research to establish the key drivers determining consumers' perception of egg quality;
- Rapid detection systems for the exotic agent *salmonella enteritidis* which leads to food borne disease;
- Profiling of the food safety risk of eggs and egg products and development of a Salmonella risk assessment model to enhance disease control strategies;
- Technology to determine if an egg is barn or cage laid; and
- The development of arachidonic acid rich eggs for use in the production of infant formula.

Enhancing the competitiveness of stakeholder businesses in 2003/04 was expressed through projects and activities such as:

- A layer and egg supply forecasting model to assist egg industry and business planning;
- Assessment of the best commercial layer strain in barn and free range systems to maximise productivity;
- Optimisation and development of vaccines and/or rapid diagnostics for a range of poultry disease causing organisms including: avian influenza; Newcastle disease virus; very virulent infectious bursal disease virus; infectious bronchitis virus; infectious laryngotracheitis virus; Marek's disease virus; chicken anaemia virus; *Pasteurella multocida*; *Eimeria spp.*; *Mycoplasma spp.*; and *Brachyspira spp.*;
- Elimination of 'fishy' taint in eggs from hens fed diets containing canola meal;
- Reducing cannibalism in layer hens;
- Enhancement of diet formulations to optimise productivity in commercial layer strains;
- Improved methods of beak trimming;
- Improvement of layer hen welfare by reducing cannibalism, investigating the benefits of cage furnishings and improving methods of beak trimming;
- Production of an egg quality guidelines booklet to improve egg quality and consistency;
- Egg farm staff training video: handling birds;
- A poster kit: biosecurity protection/flock health to improve disease control awareness; and
- Development of a vaccination training manual and vaccination workshops to refresh and improve industry skills.

AECL R&D investments totalled approximately \$2 million in 2003/04. A similar pattern of investment was recorded in 2004/05 and 2005/06.

Poultry Cooperative Research Centre

In addition to AECL's funding of individual projects and activities consistent with its 3-year Strategic Plan and annual operating plans, AECL has made a decision to invest strategically in the Poultry Cooperative Research Centre (CRC).

AECL is a core partner in the Poultry CRC, which was established in July 2003 and is a joint venture between Australia's leading poultry research, education and industry organisations. The CRC has allowed AECL to leverage the funds available from the R&D levy collected from egg producers. The CRC has a more long term research focus and is addressing the following egg industry priorities (www.poultrycrc.com.au):

- Nutrition and gut physiology - enhanced quality and productivity using novel approaches to digestive physiology and metabolism of poultry;
- Poultry health - sustainable poultry health through discovery, development and application of emerging biotechnology; and
- Welfare and environment - improved management of poultry welfare and the environmental impact of poultry production.

The CRC's emphasis is consistent with Australian Government National and Rural R&D priorities.

Alignment with Government Priorities

The Australian Government develops and disseminates National and Rural R&D priorities and it is a requirement of the SFA that AECL's allocation of funds to research take into account the Government's broad R&D priorities.

The following table, prepared from AECL annual reports and AOPs aligns R&D projects against the listing of government priorities.

Table 5.7 AECL Alignment with Government R&D Priorities (No. of Projects)

National/Rural Priority	2003/04	2004/05	2005/06 F
Sustainable natural resource management	3	2	2
Improving competitiveness through a whole of chain approach	23	11	16
Maintaining and improving confidence in the integrity of Aust. agricultural food, fish and forestry products	16	7	12
Improved trade and market access	2	1	1
Use of frontier technologies	10	8	7
Protecting Australia from invasive diseases and pests	12	4	8
Creating an innovative culture	18	10	10
Total	84	43	56

Source: AECL annual reports 2004 and 2005 and the AECL AOP for 2005/06
F = forecast/estimate

Review Findings: AECL's R&D projects are consistent with government National and Rural R&D priorities. AECL communicates this alignment with government research priorities through both its own plans and reports and its ongoing contribution to the *Innovating Rural Australia* publication on R&D outcomes.

Conclusion on Efficiency and Effectiveness

AECL has appropriately focussed its R&D on producer priorities and broadly defined its investments to include the whole supply chain. Key projects have addressed animal welfare research (including the benefits of furnished cages), R&D to improve diets, nutrition and rations research and production of new vaccines and diagnostics. AECL has also invested significantly in R&D for the longer term through the Poultry CRC.

