

The Business Benchmark on Farm Animal Welfare Report Executive Summary

2018

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BBFAW
Business Benchmark
on Farm Animal Welfare



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 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 the BBFAW's founding partners, Compassion in World Farming and World Animal Protection, who provide technical expertise, guidance, funding and practical resources.

More information on the programme can be found at www.bbfa.com



Compassion in World Farming

Compassion in World Farming is the leading farm animal welfare charity advancing the wellbeing of farm animals through advocacy, political lobbying and positive corporate engagement. The Food Business programme works in partnership with major food companies to raise baseline standards for animal welfare throughout their global supply chains. The team offers strategic advice and expert technical support for the development, implementation and communication of higher welfare policies and practices, and, increasingly, frameworks for a more humane sustainable food system.

Compassion engages directly with many of the companies benchmarked in the BBFAW to highlight and support with policy development, welfare improvement and transparent reporting. The Food Business team uses the Benchmark alongside Compassion's other tools, such as the Supermarket Survey, its awards programme, and its advisory services, to help companies understand how they are performing relative to their peers, to identify areas and mechanisms for continuous improvement, and to highlight sources of competitive advantage.

More information on Compassion in World Farming can be found at: www.ciwf.org.

More information on the work of the Food Business team at Compassion in World Farming can be found at: www.compassioninfoodbusiness.com



World Animal Protection

World Animal Protection has moved the world to protect animals for the last 50 years by working to give animals a better life. Its activities include working with companies to ensure high standards of welfare for the animals in their care, working with governments and other stakeholders to prevent wild animals being cruelly traded, trapped or killed, and saving the lives of animals and the livelihoods of the people who depend on them in disaster situations. World Animal Protection influences decision makers to put animals on the global agenda, and it inspires people to protect animals and to change animals' lives for the better.

More information on World Animal Protection can be found at: www.worldanimalprotection.org.uk

The 2018 Benchmark highlights

This is the seventh annual report from the Business Benchmark on Farm Animal Welfare. It analyses the farm animal welfare management and performance of 150 of the world’s largest food companies, across 35 distinct, objective criteria. As such, it is the most authoritative and comprehensive global account of corporate practice on farm animal welfare.

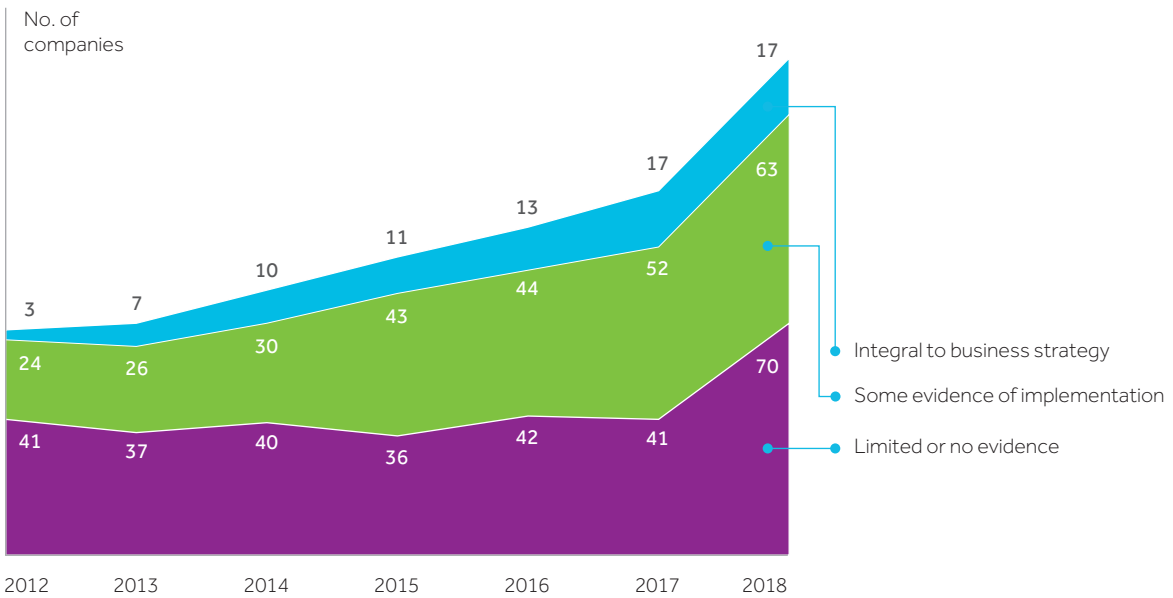
The 2018 Benchmark covers 150 global food companies:

