ANIMAL WELFARE

1. ABOUT THIS E&S BRIEFING NOTE

This environmental and social (E&S) Briefing Note is designed to help fund managers quickly familiarise themselves with animal welfare matters. It is not intended to be a detailed technical guidance document.

Formal specific technical guidance is provided at the end of this Note and in Downloads & Reference Materials, including the International Finance Corporation (IFC) Good Practice Note: Improving Animal Welfare in Livestock Operations.

This E&S Briefing Note provides an overview and general guidance. Fund managers should carefully consider each company based on its specific characteristics and circumstances including scale, location, technology, management capacity and commitment and track record. Risks, impacts and opportunities relating to a particular company can change over time due to a number of factors (e.g. changes in the applicable laws or in the type of the company's activities or assets). Fund managers may need to engage external experts in some situations (see 'Advice for fund managers' section below).

2. INTRODUCTION

The World Organisation for Animal Health (OIE) defines animal welfare as how an animal copes with the conditions in which it lives. An animal is in a good state of welfare if it is healthy, comfortable, well nourished, safe, able to express innate behaviour and if it is not suffering from pain, fear and distress.

Animal welfare is first and foremost important for the animals, as where welfare is poor an animal may suffer physical and mental distress. However, animal welfare can be relevant to business: poor welfare can impact the ability of animals to grow, produce and reproduce, which in turn can reduce productivity and food quality and ultimately impacts company performance.

As illustrated by the introduction of tougher legislation, such as the 1997 European Union Law and the Indian Prevention of Cruelty to Animals Act (which does not allow for caged confinement of animals). A number of global and regional initiatives have also emerged to provide guidance on good practice, such as the Pan-African Animal Welfare Alliance, the UK's Royal Society for the Prevention of Cruelty to Animals' (RSPCA's) Freedom Food farm assurance and food labelling scheme and OIE standards.

2.1 Five Freedoms of animal welfare

Originally established by the UK Farm Animal Welfare Council, the Five Freedoms underpin international dialogue on animal welfare and refer to idealised states of welfare rather than to standards:

1. Freedom from hunger and thirst - by ready access to fresh water and a diet to maintain full health and vigour.
2. Freedom from discomfort - by providing an appropriate environment including shelter and a comfortable resting area.
3. Freedom from pain, injury or disease - by prevention or rapid diagnosis and appropriate treatment.
4. Freedom to express normal behaviour - by providing sufficient space, proper facilities and company of other animals of its kind.
5. Freedom from fear and distress - by ensuring conditions and treatment that avoid mental suffering.

3. WHY COMPANIES AND FUND MANAGERS SHOULD ADDRESS THIS TOPIC

3.1 Risks for the business

Companies and their investors need to ensure that they comply with local laws, regulations and standards in order to retain their license to operate and to avoid fines. Serious violations of these requirements and/or significant misalignment with international good practice can also lead to reputational damage and to the loss of customers, productivity and product quality.

For example, the OIE estimates that morbidity and mortality due to animal diseases causes at least 20 per cent of livestock production globally to be lost. Poor transportation can lead to lower product quality, as well as higher morbidity and mortality, due to physical and mental stress. The muscles of animals that experience stress prior to slaughter tend to have a higher pH value, which can also degrade the quality of meat.

Poor animal welfare standards can also affect companies' sales and reputation. For example, McDonalds China and Yum Brands (owner of KFC and Pizza Hut) saw declining sales following the 2014 China meat scandal driven by customer food safety concerns.

3.2 Opportunities for the business

High animal welfare standards can generate a number of business benefits, including maintaining or enhancing profitability and sales, as customers become increasingly concerned about animal welfare and the associated issues of food safety, provenance and the environment. In addition, product quality can be improved and losses reduced through the adoption of good welfare practices and limiting the incidence and effects of disease.

As awareness about animal welfare increases globally, livestock producers in emerging markets may be able to benefit from increased demand for animals produced in accordance with high welfare standards in their home markets. However, the business case for improving animal welfare is particularly relevant for companies involved in global supply chains, as customers may be prepared to specifically look for or pay a premium for products or companies that demonstrate good international animal welfare practices. In 2014, Brazil's largest pork producer (BRF) announced that it would eliminate gestation crates on company-owned and contract farms in response to consumer concerns and the South African pork industry is also considering phasing out crates by 2020.

