IRBC Agreement on International Responsible Investment in the Insurance Sector

ESG INVESTMENT FRAMEWORK for the theme:

ANIMAL WELFARE

Version 2020

VERBOND VAN VERZEKERAARS

Save the Children

FNV

WORLD ANIMAL PROTECTION

Zorgverzekeraars Nederland

PAX

NATUUR & MILIEU

OXFAM Novib
AMBASSADEURS VAN HET ZELFDOEN

AMNESTY INTERNATIONAL

Ministerie van Buitenlandse Zaken

Ministerie van Financiën

Preamble to ESG theme-related frameworks

On 5 July 2018, the insurance companies affiliated with the Dutch Association of Insurers and the Dutch Association of Health Insurers concluded the Agreement on International Responsible Investment in the Insurance Sector[1] (hereinafter: the Agreement) with the Dutch government, NGOs and a trade union (hereinafter: the Parties). The purpose of the Agreement is to make a positive impact on themes relating to the environment, social conditions and governance (hereinafter: ESG[2]) and to strive to mitigate any adverse impacts. Insurers acknowledge their responsibility to act in accordance with international guidelines, specifically:

- UN Guiding Principles on Business and Human Rights (hereinafter: UNGPs). The UNGPs are the foremost international framework for human rights in the context of business;[3]
- OECD Guidelines for Multinational Enterprises (hereinafter: OECD Guidelines).[4] The OECD Guidelines are one of the most important internationally recognised guidelines for International Responsible Business Conduct (IRBC). They address a wide range of issues, such as human rights, labour rights, the environment, corruption, taxation, health and safety.

Both of these frameworks form the basis for the provisions of the IRBC Agreement.

Based on these international guidelines, insurers are expected to define sector- and theme-specific investment policies. The Agreement documents this commitment. The policies define the ESG principles and standards that an insurer applies when investing in sectors and themes assessed as relevant and high-risk.[5] Insurers are also expected to identify, prevent or limit the actual and potential adverse impact of their actions and explain how they deal with the risks. That applies as well to the insurer's own 'value chain' (for example businesses linked to the investee companies).

In the Agreement, the Parties have undertaken to seek out opportunities to improve the investment policy based on ESG themes, including those not or not conclusively covered by the international guidelines.[6] This framework concerns the development and implementation of a responsible investment policy on the theme of **Animal Welfare**.

Due diligence

At the heart of any ESG theme-related framework are tools to assist in conducting due diligence on the investment portfolio.

---

[1] Read the Agreement here: www.imvoconvenanten.nl/-/media/imvo/files/verzekeringssector/convenant-verzekeringssector.pdf. The English version can be found at https://www.imvoconvenanten.nl/-/media/imvo/files/verzekeringssector/agreement-insurance-sector.pdf?la=en&hash=FB556D9429722E8F362B3B012310391A.

[2] These terms and the abbreviation are used internationally.

[3] https://www.ohchr.org/documents/publications/GuidingprinciplesBusinesshr_eN.pdf

[4] OECD Guidelines: http://www.oecd.org/daf/inv/mne/48004323.pdf

[5] By relevant, we mean that the ESG theme applies to your investments. The Agreement does not provide a framework for determining when a subject is relevant for an insurer. That is up to the insurer itself to determine.

[6] The Agreement establishes the themes: animal welfare, children's rights, climate change, land rights and controversial weapons and the trade in controversial weapons.

The document *Responsible business conduct for institutional investors* is based on the OECD Guidelines (hereinafter: the Document).[7] The Document describes the due diligence approaches available to institutional investors, including insurers. The *OECD Due Diligence Guidance for Responsible Business Conduct* offers a clear description of the steps involved in the due diligence process.[8] We look at this more closely in Section 4.

Disclaimer

The Parties have examined the options for each theme in this framework in accordance with international standards, treaties and initiatives. The framework should **not** be seen as an obligation imposed on insurers. Rather, the Parties regard this framework as a **tool/guidance** to help insurers embark on a theme-specific investment policy. The framework will be subject to an assessment every other year.

The Parties are, of course, prepared to engage in further discussions with the insurer if questions arise.