- 52 Retailers and Wholesalers, 63 Producers and Manufacturers, and 35 Restaurants and Bars.
- 69 companies from Europe, 52 from North America and the balance from a mix of countries including Australia, Brazil, China, Japan, New Zealand and Thailand.

Key Findings

1. Farm animal welfare is now a leadership issue, with strong commercial drivers for action

Figure 1: The evolution of farm animal welfare



As shown in Figure 1, the number of companies that are considered to have farm animal welfare as an integral part of their business strategy (corresponding to Tiers 1 and 2 in the Benchmark) has grown significantly over the seven Benchmark cycles, from 3 in 2012 to 17 in 2018.

The primary drivers for companies to focus on farm animal welfare are consumer interest, risk management and business opportunities. This is a change from earlier iterations of the Benchmark when risk management was by far the most significant driver for action.

2. Companies are improving their management practices, processes and reporting on farm animal welfare

Many companies have now adopted formal farm animal welfare policies, assigned management responsibilities, set objectives and targets, and introduced audit processes to ensure that their policies are effectively implemented. Of the 150 companies covered by the 2018 Benchmark, 64 (43%) now have explicit board or senior management oversight of farm animal welfare (compared to just 22% in 2012), and 106 (71%) have published formal improvement objectives for farm animal welfare (compared to 26% in 2012). Other actions being taken by companies include using outcome measures to drive and incentivise continual improvement in farm animal welfare performance, working with suppliers to develop and implement effective farm animal

welfare policies and processes, appointing dedicated farm animal welfare managers and other specialist staff, and educating their consumers about higher animal welfare.

Our analysis of the changes in company tier rankings between 2012 and 2018 highlights the progress made by the 55 food companies that have been continuously included in the Benchmark since 2012. Among these companies, 45 (82%) have moved up at least one Tier since 2012; of these, 17 (31%) moved up one Tier, 20 (36%) moved up two Tiers and 8 (15%) moved up three Tiers. These improvements are even more striking given the tightening of the Benchmark criteria and the increased emphasis on performance reporting and impact over this time.

Tier changes 2012-2018 (trend companies*)

Down 1 Tier	No Tier change	Up 1 Tier	Up 2 Tiers	Up 3 Tiers
Subway	Autogrill Co-op Food UK Gategroup Groupe Lactalis Mars McDonald's Müller Group Starbucks Unilever	Associated British Foods Arla Foods Carrefour Compass Group Danish Crown FrieslandCampina Auchan Holdings ICA Gruppen J Sainsbury Kaufland Marfrig Mercadona Mitchells & Butlers Noble Foods Tyson Foods Umoë Gruppen Wm Morrison	2 Sisters Food Group Aldi Süd Barilla Group Camst Coop Group (Switzerland) Cremonini Groupe Danone JD Wetherspoon Lidl Marks & Spencer Metro Migros Nestlé Premier Foods REWE Group Tesco Vion Food Group Walmart Whitbread Yum! Brands	Aramark Cargill Cranswick Elior Group Greggs Groupe Casino Sodexo Waitrose
1	9	17	20	8

*Of the 68 companies covered by the 2012 Benchmark, 13 companies are no longer included in the Benchmark because they have been substantially affected by changes in ownership or business focus.

3. Close confinement is seen as a key issue

Many of the major animal welfare issues can be directly attributable to the systems in which animals are raised. Close confinement systems are associated with higher injury and mortality rates, as well as higher prevalence of aggression and other abnormal and stress-related behaviours. Furthermore, antibiotics are widely used in these systems to compensate for the fact that the extreme close proximity of animals to each other facilitates the spread of infectious diseases. The close confinement of animals is a key contributor to the wider societal issue of antimicrobial resistance¹.

