

INVESTOR BRIEFING NO.2

October 2011

Farm Animal Welfare: The business case for action

Issues around farm animal welfare stem principally from the gradual intensification of animal production systems over the past century. While the food industry is under pressure to boost production yields to satisfy market demands, current intensive farming methods are having a detrimental effect on the welfare of farm animals. With the world population predicted to rise to over 9 billion by 2050, coupled with the increased demand for meat protein-based diets, the food industry needs to consider how it can respond to this growing demand while also delivering higher farm animal welfare standards.

While some of the more progressive food companies have adopted higher farm animal welfare standards in their businesses as a part of their broader sustainability efforts, such leadership is the exception rather than the rule in the food industry. Farm animal welfare as a business issue is relatively immature. The absence of universal standards and frameworks for managing the issue means that the majority of food companies have yet to articulate, codify and integrate it into their management systems. With growing consumer and regulatory interest in farm animal welfare, this situation presents real risks for food companies.

This paper outlines the business drivers for adopting higher farm animal welfare standards. It discusses key elements for managing farm animal welfare in companies and highlights some best practice examples of those companies that are demonstrating leadership and innovation in this field. It concludes with an expert comment from Compassion in World Farming on what it considers to be the priorities for action.

Author: Katy Read, Head of Food Business, Compassion in World Farming

INTRODUCTION

Farm animal welfare is emerging as a business issue as food companies – retailers, service companies, manufacturers and producers – begin to respond both to increased regulatory pressure, particularly from the EU, and to the growing consumer awareness of and concern about animal welfare issues in the food supply chain. However, there is, as yet, limited consensus on the systems and processes that companies should have in place to manage, measure and report on farm animal welfare.

The aims of this briefing paper are to set out the business case for companies to take a proactive approach to farm animal welfare, and to specify the key elements of an effective farm animal welfare management system.

SETTING THE SCENE

The key starting point for any discussion of farm animal welfare is the manner in which the food industry has evolved. Driven by the need to reduce unit costs (e.g. depending on the product, per egg, per litre of milk produced, per kilogramme of meat produced) and respond to rising global demand (in turn a function of moves away from grain-based diets and rising population) for animal products, the food industry has moved inexorably towards more intensive animal production systems over the last century. Intensive animal production has boosted production yields but has also resulted in significant and widespread negative impacts on animal welfare as a result of the selection of animals for rapid growth and the use of confinement mechanisms such as cages and crates which severely restrict animal behaviour. These negative impacts on animals are starting to have a negative effect on the business case for intensive production, with consumers increasingly unwilling to accept food which embodies poor welfare, which they frequently associate with poor quality¹.

Since the late-1990s, the Corporate Social Responsibility (CSR) agenda has steadily become integrated into mainstream business. Most large companies now recognise and accept the importance of identifying and effectively managing the social and environmental impacts of their businesses. Within the food industry, companies are beginning to recognise that, alongside the more commonly cited sustainability themes (climate change, water, etc), farm animal welfare is central to their core business proposition and therefore needs to be managed in a proactive manner.

THE BUSINESS CASE

While the details of the business case differ between retailers, manufacturers, service companies and producers and between geographic regions, there are some common drivers for enhancing farm animal welfare management and practice across the food industry:

- **Achieving corporate CSR objectives:** Farm animal welfare is increasingly recognised as an important corporate responsibility issue, and there is a growing expectation that companies will commit to appropriate animal welfare standards, and monitor and report on performance against these standards.

¹ http://ec.europa.eu/food/animal/welfare/farm/aw_labelling_report_part1.pdf (Exec Summary)

