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How Companies and Investors Are Using the Business Benchmark on Farm Animal Welfare

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EXECUTIVE SUMMARY

- Farm animal welfare continues to move up both the corporate and investor agenda.
- Our survey of **food companies** suggests that the main reasons for them to pay attention to farm animal welfare are customer interest and the business and brand risks presented by farm animal welfare. Customer willingness to pay remains a key barrier to food companies adopting higher farm animal welfare standards.
- Our survey of and engagement with **investors** indicates that investors pay attention to farm animal welfare when they see farm animal welfare as presenting risks to their investments. Increasingly investors are also looking to understand the potential opportunities (e.g. new products, growth in existing products) presented by higher farm animal welfare. The main barriers to greater investor focus on farm animal welfare are competing engagement priorities, and a continued lack of knowledge/understanding of farm animal welfare.
- **The BBFAW** is seen as an important driver of change and is increasingly used by companies to enable them to compare their approach against industry peers and to improve their farm animal welfare reporting. For investors, BBFAW provides a benchmark of company practice and performance, and a framework for company engagement.

Introduction

Now in its seventh year, the annual Business Benchmark on Farm Animal Welfare (BBFAW) aims to stimulate improvement in corporate practices on animal welfare management and reporting, by providing a robust measure of company performance.

In addition to its annual Benchmark, the BBFAW conducts annual surveys of the companies assessed by the Benchmark and of the investor community. The aims of both surveys are to understand the drivers for action on farm animal welfare, and to understand the role that might be played by BBFAW in supporting corporate and investor action on farm animal welfare. We supplement these surveys with regular meetings and events with companies and investors.

2018 Company and Investor Surveys

In June and July 2018, we invited the 110 companies covered by the 2017 Benchmark to respond to an online survey (see Appendix 1). We also carried out a survey to investors on their engagement with the BBFAW and with farm animal welfare (see Appendix 2). In total, 26 food companies and 15 investors responded to the respective surveys¹. Note that in some cases certain respondents skipped certain questions. The response rates presented in this report are

¹ The company responses came from 9 countries: UK (12 companies), France (3), The Netherlands (2), Switzerland (2), USA (2), Brazil (2), Germany (1), Luxembourg (1), New Zealand (1). The investor responses came from 6 countries: UK (6 investors), USA (4), The Netherlands (2), Canada (1), Belgium (1), Australia (1).

always calculated from the actual number of respondents. In the period July 2017 to June 2018 (the period since we conducted the last company and investor surveys), we have met or spoken with – in one-one meetings and calls, and in group events - over 65 companies and over 30 investors. We have used these meetings, calls and events to discuss the drivers for action and the potential role and value of the BBFAW.²

Key Findings

1. Animal Welfare Is Receiving Growing Attention From Food Companies And Investors

Companies

Most (73%) of the food companies that responded to the 2018 survey, stated that they are paying more attention to farm animal welfare than in previous years. These companies have recently taken a variety of actions including:

- Using outcome measures to drive and incentivise continual improvement in their farm animal welfare performance.
- Taking action on specific farm animal welfare issues, with many acting on close-confinement (e.g. cage-free eggs, gestation crates), routine mutilations (e.g. castration of pigs) and slaughtering practices.
- Publishing formal policies on farm animal welfare and working with suppliers to develop and implement these policies and commitments.
- Providing internal training on farm animal welfare and raising awareness of farm animal welfare across their business.
- Widening the scope of their farm animal welfare efforts to include, for example, more products, more species and animal derivatives.
- Appointing dedicated farm animal welfare managers and other specialist staff.
- Strengthening their reporting and customer engagement on farm animal welfare.
- Increasing their sales of higher welfare products.

Examples of Company Action:

“We conducted a pilot project in order to demonstrate the feasibility of setting even higher standards.”

- US food company

“We conducted a gap analysis of our performance against the requirements to become BBFAW tier 1 & 2 rated as a way to understand the key factors for improving our performance.”