[7] https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf
[8] https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf

Contents

1. Introduction

Animals and animal products are used on a massive scale in commercial industry, not only in food production and consumption but also in pharmaceutical and textile products. Animal welfare is often compromised, e.g. because animals have no room to move about, are bred for fast early growth (e.g. broiler chickens) or are subjected to animal testing.

Animal welfare refers to the quality of life as experienced by an animal itself. This means that animals have the right to live in decent conditions and should not be made to suffer, especially because they usually cannot defend themselves and are therefore particularly vulnerable. People and organisations must always be held accountable for their actions towards animals. That is why it is important to establish clear-cut rules to protect and promote animal welfare in the various production sectors and value chains of commercial industry.

Insurers are increasingly aware of the importance of animal welfare and the reputational and other risks that may arise when investee companies fail in this respect. There are also important financial material implications for companies that do not respect animal welfare, for example shed fires or diseases (requirement to confine animals indoors). Increasingly, animal welfare plays a role in managing reputational risks and in accountability towards consumers.

In addition to risk management and ethical and normative aspects (compliance with international guidelines), the focus on animal welfare also has an instrumental added value for institutional investors. It can, after all, open up opportunities for better product quality and innovation and allow access to new markets or expand existing markets by outperforming the competition.

2. Relevance for insurers

The extent to which animal welfare plays a role in an insurer's investment practices depends on the severity, duration and scale of animal welfare issues. Examples of adverse impacts are: breeding for fast early growth (broiler chickens), overcrowded housing (chickens and pigs), painful interventions (pigs, cows, chickens), barren living environment (pigs, chickens), unnecessary suffering during slaughter, live-plucking (geese or ducks) and unnecessary animal testing.

In addition, the leverage that the insurer has on its portfolio mix is decisive for its ability to address the impact of animal welfare on its investments.

2.1 Sectors

The main sectors with investable assets in which animal welfare plays a role are:

- companies in the food production and consumption value chain (meat, fish, dairy, eggs), including livestock husbandry and fisheries, slaughterhouses and processing plants, food manufacturers, retailers, caterers, fast food and other restaurants and suppliers
- companies in the pharmaceutical, cosmetics and chemicals industries (animal testing)
- companies in the clothing, textiles and home furnishings value chain (leather, wool, down, feathers, fur and silk).

3. Frame of reference

The European Union has animal welfare legislation governing various sectors of industry but there are (as yet) no internationally binding treaties specifically addressing animal welfare. Many countries outside the EU therefore lack or have inadequate animal welfare legislation. Companies and organisations can of course pursue their own animal welfare policies, often basing them on international principles and guidelines. The best known are the Five Freedoms for animals in the food industry[9] and the 3Rs (Replacement, Reduction, Refinement) in animal testing.[10] This section summarises the most important animal welfare guidelines and standards. A more comprehensive list with explanations can be found in Appendix 2.

3.1 Companies in the food production and consumption value chain

EU legislation

The European Union has adopted a series of regulations and directives that require the Member States to enact legislation concerning:

- farm animals in general[11]
- calves[12]
- pigs[13]
- chickens[14]
- transport[15]
- protection of animals during slaughter[16]

OECD Guidelines

The general OECD Guidelines have been elaborated for the agricultural sector in the sector-specific *OECD Guidance for Responsible Agricultural Supply Chains*.[17] With regard to animal welfare, the *Guidance* refers to the Five Freedoms, EU legislation and the standards developed by the World Organisation for Animal Health (OIE). The latter are aimed at transport, slaughter, husbandry of certain animal species and using animals in research and education.[18] In addition to international standards and EU legislation, the *Guidance* also refers to standards and certification by companies, authorities and NGOs.

