

# FARM ANIMAL WELFARE



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## WHY IS FARM ANIMAL WELFARE AN ISSUE?

Worldwide about 70 billion farm animals are now produced every year for food. Two thirds of these are reared using intensive farming methods. Across agriculture animals and poultry are reared and slaughtered in conditions that have a material impact on the environment, biodiversity and on human health.

In the UK alone, DEFRA statistics show that in one month (December 2016), 224,000 heads of cattle, 1.3 million sheep, nearly 900,000 pigs and 75 million broiler hens were slaughtered for food. The use of animals is therefore a key issue for the food production, processing, retailing and hospitality sectors. Investors are beginning to take the issue of farm animal welfare far more seriously given the potential systemic risks in food safety and security.

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## WHAT ARE THE ISSUES OF CONCERN?

Farm animal welfare principally concerns the conditions in which live, sentient creatures are reared, maintained and slaughtered. Issues include battery cages for laying hens (6.5 billion birds confined globally), selective poultry breeding leading to deformed birds, confining breeding sows to cramped stalls or crates, industrial milking that leaves cows diseased, lame and exhausted so that they are prematurely culled (50% of dairy cows in Europe become lame from over-milking each year), and the conditions in which veal calves are reared and slaughtered (6 million calves prematurely slaughtered and reared in 'barren' systems annually in the EU).

The transport of animals over long-distances also raises serious concerns from the perspective of welfare, distress and food quality.

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## WHAT EXACTLY IS 'FACTORY FARMING'?

Factory farming refers to a method of production in which animals are reared and slaughtered industrially. It involves close confinement (particularly prevalent in poultry mass production) using cages, crates and stalls that restricts movement and inhibits natural behaviour. In cattle it may mean little natural outdoors grazing, but instead intensive milk production based on mechanistic feeding and being kept in closely confined stalls.

Many of the worst practices lead to diseased and deformed animals entering the food chain, the prevalence of intensive antibiotic use, and acute distress suffered by the animals themselves. Ultimately, many of these practices have major implications for human health, food security and the possibility of life changing diseases being transferred to humans (such as BSE linked Creutzfeldt-Jakob Disease). Farm animal welfare should therefore be seen as a potential systemic risk affecting the food industry, and by definition for investors in those companies.

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## SURELY FARM ANIMAL WELFARE IS REGULATED?

Yes, but regulation is patchy and varied. There is no global legislation on the conditions in which animals can be reared and produced, although some voluntary guidance has been prepared by the World



# FARM ANIMAL WELFARE



Organisation for Animal Health (OIE). This amounts to an 'international code' in which participants are expected to adhere. The OIE is a WTO affiliated body with 180 country members. The EU, the world's largest importer of agricultural products, has enacted the most comprehensive body of legislative protection involving farm animals including an outright ban on the sale of meat and dairy products from cloned animals.

Key milestones in the EU include the banning of barren battery cages for laying hens from 2012, the prevention of sow stalls from 2013, the prevention of veal crates from 2007 and the requirement for pre-slaughter stunning from 2009.

The EU has issued a number of Directives relating to animal welfare, for instance the Laying Hens Directive; the Pigs Directive (part of which bans tail docking and routine castration); the Broilers Directive; the Calves Directive and the General Farm Animals Directive, which sets out the conditions whereby owners or keepers must 'take all reasonable steps to ensure the welfare of animals...to ensure [they] are not caused any unnecessary pain, suffering or injury'.

Whilst the EU has taken robust action on farm animal welfare, this remains patchy elsewhere. In the US, there are Federal rules on slaughter, but it is left to individual States to legislate on the use of crates for instance. Many practices outlawed in the EU are specifically exempted in the US where animals are used in food production; only California has comprehensive rules encompassing practices such as tail docking, extreme confinement of hens and veal crates.

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## WHAT IS THE ECONOMIC IMPACT OF LIVESTOCK?

Livestock contribute 40% of the global value of agricultural output and support the livelihoods and food security of 1.3 billion people. Moreover, grazing and land committed to feed account for almost 80% of all agricultural land use globally. In the UK, total livestock outputs (carcass prices) amounted to over £13bn, from a farming sector valued at £108bn in 2015. The UK food and beverage sector is valued at over £100bn, with the food supply chain generating £177bn of consumer activity. The use of animals in the food manufacturing, processing, retail and hospitality sectors is of fundamental importance to the resilience and success of the sector

overall. Investors represent an important constituency committing capital to those sectors.

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## HOW CAN INVESTORS MONITOR ANIMAL WELFARE?