4. ADVICE FOR FUND MANAGERS

See CDC Environmental and Social Checklist as it contains questions and tips to help fund managers to assess the E&S aspects of an investment.

Fund managers should assess whether companies within or significantly exposed to the agriculture and aquaculture sectors (including food and beverage companies) have animal welfare policies and procedures and whether they are compliant with applicable laws and regulations and aligned with good international industry practice (GIIP).

Animal welfare is particularly relevant in the following sectors:

- Agriculture and aquaculture.
- Food and beverages as agriculture and aquaculture companies are the primary suppliers to numerous companies in the food and beverages sector. Animal welfare should also be taken into account when assessing supply chain risks and opportunities in this sector.

Where investments in large-scale, intensive animal production facilities or in sectors with well-recognised animal welfare issues (e.g. food manufacture or cosmetics) are being explored, fund managers should consider appointing external advisors. Fund managers should assess whether they need to take into account following animal welfare matters in their value chains:

4.1 Appropriate physical conditions and animal welfare

Fund managers should assess whether companies that have implemented (or will implement within a reasonable timeframe) good management practices to provide livestock with access to fresh water, a diet appropriate to their health and growth needs and a living environment (including shelter, space, and company of the animal's own kind) that lets them express normal behaviour (e.g. allowing chickens to dust bathe).

4.2 Proper transport and slaughtering

Fear, pain and distress experienced by animals during transportation and slaughtering should be minimised. Fund managers should assess to what extent the company has policies and processes to ensure procedures and standards that provide animals with sufficient space, water, food and rest during any journey is in place.

4.3 Veterinarian services

Fund managers should confirm whether a qualified veterinarian is performing regular control visits and where appropriate, treating the animals.

4.4 Use of antibiotics

Attention should be paid to the use of antibiotics. Companies should have systems to ensure that preventive (prophylactic) treatment with antibiotics is only used for diagnosed diseases and not to promote growth and improved productivity.

4.5 Intensive livestock production systems

Intensive livestock production requires the implementation of particularly robust management systems, as the potential for distress and disease is particularly high in intensive livestock production.

4.6 Access to new markets or customers and other business opportunities

As part of the investment process, fund managers should specifically consider whether animal welfare is likely to be relevant to market access, i.e. whether future target customers are likely to require certain animal welfare standards or formal certification, and whether the company has the ability to meet these. This is more likely to be the case among customers in developed markets than those based in developing ones.

5. FURTHER RESOURCES

5.1 Good practice and guidelines

- Good Practice Note: Improving Animal Welfare in Livestock Operations, International Finance Corporation (IFC), 2014.
- Environmental and Social Management System (ESMS) Implementation Handbook: Animal Production, IFC, 2014.
- Global G.A.P. 2013. Animal Welfare Add-on (pigs and poultry).

5.2 Organisations

- World Organisation for Animal Health (OIE).
- Food and Agriculture Organization of the United Nations (FAO) Gateway to Farm Animal Welfare.
- World Society for the Protection of Animals (WSPA).
- The Royal Society for the Prevention of Cruelty to Animals (RSPCA).
- Pan African Animal Welfare Alliance.

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- Environmental and Social Management System (ESMS) Implementation Handbook: Animal Production, IFC, 2014.
- Global G.A.P. 2013. Animal Welfare Add-on (pigs and poultry).
- Considering Farm Animal Welfare in Investment Decision-Making (Farm Animal Investment Risk and Return, 2015).
- Factory Farming: Assessing Investment Risks (Farm Animal Investment Risk and Return, 2016).

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- World Organisation for Animal Health (OIE).
- Food and Agriculture Organization of the United Nations (FAO) Gateway to Farm Animal Welfare.
- World Animals Protection.
- The Royal Society for the Prevention of Cruelty to Animals (RSPCA).
- Pan African Animal Welfare Alliance.