



FTSE4Good BMS Criteria: Verification Workshop

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1 Background

1.1 Objectives

This was the fourth Breast Milk Substitutes (BMS) verification workshop hosted by FTSE Russell. It was organised to provide a multi-stakeholder forum to discuss the progress and barriers in relation to BMS marketing practices, to discuss progressive steps aimed at improving infant nutrition, and to present the findings of verification assessments of both Nestlé and Danone. This was the fourth verification assessment of Nestlé and the first verification assessment of Danone against the FTSE4Good BMS Criteria.

As in the previous workshop, a number of reports were provided to participants pending publication on FTSE Russell's website: (i) a context paper from FTSE Russell (ii) the PwC Verification Assessment Report for both Nestlé and Danone and (iii) a response from both Danone and Nestlé.

In addition to reviewing the results, and in line with previous workshops, the workshop provided an opportunity for FTSE Russell to obtain feedback on the verification methodology and process, to enable it to make improvements in future cycles. Furthermore the workshop aimed to provide

participants the opportunity to explore areas for joint learning and collaboration.

1.2 Proceedings and outline of the meeting

FTSE Russell initiated proceedings with a re-cap on the FTSE4Good Index Series and background, to all attendees including company representatives.

Danone representatives left the room while PwC presented its report on the Nestlé verification process and findings. With Nestlé present, there was a discussion of improvements that could be made to both Nestlé's practices and to the verification process.

Nestlé representatives then left the room, allowing Danone representatives to return whilst PwC presented its findings from the Danone verification exercise. With Danone present, there was a discussion of improvements that could be made to both Danone's practices and to the verification process.

The session was then joined by representatives from RB (formerly known as Reckitt Benckiser), Friesland Campina, and Abbott Laboratories. Given the presence of competitors in the meeting, an antitrust guidance statement was tabled and read out to ensure compliance. This was followed by a general discussion regarding ongoing issues with BMS Marketing practices and areas for improvement.

Following the departure of PwC and all of the company representatives there was more discussion on cross-learning, future direction and next steps.

1.3 Participants

Groups that had attended previous verification workshops were invited back to discuss and provide feedback on the results of the two companies' verifications and next steps. In addition, new attendees were welcomed to the gathering. The total number of attendee organisations had grown since the last workshop. Expert participants came from charities, foundations, investor groups, NGOs, health and children's organisations, inter-governmental organisations, and the FTSE4Good BMS Criteria Advisory Group.

Senior management representatives from each of Nestlé, Danone, RB, Friesland Campina, and Abbott Laboratories also attended parts of the meeting (as indicated in Section 1.2 above).

The meeting was held under the Chatham House Rule. This document summarises the workshop and findings, but does not attribute specific views or responses to individual organisations (other than to FTSE Russell itself, given the focus on the FTSE4Good BMS Criteria and associated processes).

Please note that these notes should be read alongside the referenced reports.

2 Introduction

2.1 Welcome

Participants were welcomed and all provided an introduction to themselves and their organisations.

FTSE Russell set out the importance of this issue, its history of work in this area, and the progress made to date. As part of these introductory comments, FTSE Russell signposted its medium- to long-term aim of stepping back from its current role in commissioning verification assessments.

Whilst it remains committed to this subject, the natural next stage would be deeper collaboration between stakeholders enabling FTSE Russell to “measure” rather than “facilitate”.

2.2 FTSE4Good Index Series

By way of context it was explained that the Index Series includes companies that have strong ESG practices as identified by the ESG criteria. FTSE Russell aims to raise standards over time through enhancing the FTSE4Good criteria.

2.3 Verification process

The context to the verification approach was set out, covering the risk assessment of countries, the limited notice given to companies, head office visits, the extended length of the verifications, locations chosen, and the addition of media monitoring.

There was also discussion of the need to understand the difference between systemic problems and isolated incidents, and to understand the companies’ responses to these.

3 Key Discussion Points on the Company Verifications

3.1 Nestlé Assessment

The factual findings of the PwC verification report on the assessment of Nestlé were discussed along with suggested enhancements and how the company was responding. The verification report identified areas of strong practice and positive improvements as well as areas that needed to be addressed. Four areas where there was particular discussion included (i) Nestlé’s involvement in conferences for health care professionals; (ii) parallel imports where products aimed for one market reach non-intended countries; (iii) cross-promotion of different stage formulas where marketing of later stage products may, through similar branding, promote the earlier stage products; (iv) ability to influence third party retailers to prevent promotions. All these issues were relevant for Nestlé as well as the other major BMS manufacturers.

There was discussion ranging from scepticism over certain aspects of Nestlé’s (and indeed other companies’) marketing approach, to continued appreciation that Nestlé was taking positive steps forward and actively engaging with, and listening to, stakeholders.