One hundred and fifteen companies (77%), a similar percentage to the 79% in 2017, have made commitments to the avoidance of close confinement in one or more of the major markets in which they operate. Of these, five have made universal commitments to the avoidance of close confinement covering all relevant geographies, species and products, and 89 companies have made clearly defined commitments for specific geographies and/or specific species. Particular progress has been made in relation to commitments to cage-free laying hens, the phasing out of sow stalls/gestation crates, and the setting of lower maximum stocking densities for broiler chickens. These have been the species and the confinement systems that have received most attention from consumers and from NGOs in recent years.

82%

of companies have moved up at least one tier since the first Benchmark in 2012

4. Reporting on farm animal welfare performance is lagging

When we first introduced performance-based questions in 2014, we were interested to see whether companies had effective processes in place for ensuring that their policy commitments had been effectively implemented. While important, policy commitments on their own provide no guarantees of performance; companies, and their stakeholders, need to be sure that policies and associated management systems and processes deliver the desired outcomes in terms of farm animal welfare performance.

While we are seeing a gradual improvement in the proportion of companies reporting animal welfare performance data, the quality of performance reporting – in terms of consistency, comparability and coverage – is still not fit for purpose. Despite 77 companies (51%) now reporting at least some animal welfare performance data, it is often not possible to understand how companies are translating policy commitments into action, nor is it possible to get an accurate picture of the welfare impact on animals. In turn, this makes it very difficult to assess the quality of a company's management systems or to answer questions such as whether a company is effectively implementing its policies, whether it is delivering on its objectives and targets, whether it is effectively managing the risks and opportunities presented by farm animal welfare, or whether it is improving the welfare of the animals in its operations and supply chain. It is also not possible to make meaningful performance comparisons between companies, or to understand which companies are leading on delivering positive animal welfare impacts.

5. Lack of knowledge (e.g. on the wider business and marketing benefits of higher welfare) and consumer willingness to pay are the key barriers to progress

Lack of knowledge and customer willingness to pay remain the key barriers to food companies adopting higher standards of farm animal welfare and affects the level of investor interest in the issue.

In our 2018 survey of how companies use the Benchmark, 82% of respondents identified customer willingness to pay as a barrier to adopting higher standards of farm animal welfare. Companies also identified the absence of a compelling business case for adopting higher welfare standards, and a general lack of awareness of the wider business and marketing benefits of higher welfare as key barriers to progress.

We note that progress is being made to address these barriers. For example, many companies now provide financial incentives (e.g. higher pricing, extended-term contracts) to adopt higher standards as well as support with capital investment, and an increasing number provide suppliers with access to education, training, marketing and technical support on farm animal welfare.