- **Compliance with farm animal welfare legislation²**
- **Compliance with voluntary standards and codes:** Alongside the regulatory framework, a range of voluntary standards exist in individual markets such as the UK, Scandinavia and the United States (US). These standards generally involve the benchmarking and auditing of food producers against a defined set of animal welfare criteria. Standards such as the RSPCA Freedom Food in the UK provide food companies with a structured mechanism to identify and manage the animal welfare risks within their supply chains, as well as an independent mark of quality. This is particularly attractive to businesses operating nationally, although there is a growing demand from multinational companies for a global benchmark to which their entire supply chain can aspire. In lieu of any widely recognised and truly global standards, leaders are developing their own business specific management and reporting systems.
- **Controlling costs and enhancing business longevity:** *Explicitly recognising* the increasing importance of farm animal welfare issues in business planning and capital investment processes should provide companies with substantial financial benefits, enabling them to future-proof their capital investments. Conversely, a failure to take animal welfare issues into account could mean that companies have to invest significant amounts of capital in costly retrofits, may not be able to use their facilities as they were intended or, in the worst case, have facilities that they cannot use at all.
- **Ensuring security of supply:** Regular and structured supply chain engagement promotes transparency and enables forward planning. Signalling the strategic direction of travel to the supply chain in terms of farm animal welfare requirements will ensure suppliers' own procurement decisions reflect their clients' strategic objectives.
- **Managing risk and reputation:** The identification, assessment and monitoring of farm animal welfare impacts through the supply chain should enable companies to identify any potential risks (legal, reputational, physical), thereby enabling these risks to be mitigated before they impact negatively on the company.
- **Market opportunities:** The process of risk management – if it is focused on identifying upsides as well as minimising downside risk – can help companies identify business and PR opportunities. For example, winning high profile awards, such as the Good Farm Animal Welfare Awards, or achieving accreditation to the Freedom Food standard can be helpful in demonstrating quality and traceability, engaging consumers and enhancing brand loyalty. The relative immaturity of farm animal welfare issues across the food sector suggests that there is a real opportunity for companies that can adopt a leadership role in promoting higher farm animal welfare as an integral part of their brand. However, as with any other sustainability issue, any such activity will need to be accompanied by a commitment to accurate and transparent disclosure of their approach to managing welfare standards.
- **Leadership and innovation:** With growing consumer concern around the quality and provenance of food, companies are increasingly drawing attention to higher welfare issues in their product marketing and brand communications. This is leading to the creation and development of markets for higher animal welfare products such as cage-free eggs, higher welfare indoor chicken meat and British pork.

² For an overview of European farm animal welfare legislation, see Peter Stevenson (2011), 'Farm Animal Welfare: The regulatory and policy landscape. BBAW Briefing No. 1'

When we look more closely at the food sector, we see some significant variations in how these pressures are manifesting themselves. First, retailers – in particular those in the UK – are leading the industry in terms of adopting higher welfare standards. This has been driven by the importance assigned by UK consumers to animal welfare issues (with many having high expectations around food quality and ethical supply), as well as high profile media stories on issues such as salmonella in eggs, BSE in beef, and the welfare issues associated with the intensive production of chicken (the ‘Chicken Out’ campaign).

UK retailers have proactively engaged with the companies in their supply chains – both through setting minimum standards and through offering incentives for higher standards – to ensure that these companies adopt high animal welfare standards. This has created a clear business case for producers to work collaboratively with retailers to deliver higher welfare solutions. It has also opened up new market opportunities for producers as it has allowed them to share their acquired knowledge and resulting systems with other clients, in particular those in the food service industry.

Food service has a different relationship with the end consumer. Moreover, sourcing higher welfare animal products can be more difficult; in particular as many do not have the buying power of the large multinationals. However, a number of service brands are beginning to seek out market opportunities from adopting higher welfare standards and are promoting the welfare benefits of food products to their customers. As such, animal welfare is starting to be identified as a CSR objective for leading food service companies and manufacturers and steady progress against these objectives is increasingly seen as essential for business longevity.

Aside from the sector nuances, it is important to note that leadership on the issue in the UK and Europe has been driven largely by the fact that the EU has enacted the world’s strongest and most detailed legislation on the welfare of farm animals³. Multinational companies operating out of the European Union (EU) or with markets or operations within the territory often use Europe as a testing ground for trialling higher animal welfare initiatives, products and messages before extending them to other markets.

