



SUSTAINABILITY FOCUS

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Towards Sustainable Animal Rearing : the implications for global food companies

In the context of growing stakeholder scrutiny of companies' animal rearing practices, the European Commission has recently announced its 2012-2015 EU Animal Welfare Strategy.

In Vigeo's latest CSR rating of the European food sector, we found good practices in terms of leadership and implementation. The majority of companies that sell animal-based products disclosed a commitment to promote local social and economic development and half reported some means to address the environmental or animal wellbeing concerns related to animal farming. However, companies involved in animal rearing did not appear to be proactive in addressing all stakeholder's concerns. For instance, despite the general commitments none appeared to have identified or implemented measures to avoid the potentially negative community impacts linked to animal rearing. As stakeholders increasingly scrutinize these issues, investors are also considering whether food companies are adequately handling business risks or optimizing opportunities.

Vigeo's third Sustainability Focus thus presents the topic of 'Sustainable Animal Rearing' in order to provide insight into the concerns of stakeholders and the related business risks and opportunities.



Introduction

Concerns for animal welfare cover a wide range of issues, from highly scrutinized animal testing and the protection of endangered species, to animal wellbeing, be they companion animals, animals kept in zoos and animals grown for their fur or for food. One particular issue, that of **livestock and farm animal welfare, is gaining public awareness and is rapidly emerging as a business issue for global food companies.**

In this paper, Vigeo will provide insight into the concerns of stakeholders, highlight the business risks and opportunities and present Vigeo's 2011 findings of how leading European food companies approach animal welfare and manage the related environmental and social impacts of animal rearing.

Stakeholder Concerns

In its drive for efficiency and productivity, the food industry has developed intensive farming practices, such as intensive housing, forced breeding, mass transportation and slaughtering conditions, which are having a detrimental effect on the welfare of farm animals (1). This production model is combined with the current global trend of escalating meat consumption (2). **With livestock production currently making up 70% of mankind's global use of land (3), it is also recognised as having a major impact on the surrounding environment.** These impacts include potential deterioration of biodiversity through deforestation for pastures (4), consumption of resources (energy and water), degrading of water quality and climate change as a result of direct greenhouse gases emissions (5).

Vigeo specifically analyses how food companies avoid maltreatment of animals and manage the related environmental impacts in the sustainability driver entitled 'Protection of Biodiversity', in the Environment domain (ENV 1.4). Vigeo also considers how companies integrate environmental policies into their supply chain in a separate sustainability driver in the Business Behaviour domain (C&S 2.3).

Concerns linked to animal welfare and intensive livestock production also go beyond the direct environmental impacts, as **the industry is also recognised as having a major influence on society and local economies.** For instance, in 2007 a British inquiry into mad cow disease (BSE) concluded that the epizootic was caused by cattle, who are normally herbivores, being fed the remains of other cattle in the form of meat and bone meal (MBM), which

caused the infectious agent to spread (6). It is also acknowledged that poor sanitary conditions during the transportation of animals can cause or favour the spread of diseases among livestock (7). This is particularly considered as a cause for concern as it can result in major food safety issues due to contamination or potential transmission to human beings. Ensuring good animal welfare standards is thought to reduce such risks. Vigeo considers companies' general approach towards ensuring product safety to be a critical issue for all food companies and analyses this in the Business Behaviour domain (C&S 1.1).

Another stakeholder concern is related to the fact that the livestock industry has a major impact on labour pools, with the FAO (UN Food and Agriculture Organisation) estimating that this sector employs around 1.3bn people globally (8). Companies sourcing livestock rely on farmers whose individual livelihood and financial stability often depends on the viability of their production. This, in turn, affects the economic wellbeing of the wider community. Thus, Vigeo's CSR review of the food sector also considers how a food company ensures long term and equitable relations with suppliers (C&S 2.2) as well as its approach to mitigate the negative effects of its operations by ensuring that its operations do not undermine communities' ability to live and develop (CIN 1.1).



Regulatory Drive

Momentum is gathering around the necessity to switch towards more sustainable livestock production practices in order to mitigate these stakeholders' concerns.

Over the last decade, the FAO has advocated the Good Agricultural Practices initiative, following calls made in Agenda 21 (9). At the UN World Summit on Sustainable Development (2002) participants emphasized the importance of sustainable agriculture in responding to food security and natural resource management. This was reiterated, with emphasis on animal production, at the World Summit on Food Security (2009) (10).

Following the first Global Conference on Animal Welfare (2004) international guidelines and recommendations have been published by the World Organisation for Animal Health (11). However, currently there is not a legal international text regulating this issue. The EU is considered to offer the most comprehensive framework as its Directives cover minimum standards for the protection of all farmed animals, welfare standards for farmed animals during transportation and at the time of stunning and slaughter, plus specific Directives for individual animal categories

(12). Among these is the recent ban on battery hens, an EU Directive that came into force at the beginning of 2012. In the UK, despite concerns of enforcement, the government has worked with the key actors including the egg industry, processors, food manufacturers, the food service sector and retailers to follow these new requirements (13). This follows Germany's lead, who banned all cages in 2007.

