

INVESTOR BRIEFING NO. 12

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The 2013 Business Benchmark on Farm Animal Welfare

This briefing summarises the results of the second benchmark of the farm animal welfare management and reporting practices of 70 of the world's leading food companies. *The Business Benchmark on Farm Animal Welfare: 2013 Report*¹ provides an objective account of the state of farm animal welfare as a business issue and identifies practical actions that are being taken by companies and their investors to raise farm animal welfare standards across the industry.

KEY FINDINGS

The key findings of the 2013 Benchmark were:

- Farm animal welfare is rising up the business agenda with an increasing number of companies having established policies and set objectives and targets.
- Seven companies – The Co-operative Food (UK), Coop Group (Switzerland), J Sainsbury, Marfrig, Marks & Spencer, Noble Foods and Unilever – have carved out clear leadership positions on this issue.
- Almost one third of the 70 companies covered by the Benchmark have made notable improvements in their farm animal welfare-related management and/or reporting over the past year.
- Farm animal welfare continues to receive much less attention than other corporate responsibility issues, with almost 30% of the companies covered by the Benchmark yet to even acknowledge farm animal welfare as a business issue.

The 2013 Benchmark report was launched at an event hosted by BNP Paribas in Paris in December 2013. The launch event and our subsequent dialogue with investors have indicated that investor interest in the Benchmark is growing. An increasing number of investors are considering how they can use the findings in their investment research and decision-making, and in their engagement with companies. Some are interested in the specific implications of farm animal welfare (i.e. the business risks and opportunities) for the companies in which they are invested, whereas others see the Benchmark as providing them with important

¹ Amos, N. & Sullivan, R. (2013), *The Business Benchmark on Farm Animal Welfare; 2013 Report* (Business Benchmark on Farm Animal Welfare (BBFAW), London, UK). <http://www.bbfaw.com/wp-content/uploads/2013/12/BBFAW-Report-2013.pdf>

insights into the quality of companies' risk management and supply chain management systems, in particular in the light of the European horsemeat scandal.

SETTING THE SCENE

Farm animal welfare is an important business issue for all food sector companies; retailers, service companies, manufacturers, processors and producers. This is being driven by a range of factors including regulation, consumer concern, client demand, and the brand and market opportunities for companies that adopt higher farm animal welfare standards.

As investor awareness of the financial implications of farm animal welfare has grown, companies are increasingly expected to report on their performance in a way that provides investors and other stakeholders with the reassurance that farm animal welfare-related issues are being effectively managed across their national, regional and global operations and through their supply chains.

THE BUSINESS BENCHMARK ON FARM ANIMAL WELFARE

About the Business Benchmark on Farm Animal Welfare

The Business Benchmark on Farm Animal Welfare has been designed to help drive higher farm animal welfare standards across the world's leading food business. Its aims are:

- To provide investors and other stakeholders with the information they need to understand the business implications of farm animal welfare for the companies in which they are invested.
- To provide investors, governments, academics, NGOs, consumers and other stakeholders with an independent, impartial and reliable assessment of individual company efforts to adopt higher farm animal welfare standards and practices.
- To provide guidance to companies interested in improving their management and reporting on farm animal welfare issues.

A key tool for the delivery of these objectives is an annual benchmark of food companies' performance on farm animal welfare. The 2012 Business Benchmark on Farm Animal Welfare (the 'Benchmark') assessed company performance in August/September 2012, and the 2013 Benchmark assessed company performance in August/September 2013.

The Benchmark has been developed with the support and expertise of leading farm animal welfare organisations, Compassion in World Farming and the World Society for the Protection of Animals (WSPA). It is governed by an independent secretariat which provides a programme director and other resources necessary to deliver the annual Benchmarks, and the accompanying dialogue with stakeholders.

The 2013 Benchmark assessed company approaches to farm animal welfare on the basis of their published information in three core areas:

- Management Commitment and Policy, including overarching farm animal welfare policies as well as specific policies on issues such as close confinement and long-distance transport.
- Governance and Management, including management oversight, farm animal welfare-related objectives and targets, supply chain management and performance reporting.
- Leadership and Innovation, including research and development and customer and client engagement.

In total, 70 food companies were included in the 2013 Benchmark. These companies – which were spread across the three food industry subsectors, i.e. food retailers and wholesalers, restaurants and bars, and food producers (see Figure 1) – provided a broadly representative sample of the largest companies in the European food sector. While primarily comprising companies that have their headquarters or listings in Europe, the 2013 company scope included 15 US companies and one Brazilian company who have a significant presence in Europe (see Figure 2).