The review finds that AECL's investment in R&D has been efficient. The AECL R&D program is:

- Strategic and well reasoned – it is guided by the 3-year Strategic Plan;
- Local – it is focused on issues relevant to the Australian egg industry;
- Diversified in its supply base – AECL has at least 20 different researchers currently completing projects; and
- Stakeholder driven – egg producers contribute to the program through the relevant ICC and the program is compliant with Government research priorities.

After only three years of operation, evidence is not available to conclude on the effectiveness of AECL's R&D program and a cost benefit analysis of individual project returns is beyond the scope of this review.

An R&D program review using the two-stage approach developed by RIRDC for assessing the effectiveness of R&D program investments is recommended.

5.3 Policy Services

AECL functions as the egg industry's peak national body and policy services are the third type of industry benefit provided by AECL. Policy services may be defined as part of AECL's Industry Service Provision function, the SFA definition of which includes:

Collaborating with both the Federal and State government and government departments and agencies, in relation to animal health and welfare, crisis and issues management, regulatory activities and other activities that may be necessary or convenient for the improvement of the productivity or the performance of the industry.

Policy services do not include Agri-Political Activity defined in the SFA as activity that is intended to exert political influence on Government to advantage one political party or political candidate over another. AECL initiated the retainment of the Australian Egg Industry Association (AEIA) to engage in any Agri-Political activity on behalf of shared constituencies.

Animal Health/Welfare and Regulatory Activities

Relevant examples of AECL's provision of policy services in relation to animal health and welfare and regulatory activities on behalf of the Australian egg industry include:

- Working with Government through the Primary Industries Standing Committee and the Primary Industries Ministerial Council to negotiate a structural adjustment package to assist egg producers with the impact of introducing cage size provisions contained in the 4th edition of the *Model Code of Practice for the Welfare of Animals – Domestic Poultry* by January 2008;
- Working with Government to have tariffs removed on imported cages.
- Working with Government through Animal Health Australia to negotiate acceptable provisions for the *Emergency Animal Disease Response Agreement (EADRA)*;
- Working with Government through Biosecurity Australia to progress separate Import Risk Assessments (IRAs) for hatching eggs and edible eggs/egg products;
- Working with Government to keep abreast of developments with the outbreak of Avian Influenza (AI) in Asia;
- Working with Government through the Australian Pesticides and Veterinary Medicines Authority (AVPMA) to ensure the availability of off-label chemicals for the treatment of laying hens; and
- Working and being an active member of the Livestock Feed Grain Users Group (LFGUG) to shape future government policy in relation to the availability of competitively priced feed grains.

Crisis and Issues Management

AECL has adopted an issues management approach to media stories/public relations. It works with industry to formulate a unified approach to contact with government, stakeholders and the media. AECL responds to both negative and positive media stories with available data, opinion and spokespeople.

In 2005 AECL prepared an Issues Management Plan in consultation with its Public Affairs ICC. Ongoing media monitoring and consumer surveys inform the Issues Management Plan. The Issues Management Plan has been designed to map the egg industry's response to issues that may threaten the Australian egg industry or its product. It specifically covers seven identified industry issues including animal welfare, animal health, truth-in-labelling, food safety, environmental management, human health & nutrition and genetic modification issues.

In 2006 the Issues Management Plan was employed in responding to media interest in the discrepancy between free range/barn laid eggs produced and the number of hens laying them.

Processes for Deciding on National Policy

Some stakeholders expressed concern to this review regarding the process employed by AECL for deciding egg industry policy at the national level. AECL, it was said, does not have a National Policy Council at which policy can be debated and binding resolutions passed. Rather, state farming organisations make their own, sometimes contradictory, policies in isolation from the rest of the egg industry.

AECL's response to this claim is that egg producer members can propose national positions on policy issues at any time. These will then be developed by AECL management with the necessary assistance of the respective Industry Consultative Committee (ICC) before presenting each policy to the AECL Board for approval. This process is appropriate as the Board is ultimately responsible and accountable for the decisions made by the Company on egg industry-funded activities and business operations.