- UK food company

² One important way in which the BBFAW engages with the investor community is via the **BBFAW Global Investor Collaboration on Farm Animal Welfare**. This initiative involves e.g. annual communications to encourage lower-ranking companies in the Benchmark to improve their farm animal welfare practices and to commend those companies demonstrating leadership or significant improvement in their performance. To date 21 global investors, representing over £2.3 trillion in assets under management (AUM) are part of this collaboration. In addition to this, 23 investors, representing over £2.5 trillion (AUM), have signed the **BBFAW's Global Investor Statement on Farm Animal Welfare**. These investors identify farm animal welfare as material to long-term investment value creation and commit to taking account of the issue in their investment analyses and engagement with food companies.

Investors

80% of the investor respondents to the survey reported having engaged with companies on farm animal welfare issues over the past year, and 93% stated that they now take account of farm animal welfare in their investment research and decision-making processes.

Examples of Investor Action:

"We take farm animal welfare into account where it is applicable to the firm's business case and where it presents a material risk."

- UK investor

"We have seen that farm animal welfare awareness has increased. We may engage with a company if we consider that its approach to welfare is not sufficient."

- UK investor

"We can increase our focus on farm animal welfare as better research and resources become available - at the issue level (i.e. identifying risks and opportunities) and the company level (benchmarking performance relative to best practices)."

- US investor

"We have included points raised by the Benchmark with companies that are included. We have also engaged on animal welfare with companies that, as of yet, do not form part of the benchmark using research from BBAW."

- UK investor

When asked what particular aspects of corporate performance on farm animal welfare that the investors consider in their investment research and decision making, most investors mentioned:

- Corporate policies on farm animal welfare (93% of respondents)
- Specific policies or positions on specific aw issues (86%)
- Management systems and processes (71%)

"The specificity of the policy (i.e. how much detail companies disclose on certain issues such as routine mutilations) play a role in the research process. We also make sure to ask about supply chain management and whether suppliers are required to adhere to the same policy as direct operations."

- UK investor

91% of the responding investors discuss farm animal welfare issues with companies as part of discussions about sustainability. The majority said that they account for these issues as part of bottom-up analysis or ESG integration (64%), followed by negative screening, positive screening and "best-in-class" which all had response rates of 43%.

The most commonly used information sources for investors are:

- Company-reported information (93% of respondents)
- Data and information from ESG research agencies, the BBAW and NGOs (79%)
- Data and information from the media (57%)

87% of investors stated that they communicate/report on their approach to and engagement on farm animal welfare. 77% of respondents communicate this publicly and 54% to their clients, either on their website (85%), in annual/ESG-reports (69%) or in client reports (54%).

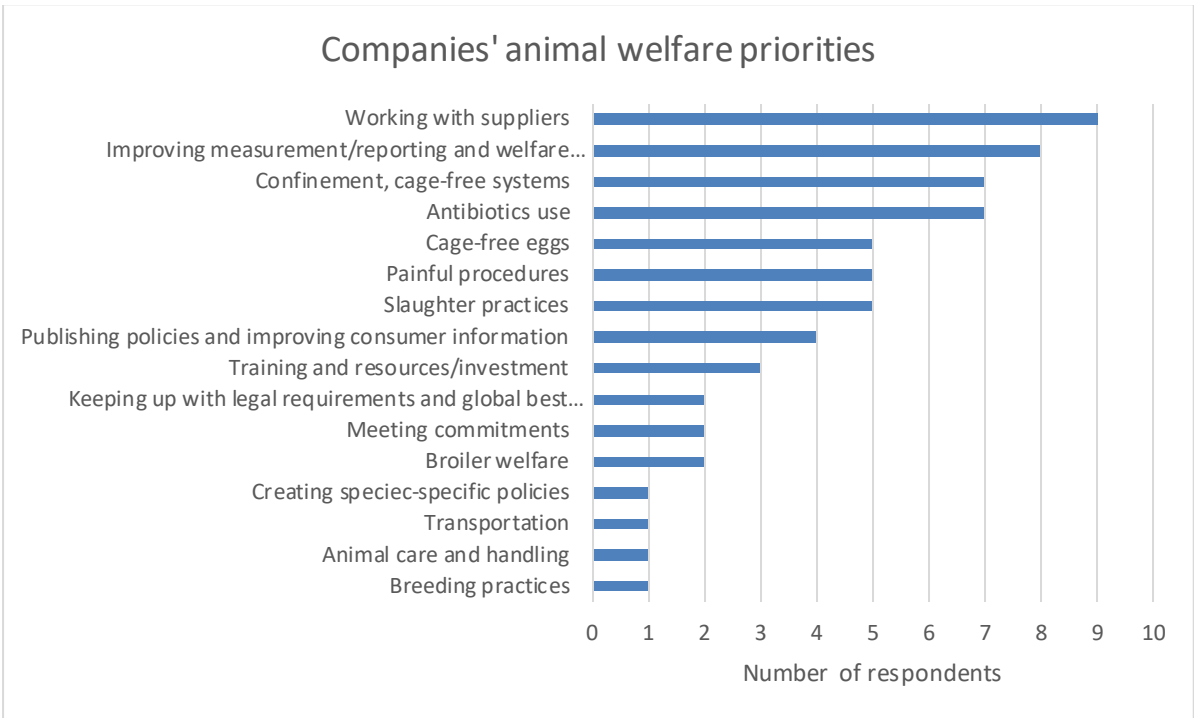
Investors mainly engage with Sustainability managers (83%), Investor relations (75%) and specialist staff (33%) on farm animal welfare-related issues.