Figure 1: Company Breakdown by Sub-Sector

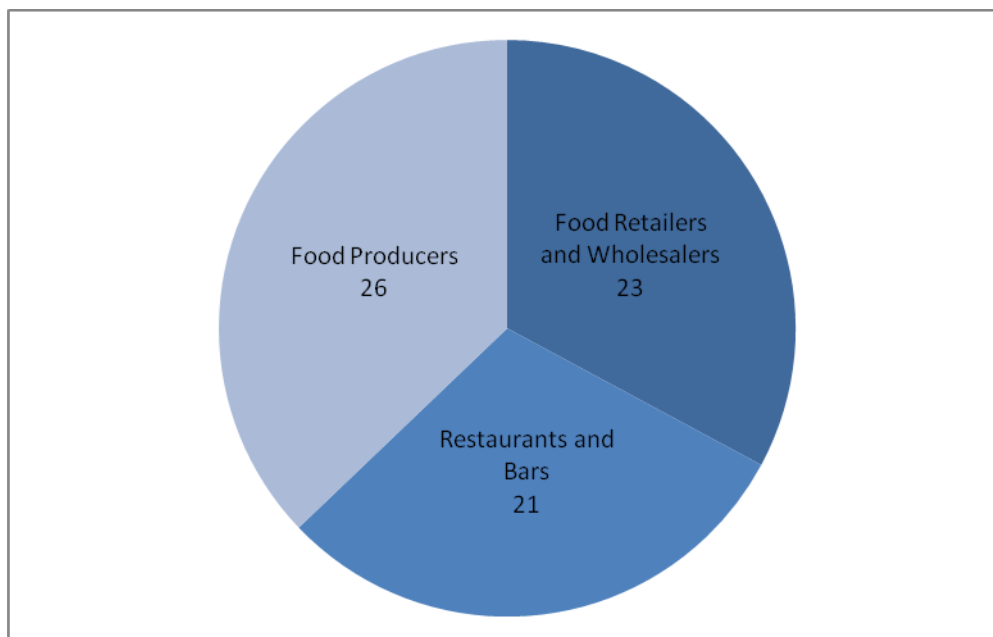
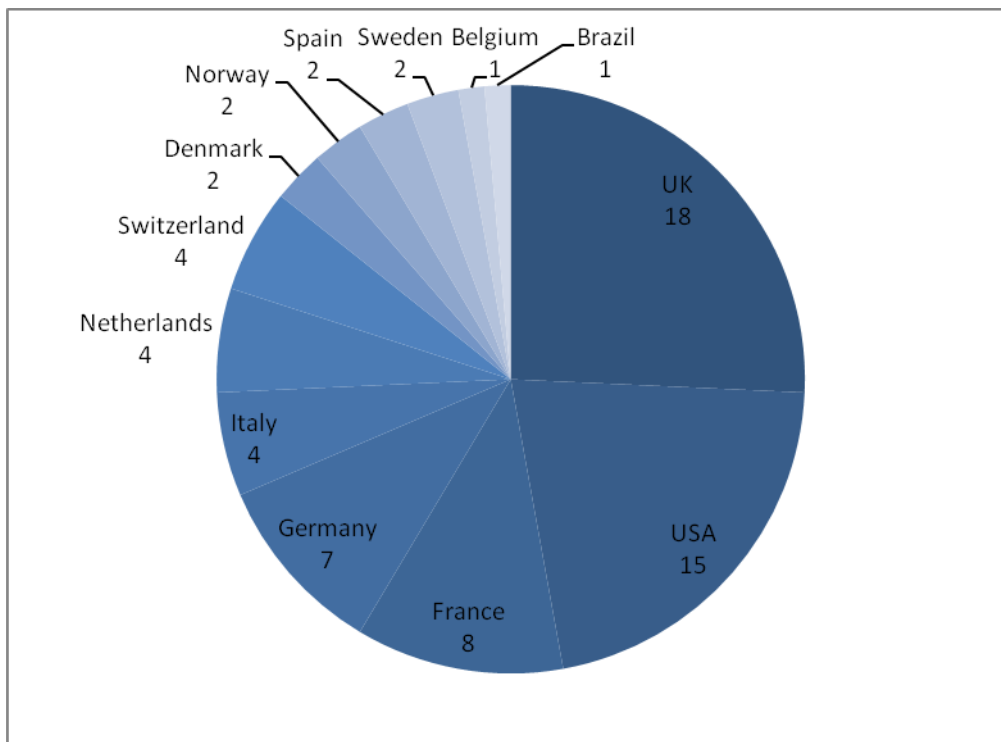