However, AECL needs to do more work in including more small to medium-sized egg producers in national policy making and the communication of policy decisions to these producers. Hen layer cage adjustment assistance is one case in point. Some producers felt their interests were not fairly represented in this instance and strategy was not appropriately communicated to them. Despite this, the review finds that AECL openly communicates egg industry positions on a range of issues on a regular basis providing opportunities for egg producers to provide feedback to AECL on policy positions.

Conclusion on Efficiency and Effectiveness

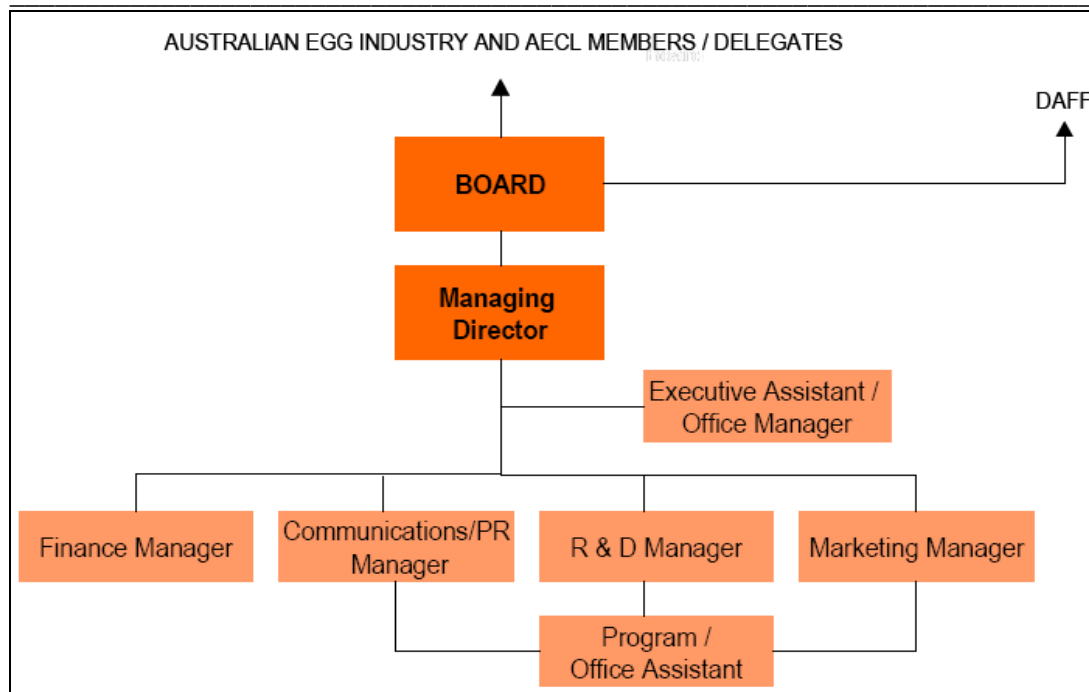
Policy services are seen by AECL as a secondary activity after promotion and R&D and this is consistent with the SFA. There are opportunities for AECL to improve inclusiveness and communication beyond its current consultative process.

6. AECL Organisational, Operating and Reporting Structures

6.1 Organisational Structure

AECL is structured as per Figure 2 below.

Figure 2 AECL Organisational Structure



Source: AECL Fraud Control Plan

The organisational chart shows clear staff, management and Board reporting lines. AECL is a small tight team with effective informal communication lines and clear responsibilities.

6.2 Corporate Governance

The governance of AECL involves members, directors, management and employees, and is affected by regulatory requirements, as well as the interests and expectations of, and relationships with, other parties including Government, Industry Consultative Committees, industry partners and communities.

In discharging its corporate governance requirements AECL:

- Has clearly defined roles and functions for its Board;
- Elected directors and two specialist directors with expertise in corporate governance and marketing;
- Three directors are members of the Australian Institute of Company Directors. All directors receive regular training relevant to their activities;
- Works within clearly enunciated remuneration guidelines;
- Convenes monthly face-to-face Board meetings;

- Reviews the function of the Board on a monthly basis;
- Has formed and makes use of an Audit Committee whose responsibility it is to review the integrity of financial data provided to stakeholders, the Company's systems of risk management and internal controls and appoint/oversee the independence of the auditor;
- Adopts a business approach that is based on appropriate systems and controls;
- Declares directors' conflicts of interest and formally reviews these each year. This role is the responsibility of the Boards' specialist director on corporate governance;
- Seeks independent advice on corporate governance related matters;
- Is required to comply with the Corporations Act, its own Constitution and the SFA within the framework of the Egg Industry Service Provision Act 2002;
- Consults with stakeholders;
- Aligns its R&D investments with Government funding priorities; and
- Adopts best business practice.