2. Supplier Engagement Is A Current Priority For Food Companies, Although Investors Continue To Focus On Policy Commitments

Companies

Companies were asked to identify their top three priorities on farm animal welfare. The most common answers were 'working with suppliers', 'improving measurement/reporting and welfare indicators', 'confinement and cage-free systems' and 'Antibiotics use' (see Figure 1). These are all areas where work appears to be intensifying, with a particular focus on suppliers.

Figure 1: What are your company's top three priorities on farm animal welfare?



Investors

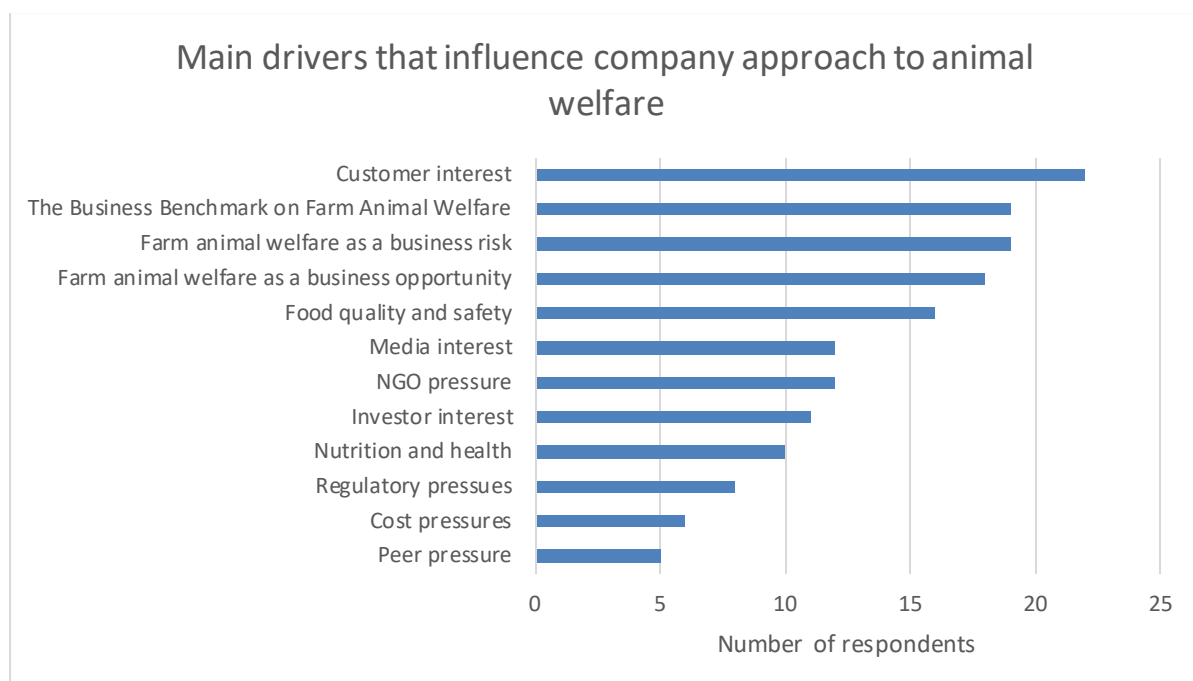
Interestingly, investors seem to have a different focus. When asked about which topics they discuss with food companies, the most common answer provided by investors were 'Specific policies/positions on specific animal welfare issues' (75% of respondents), followed by 'Corporate policies on farm animal welfare' (58%) and 'Farm animal welfare management systems and processes' (50%). This suggests that investors are currently focusing on company policies and positions on animal welfare and, albeit to a lesser extent, on the management systems and processes that companies have in place to ensure that these policies are effectively implemented.