Figure 2: Company Breakdown by Country of Listing or Domicile



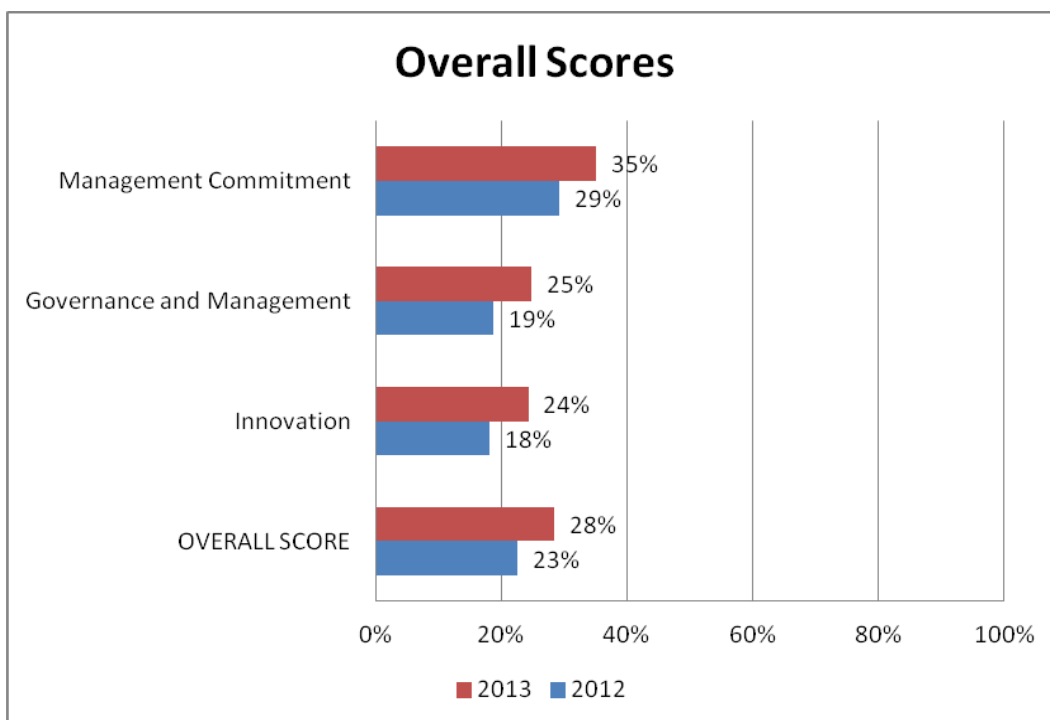
KEY FINDINGS

1. There is clear evidence that farm animal welfare is rising up the business agenda

We are starting to see tangible signs that companies are increasing the attention they pay to farm animal welfare (see Figure 3). This is being seen across all the three core areas of the Benchmark (i.e. Management Commitment and Policy, Governance and Management, and Leadership and Innovation). For example, the number of companies that have published a formal farm animal welfare policy has increased from 46% to 56% over the past year, and the number that have published objectives and targets for farm animal welfare has increased from 26% to 41%.

In addition, there has been a significant increase in the number of companies that provide information to their customers or consumers on farm animal welfare, with 30 of the 70 companies (43%) assessed in the 2013 Benchmark providing this information compared to just 25% in the 2012 Benchmark. Moreover, 16 of the 30 presented multiple examples, suggesting that farm animal welfare is an integral part of their customer messaging and engagement, rather than a one-off activity. This proactive communication on farm animal welfare is hugely important; it helps to raise the awareness of farm animal welfare issues among consumers and it signals that farm animal welfare should be an integral part of food companies’ approaches to corporate sustainability.

Figure 3: Overall Scores



2. Farm animal welfare continues to receive much less attention than other corporate responsibility issues

While over 70% of the companies covered by the 2013 Benchmark acknowledge farm animal welfare as a business issue, many have yet to formalise their commitment in overarching policies or equivalent documents, and fewer have set out the specific commitments that underpin this area. More specifically, only 56% have published a formal farm animal welfare policy, just 39% describe how their board or senior management oversee their approach to farm animal welfare, and only 41% have published objectives and targets for farm animal welfare.

3. There continues to be a huge variation in company performance

Figure 4 (see page 7) presents a composite picture of company scores. We classed the surveyed companies into one of six tiers as follows:

Tier	Percentage Score
1: Leadership	>80%
2: Integral to Business Strategy	62 – 80%
3: Established but Work to be Done	44 – 61%
4: Making Progress on Implementation	27 – 43%
5: On the Business Agenda but Limited Evidence of Implementation	11 – 26%
6: No Evidence that on the Business Agenda	<10%

4. *Almost one-third of the companies have seen a significant improvement in their scores*

Table 1 illustrates how the company rankings have changed from 2012 to 2013. It is striking that seven companies – The Co-operative Food (UK), Coop Group (Switzerland), J Sainsbury, Marfrig, Marks & Spencer, Noble Foods and Unilever - have made the top two tiers, compared to just three in the 2012 Benchmark. These companies have made strong commitments to farm animal welfare, have well developed management systems and processes, and have a clear focus on farm animal welfare outcomes.