Compliant auditors reports and audit committee minutes were sighted by the review. Audit reports were signed and dated by the relevant partner at the auditing firm and audit committee minutes were signed and dated by the AECL Audit Chairman. AECL's corporate governance processes are comprehensive and appropriate.

6.3 Board Performance

The AECL Board meets face-to-face on a monthly basis. Briefing papers and an agenda are circulated in advance. A typical agenda includes:

- Administration matters;
- Issues e.g. reporting on KPIs, layer hen housing, approval of contracts, company policies, a style guide for policy and expense approvals;
- Noting i.e. reports on finance management, market awareness, market education, supply chain enhancement, public affairs, on farm innovation and efficiency and corporate management. Each of these reports is signed off by both the relevant staff member and approved by the Managing Director; and
- Other Business, Next Meeting and Close.

At the close of each meeting the Board evaluates itself on the quality of Board papers, its punctuality, the quality and accuracy of its minutes and reports, directors performance including communication and candour, Board performance including understanding of AECL's mission, the handling of conflicts of interest and challenging management. The Board's interactions with both the Chairman and the Managing Director are also reviewed.

This is an efficiently functioning, candid and cooperative Board.

6.4 Management and Staff

AECL has a permanent staff of seven as per the above organisational chart. Each staff member has a documented position description with KPIs linked to the annual operating plans. The AECL team participates in an 'off-site' workshop prior to the formulation of each year's annual operating plan. The workshop reviews both achievements and future company directions. There is a staff policy manual, which is reviewed and updated annually.

Both management and staff are well regarded for their ability to enunciate, document and deliver on appropriately detailed company plans, the quality of team spirit within the organisation and their capacity to communicate effectively with egg producers.

6.5 Relationships with Suppliers and Others

AECL's relationships with its suppliers are critical to it functioning effectively. The Company's key non-stakeholder relationships include its:

- Advertising agency, which is its single largest supplier. The current agency (Saatchi & Saatchi) was selected after a brief was sent to eight firms, proposals requested from four firms and two firms were asked for creative presentations.
- Media strategist and buyer that works closely with AECL on a tri-agency basis with the advertising and PR agency. The current agency is Fusion Strategy that was selected after reviewing pitches and proposals from several other media buyers.
- Public Relations (PR) company and retail merchandisers both of which were selected following competitive bids from multiple providers. The review finds the current supplier of PR is Porter Novelli for consumer and issues management with Pro-Corp Systems currently being retained for retail merchandising assistance.
- R&D providers, which include the CSIRO, the Poultry CRC, universities and various departments of primary industry.
- Commercial supply chain partners including retailers.
- Centre for International Economics (CIE) is also retained to assist AECL with economic advice which is distributed to the egg industry.

Appropriate relationships have been established and maintained with each of these parties through formal and appropriate contract agreements.

6.6 Liaison with Government

The Australian Government through its role in levy collection, the provision of matching R&D funds and the SFA, is a major stakeholder in AECL. Government relationships include:

- Ministerial: It is a requirement that AECL meet with the Australian Government Minister for Agriculture, Forestry and Fisheries or the Minister's Parliamentary Secretary on a six monthly basis. Both the AECL Chairman and Managing Director attend these meetings. AECL and the Parliamentary Secretary report that the meetings are productive. The meetings are important for policy development and the reporting of progress with R&D. Candid exchange means that there are 'no surprises' from the Industry Service Provider. There is evidence of an effective working relationship at the highest level.
- Departmental: DAFF report that AECL is open, cooperative and in compliance with all SFA and other requirements. AECL and DAFF have an effective working relationship.
- State and local government: The marketing of eggs is now fully deregulated with Western Australia de-regulating in 2005. State government is responsible for implementing the 4th edition of the *Model Code of Practice for the Welfare of Animals – Domestic Poultry* and progress with supporting legislation has been slow in most jurisdictions. AECL has had a strong liaison/negotiating role with state government through this process. Local government is responsible for local environmental planning which has a major impact on location and investment decisions for the industry. AECL works indirectly with local government through the development of industry environmental planning material and guidelines.