3. Customer Interest Is Driving Company Approaches To Farm Animal Welfare, While Investors View Farm Animal Welfare As Primarily An Investment Risk

Companies

For the responding food companies, 'Customer interest' remains the number one driver that influences their approach to farm animal welfare at 85%, followed by 'Farm animal welfare as a business risk' (73%), 'the Business Benchmark on Farm Animal Welfare' (73%) and 'Farm animal welfare as a business opportunity' (69%) (see Figure 2). Investor interest (42%) is slightly below media interest and NGO pressure, both at 46%. The stated influence of interest from investors remains the same from last year's survey. The stated influence of the BBFAW, however, has increased substantially, from 59% last year to 73% this year.

Figure 2: What are the main drivers that influence your approach to farm animal welfare?



Investors

The main drivers for investors to pay attention to farm animal welfare in their investment practices and processes were in descending order 'Farm animal welfare as an investment risk', 'Farm animal welfare as an investment opportunity' and 'Client demand'.

Interestingly, several of the investor respondents stated that they also perceive strong ethical reasons for prioritising animal welfare, and that the rationale for minimising animal suffering and/or improving animal welfare is not only driven by financial considerations.

4. The Benchmark Is Enabling Companies To Compare Their Approach To Industry Peers And Provides A Ranking Of Company Practice And Performance For Investors

Companies

A clear majority of the food company respondents (80%) are of the opinion that the BBFAW is influencing their approaches to farm animal welfare in several ways. The most common answers for companies were that the BBFAW:

- Enables them to compare their approach against industry peers (91%) (up from 79% in our 2017 survey)
- Helps to improve their farm animal welfare reporting (76%) (up from 64% in 2017)
- Attracts senior management attention (67%) (up from 55% in 2017)
- Provides a clear set of expectations (62%) (down from 70% in 2017)
- Raises their profile on farm animal welfare as well as helps them to improve their farm animal welfare management processes (both at 57%)

Investors

For the investor respondents, the stated value of the BBFAW is mainly that it:

- Provides a benchmark/ranking of company practice and performance (87%)
- Provides a framework for company engagement (73%)
- Raises internal awareness of farm animal welfare as an investment issue (40%).

5. Customer Willingness To Pay Remains The Key Barrier To Food Companies Adopting Higher Standards Of Farm Animal Welfare, And Affects The Level Of Investor Interest In The Issue

Companies

The main barrier to food companies adopting higher standards of farm animal welfare is 'Lack of customer/client willingness to pay for higher farm animal welfare'. 82% of company survey respondents identified customer willingness to pay as a barrier to adopting higher standards of farm animal welfare, an increase on the 68% in our 2017 survey. Despite the earlier mentioned finding that customer concern is the main driving force behind company approaches to farm animal welfare, this interest still does not seem to be translating into a willingness to pay more for responsibly produced items.

Other important barriers to progress reported by companies were 'competing management priorities', 'lack of interest from suppliers or business partners to commit to/invest in higher welfare standards' as well as 'the absence or lack of awareness of a compelling business case for adopting higher welfare standards'. These were each identified by approximately one-third of respondents.

Other barriers identified by companies were that a lack of scientific consensus on how to address some issues leads to uncertainty, that farm animal welfare is not a one-dimensional issue, that farm animal welfare needs to be considered as part of a wider set of ethical imperatives, and that changes in farm animal welfare practice and processes take time to manifest themselves in improved performance.

"Definition of higher standards of animal welfare is needed."

- UK company

"The price sensitivity of customers in very uncertain times, particularly given the volatility of the retail landscape, and the need to remain competitive in what is an incredibly challenging marketplace are key barriers to us adopting higher standards on farm animal welfare."

- UK company

"The main difficulty we face is changing our practices because of the need for investment (CAPEX) to buy materials, land, control systems... There is no evidence that customers are ready to pay at large scale for better animal welfare products; when they shop, price is still the main driver). We therefore need of our competitors to be aligned with higher standard."