Standards of practice

Because companies and others need transparency and clarity about animal welfare requirements in the food sector, the absence of adequate rules in many countries has led various parties to develop standards of practice. These are standards that define specific requirements, often for individual species, for example the number of animals to be kept per square metre or the availability of distractions.[19] In 2019, an alliance of animal welfare organisations developed an international standard of practice for animal welfare in the food industry, referred to as

[9] See Appendix 1 for an explanation.
[10] See Appendix 2 for an explanation.
[11] See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:31998L0058.
[12] See: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32008L0119.
[13] See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32008L0120.
[14] For laying hens, see: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:31999L0074; for chickens kept for meat production, see: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32007L0043.
[15] See: https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:32005R0001
[16] See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02009R1099-20180518.
[17] See: http://www.oecd.org/daf/inv/investment-policy/rbc-agriculture-supply-chains.htm.
[18] See Section 7 of: http://www.oie.int/en/standard-setting/terrestrial-code/access-online/.
[19] In industrial livestock farming, animals are often kept in austere, low-input environments, leading to boredom, stress and aggression. It is important for animals to have distractions.

Responsible Minimum Standards (RMS).[20] The RMS combine the main international guidelines and standards (such as those by the EU referred to above and the IFC Good Practice Note) and transpose them into standards of practice for specific animal groups in the food industry.

3.2 Companies in the pharmaceutical, cosmetics and chemicals industries

EU legislation

The EU has a Directive on the protection of animals used for scientific purposes.[21] Among other things, it prohibits cosmetics testing on animals in the EU. In the case of drug development, animal experiments are only permitted if they have been shown to be necessary or are legally necessary and there are no known equivalent research methods obviating the need to use laboratory animals.

3.3 Companies in the clothing, textiles and home furnishings value chain

EU legislation

In the EU, most animals whose products are used in textiles and clothing are covered by Directive 98/58/EC concerning the protection of animals kept for farming purposes,[22] which lays down minimum requirements for keeping and handling animals. There are further EU regulations and directives concerning such matters as seal skin and dog and cat fur.[23]

---

[20] See: www.farms-initiative.com/.

[21] See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32010L0063.

[22] See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:31998L0058.

[23] Seal skin, see: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32009R1007; dog and cat fur, see: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32007R1523.

4. Due diligence

If an insurer is investing or considering investing in value chains relevant to animal welfare, the OECD Guidelines stipulate that it must undertake a due diligence process.

4.1 Embedding RBC measures in policy

If animal welfare is a significant factor in the insurer's investment portfolio, adequate policy measures should be adopted to manage the related ESG risks.
Points of concern for institutional investors can be found in the 'Investor actions' text blocks in the Document.[24]

4.2 Identifying investment criteria

It is advisable to work with specific investment criteria under this theme. The Parties have a number of suggestions in that respect.[25] These can be extended at the insurer's discretion and combined with international guidelines and standards (such as EU legislation, OiE standards, the IFC Good Practice Note, and the Responsible Minimum Standards.[26]

<u>Animal welfare in the food production and consumption value chain</u>

- *Housing:*
  - elimination of cage systems for laying hens by 2025. There is a list of companies that comply with this criterion;[27]
  - transition to a maximum stocking density of 30 kg/sq.m. for broiler chickens within a reasonable period of time. There is a list of companies that comply with this criterion;[28]
  - elimination of gestation crate systems for pregnant sows by 2028. This information is made available by NGOs;[29]
  - cows should have access to pasture by 2030 at the latest.[30]
- *Mutilations:* painful interventions such as castration and tail docking of pigs or dehorning of cows must be phased out within a reasonable period of time.
- *Transport*: livestock transport must not exceed eight hours.
- *Slaughter:* controversial stunning methods such as the electrical waterbath method for poultry or carbon dioxide gasification of pigs must be phased out within a reasonable period of time and replaced by more animal-friendly alternatives.
- *Exclusion:* companies must not be involved in the production or sale of *foie gras* and shark fins.
- *Guarantee and transparency:* companies guarantee compliance with their policies and commitments by means of (preferably annual) third-party auditing and publish annual public reports on the outcomes.

The pertinent information is relatively easy to obtain. By enquiring about these matters with companies, data providers, animal welfare organisations and/or by carrying out their own

---

[24] Pages 21 and 22: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

[25] The NGO Party wishes to emphasise that it regards these as minimum criteria for this theme (e.g. the normative lower limit).

[26] See also Appendix 2.

