

ESG Investment and Animal Welfare

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Introduction:

The significance of animal welfare is growing as an important value for many food companies.

Animal welfare has become a crucial issue for companies across various sectors in the food industry, including retail, hospitality, processed food manufacturers, wholesalers, trading companies, and producers. This shift is driven by factors such as consumer interest, pressure made by animal welfare organizations, increased media coverage, the need for sustainable production and management, ensuring traceability by B to C companies, and market opportunities for companies adopting higher animal welfare standards. However, the importance of animal welfare is often overlooked in financial institutions, which correlates with the awareness of animal welfare among the general public. Nevertheless, internationally, it is becoming a key theme for companies dealing with food, and gaining knowledge in this area will be essential in the future.

Trends in Financial Institutions:

A decade ago, animal welfare was not a notable aspect in the financial industry. However, it is one of the ESG elements that investors closely monitor most. This is particularly prominent in the food and cosmetics sectors.

The BBFAW (Business Benchmark on Farm Animal Welfare) benchmark evaluates the practices of major food companies globally, aiding institutional investors in understanding how to assess animal welfare. In 2023, the FAIRR Initiative began investigating risks associated with stranded assets related to the livestock food system, such as animal welfare and antibiotic-resistant bacteria.¹

Robert Black, the Responsible Investment Manager at Chronos Sustainability, highlighted in an article of ESG INVESTOR that animal welfare is a crucial issue in light of sustainability for both companies and investors. He noted that the advantage of animal welfare as an ESG theme lies in the clear definition of global standards and expectations for excellent practices and performance.² According to the International Monetary Fund (IMF), one of its seven practices related to livestock is animal welfare. The IMF encourages investing in livestock companies that implement animal welfare management systems through industry-specific excellent management practices and available technologies. They also point out the increasing scrutiny on animal welfare by general consumers, food retailers, industry associations, governments, and financial institutions.

In the cosmetics sector, it is important to note the animal testing issue remains a concern for financial institutions.

¹ <https://www.fairr.org/news-events/insights/why-animal-welfare-is-an-investment-risk>

² <https://www.esginvestor.net/is-farm-animal-welfare-a-sustainable-investment-blind-spot/>

Domestic Trends:

Awareness in domestic financial institutions is rising.

The Ministry of Agriculture, Forestry, and Fisheries conducted a study on the impact of ESG investment on the food industry. Animal welfare was explicitly mentioned as one of the ESG issues in the report. During a session of the Agriculture, Forestry, and Fisheries Committee on April 13, 2023, Tetsuro Nomura, former Minister of Agriculture, Forestry, and Fisheries, mentioned the increasing focus of investment institutions on animal welfare. Financial institutions in Japan, such as JP Morgan Securities Co., conducted seminars on animal welfare for institutional investors in the food, cosmetics, and apparel sectors from 2022 to 2023. While instances of explicitly mentioning animal welfare in domestic financial institutions' stewardship reports and sustainability reports are still limited, they are becoming more evident.

The Animal Rights Center engaged with 16 institutional investors and 34 banks and credit unions from 2022 to 2023. The engagement aimed to promote a correct understanding of animal welfare, trends in domestic and international food companies and production, the need for public disclosure of animal welfare as ESG information, the necessity of incorporating animal welfare into indicators for investment and financing, and promoting the understanding of evaluation points. A survey conducted concurrently with this engagement revealed that only about 10% of institutional investors and banks and credit unions were familiar with animal welfare, while the majority learned about it for the first time. However, in the case of banks and credit unions, those dealing with livestock farmers or related companies tended to have some awareness of animal welfare. For institutional investors, some were actively collecting information on animal welfare, and others already included it in their investment indicators. After understanding animal welfare through engagement, approximately 40% claimed they could convey the importance of animal welfare to customers, about 10% expressed the desire to incorporate it as an indicator for investment and financing, and just under 10% stated they would request information disclosure from companies. This suggests that over 90% are considering actively incorporating animal welfare information into their business practices.

Information Related to Animal Welfare that Food Companies Should Disclose:

Food companies utilizing animal products (eggs, chicken meat, pork, milk, beef, etc.) are expected to disclose specific information and compare it to global standards.

They should have a comprehensive policy and explicitly express the intention to eliminate confined breeding practices such as stalls for pigs, cages for chickens, crates and tethering for cows and overcrowding, to concretize the five freedoms of animal welfare. Additionally, they should promise effective stunning methods during slaughter, commitment to reducing unnecessary pain such as painful surgical procedures, and other initiatives.

Information Disclosed by Many Companies Overseas:

- Animal welfare policies and declaration of promoting the five freedoms
- Hens:
 - Future goals
 - Transitioning to cage-free or free-range eggs, with varying target years based on regions globally (e.g., Europe, North America, Oceania by 2025; Southeast Asia by 2028; East Asia and Japan by 2030)
 - Transitioning to eggs from farms that do not practice induced molting
 - Disclosure of Current status
 - The ratio of cage free eggs per the region
- Chickens:
 - Future goals
 - Switching to stocking densities below 30 kg/m²
 - Transitioning to slow-growing breeds
 - Switching to gas as the method for stunning during slaughter
 - Disclosure of Current status
 - Metrics such as stocking density matching global standards 33 kg/m²
 - Percentage of pre-stunning during slaughter (electric or gas)
 - Percentage of natural light
 - Percentage of slow-growing breeds
 - Percentage of enrichment introduction
- Pork:
 - Future goals
 - Transitioning to 100% group housing for sows, namely stall-free, by 2030
 - Disclosure of Current status
 - Percentage of group housing for sows
 - Percentage not using farrowing stalls
 - Percentage not performing teeth cutting
 - Percentage using anesthesia during castration
 - Percentage not performing tail docking or using anesthesia during tail docking
 - Percentage of enrichment introduction
- Dairy cows and Beef:
 - Future goals
 - Transitioning to free-stall housing
 - Aiming for grass-fed
 - Disclosure of Current status
 - Percentage of free-stall housing
 - Percentage of grass-fed
- Animal proteins
 - Transition Goals for Alternative Proteins

- Current Initiatives

Financial institutions play a crucial role in urging them to disclose in case companies fail to disclose such information outlined above.

※Typically, meat-producing companies are required to disclose more detailed information.

※Animal welfare for livestock animals is still undergoing new research and evolving. Therefore, indicators continue to evolve. The above indicators are as of September 2023.

Conclusion:

By committing to high animal welfare early on, companies can gain new opportunities in the market, hence it's natural that global food companies are now competing to achieve higher animal welfare.

The essence of animal welfare lies not just in incorporating good practices for some livestock but in eliminating harmful livestock practices, transitioning to a sustainable society, raising animal welfare to levels acceptable by ethical standards, and aiming for an equal society where everyone can access globally standardized livestock products. This perspective aligns with the United Nations' Sustainable Development Goals (SDGs). Achieving this requires a bottom-up approach in Japanese livestock production, commitment from food companies to future procurement, and support from NGOs, banks, and institutional investors.