AECL works effectively with the Minister and all three tiers of Australian government.

6.7 Tools for Liaison with Industry Stakeholders

All Australian egg producers who pay levies are entitled to register as an AECL Member. All members may vote at any Annual General Meeting (AGM) on any matter.

AECL's operation has been consistent with this mandatory approach to stakeholder liaison.

Other mechanisms for liaison with stakeholders include:

- Consultation during strategic plan preparations
- The AECL communications strategy
- Newsletters and websites
- Layer and Egg Supply Forecasting Reports
- Six monthly industry forums
- Industry Consultative Committees
- Use of AEIA for agri-political activity
- Stakeholder visits
- Egg industry workshops and seminars
- Meeting with government

Each of these tools is reviewed briefly below.

Consultation During Strategic Plan Preparation

The 3-year strategic plan was prepared in consultation with egg producers and agreed with egg industry stakeholders. An independently facilitated workshop was convened after AECL distributed a survey seeking views from all egg producers regarding future activities and stakeholders were able to comment on a draft of the plan. AECL distributed and made available the final Strategic Plan to all stakeholders. It is also on the AECL website www.aecl.org.au

Communication Strategy

AECL has a formal communication strategy, which was professionally prepared for the company in 2003/04. The strategy drives AECL's six monthly industry forums, industry consultative committees, newsletters and the websites.

The review suggests that the AECL Communication Strategy give additional consideration to the role of the company's Managing Director in providing informal communications in regional locations and on-farm. The Managing Director is an effective communicator and his additional presence in the regions will give greater affect to the communication of AECL strategies.

Newsletters

AECL provides a fortnightly one to two page 'Eggcorp Eggspress' which is made available by email and/or fax to all egg producers. A fortnightly newsletter is an upgrade from one provided monthly pre-2003/04. A typical 'Eggcorp Eggspress' might deal with Truth-in-Labeling, Avian Influenza (AI), Young Chef of the Year, Environmental Management Workshops, Usage and Attitudes Survey Update, Update on meetings with retailers, Report on meetings with the Parliamentary Secretary, New Point of Sale Material and an Egg Nutrition Advisory Group update. AECL also added a bi-monthly, now quarterly, magazine style publication titled 'Eggstra Eggstra' with more detailed information about AECL programs and egg industry matters.

These publications are in line with industry service providers of similar size in other sectors. For example the Australian summerfruit industry provides a weekly email update and a quarterly summary of program outcomes.

Websites

The AECL company website at www.aecl.org is a useful source of information for egg producers, associate members, ancillary suppliers and service providers to the egg industry. Two other websites www.eggs.org.au and www.enag.org.au provide useful information for and relations with consumers and health care professionals respectively. Other groups to benefit from these websites include researchers, marketers, media, government and other service providers.

The company website has a members-only section which provides up-to-date information on sensitive issues including AECL advocacy work, layer hen housing reform, issues management and other documents intended for egg producer eyes only such as supply forecasting.

Layer and Egg Supply Forecasting Report

The Layer and Egg Supply Forecasting Report is independently prepared by the Centre for International Economics (CIE) using econometric modelling of chick placements and is reported on a bi-monthly basis. It also relies on the successful completion of a simple one-page survey by all egg producers interested in receiving the report. Such responses to the survey are critical to ensure the validity and accuracy of each report. Forecasts provide a useful supply outlook for an industry otherwise without a price discovery mechanism. The report is only distributed to those egg producers who have completed and returned the one-page survey every two months.

Six Monthly Industry Forums

Six monthly industry forums are attended by industry members, the Board, the Managing Director, AECL managers and project specialists eg a cardiologist member of the Egg Nutrition Advisory Committee. Industry forums provide the opportunity for the egg industry to gain an in-depth understanding of what AECL is doing, why they are doing it and the outputs or outcomes being generated. Each forum also provides the opportunity for egg producers to provide feedback on these projects being presented and ideas or concepts for new projects.

At the current time industry forums are largely informative. This review suggests that industry forums could evolve to also take on a role in the development of AECL positions on industry policy matters. Policy positions agreed at industry forums would be taken to the AECL Board for consideration/ratification. This relatively simple change should address disquiet from some state- based industry associations regarding their role in national policy formulation.