Another noteworthy development is the European Commission's newly published EU Animal Welfare Strategy 2012-2015 (announced on 19th January 2012).

As part of this, the EC will establish a European Network of Reference Centres for animal welfare in order to improve the dissemination of research results, provide technical assistance in implementing legislation as well as helping stakeholders find "concrete and local solutions to difficulties in improving some welfare problems in farms". The EC also stated that it will continue to support the development of international standards and will now consider the adoption of a general EU animal welfare legislative framework (14).

Business risks and opportunities

Whether the process is outsourced or internalized, poorly managed livestock production can certainly represent sizeable business risks for food companies.

Firstly, if mandatory standards are not applied, this can represent significant fines, remediation costs and possible embargos on the company's products. Such an event can undermine consumer confidence and in some cases impact the whole brand's reputation.

A further risk that may arise as a result of a negative reputation is that current employees opinion of the companies' values can be undermined and potential employees may be deterred from joining a company.

Another operational and potentially legal risk relates to the relations with local communities, who may commence legal pursuits or

carry out on-the-ground disruption if they believe their local environment or their ability to develop is being negatively affected. For instance, in Brittany (France) through the extensive use of nitrogen-based fertilizers to rear pigs, farms have been accused of participating to the spreading of green algae, which becomes toxic when it decomposes. Local communities are unhappy about this local pollution as the green algae has forced the closure of beaches, thus having a negative impact on local economies.

(15) In the USA, in June 2001 the US Environmental Protection Agency issued an emergency order requiring a company to provide safe drinking water to area residents after it was found that nitrates from its hog operations were contaminating drinking water wells.



(16) Finally, **whatever the legal requirements (or the consumer, employee or community preferences), an enduring risk factor for food companies is their high dependence on the availability and quality of natural resources (including animals, food crops, fish supplies and water).** Thus, Vigeo considers that by damaging the environment, disrupting ecosystems and threatening biodiversity, companies should be seen to be degrading their own capacity to produce and sell goods in the long term. In comparison, if a better strategy and more integrated approach is adopted, business op-

portunities can be identified. For example, achieving certification (based on recognised standards, yearly renews, unannounced inspections) can demonstrate quality and traceability (17). This can attract new consumers or enhance existing brand loyalty, therefore represents a market opportunity.

An added operational efficiency opportunity is that companies that are currently operating above the legally obligated standards may well be better placed to adapt to future regulations.

Vigeo's findings in the European food sector (2011)

Eight of the seventeen companies composing Vigeo's panel in the European food sector are involved in livestock production, be it for dairy products, egg or meat production.

In our recent CSR review of this sector (published July 2011) Vigeo found that just under half of the companies that sell animal-based products have allocated means to address the environmental concerns related to animal farming, including the development of measures to ensure animal well-being (Unilever, Danone, Nestlé and Premier Foods). The latter is the only company in the panel to report that they recourse to an external third party certification for ensuring its animal welfare standards (Dairy Assurance Scheme and Kontrolliert Durch Kat Association). Premier Foods also displayed leadership in requiring its suppliers to have signed the Greenpeace moratorium on using cattle from illegally deforested areas (18).

All four companies also displayed a good awareness of their responsibilities, inclu-

ding the necessity to increase awareness and to support farmers. For instance, through the development of training programmes for small-scale dairy farmers (Nestlé) or for employees working with animals (Premier Foods), through guidance for farmers on sustainable production practices (Unilever) and the sharing of good practices (Danone).

In comparison, four companies in the panel are completely silent on the environmental standards they have adopted for the production of their animal-based products.

Seven out of eight companies involved in animal rearing have disclosed a commitment to promote local social and economic development, however none appear to have identified the potential negative community impacts linked to animal rearing.

None actually report on measure to avoid negatively impacting the lives or livelihoods of communities involved in or close to animal rearing operations.

Conclusion

As highlighted, aside from the impact on the animals themselves, the rearing of livestock has a major impact on the local and global environment, as well as on society and the economy. **As stakeholders increasingly scrutinize these issues, investors are also considering whether food companies are adequately handling business risks or optimizing opportunities.** Thus, Vigeo's review of the European Food panel considered which companies report on concrete steps towards managing these critical issues in order to provide value-added research to aid investors in the integration of ESG criteria into their portfolios. In our recent research, Vigeo found some isolated good practices, but did not find strong evidence that multinational companies selling animal-based products were proactive in addressing all these issues.



Notes and Sources

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- 8) 'Livestock's long shadow', Food and Agriculture Organisation, 2006
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- 10) Sustainable animal production was consider as a necessity, not only to ensure the welfare of animals and the minimisation of negative impacts on the local environment, but also to optimising farming systems in order to achieve complementary animal and agricultural production : 'Declaration of the World Summit on Food Security', Rome, November 2009
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Contacts

For further information, please contact the analysts :
 Nikki Gwilliam nikki.gwilliam@vigeo.com and Nathalie Voisine nathalie.voisine@vigeo.com,
 Members of Vigeo's Food and Health team

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