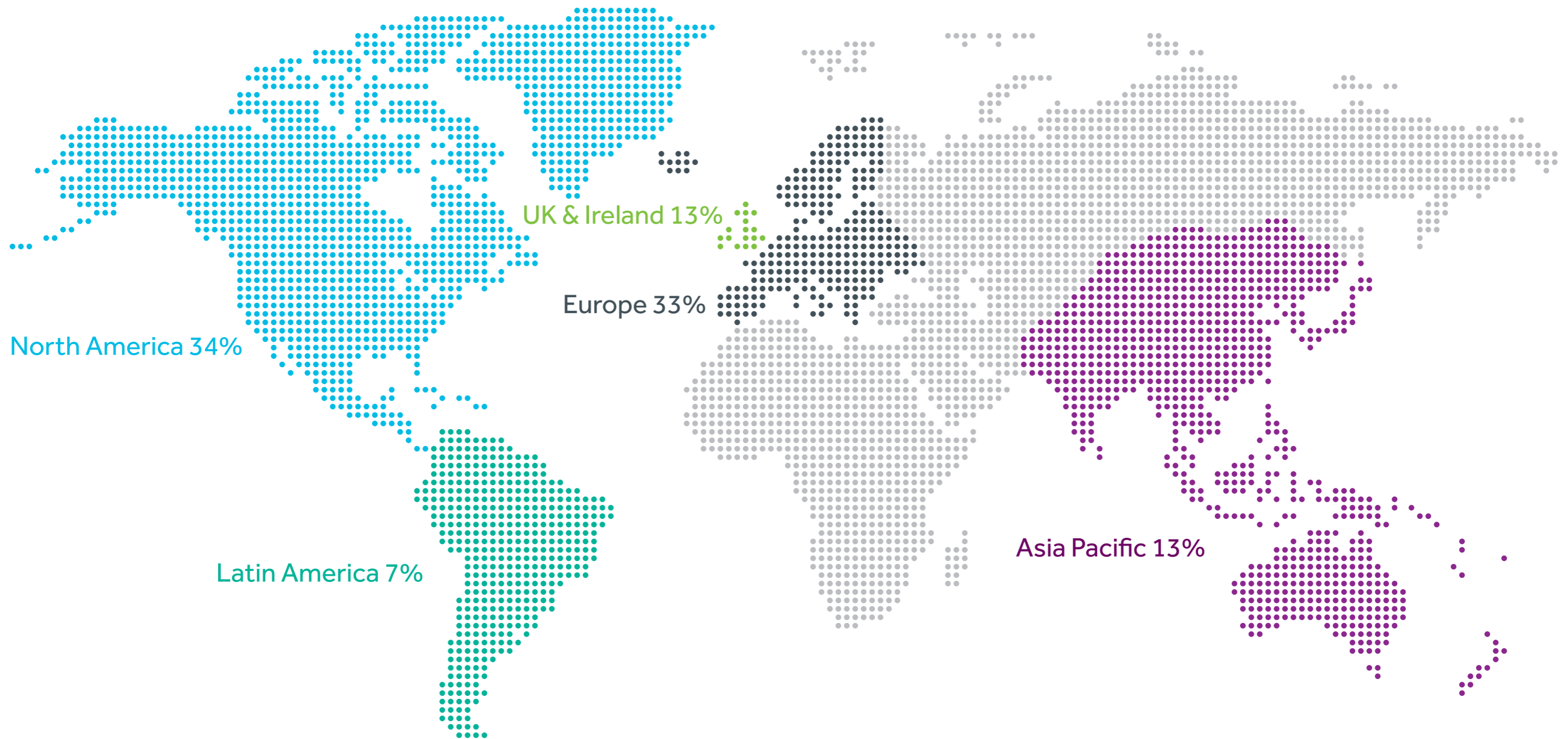
115

global food companies
have made commitments
to the avoidance of close
confinement in one or
more of the major markets
in which they operate

Addressing the barriers to farm animal welfare is a key objective of the Business Benchmark on Farm Animal Welfare. Over the next two years, we will focus on:

1. Strengthening the signals being sent by investors to food companies about the importance of farm animal welfare as a business issue. We will do this through:
 - Increasing the number of investor signatories to the Global Investor Statement on Farm Animal Welfare.
 - Increasing the number of investors that participate in the Global Investor Collaboration on Farm Animal Welfare.
 - Encouraging investors to proactively raise the issue of farm animal welfare with the food companies in which they are invested.
2. Raising investor awareness of the investment risks and opportunities associated with farm animal welfare. We will focus particular attention on the investment community in North America, Latin America and Asia.
3. Encouraging companies to improve their practices and reporting on farm animal welfare, with a particular emphasis on encouraging better consumer education and better reporting on farm animal welfare impacts. We will encourage investors and other stakeholders to support these efforts in their engagement with companies.
4. Building relationships with other stakeholders – in particular, intergovernmental agencies, standards bodies and financial institutions – to encourage them to integrate BBFAW's criteria into their lending and standards criteria.
5. Exploring the potential to develop country and market-specific benchmarks.
6. Consider increasing the emphasis we place on improving animal welfare performance in the Benchmark itself.