[27] See www.welfarecommitments.com and search for 'Cage-Free', 'Global Cage-free' and 'Japan Cage-Free'. If companies are not on this list, then the question is whether they have publicly available policies showing that they do meet these criteria.

[28] See www.welfarecommitments.com and search for 'Broiler' and 'Global Broiler'.

[29] World Animal Protection and Compassion in World Farming have made this information available. See also https://cratefreefuture.com/pdf/Gestation%20Crate%20Elimination%20Policies.pdf

[30] To clarify: this involves access to pasture for a substantial part of the year, unless the climate (too cold, too marshy or too hot) renders it detrimental to the animals' well-being.

investigations, insurers can apply these criteria within a relatively short period of time.

Animal welfare and animal testing

- Companies must describe how they apply the 3Rs in their policy and implement them in practice.
- No animal testing for cosmetics and other non-medical purposes.
- No animal testing on great apes.
- Animal experiments must be carried out in compliance with EU legislation.

Animal welfare in the clothing, textiles and home furnishings value chain

- No production or use of fur, angora or the skin of exotic species such as snakes, crocodiles and protected species.
- Companies must be registered with tracking and assurance systems that provide independent certification guaranteeing that animal textiles and materials have been produced in accordance with the highest possible standards of animal care.
- Companies must not use down from live-plucked and/or force-fed geese and ducks or wool from sheep subjected to mulesing[31] and must employ tracking and assurance systems that provide independent certification guaranteeing this.

4.3 Conducting a risk analysis

Screening can identify those companies in the investment portfolio that are exposed to animal welfare risks. Screening reveals:

- which companies in the investment portfolio are exposed to animal welfare risks;
- which companies are unable, or insufficiently able, to mitigate these risks.

Screening ultimately yields a list of companies for which the insurer must devise an appropriate approach.

Given the specialist and time-consuming nature of this exercise, it may be advisable to outsource screening to an external party.

4.4 Identifying and prioritising risks

Based on the screening results, the insurer will have to prioritise the risks. In this exercise, the gravity of the animal welfare violations will depend on their scale (in terms of numbers of animals), duration and severity. It should further be noted that most animal welfare violations are, by definition, irreversible.

If the investee company disregards the criteria such that animal welfare is seriously compromised, the insurer must consider its options. On the one hand, it can use leverage by engaging with the company in an attempt to induce it to end the relevant practice. On the other hand, it can rule out investing in the company in advance.

4.5 Implementing policy to minimise impact and to mitigate identified risks

Depending on the screening results and how they are interpreted, the insurer may:

1. actively adapt its voting behaviour accordingly;
2. engage with the companies concerned;
3. exclude the companies concerned;
4. choose impact investing.

By **voting (1)** at shareholders' meetings, the insurer can influence the policy of companies in which animal welfare is a factor. The insurer must, of course, decide on its own voting behaviour, which can range from voting against management decisions to introducing or

[31] Mulesing is a cruel practice that involves removing strips of wool-bearing skin from around the breech (buttocks) of a sheep without administering anaesthesia or painkillers.

supporting resolutions aimed at improving animal welfare in business operations.

Engagement (2) involves the insurer entering into a dialogue with investee companies that do not comply with the insurer's policy. The aim is for the company to make structural improvements.
In engagement, it is advisable to work with as many like-minded (institutional) investors with regard to one and the same company. The greater the investment capital they represent, the more leverage they will have on the company in question. For more information, see the Document.[32]

Examples of engagement questions:

- What are senior management's animal welfare targets, for example in terms of phasing out gestation crates for sows, cage systems for laying hens, stocking densities for broiler chickens or the percentage of animal products produced in accordance with certified animal welfare standards?
- Are animal welfare performance indicators part of the management's assessment criteria?
- How does the company monitor its own animal welfare criteria in practice and does it report publicly on its performance?

If engagement fails to deliver satisfactory results within a reasonable period of time, e.g. three years, or if a company turns out to be involved in practices that are already on the insurer's exclusion list, the company may be **excluded (3)** from investment.

Impact investing (4) may refer to special investment firms, for example venture capital firms, that offer portfolios tailored to specific animal-related issues, for example wildlife conservation, coral reef protection, ocean clean-up, and encouraging the transition from animal to plant proteins.