- French company

Investors

For investors, the three most commonly identified barriers to them paying more attention to animal welfare were:

- Competing engagement priorities (53% of investor respondents)
- Lack of knowledge/understanding of farm animal welfare (53%)
- Lack of clarity on the investment case for focusing on animal welfare (47%)

Among other barriers identified by investors were limited responsiveness/action from companies on farm animal welfare, animal welfare not being a major client priority, the weaknesses in the investment/business case (i.e. on the relationship between farm animal welfare and financial performance) and the lack of data on consumer demand and willingness to pay.

"Research demonstrating correlation between company financial performance and animal welfare performance is helpful for persuading portfolio managers of the value of integrating this area of risk to their processes. It would be helpful to understand which aspects of animal welfare are proving to be the biggest value generators at present."

- Canadian investor

"When investors are armed with more information, they have greater capability to act. Most people are aware of animal welfare issues. Many fewer people are aware of how their investments may be involved and/or perpetuating such issues"

- US investor

6. Food Companies And Investor Agree Upon Certain Key Issues That Deserve Further Attention In The Near Future

Food companies and investors offered their view on which animal welfare topics should be paid attention to in the coming years. There were certain overlaps found in the responses, but also some differing suggestions.

Figure 3: What do you see as emerging themes relating to farm animal welfare that companies/ investors should be paying attention to in the coming years?³

Antibiotic-free, reducing antibiotic use (/prophylactic use), antimicrobial use and resistance (food companies)
Links to human/public health, food safety/pandemics (investors)
Treatment of animals (both) e.g. painful procedures, mutilations, dehorning, tail docking of pigs, cow/calf separation, transport conditions, gas stunning, fish welfare
Housing conditions and confinement (both), e.g. gestation crates, battery cages, cage-free and stocking density, environmental enrichment/enrichment for chicken and pork, free farrowing for sows, bedding and outdoor runs/pastures, outdoor-reared animals, free range chicken production
Consumer attitudes (investors)
Transparency in the whole supply chain, animal welfare labelling and transparency, traceability and visibility at farm level (food companies)
Sustainable meals with plant-based offers, alternative proteins, alternative protein sources/artificial meat (cultured meat, plant-based protein) (both)
Climate, deforestation/land use, environmental impacts of poor management, water usage (both)
Breed selection/genetics, genetic engineering (both)
Rising costs (of e.g. raw materials and energy) that will increase pressure on intensive animal production (investors)

7. Suggestions For Strengthening The Benchmark

Various suggestions – see the Box below – were made about how the Benchmark might be strengthened. We will reflect on these and look to integrate them into our 2018 and 2019 work programme for the Benchmark.

Two wider issues were raised which warrant explicit discussion. The first relates to the rate of change in the Benchmark criteria, with some companies expressing concern that these are changing too rapidly. We acknowledge this concern but note that we have publicly and regularly communicated our plans to evolve the Benchmark and increase the emphasis (weighting) on farm animal performance over time. Each year, we consult with companies and investors on changes to the Benchmark and integrate this feedback into our decisions on the evolution of the Benchmark.

³ For definitions, see Appendix 3: Glossary in the 2017 BBFAW Report: <https://www.bbfa.com/media/1506/bbfa-report-interactive-amended-21st.pdf>

The other issue raised by companies is whether and how the Benchmark takes account of different conditions for influencing animal welfare and of the differences between the food industry subsectors (retailers, producers, restaurants and bars) covered by the Benchmark. We, as part of our review of the annual Benchmark, analyse aspects such as the performance of companies with multiple species relative to those with single species, and the performance of companies with operations in multiple geographies relative to those operating in single jurisdictions. There are variations (which we discuss in the annual Benchmark reports) between subsectors, between countries and between ownership type. However, we have not identified substantial differences between companies because of the specific animal species they produce or use, because of the complexity or simplicity of their supply chains, or because of the geographic distribution of their operations. We will continue to monitor these aspects and will, if substantial differences do start to emerge, consider whether changes need to be made to the Benchmark.

“Raising the bar and changing standards yearly makes longer term objective setting challenging. Not being directly involved in animal rearing or husbandry means we have to influence whole supply chains and potential whole market sectors to deliver positive change.”