Despite a strong business case for the food industry to address animal welfare impacts, there are significant challenges and tensions which can present barriers to progress. The mainstream farming industry has been intensifying for years, with a focus on increasing yield for less cost. Farmers are often required to make significant capital investment in intensive systems which they then need to last for decades in order to achieve a reasonable return on their investment. There is understandable resistance to any suggestions that these systems should be run at lower intensities than they were designed for; this reluctance is exacerbated by concerns that extensive systems in less controlled environments (typically higher welfare) will result in less revenue being produced.

The current financial climate is clearly having a negative effect on business confidence and a willingness to invest in new systems. Despite growing demand for diets rich in animal protein, consumers typically have less money to spend. At the same time, production costs are increasing, which means that producers have less capital to invest in the switch to less intensive, higher welfare systems and less appetite to experiment.

³ See Note 2.

KEY ELEMENTS FOR MANAGING FARM ANIMAL WELFARE

Clearly companies will make different decisions on how exactly they address animal welfare issues. The specific actions they take will depend on factors such as what they do, the animals they work with, and the demands and expectations of their customers. However, there are a number of elements that are likely to be common to any effective farm animal welfare system. These elements – which have been informed by those companies adopting a more holistic approach to managing farm animal welfare – are presented below.

Focus area	Key Elements	Best practice examples
Governance	<p>The company has:</p> <ul style="list-style-type: none"> • A clear understanding of the business case for action. • Developed an explicit farm animal welfare policy that is signed by the CEO. • Clearly defined responsibilities for farm animal welfare issues. • A clear understanding of the strengths and weaknesses in its approach to animal welfare, and an action plan for addressing weaknesses. • Processes for monitoring implementation of the policy, taking action in the event that problems arise, and for capturing and reflecting on innovations and improvements. 	<p>Unilever has identified farm animal welfare as a priority area in its Sustainable Living Plan⁴ and publicly communicated its commitment and strategic approach to tackling impacts in this area. This policy commitment is underpinned by a clear strategic approach, prioritising brands with large animal welfare impacts, such as the mayonnaise label Hellman's (and regional counterparts Calve, Amora etc) and Ben & Jerry's. Setting clear policy objectives, communicating these to procurement teams and suppliers and fostering innovative schemes such as the Caring Dairy programme has provided Unilever with a unique selling proposition. The success of these initiatives has been dependent on the company trialling its approach in markets that are more receptive to farm animal welfare issues, before adapting it for other regions. This initiative has been dependent on strong communications and a successful marketing campaign to bring stakeholders on board.</p> <p>Sainsbury's has made a public commitment to become the number one supermarket in terms of farm animal welfare⁵. This policy commitment has been widely communicated to staff, suppliers and stakeholders (including NGOs). Sainsbury's strategy to source the widest range of RSPCA Freedom Food products. Its performance against this objective is reported in its annual Corporate Responsibility Report.</p>
Business Culture – leadership, innovation and human resources	<p>The company has:</p> <ul style="list-style-type: none"> • Invested in research and development to address high priority impacts. • Incentivised its supply chain to innovate and develop new systems by employing 'forward commitment' contract mechanisms. • Committed to pay premiums to suppliers who consistently hit animal welfare input and/or outcome measures. • Invested in developing staff competencies to effectively manage farm animal welfare. 	<p>Morrisons' Farming Programme at Dumfries House is a partnership with the Scottish Agricultural College to conduct a series of research projects focusing on housing, feeding and welfare, the outcome of which will form the basis of recommendations to Morrisons' supply chain.</p> <p>Waitrose has a similar mechanism in its egg contracts to reduce to need for beak trimming in their laying hen flocks⁶. As part of their 'Raising the Standards' programme Waitrose has worked with their egg supplier Stonegate on best practice guidance and offered a premium for producers not beak trimming and has achieved 85% intact beaks.</p>

⁴ <http://www.sustainable-living.unilever.com/the-plan/sustainable-sourcing/cage-free-eggs/>

⁵ http://www.j-sainsbury.co.uk/cr/files/pdf/cr2011_report.pdf

⁶

http://www.ciwf.org.uk/includes/documents/cm_docs/2010/l/laying_hen_case_study_united_kingdom_1_ciwf.pdf