4.6 Measures aimed at preventing and/or mitigating actual and potential adverse impacts

The purpose of due diligence is to identify and prevent risks, but it is still possible for an investee company to have an adverse impact on animal welfare.
Insurers usually hold a minority stake in investee companies and are therefore unlikely to have 'contributed to' an adverse impact on animal welfare (the term used in the OECD Guidelines). Nevertheless, in most cases it is possible to establish that an insurer's investment is 'directly linked' to the adverse impact caused by an investee company (again, the term used in the OECD Guidelines). In the latter case, the insurer is expected to use leverage to persuade the company to take appropriate action. For more information, see the Document.[33]

4.7 Monitoring risks and the results of the mitigation strategy

The due diligence policy should be monitored at regular intervals. It is advisable to pay particular attention to:

- the way in which the established animal welfare criteria have been effectively applied when screening investments for theme-related risks and the choices to which this has led;
- progress on and results of the chosen engagement and/or mitigation strategy

[32] See Box 7 on page 27: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

[33] See Figure 1, 'Addressing adverse impacts under the OECD Guidelines for Multinational Enterprises' on page 35: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

addressing animal welfare.

5. Accountability and reporting

The OECD Guidelines require the insurer to report publicly on its due diligence policy and associated results at regular intervals, preferably annually. The OECD Guidelines describe this as:

- knowing: tracking the insurer's performance against its own investment policy;
- showing: publicly communicating the same. The Document sums up the procedures for this step.[34]

The insurer identifies the most appropriate indicators for reporting on its efforts to address animal welfare in its investment policy. The insurer itself is responsible for selecting relevant indicators (taxonomy) for tracking its performance against its policy.

An insurer can also report on its engagement with or exclusion of companies, thereby sending other investors, the companies in question and its own customers an important signal.

When an insurer invests through a fund, it can ask the (external) asset manager to provide taxonomy-related information on the impact of its investments on animal welfare issues. The insurer can then use this for accountability and reporting purposes.

This section will be elaborated in more detail over the term of the Agreement.

[34] See 'Investor actions' on page 43: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf.

Appendix 1 – The Five Freedoms

The desire to promote animal welfare stems from the recognition that animals are sentient beings with an intrinsic value. They are valuable for their own sake, regardless of the value they may have for human beings. Policies should therefore aim to protect animals as far as possible from human actions considered to be disrespectful and detrimental to their welfare and integrity. People and organisations must always be held accountable for their actions towards animals and must make careful decisions in this respect. Is the animal being kept for an acceptable purpose? And if it is, can its well-being and integrity be guaranteed? This is important because animals cannot (usually) stand up for themselves and are therefore vulnerable.

Animal welfare refers to the quality of life as experienced by an animal itself. This means that animals have the right to live in decent conditions, must not suffer any discomfort, should have positive experiences and should be able to adapt to changing circumstances.[35]

<u>The Five Freedoms</u>

The Five Freedoms are used as a basis for promoting animal welfare in food production, both in the Netherlands and internationally. They define an ideal state:

1. Freedom from hunger and thirst, by providing 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 treatment;
4. Freedom from fear and distress, by ensuring conditions and treatment which avoid mental suffering;
5. Freedom to express normal behaviour, by providing sufficient space, proper facilities and the company of the animal's own kind.

[35] See also the policy memorandum *Dierenwelzijn*, 4 October 2018: www.tweedekamer.nl/kamerstukken/brieven_regering/detail?id=2018Z17580&did=2018D47520.

Appendix 2 – Details concerning animal welfare policy in each sector

Animal welfare in the food production and consumption value chain

There are a range of animal welfare risks associated with production in the global livestock industry. They are related to the breeding, keeping, transporting and slaughtering of animals:

- unilateral selection for production traits increases health and mobility risks;
- a low-stimulus environment and poor air and light quality lead to boredom, stress and behavioural problems;
- the animals are often subjected to painful and mutilating procedures (castration, tail docking, beak trimming, dehorning);
- transport involves risks of injury, stress and exhaustion, and long transport times and poor transport conditions increase the gravity of these risks;
- slaughtering methods often inflict serious suffering.