- UK company

“We consider that a good practice may be to separate the ranking for retailers from the ranking for food producing companies. Since they are two distinct businesses despite being interdependent, we believe that companies should support animal welfare differently and therefore should be evaluated differently.”

- Brazilian company

“BBFAW should... implement a verification process to guarantee that what the company publish is the same that their practice... (and) promote more communication and training on animal welfare, so that consumers have a better understanding of what the evaluation system is and how important it is for the production chain.”

- Brazilian company

“BBFAW is quite influential in the industry. Many companies, notably the Food Service sector are now writing animal welfare policies and collaborating with suppliers in working on these. This is very positive. However, the weightings for the next assessment have been seen as negative by some of our customers and have somewhat disengaged with BBFAW.”

- UK company

“We have found working with BBFAW and CIWF extremely beneficial in terms of formalising our policy and gaining supplier commitment”

- UK company

“We would like the benchmark to consider company controversies.”

- UK investor

Acknowledgements

We would like to thank all the companies and investors who have taken the time to respond to our surveys and in other ways keep engaging with the BBFAW. Engagement with companies on animal welfare remains a key objective of the BBFAW and its partners, and we look forward to continued discussion and dialogue in the year ahead.

Authors' Details

Dr Rory Sullivan is Co-Founder and Director of Chronos Sustainability Ltd and is an internationally recognised expert on responsible investment and on climate change. He leads Chronos Sustainability's engagement with the finance sector, and is the technical lead on much of our work on benchmarking. Dr Sullivan is the Chief Technical Advisor to the Transition Pathway Initiative and has advised, amongst others, PRI, UN Global Compact and UNEPFI on how investors analyse and use corporate responsibility information. He is the author/editor of eight books on these and related issues, including *The Business of Farm Animal Welfare* (co-editor with Nicky Amos, Routledge, 2017), *Valuing Corporate Responsibility: How Do Investors Really Use Corporate Responsibility Information?* (Greenleaf, 2011), and *Corporate Responses to Climate Change* (editor, Greenleaf, 2008).

Nicky Amos is Co-Founder and Director of Chronos Sustainability Ltd and has over 25 years' experience in managing and directing corporate responsibility programs in global companies, specializing in the development and implementation of sustainable development and responsible sourcing strategies, multi-stakeholder partnerships and corporate reporting. She leads Chronos Sustainability's engagement with the private and NGO sectors, is the Executive Director of the Business Benchmark on Farm Animal Welfare (BBFAW) and leads the Secretariat of the Global Coalition for Animal Welfare (GCAW). Nicky is the co-editor, with Dr Rory Sullivan, of *The Business of Farm Animal Welfare* (Routledge, 2017).

Elisabeth Tjärnström is an animal welfare specialist and is as Program Manager for Chronos Sustainability responsible for coordinating and delivering several global animal welfare programs, including the BBFAW. She is also one of the assessors of the BBFAW. She holds a Master's Degree in Animal Science and Ethics, and has experience of working across Europe on the technical and policy aspects of animal welfare and sustainable agriculture, and as advisor to legislators, food companies and investors.

The Business Benchmark on Farm Animal Welfare

The Business Benchmark on Farm Animal Welfare (BBFAW) is the leading global measure of farm animal welfare management, policy commitment, performance and disclosure in food companies. It enables investors, companies, NGOs and other stakeholders to understand corporate practice and performance on farm animal welfare, and it drives – directly and through the efforts of others – corporate improvements in the welfare of animals reared for food.

BBFAW also maintains the Global Investor Statement on Farm Animal Welfare and convenes the Global Investor Collaboration on Farm Animal Welfare, a collaborative engagement between major institutional investors and food companies on the issue of farm animal welfare. In addition, BBFAW manages extensive engagement programmes with companies and with investors, and provides practical guidance and tools for companies and for investors on key animal welfare issues. The programme is supported by founding partners, Compassion in World Farming and World Animal Protection, who provide technical expertise, guidance, funding and practical resources.

For more information, go to www.bbfbaw.com or contact the BBFAW Secretariat at secretariat@bbfbaw.com.

Appendix 1

Click [here](#) for the BBFAW 2018 Company Survey.

Appendix 2

Click [here](#) for the BBFAW 2018 Investor Survey.