Farm animal welfare remains an immature and novel issue for investors, but this is changing. Food scandals, tightening regulation, on food safety, and supply chain risks are beginning to exercise investor attention. The Business Benchmark on Farm Animal Welfare (BBFAW) is the first global measure of company performance on animal welfare, and is now in its fifth iteration having launched in 2012. The Benchmark has acted as a catalyst for change principally in promoting higher standards of reporting on welfare process management.

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## WHAT DOES THE BENCHMARK LOOK AT?

The Benchmark is designed to drive higher standards in the world's leading food businesses. It assesses company performance in key areas: Management Commitment and Policy; Governance & Management; Leadership and Innovation and Performance Reporting & Impact. It has set out its values as:

- To provide investors 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 of and reporting on farm animal welfare issues.

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## HOW DOES IT DO THIS IN PRACTICE?

The 2016 Benchmark Report surveyed 99 global companies of which 35 were retailers and wholesalers, 28 restaurants and bars, and 36 food producers. The surveyed companies were drawn from 17 countries; the majority (57%) from the USA (28), UK (18) and France (10), with companies drawn from the continents of North & South

# FARM ANIMAL WELFARE



America, Europe, Asia and Australasia. The results are scored into six Tiers, in which Tier 1 is rated 'Leadership' and Tier 6 'No Evidence it is on the Business Agenda'. Leadership assumes a score of 80% or more, whilst Tier 6 results in a score lower than 11%.

## WHAT DID THE 2016 BENCHMARK FIND?

Each year since the Benchmark launched has seen increasing company awareness of farm animal welfare issues, and improvement in company policies and management; however, the quality of reporting remains patchy, and the issue relatively immature. Of the companies surveyed, 87% now acknowledge farm animal welfare as a business issue, whilst 73% have formalised their approach in adopting distinct policies. 65% have set welfare related objectives or targets, whilst 45% disclose in more detail their management responsibilities towards a pro-active welfare agenda. However, in each discreet area of measurement, companies showed improvement over the 2015 survey results, and the overall Benchmark score has increased modestly in each year since the initiative launched. The importance of the Benchmark can be gauged from the fact that since its launch in 2012, the overall score across the universe of companies has increased year on year.

turnover or profit from the pursuit of intensive farming are avoided. We pay particular attention to the rear and husbandry of poultry in respect of battery farming and egg production, cattle, piggeries and caged fish farming.

In keeping with this approach, EdenTree has been a supporter of BBFAW since inception, and was part of the pioneer investor group that provided input on the development of Benchmark criteria. We publicly supported the development of an Investor Statement on Farm Animal Welfare, which has so far attracted 22 international investors since its launch in May 2016.

We joined a coalition of investors during 2016 that wrote to 'laggard' companies about their performance in the Benchmark, encouraging improvement. We will use the Benchmark's findings in our routine engagement with companies operating in the food production, processing, hospitality, and retailing sectors.

We follow other initiatives, such as those launched by FAIRR (Farm Animal Investment Risk and Return), and took part in an investor led engagement with companies over the use of antibiotics, whose routine use in the animal food chain is having a long-term detrimental impact on human immunity.

## ARE ANIMALS USED IN OTHER PROCESSES?

Animals are used in the fashion, fur, leather and tanning industries, as well as a wide range of applications for testing purposes (pharmaceuticals, cosmetic and beauty products). They are also used in entertainment. Investor led initiatives in these areas are at different stages of maturity.

<b>Tier 1</b>	<b>M&amp;S; Cranswick; Waitrose</b>
<b>Tier 2</b>	<b>Greggs; Tesco; Unilever</b>
<b>Tier 3</b>	<b>J Sainsbury; Nestlé; Morrison</b>
<b>Tier 4</b>	<b>Carrefour; Compass; Whitbread</b>
<b>Tier 5</b>	<b>ABF; SSP; Yum! Brands</b>
<b>Tier 6</b>	<b>Wetherspoon; Casino; Kraft</b>

## WHAT IS EDENTREE'S APPROACH?

The EdenTree Amity range of funds take an exclusionary approach with our negative screen on intensive farming. This is aimed at avoiding the worst instances of the use and exploitation of animals during food production. Companies that derive more than 10% of

# FARM ANIMAL WELFARE



## THE EDENTREE RI TEAM



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We have a specialist in-house Responsible and Sustainable Investment (RI) team who carry out thematic and stock-specific research to identify investment ideas for our range of Amity Funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Esmé van Herwijnen and Jon Mowl, the team is also creates an on-going dialogue with companies, allowing us to engage on a wide variety of responsible and sustainable investment concerns. Our is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

**We hope you enjoy this RI Expert Briefing and find it useful and informative. For any further information please contact us on 0800 011 3821 or at [ifa@edentreeim.com](mailto:ifa@edentreeim.com)**