Industry Consultative Committees

Each AECL program area is designed with the involvement of Industry Consultative Committees (ICCs). ICCs provide a link between AECL management (program management/service delivery) and industry practitioners/consultants. Appointment of each ICC is for two years and each ICC has a minimum of three levy-paying egg producers and a maximum of seven committee members. ICCs provide advice to the AECL Board, are skills based and have formal terms of reference.

There are seven ICCs. They are: Animal Welfare; Animal Health; Public Affairs; On-Farm Innovation and Efficiency; PR/Promotions; Egg Quality and Supply Chain as well as two advisory groups - Egg Nutrition Advisory Group and the Food Safety Taskforce. There is also a Technical Working Group (TWG) on animal health matters.

ICCs are valuable bodies to assist AECL in making informed decisions on policy and programs.

Relationship with AEIA

The Australian Egg Industry Association (AEIA) was the forerunner of AECL and the name and separate funding have been retained by AECL to manage lobbying activity with the potential to stray into agri-politics.

Stakeholder visits

The Managing Director and other AECL staff do visit stakeholders, when appropriate, to inform them about AECL projects and activities, usually on a one-on-one basis. This also allows AECL to listen to egg producer issues and industry concerns. The Managing Director has also, where invited, attended state-farmer association annual conferences. These include the annual egg conferences of the NSW Farmers' Association, the Victorian Farmers' Federation and the South Australian Farmers' Federation.

Workshops and seminars

AECL has convened seminars and workshops in the recent past that deal with specific egg production issues. Such on-farm management issues as vaccination and environmental planning are two workshops and seminars that AECL have convened in the recent past. Up to 100 egg producers have attended these workshops and the feedback has been positive.

Meeting with government

As per the SFA, AECL is obliged to meet with and update the Australian Government on a six-monthly basis. To date, AECL has achieved this and has met with the Minister for Agriculture, Fisheries and Forestry and the Parliamentary Secretary to the Minister on a number of occasions.

Conclusion on Appropriateness of Tools for Stakeholder Liaison

AECL has established an appropriate number and varied set of tools for communicating with stakeholders.

6.8 Consultation Findings

Notification of the three-year performance review was placed in AECL's fortnightly newsletter *Eggcorp Eggspress* and twelve written submissions and four telephone calls were received from egg producers. Additional targeted interviews were completed with one larger egg producer who was supportive of AECL and four smaller producers who were not. The interview sample deliberately targeted those dissatisfied with AECL's performance to ensure they had a voice in the review.

Concerns expressed by dissatisfied egg producers who claim/purport to represent 2.4 million birds or approximately 20% of egg industry production are detailed below. The review gave AECL the opportunity to respond to claims made.

1. There has been no financial return realised by small producers from levy-funded promotion. Any additional demand created is simply filled by large producers with surplus supply capacity. Promotion does not target those with regional markets.

AECL response: *Return-on-investment has been achieved for the egg category which is supplied by all egg producers. Most egg promotions benefit all egg producers in all areas (eg. Magazine advertising and editorials) with some promotional activities benefiting those who wish to take part (eg. Recipe cards and point-of-sale materials). All egg producers are given the opportunity to be involved. AECL always promotes eggs, not individual brands, and competing market shares will always change with or without AECL.*

2. The structure of AECL is not representative or democratic. AECL decision-making is dominated by the three large producers at the expense of the 300 small operators. A vote per producer or even per million birds would be more appropriate. Industry decision-making structures need to reflect the concerns of smaller producers.

AECL response: *Like any other public company, AECL decision-making is undertaken by those who are liable for the 'health' of the company and responsible to stakeholders as per the Constitution and the Corporations Act. For AECL directors, who are elected to this position, to devolve themselves of this duty would be in serious breach of company law and effective corporate governance. Those egg producers who purport to have concerns have not expressed these concerns and how they may differ from other small, medium or large egg producer concerns that are being addressed by AECL. AECL voting is democratic and reflects the relative investment, hence liability, stakeholders have in the company.*

3. AECL is being used by large egg producers to remove small producers from the industry. The large growers, which dominate AECL decision-making, are channelling promotion funds to the building of their markets and lobbying for government adjustment assistance to remove small producers from the industry. Small producers want government assistance to modify their cages and remain productive within the industry.