Geographic distribution of the companies covered by the 2018 Benchmark



In terms of the distribution of companies by sub-sector, the new changes mean that the 2018 Benchmark covers: 52 Retailers and Wholesalers (compared to 40 in 2017), 63 Producers and Manufacturers (40 in 2017) and 35 Restaurants and Bars (30 in 2017). The reason for increasing the number of producers and processors relative to the other two sub-sectors, is that their direct animal footprint is relatively more significant. Using a similar logic, we have added retailers in preference to restaurants, because retailers are considerably larger and are, therefore, more likely to have a greater animal footprint and greater purchasing influence.

2018 Benchmark coverage

50 largest food retailers globally with annual revenues in excess of **US\$10 billion**



TOP 40 global producers including **top 10** poultry producers with annual revenues in excess of **US\$4.6 billion**



TOP 30 restaurants and bars globally with annual revenues in excess of **US\$1 billion**



Company rankings

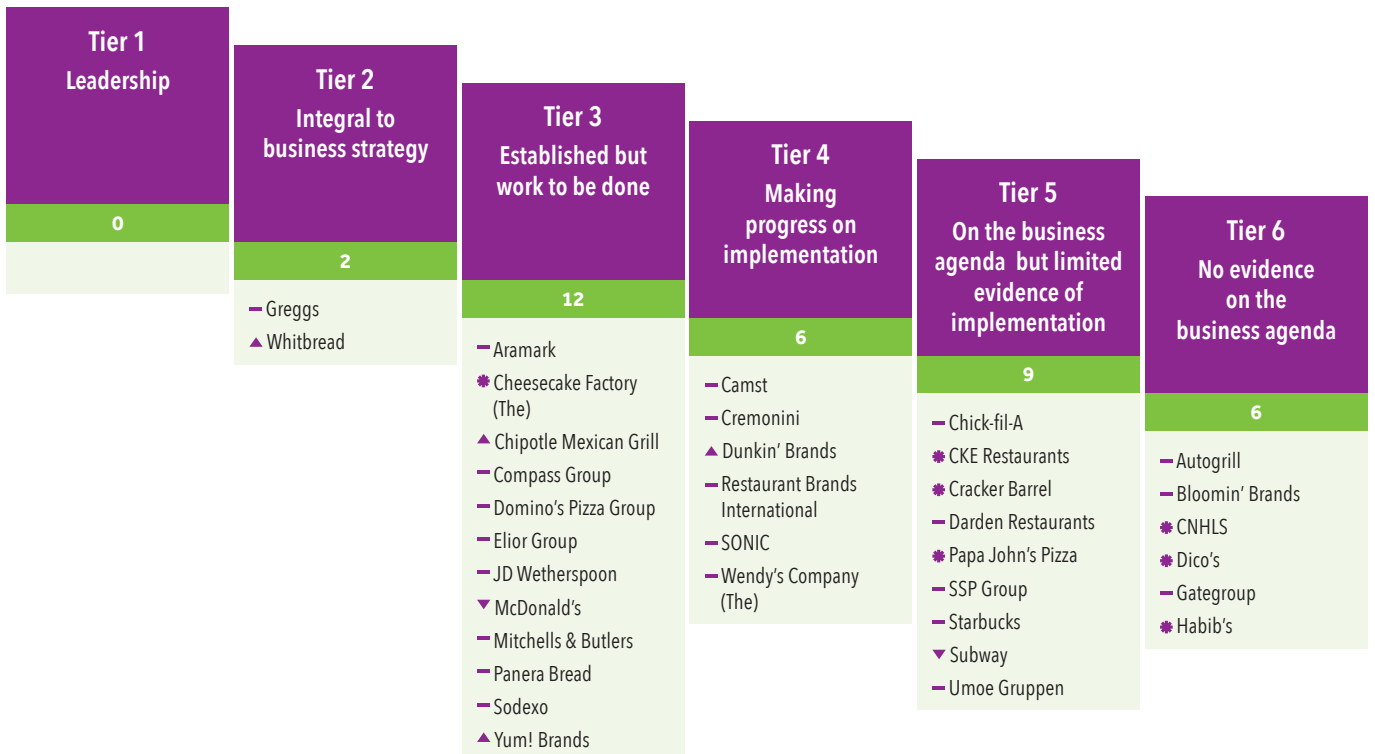


Sub-sector rankings

Retailers and Wholesalers



Restaurants and Bars



Producers and Manufacturers



Accelerating impact

In this section, we describe how BBFAW will address the challenges and issues identified in this report, and how we intend to encourage the changes – in policies, in management systems, in reporting, in performance – that we think are needed to respond to these challenges. Before we do this, we will start by reflecting on and describing the factors that drive company action on farm animal welfare, and on the role played by investors in driving these changes.