<u>Responsible Minimum Standards</u>

In an effort to mitigate the aforementioned risks for the main animal groups in food production, international animal welfare organisations have developed the Responsible Minimum Standards (RMS). The purpose of these standards is to elaborate on the principles laid down in the OIE's Terrestrial Animal Health Code and the IFC's Good Practice Note: Improving Animal Welfare in Livestock Operations. The RMS are divided into:

- chickens raised for meat[36]
- laying hens[37]
- pigs[38]
- beef cattle[39]
- dairy cattle[40]

The aim is to give companies and investors a clear set of minimum rules for respecting animal welfare. The standards are SMART and recognise that implementation takes time and investment. Timelines have therefore been built into the standards to give companies a reasonable opportunity to make the necessary transition. Insurers can require companies to comply with these timelines.

<u>Other guidelines and standards</u>

In addition to the guidelines and standards listed in Section 3, other normative frameworks are:

- the IFC's Good Practice Note: Improving Animal Welfare in Livestock Operations[41]: general guidelines on animal welfare. In addition to the added value for the animals themselves, the Note discusses the business case for animal welfare and explains why it pays to invest in it;[42]
- the Global Reporting Initiative: a sector-specific reporting tool has been developed for the

---

[36] See: www.farms-initiative.com/responsible-minimum-standards/rms-chickens/

[37] See: www.farms-initiative.com/responsible-minimum-standards/rms-laying-hens/

[38] See: www.farms-initiative.com/responsible-minimum-standards/rms-pigs/

[39] See: www.farms-initiative.com/responsible-minimum-standards/rms-beef-cattle/

[40] See: www.farms-initiative.com/responsible-minimum-standards/rms-dairy-cattle/

[41] Drafted by the International Finance Corporation (IFC, part of the World Bank).

[42] See: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_animalwelfare_2014.

food processing industry that has animal welfare as a key element;[43]
- the Business Benchmark on Farm Animal Welfare: assesses the largest food companies annually with regard to animal welfare policy and management;[44]
- the Coller FAIRR Protein Producer Index: assesses the largest companies in animal protein production in terms of animal welfare and other societal issues such as climate change, biodiversity, and the use of antibiotics.[45]

It should be noted, finally, that in addition to animal welfare risks, other important societal risks also play a role in the food production and consumption value chain, specifically:
- climate change: animal proteins generally have a (much) higher environmental footprint than vegetable proteins;
- biodiversity and environment: animal protein production requires vast tracts of land to produce fodder and to graze ruminants, with the associated use of pesticides and deforestation. Ammonia and other emissions from manure and excess manure have adverse impacts on soil quality, water quality and nature;
- public health: antibiotic use, zoonosis, particulate matter emissions and overconsumption of animal products pose health risks.[46]

Mitigating all these risks requires a transition from animal to plant proteins. For example, the Netherlands has set itself the goal of reversing the ratio of animal versus vegetable proteins from 60:40% to 40:60% by 2050. In addition, by 2050 the Dutch will be eating about 10% to 15% less protein in total.[47]

Animal welfare in the pharmaceutical, cosmetics and chemicals industries

Animal testing is common in these industries. It is estimated that more than 100 million animals are killed each year worldwide as a result of animal experiments, with several different species being involved. In considering whether or not an animal experiment is acceptable, the main issue is whether the purpose of the experiment justifies using animals, given the actual or potential availability of alternatives and the scale, duration and severity of the animal's suffering.

The 3Rs

Internationally, the concept of the 3Rs[48] is central to the use of laboratory animals:
- Replacement: replacing animals with alternatives.
- Reduction: using fewer animals in a given animal experiment.
- Refinement: improving animal welfare for the animals involved.

Particular areas of concern in animal experiments are cloning and genetic modification. These practices lead to serious animal welfare problems and compromise the integrity of the animal.