<p>Management processes</p>	<p>The company has:</p> <ul style="list-style-type: none"> • Taken a risk-based approach and prioritised animal welfare impacts for action. • Identified quick wins and dealt with these swiftly, providing communications opportunities. • Learnt business-specific lessons from quick wins to inform more complex impacts and supply chains. • Identified and communicated KPIs linked to specific species, supply chains and contracts on which to monitor progress. 	<p>Unilever brand Ben & Jerry's embarked on the ambitious Caring Dairy Programme with its dairy suppliers Cono Cheesemakers on the basis of 'best value' requiring Cono to innovate and deliver on a range of outcomes in addition to offering a reasonable and competitive price⁷. The programme developed a series of KPIs and has sought to incentivise higher welfare components such as a minimum requirement for the number of days a dairy cow is out on pasture. The farmers that comply with these conditions are paid a premium for their milk.</p>
<p>Supply chain engagement and transparency</p>	<p>The company has:</p> <ul style="list-style-type: none"> • Developed a business-specific supplier engagement programme to communicate corporate objectives and promote dialogue • Targeted suppliers for action based on animal welfare priorities. • Incorporated animal welfare criteria into supply chain audits and developed improvement plans with key suppliers. • Communicated animal welfare objectives, status and progress for all stakeholders promoting transparency and commitment to the agenda. 	<p>Carrefour has joined up different parts of its supply chain to build a more sustainable model: to provide an ethical and economically viable route for their male dairy calves they have developed a partnership with a key veal supplier: a calf rearing company called Devron which is higher welfare and is sold under Carrefour own label. They have worked closely with French animal welfare NGO PMAF who have been supporting in this partnership work with Devron⁸.</p> <p>Tesco's publishes its supplier standards and minimum requirements on the internet, as well as details of how these standards and requirements are implemented through the supply chain⁹.</p>

Expert comment – Compassion in World Farming ('Compassion')

Compassion recognises that food businesses are pivotal to effecting change at scale within the food and farming industry and reversing the direction of travel away from intensive systems which restrict the welfare of animals towards higher welfare production.

We realise that the industry is under conflicting pressures – both to compete on price in a challenging economy and also to address animal welfare risks within their operations. As is often the case with emerging issues, advice is unclear and often contradictory; the UK is committed to delivering the highest standards of animal welfare and yet DEFRA is investigating a policy of sustainable intensification. We feel that further intensification of livestock farming is a risk, because companies could be left with stranded assets that they cannot use, because expensive retrofits could be required to ensure these facilities comply with modern animal welfare standards and because of the risks of consumer boycotts and negative media campaigns.

⁷ <http://www.benjerry.co.uk/caringdairy/pdf/Caring%20Dairy%20Animal%20Welfare.pdf>

⁸ http://www.carrefour.com/docroot/groupe/C4com/Pieces_jointes/RA/REDD_2010_du_16_06_2011.pdf

⁹ <http://tescofarming.com/v3/index.asp>

Having said that, we acknowledge that intensive agriculture is commonly practised, and we have a policy of working with intensive producers to encourage them to make progress towards higher welfare goals, both through the upgrading of existing facilities and management practices and through ensuring that new facilities take proper account of the likely evolution of animal welfare standards.

We recognise that simply encouraging companies to do more is not enough and our work with companies is just part of our wider efforts to encourage policy makers to implement effective animal welfare-related legislation, our work to educate consumers about the importance of animal welfare issues, and our work with leading companies (in particular retailers) to set high standards throughout their supply chains. We believe that these forces together will create a compelling case for higher farm animal welfare standards across the entire food sector.

Author and Contact Details

Katy Read heads up the Food Business Team at Compassion in World Farming, leading a team of project managers who engage with Europe's leading food companies to place animal welfare at the heart of the food industry. Prior to joining Compassion, Katy worked as a Senior Project Manager for a series of NGOs most notably the Mayor of London's Green Procurement Code, a support programme offering bespoke services to leading London-based companies to address their major sustainability impacts.

E-mail: Katy.Read@ciwf.org

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 Project Director, Nicky Amos: nicky@nicky-amos.co.uk.