The current state of play

The results of the 2018 Benchmark demonstrate how much progress has been made by companies in establishing the policies, systems and processes needed to effectively manage farm animal welfare. Despite the tightening of scoring requirements, we have 17 companies that are considered to have integrated farm animal welfare into their business strategies, and 19 companies that have moved up at least one Tier in the Benchmark. The innovation and transparency demonstrated by these companies has been hugely helpful in influencing other companies to report their performance data and improve their management practices and processes and has been one of the key drivers of the longer-term changes we are now seeing. Of the 55 companies who have been covered by the Benchmark since 2012, 17 (31%) have moved up one Tier, 20 (36%) have moved up two Tiers and eight (15%) have moved up three Tiers. These results have occurred despite the tightening of criteria and the increased emphasis on performance reporting and impact.

However, the data also highlight the scale of the challenge. Seventy companies are in Tiers 5 and 6 and provide little or no information on their approach to farm animal welfare, and 12 companies saw their year-on-year scores fall. While the fact that some companies saw their scores decrease is partly attributable to the increased emphasis on farm animal welfare performance outcomes and impacts, it also suggests that there is more to do both in terms of encouraging improvements in policies, management systems and processes, and in ensuring that improvements are institutionalised and maintained over time.

In line with the long-term goals of the Benchmark, we are progressively increasing the emphasis on performance reporting and performance impact. We are already starting to see improvements in the quantity of information being reported, albeit from a low base. We recognise, however, that the quantity of the information being provided by most companies remains limited, and that the quality of that information – in terms of consistency, comparability and coverage – is still not fit for purpose. The consequence is that it is often not possible to get an accurate picture of company performance on animal welfare or to understand how a company is performing in terms of specific species or on particular welfare issues. In turn, this makes it very difficult to assess the quality of a company's management systems or to answer questions such as whether they are implementing their policies, whether they are delivering on their objectives and targets, whether they are managing the business risks and opportunities presented by farm animal welfare, or whether they are improving the welfare of the animals in their supply chain. It is also not possible to make meaningful performance comparisons between companies, and to understand which companies are leading on animal welfare performance outcomes.

These are not just issues for companies but also for investors. Investors want to know that food companies are effectively managing the business risks and opportunities presented by farm animal welfare. Investors want to know that company management systems are effective and capable of delivering the performance and business outcomes that are being sought. Investors want to be able to compare companies and to be able to differentiate between them on the basis of their performance and impact.

70
global food companies
appear in Tiers 5 and 6

The company and investor perspective

Company engagement is central to the Benchmark process. Each year, we engage directly with companies on their scores in the Benchmark (typically 40-50% of the companies assessed each year comment on their draft assessments, with 43% commenting in 2018), on proposed changes to the Benchmark and on the role being played by the Benchmark in driving change in their farm animal welfare policies, practices, processes and performance. We meet with companies, individually and collectively, to discuss farm animal welfare in the wider context of their efforts on corporate responsibility and sustainability, and increasingly to discuss the strategic implications, risks and opportunities of farm animal welfare for the business as a whole.

We have a similar level of engagement with investors. We have worked closely with investors since 2011⁴² to ensure that the Benchmark and associated tools are relevant to investors, and to catalyse change in the investment community on the issue of farm animal welfare.