As described in Section 3, it is prohibited in the EU to test cosmetics on animals. Fourteen years after the EU ban on animal testing was introduced, and five years after a total ban on the sale of products tested on animals, it is clear that the cosmetics industry has not suffered. In the case of drug development, animal experiments are only be permitted if they have been shown to be necessary or are legally necessary and there are no known equivalent research methods obviating the need to use laboratory animals. By Dutch standards, this is in accordance with the

---

43 See: www.globalreporting.org/Documents/ResourceArchives/GRI-G4-Food-Processing-Sector-Disclosures.pdf.

44 See: www.bbfaw.com/.

45 See: www.fairr.org/index/.

46 See: https://eatforum.org/eat-lancet-commission/.

47 Identified as a target in the Transition Agenda Biomass and Food. See also: https://www.pbl.nl/sites/default/files/cms/publicaties/pbl-2018-notitie-voedsel-in-nederland-3239.pdf.

Experiments on Animals Act [*Wet op de Dierproeven*],[49] which is based on EU legislation but in many respects is much stricter than in other countries. The need for animal testing in food product development must be properly demonstrated. According to Wageningen University and Research, by 2018 80% of nutritional studies could be carried out without animal testing.[50] This percentage is likely to increase in the coming years.

Animal welfare in the clothing, textiles and home furnishings value chain

These industries use various animals to produce leather, wool, down/feathers, fur or silk. Hundreds of millions of animals are kept for this purpose every year. Animal welfare risks range from physical interventions such as mulesing in sheep[51] and live-plucking of geese and ducks to poor husbandry and trapping conditions, methods used for killing game and transport[52] and slaughter[53] issues. The requirements of animal welfare in the food production and consumption value chain apply equally to animals that are also kept for their meat or milk.

Keeping animals for clothing and textile production raises another ethical question: does the purpose justify violating the welfare and integrity of the animals? After all, there are plenty of alternatives. On 15 January 2013,[54] the Dutch Prohibition of Fur Production Act [*Wet Verbod Pelsdierhouderij*] came into force.[55] Like the Netherlands, many other countries have also prohibited fur farming. There are also a number of voluntary international standards:

- Responsible Leather Roundtable;[56]
- Responsible Wool Standard;[57]
- Responsible Down Standard, Traceable Down Standard and Downpass Standard 2017;[58]
- For the Netherlands: Prohibition of Fur Production Act and Dutch Agreement on Sustainable Garments and Textile.[59]

Animal welfare in other sectors

In addition to the above sectors, animal welfare can also be relevant to industries in which animals and animal products are not integral to the core business. Examples include using wild and other animals for entertainment (tourist industry, event sponsorship), airlines and transport companies implicated in the sale of wild and other animals, and large digital platforms that facilitate and promote unacceptable animal welfare practices (e.g. the sale of exotic pets). Finally, banks are involved in financing a whole range of companies in value chains notorious for committing animal welfare violations.

In particular, animal welfare organisations consider it unacceptable for investors to cooperate in:

- using wild animals for entertainment;
- using animals in staged animal fights;
- transporting animals caught in the wild.

Reports of such abuses by NGOs or the media may constitute a valid reason for insurers to

---

[49] See: https://wetten.overheid.nl/BWBR0003081/2019-01-01

[50] See: www.wur.nl/nl/artikel/Voedingsonderzoek-zonder-gebruik-van-dierproeven.htm

[51] Mulesing is a cruel practice that involves removing strips of wool-bearing skin from around the breech (buttocks) of a sheep without administering anaesthesia or painkillers.

[52] For example the duration of and conditions during international transport of sheep from Australia after sheering.

[53] For example without stunning the animals.

[54] With a transitional period until 1 January 2024.

[55] See: https://wetten.overheid.nl/BWBR0032739/2014-01-25

[56] See: https://responsibleleather.org/about/

[57] See: http://responsiblewool.org/about-rws/

[58] See: https://responsibledown.org/, http://www.nsf.org/newsroom/traceable-down-standard and https://www.downpass.com/en/downpass/standard.html

[59] See: https://wetten.overheid.nl/BWBR0032739/2014-01-25 and https://www.imvoconvenanten.nl/en/garments-textile

initiate engagement or, if engagement fails, to exclude companies