Table 1: Number of Companies by Tier

Tier	Number of Companies	
	2012	2013
1: Leadership	0	2
2: Integral to Business Strategy	3	5
3: Established but Work to be Done	6	10
4: Making Progress on Implementation	18	16
5: On the Business Agenda but Limited Evidence of Implementation	18	14
6: No Evidence that on the Business Agenda	23	23
Total	68	70

The other encouraging sign is that 19 of the 70 companies have made notable improvements in their farm animal welfare-related management and/or reporting over the past year. These include Coop Switzerland (which moved from Tier 3 to Tier 1), Gruppo Cremonini (Tier 6 to Tier 4), Marfrig (Tier 4 to Tier 2), Marks & Spencer (Tier 3 to Tier 1), Nestlé (Tier 5 to Tier 3), Sodexo (Tier 6 to Tier 4) and Walmart (Tier 6 to Tier 4).

5. *Some companies received a lower score than in 2012*

While the general trend is encouraging, a number of companies achieved lower scores than the 2012 Benchmark. Five companies (2 Sisters Food Group, ICA Gruppen, Mitchells & Butlers, Terrena Group and Whitbread) fell by at least one Tier, and a number of others saw their scores decline year-on-year. While, in some cases, the reasons related to corporate events (e.g. takeovers or mergers), in most cases changes in reporting rather than changes in policy and practice seemed to be the main causes of these declines. For example, a number of these companies revamped their corporate websites and, in the process, removed most or all of the information they had previously provided on farm animal welfare.

Figure 4: Company Scores



IMPLICATIONS

Implications for Investors

The key conclusion to be drawn from the 2013 Benchmark is that farm animal welfare continues to be a systemic risk that many companies in the food industry are either not effectively managing or not properly reporting. While we have cautioned investors about drawing strong conclusions on individual company performance (given the novelty of farm animal welfare as a reporting issue), we have been struck by the number of investors who have signalled that they intend using the Benchmark findings in their investment research and in their engagement with these companies. The main reasons for this are because they see farm animal welfare as presenting risks or opportunities to the companies in which they are invested, and/or because the Benchmark provides them with important insights into the quality of companies' risk management or supply chain management systems.

Implications for Companies

In the lead up to and following the launch, we discussed the Benchmark with a number of companies. Two themes emerge from these discussions. The first is that companies see that their investors are increasingly likely to ask them questions about farm animal welfare and their performance in the Benchmark. A number of companies have told us that they plan to strengthen their reporting in this area so that they can effectively deal with these questions.

The second is that companies see the Benchmark as providing them with a practical guide on how to implement and report on their farm animal welfare-related practices and processes. Indeed, in the course of conducting the evaluations for this iteration of the Benchmark, we were struck by the number of companies who seemed to have used the Benchmark as a template for their reporting (in particular in relation to the specific policies they have adopted on farm animal welfare).

OUR PRIORITIES FOR 2014

We will continue to engage with investors

From the very beginning, the investor community has been the key audience for the Benchmark, and the Benchmark has been designed with investors' interests in mind. We intend to maintain our engagement with investors, to ensure that the Benchmark remains relevant to their needs, to support investors in their engagement with companies, and to develop tools and information that enable investors to integrate farm animal welfare into their investment research and decision-making. More generally, we will continue to develop investors' understanding of farm animal welfare, work to develop consensus on the performance expectations of companies, and continue to press companies to improve their reporting on farm animal welfare.

We will focus on performance

The 2013 Benchmark focuses on management practices and processes. We intend placing a stronger emphasis on performance outcomes in future iterations of the Benchmark. To that end, in early 2014 we will establish a working group of companies, investors, and other stakeholders on performance measurement. Our plan is to develop a series of indicators that we will consult on in mid-2014, with the aim of introducing these measures into the 2014 Benchmark.

The next iteration of the Benchmark

We will repeat the Benchmark in August 2014, and will release the third Benchmark Report in late 2014. Before we commence this process, we will – as we did for the 2012 and 2013 Benchmarks – formally consult on the criteria to be used, the issues to be covered and the scope of the Benchmark.

Nicky Amos is the Programme Director of the Business Benchmark on Farm Animal Welfare and Dr Rory Sullivan is the Expert Adviser to the Business Benchmark on Farm Animal Welfare.

Nicky Amos and Rory Sullivan (2013), *The Business Benchmark on Farm Animal Welfare; 2013 Report* (Business Benchmark on Farm Animal Welfare (BBFAW), London, UK). <http://www.bbfaw.com/wp-content/uploads/2013/12/BBFAW-Report-2013.pdf>

The **Business Benchmark on Farm Animal Welfare** is designed to help drive higher farm animal welfare standards in the world's leading food businesses. It is the first global measure of animal welfare standards in food companies and is designed for use by investors, companies, NGOs and other interested stakeholders.

For more information, go to www.bbfaw.com or contact the Programme Director, Nicky Amos: nicky@nicky-amos.co.uk.