Over the past three years, these discussions have consistently pointed to four key drivers of change (although their relative importance differs between investors):

- The recognition of farm animal welfare as a business risk that needs to be managed in a similar manner to other business risks. This has led to companies integrating farm animal welfare into the management infrastructure (e.g. auditing processes, training programmes, monitoring and reporting mechanisms) that they have developed for other social and environmental issues.
- The recognition of farm animal welfare as a strategic opportunity, both in terms of the potential for new product offerings and market access and in terms of the potential for brand differentiation and reputation enhancement.
- Customer and client demand, which is creating pressure both to raise standards within core product offerings, and to innovate and invest in new, higher welfare products.
- Investor action on farm animal welfare, which has raised the profile of farm animal welfare and created pressure on companies to manage the business risks and opportunities presented by farm animal welfare.

Understanding investor influence on farm animal welfare

When we first established the BBFAW, farm animal welfare was seen as a relatively niche investment issue, primarily of concern to those investors with a strong view on the ethics of raising animals for food. That picture has changed dramatically, with an increasing number of investors now taking account of farm animal welfare-related risks and opportunities in their investment processes, and with investors regularly engaging with companies on their approach to farm animal welfare.

As just one example, some 21 investors with £2.3 trillion in assets under management participate in the BBFAW-convened Global Investor Collaboration on Farm Animal Welfare. This is the first-ever international collaborative investor initiative aimed at encouraging major global food companies to strengthen their management systems and processes on farm animal welfare. The Collaboration involves the participating investors writing to the companies covered by the Benchmark, commending leading and improving companies on their performance, and encouraging poorer performers to improve. These letters also explain that investors see farm animal welfare as a business risk that needs to be managed effectively and as a potential future source of business opportunity and growth. The participating investors follow up these letters by raising farm animal welfare-related issues with companies as part of their wider engagement with these companies. In 2018, 45 of the 110 companies formally responded to the investor letters. Many of them indicated that, as a result, they would be strengthening their reporting on farm animal welfare and will be looking to proactively engage with investors on this issue. We expect to see these efforts leading to substantial improvements in many of these companies' scores in future iterations of the Benchmark.

Companies and investors agree that the Business Benchmark on Farm Animal Welfare has been a key driver for change. The main ways in which BBFAW has driven change have been:

- It provides companies with guidance and clear expectations on how to structure their management processes and reporting.
- It helps companies to understand the expectations and interests of key stakeholders (e.g. clients, customers, investors).
- It enables companies to benchmark themselves against their industry peers. This helps senior management understand the company's overall performance and can support the internal case for action and for investment.
- It enables comparisons to be made between internal business units and product lines, enabling strengths and weaknesses to be identified.
- It is used by investors to assess the business risks and opportunities of farm animal welfare for individual companies, to provide insights into companies' quality of management, to assess the suitability of companies for inclusion in screened (ethical) funds, and to identify potential investment opportunities in the food sector.
- It is used by investors in their company engagement, both to prioritise companies for engagement (e.g. to identify leaders and laggards) and to define their expectations of companies (e.g. expectations that companies will achieve a specific Tier ranking within a particular period of time).
- It is now seen as the most authoritative global benchmark for the assessment of corporate farm animal welfare practice. Companies use their performance in the Benchmark as tangible evidence of their commitment to farm animal welfare; in fact, 28 of the 150 companies covered by the 2018 Benchmark have reported on their performance in the Benchmark in their corporate communications (e.g. on their websites, in their annual reports and sustainability reports, in media releases).

Different perspectives on farm animal welfare

In 2018, we surveyed companies and investors on their approach to farm animal welfare. While both companies and investors acknowledged the importance of farm animal welfare (as a business issue and as an investment issue respectively), there were also some notable differences between them.

1. Supplier engagement is a current priority for food companies, although investors continue to focus on policy commitments

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'. These are all areas where work appears to be intensifying, with a particular focus on suppliers.

Interestingly, investors seem to have a different focus. When asked about the topics they discuss with food companies, the most common answer was specific policies/positions on key 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.

2. Customer interest is driving company approaches to farm animal welfare, while investors view farm animal welfare as primarily an investment risk

Customer interest remains the primary driver for food companies to focus on farm animal welfare with 85% of companies citing this, 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%).