AECL response: *AECL programs are not designed or do not attempt to remove any egg producer from the egg industry. To the contrary, AECL programs are about maximising market opportunities and minimising cost or business inefficiencies for the benefit of all egg producers. AECL advertises and promotes the egg category, not individual brands. All egg producers are part of the egg category. Under the auspices of AEIA, the egg industry has lobbied for government assistance through a structural adjustment package to assist any egg producer regarding the implementation of the 4th edition of the Model Code of Practice for the Welfare of Animals – Domestic Poultry.*

4. AECL is under funding R&D and channelling R&D funds into worthless promotion.

AECL response: *No R&D levy funds are invested in egg promotions! AECL has reduced the size of researcher-initiated traditional basic & applied research and expanded the use of R&D levy funds into egg quality research, supply/demand chain issues, annual investments into the Poultry CRC, market research, the provision of market intelligence and egg producer initiated research, innovation and development. The R&D framework has been enhanced as a result.*

5. AECL does not provide opportunity for the debate and resolution on national policy for the industry. AECL does not have a Policy Council. AECL ICCs and industry forums do not have decision-making capacity.

AECL response: *To date, AECL has only received such a request from one AECL member. Being a truly democratic organisation, AECL would only ever want to debate industry policy if a groundswell of members considered this to be appropriate. Despite this, AECL has always welcomed policy positions or initiatives from individual members and will continue to do so. The ICC framework also provides egg producers with opportunities to debate policy as it relates to critical areas of public affairs, animal health, animal welfare, supply chain enhancement, on-farm innovation & efficiency, promotions/PR and egg quality. AECL will canvass members' needs in this regard at the November 2006 AECL Industry Forum.*

These concerns along with AECL's performance in meeting the requirements of the SFA were reviewed with the Minister for Agriculture's Parliamentary Secretary and the Department of Agriculture Forestry and Fisheries. In summary the Parliamentary Secretary and DAFF indicated to the review that:

1. AECL had met all requirements in relation to compliance with the SFA, the production of appropriate plans and meeting DAFF corporate governance needs.
2. AECL's focus on marketing was appropriate and that the Company's marketing strategy was of a very high quality. AECL had made positive inroads into the imaging and positioning of Australian eggs.
3. AECL had managed agri-political activity appropriately but that recent use of a lobbyist was bordering on agri-political activity.
4. They had some concerns with AECL's management of stakeholder relations and that more must be done to accommodate the priorities of small to medium producers.

These concerns have been communicated to the AECL Chairman.

6.9 Encouraging New Members

AECL membership is open and free to levy paying egg producers who must renew their membership on an annual basis. AECL has a twice-yearly membership drive and writes to all known non-member levy payers. AECL membership currently stands at 229 egg producers, which represents about 85% of production. Membership of AECL is flat but this is a function of natural attrition of egg producers within the industry.

6.10 Company Costs

AECL company costs as a percentage of revenue are higher than the average of all other industry service providers. AECL has the same reporting and compliance costs with a turnover of \$5 million as other industry service providers with turnovers of \$100 million. In revenue terms, AECL has the smallest revenue base of all agri-industry service providers but has, by no means, the largest corporate cost as a percentage of revenue.

Consultation completed as part of the review indicates that AECL has been efficient and operated in a cost conscious manner. The Company's premises are modest and appropriate. Growth in company costs since 2003 have been in association with the delivery of additional services valued by industry.

7. Review Conclusions

At commencement in February 2003 there was a belief by some stakeholders that AECL was too small to survive and deliver on its core commitments to growers and its reporting requirements for government and ASIC. The AECL Board and management team have proved this concern to be a fallacy and have performed to the requirements of the SFA and the general expectations of the majority of Australian egg producers.

At commencement, many in the egg industry told AECL that its sole objective should be to grow the demand for eggs. AECL has wholeheartedly embraced this objective and has delivered growth in shell egg sales that are profitable for egg producers. Other AECL achievements include gaining the Heart Foundation's 'Heart Tick', moving consumer and healthcare professional attitudes and opinions towards eggs, achieving a measure of egg industry unity and common purpose, an appropriate and well considered R&D plan and roll-out of the first national egg QA scheme.

The review concludes that AECL is a professionally managed industry services body, investing efficiently and effectively in marketing/promotion, R&D and policy services.

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