

## BREAST MILK SUBSTITUTES

The sale and marketing of Breast Milk Substitutes (BMS) has been an ethical issue for investors since the 1970s. In this RI Expert Brief we take a look at the background to one of the most contentious ethical investment issues, and what responsible investors should look for.

### WHAT IS THE CONTEXT FOR DISCUSSING BMS PRODUCTS?



Breast Milk Substitutes constitute alternative nutrition to natural feeding at the most crucial stage of a baby's early development. The consequences of using these alternatives has been linked to elevated levels of infant morbidity and mortality<sup>1</sup>.

### WHAT IS THE CURRENT LEVEL OF INFANT MORTALITY?



Nutrition is critical to achieving infant health over the first 1,000 days of life, from conception to two years. The World Health Organisation (WHO) stresses that optimal health is achieved by natural feeding for the first six months of life, after which it may be complemented by suitable follow-on formulas. According to WHO and UNICEF, 600,000 infant deaths before the age of two can be attributed to a lack of

natural feeding. 64% of those deaths occur in lower and middle income countries. 21.3% of children under five have stunted growth, and 6.9% suffer from wasting<sup>2</sup>. Scaling up the level of natural feeding is therefore seen as critical to improving global health and individual outcomes. This has become a central part of achieving two of the UN Sustainable Development Goals – 2 and 3: zero hunger and good health and wellbeing, particularly target 2.2 (to end all forms of malnutrition by 2030) and 3.2 (end preventable deaths among children under 5 by 2030).

### WHAT ARE BREAST MILK SUBSTITUTES?

There is no substitute for natural feeding. However, a range of products exist that 'replace' breast milk in situations where mothers cannot or choose not to feed naturally. In its widest context these products can be said to include replacement feed and complementary feed when breast milk alone is insufficient

to provide complete nutrition. BMS products therefore exist to replace and complement natural feeding for up to the first two years of life. The first commercial infant formulas were made in the 1860s, with Henri Nestlé developing what became his eponymous company's first product in 1867.

<sup>1</sup> <https://www.who.int/news/item/01-08-2017-babies-and-mothers-worldwide-failed-by-lack-of-investment-in-breastfeeding>

<sup>2</sup> <https://sdgs.un.org/goals>

## WHY ARE BMS PRODUCTS CONTROVERISAL?



Although replacement milk products were developed in the 19th century, they really gained traction in the post war period, when aggressive marketing presented BMS products as a desirable 'lifestyle' choice. This was said to have been the main cause for the decline in natural feeding<sup>3</sup>. The sale and marketing of BMS products became very controversial in the 1970s when dubious marketing practices, particularly in developing markets, was accused of contributing to preventable infant morbidity. In developing markets mothers used contaminated water to prepare BMS products or overly diluted the formula to make it last longer. This led to infant malnutrition, diarrhoea, gastroenteritis, and increased mortality<sup>4</sup>.

## WHAT WAS THE RESPONSE?

The response to growing concerns at the lack of regulation in the marketing of replacement products resulted in the WHO adopting the International Code of Marketing of Breast Milk Substitutes in 1981. The Code is an international health policy

framework to regulate, on a voluntary basis, the marketing of products that replace natural feeding. The rationale behind the Code is that the health of babies is so critical it should not be subjected to competitive commercial marketing and advertising.

## HAS THE CODE BEEN REVISED AND HAS IT WORKED?

The Code has been supplemented by World Health Assembly resolutions since 1981, but it has not been substantially revised or amended. The Code has had an enormous impact, but it is important to note that the Code is a set of recommendations to Government for implementation into national law. Since 1981, only 84 countries (including the UK) have adopted legislation implementing all or some of the Code's provisions. In many territories it has therefore been left to industry to apply the Code on a voluntary basis where national law is absent; much of the later controversy amounted to how companies interpreted the Code, and what therefore might constitute a violation or breach



## WHAT IS THE MARKET FOR BMS PRODUCTS?

Estimates for the global market in BMS and infant formula products varies, but is conservatively put at \$62.5bn in 2020<sup>5</sup>. Strong growth is forecast, particularly in the Asia Pacific region where there is a large infant population and demographics that support alternatives to natural feeding as the female working population grows. China is thought to account for two-thirds of the Asia-Pacific market.

The market is dominated by a few global players, together with significant local manufacturers for instance in China. Leading global manufacturers include Nestlé, Danone, Mead Johnson (Reckitt), Abbott and Friesland Campina. These five players are thought to control around 60% of the market<sup>6</sup>.

<sup>3</sup> Breastfeeding (who.int)

<sup>4</sup> <https://www.who.int/news/item/01-08-2017-babies-and-mothers-worldwide-failed-by-lack-of-investment-in-breastfeeding>

<sup>5</sup> Baby formula: market size worldwide 2020 | Statista

<sup>6</sup> Homepage – Access to Nutrition

## ARE THERE OTHER INITIATIVES IN PLACE APART FROM THE CODE?

40 years from the Code's introduction suggests it has failed to drive out violations or reports of breaches by manufacturers. As a result there has needed to be more effort by investors to work with industry to develop additional frameworks that supports best practice. The FTSE4Good framework, and the Access to Nutrition Index are two of the most significant.