The main drivers for investors to pay attention to farm animal welfare in their investment practices and processes were farm animal welfare as an investment risk (73%), farm animal welfare as an investment opportunity (53%) and client demand (47%). 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 driven not only by financial considerations.

3. Lack of knowledge and customer willingness to pay remain the key barriers to food companies adopting higher standards of farm animal welfare, and affects the level of investor interest in the issue

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. Eighty-two percent of company survey respondents identified customer willingness to pay as a barrier to adopting higher standards of farm animal welfare. Despite the 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 and the absence or lack of awareness of a compelling business case (e.g. the potential impact on brand, sales, consumer trust) for adopting higher welfare standards. These were each identified by approximately one-third of respondents.

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%) and 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.

How do we accelerate impact?

We see the annual Benchmark, and the associated investor and company engagement, as a long-term change programme. We are hugely encouraged by the contribution the Benchmark has made to defining core expectations for companies, to building investor and company consensus around these expectations and to catalysing change within companies and in the investment community. We also recognise that there is much more to be done, both to institutionalise farm animal welfare in the investment industry and to continue to drive standards of practice and performance in food companies. Our priorities for 2018-2020 reflect these imperatives. We will focus our efforts in the following areas:

- 1.** We will strengthen the signals being sent by investors to food companies about the importance of farm animal welfare as a business issue. We will do this through:
 - Increasing the number of investor signatories to the Global Investor Statement on Farm Animal Welfare.
 - Increasing the number of investors that participate in the Global Investor Collaboration on Farm Animal Welfare.
 - Encouraging investors to proactively raise the issue of farm animal welfare with the food companies in which they are invested.
- 2.** We will raise investor awareness of the investment risks and opportunities associated with farm animal welfare. We will focus particular attention on the investment community in North and Latin America and Asia.
- 3.** We will continue to encourage companies to improve their practices and reporting on farm animal welfare, with a particular emphasis on improving their reporting on farm animal welfare impacts. We will encourage investors and other stakeholders to support these efforts in their engagement with companies.
- 4.** We will build relationships with other stakeholders – in particular, intergovernmental agencies and standards bodies – to integrate BBFAW's criteria into their lending and standards criteria.
- 5.** We will explore the potential to develop country and market-specific benchmarks.

6. We will carefully monitor reporting on animal welfare performance and consult with companies and other stakeholders on the appropriateness of increasing the emphasis we place through our scoring on animal welfare performance.
7. We will strengthen our focus on themes and issues that food companies and investors see as important. As part of our annual survey of companies and investors, we asked them for their view on which animal welfare topics should be prioritised in the coming years. A variety of issues were identified in this survey (see table below) although the specific issues that were identified and their relative importance differed between the survey respondents.

Emerging and increasing farm animal welfare themes for companies and investors

Antibiotics (including locating animal welfare at the centre of company strategies to reduce antimicrobial and antibiotic use)
Links between animal welfare and human and public health, including food safety and pandemics
Clean food (i.e. food containing no additives and no antibiotics)
Use of anaesthesia in routine surgical interventions (e.g. mutilations such as dehorning of cattle and castration of pigs)
The treatment of animals during key interventions (e.g. transition from cages to barns, cow/calf separation, transportation, slaughter)
Effectiveness of slaughter
Fish welfare
Broiler welfare
Housing conditions and close confinement (e.g. gestation crates, battery cages, cage-free and stocking density, free farrowing for sows, bedding and outdoor runs/pastures, outdoor-reared animals, free range chicken production)
Environmental and behavioural enrichment (particularly for broiler chickens and pigs)
Consumer attitudes on animal welfare and on animal-derived protein more generally
Transparency across the supply chain and down to farm level, including measures that can be adopted to enhance transparency (e.g. animal welfare labelling)
Alternative proteins (e.g. cultured meat, plant-based protein)
Environmental impacts of food production (e.g. climate change, deforestation, land use, water usage)
Breed selection/genetics, genetic engineering
Male chick culling
Business costs (e.g. raw materials, energy) and how these affect the business models of different food producers

Please visit our website: www.bbfa.com
to view the full 2018 Benchmark Report and Methodology Report.



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