### FTSE4Good BMS Framework



The FTSE4Good Index series was launched in 2001 with the aim of providing a new type of Index based on strong corporate practices. At that time all BMS manufacturers were excluded from the Index where there had been

allegations of Code breaches. Since the idea of the Index was to improve long-term corporate behaviour, FTSE established an expert committee to develop a framework that could 'enable' companies into the Index. The framework, approved in 2010, concentrated on corporate policies, process and reporting. More controversially for some, FTSE established a framework that focused on 'high risk' countries, where infants were most at risk from poor practice. There are 149 such countries so determined because of their prevalence for child malnutrition and mortality. Whilst complementing the Code, FTSE's criteria go further and are tougher, providing a robust framework of best practice. Once a company has been included it is required to undergo ongoing 'in country' verification in which its practices in high-risk countries are assessed and reported back. This assessment cycle is made public via the audit report and company response on the FTSE4Good website.

Nestlé was the first company to be accepted into the Index in 2011 by meeting these strenuous requirements. Danone was more recently added to the Index. These remain the only two BMS manufacturers to have met the requirements for entry at the time of writing.

### Access to Nutrition Index



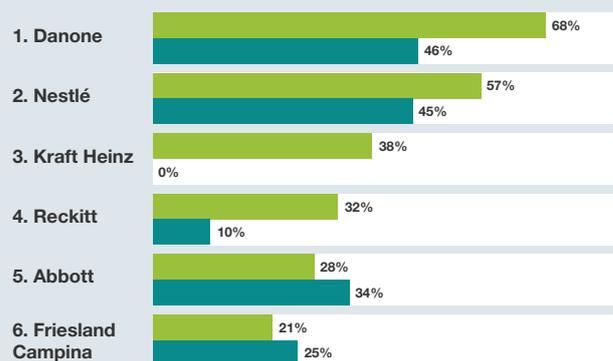
The Access to Nutrition Index, launched in 2013, seeks to rank the world's leading food and beverage manufacturers in terms of healthy diets from the perspective of obesity and malnutrition.

A sub-set of the Index (published every two years) is the BMS Index that ranks the nine largest BMS manufacturers for their compliance with the Code. In the 2021 Index report, Danone was assessed as being the clear market leader with a score of 68%, with Nestlé in second place with 57%<sup>7</sup>.

Both companies have improved their scores over time, showing increased compliance with the Code as measured by Access to Nutrition. The four leading companies within the Index had combined sales in BMS products of \$27.8bn in 2019<sup>8</sup>.

Over time the FTSE4Good and Access to Nutrition processes have worked closely together to provide investors with a robust, independent framework for assessing company performance the sector. As investors we support both of these initiatives as providing impetus, rigour and genuine progress.

### BMS/CF Marketing Index 2021 Ranking



<sup>7</sup> ibid Homepage – Access to Nutrition

<sup>8</sup> Company disclosures and [www.accessstonutrition.org.uk](http://www.accessstonutrition.org.uk)

## IS THERE A ROLE FOR NON-GOVERNMENT ORGANISATIONS?



Prior to these initiatives the complex issue of BMS was largely polarised between activists and industry, with little meeting of minds. Investors have sought to progress discussions that have built trust with industry over time. IBFAN (The International Baby Food Action Network) was founded in 1979 with the objective of reducing infant mortality by supporting natural feeding. Its network of 270 activist groups is present in 160 countries. In the UK its partner organisation Baby Milk Action took the lead in highlighting early breaches of the Code. IBFAN provides valuable resources and research for interested parties such as investors and medical professionals, on this complex issue.

## WHAT IS EDENTREE'S APPROACH?



BMS falls under several of our ethical, ESG and thematic pillars. It falls within our Health & Wellbeing thematic pillar, but it is also a Business Ethics and Human Rights issue. We view the issue to be of high impact and importance, and we take special care to ensure only the most responsible companies in the available universe are suitable for inclusion in the screened Funds.

We conduct our own detailed due diligence, however our usual agreed minimum requirement is inclusion in the FTSE4Good Index. This attests not only to the company meeting FTSE's rigorous inclusion process, but its commitment to ongoing audit and verification. Companies not included in the Index may still be deemed suitable if they are progressing towards inclusion or have demonstrated unconditional adherence to the Code and support for natural feeding. This would need to be backed up by a commitment to nil marketing in 'high risk' countries such as China. Companies not included in the FTSE4Good Index would additionally have to show a strong score under the ATNI to be considered for inclusion. Two companies have to date been excluded for not having robust approaches (Abbott and Kraft-Heinz) and two have been deemed suitable (Nestlé and Danone).

As responsible and sustainable investors we are cognisant that BMS raises legitimate concerns for many clients. The longevity of the issue shows the complexity and challenge involved in assessing 'what good looks like'. For some, scepticism remains in accepting that companies can change, and are seeking to do better. We support natural feeding unequivocally, as well as the WHO's assessment that scaling up natural feeding will reduce preventable deaths in children under five. We also accept that BMS products are legitimate, and have a role to play where natural feeding is not possible. The WHO Code remains the benchmark of best practice for Government and industry. After more than 40 years, Code take up remains poor, with significant territories such as Canada, the USA and Australia having no legislative measures for implementing the Code.

Investors have made a significant contribution over time by engaging thoughtfully and constructively with industry to improve behaviours and performance. We are proud of the role we have played in this, and welcome, for instance, the strong and clear commitments companies like Nestlé now make on the importance of the first 1,000 days of life. We will continue to play our part in supporting the best start in life for the most vulnerable in society and in holding companies to account for this crucial issue.

## THE RESPONSIBLE INVESTMENT TEAM

We have a specialist in-house Socially Responsible Investment (RI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of screened Funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Carlota Esguevillas and Rita Wysheslesky, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that client money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Advisory Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.



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We hope you enjoy this RI Expert Brief and find it useful and informative.

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