3.2 Danone Assessment

The meeting considered PwC’s findings on Danone in Nigeria and Thailand, noting that this was Danone’s first verification exercise as part of the FTSE4Good assessment process. Danone provided its response, offering thanks to all involved and emphasising its commitment to this area and the process, and its wish to work in partnership.

There was clear positive evidence that Danone had been working to implement its revised and enhanced policies that further restricted BMS marketing. However, as for Nestlé on its first assessment, there were also a significant number of areas that needed improvements. In addition to the points raised for Nestlé from the most recent verification, other points raised and discussed included; (i) concern around sales incentives linked to product sales that may include BMS products; (ii) concerns about cross-promotion risk, specifically the need for differentiation when a broader brand name (Dumex) matched an infant formula product line; (iii) concern that local staff had used the notice period before the verification to remove certain marketing materials from local health

facilities.

The company's response to the findings was noted, and FTSE Russell noted that its Chief Executive, Mr. Makepeace would be sending a letter to Danone's CEO to thank him for Danone's commitment but to also underline expectations on the need for ongoing commitment and improvements to address key findings.

3.3 Parallel Imports and Two-tier Approach

The two-tier approach to countries (i.e. applying stricter standards to higher risk countries) was discussed, with a number of participants concerned that parallel imports violations were difficult to address and could mean that product labelling permissible in a lower risk country can be distributed into higher risk countries where the labelling may not be compliant. All of the meeting participants acknowledged that the WHO code applies universally, but that the FTSE4Good BMS Criteria whilst drawing on the code takes a risk based approach in application.

Some of the meeting participants called on FTSE Russell to apply the requirements for higher risk countries globally. In response FTSE Russell agreed that this was its long term intention but that, in order to have a successful impact on company behaviour, it would have to take a gradual approach. FTSE Russell noted that it had taken over 10 years to reach the stage where two companies had met the FTSE4Good BMS Criteria, that it was in active engagement with other companies and that, if the Criteria requirements were increased too soon the business implications of complying would be so high that no company would meet them (i.e. they would all be deleted from the Index Series) and that FTSE Russell's ability to effect change or encourage performance improvements would evaporate. FTSE Russell's view is that, by setting standards that were above existing market practice but were still achievable, real changes in corporate behaviour have taken place, with these being particularly impactful because of the FTSE4Good BMS Criteria's focus on those countries with the greatest risks with respect to child mortality and malnutrition. Having a number of BMS manufacturers included in the FTSE4Good Index Series puts pressure on others to improve, and also on constituents to lobby for regulation to raise the bar for competitors and level the playing field.

When asked about FTSE Russell's expected timeline for removing the country distinction or tightening the Criteria, FTSE Russell indicated that this would be guided by the FTSE4Good BMS Criteria Advisory Group, and that a gradual phased approach was likely. It noted that higher risk countries (based on UNICEF infant mortality and malnutrition statistics) are only ever added to the list and are never removed, and so the higher risk country list was growing over time.

Another participant noted that, in earlier verifications, parallel imports had been found to be a problem and asked at what point it would lead to a company's deletion. The subsequent discussion focused on the level of controls and steps that companies could take to manage and reduce these black market imports. It was felt that, while there were actions that could be taken, such imports were not under companies' direct control. FTSE Russell noted that it expected to see companies taking action to try and prevent or reduce parallel imports but cautioned that companies on their own could not prevent parallel imports. It also noted that companies that simply ignored the problem would be at risk of being deleted from the FTSE4Good Index Series.

3.4 Marketing and Cross Promotion

The issue of cross promotion, whereby later stage milk formulas (those for infants over 1 year old) use very similar branding to the formulas designed for infants under 1 year of age, was discussed. It was suggested that this provided a route to advertise the whole series of same branded formulas tiered into different infant ages/stages. This, many participants felt, was counter to the spirit of the FTSE4Good BMS Criteria. Advice was given from around the table regarding ensuring packaging for different stages was very different, to ensure that advertising of

later stage milks did not appear to advertise the earlier stage milks too. This has also been raised in media monitoring, where it has been noted that promotions for branded later stage products is hard to distinguish from sub-12 months products, and as such, cross promotion undermines efforts around non-promotion of infant formula. FTSE Russell had highlighted this problematic “grey area” in previous reports. Some participants felt that this was an area where a company could show leadership relative to peers by creating clearly differentiated branding, which could lead to other companies adopting a similar approach.

There was discussion and debate about the new WHO guidance with some participants referring to it as ‘the new gold standard on BMS marketing’, which companies should now be asked to meet. Some in the room discussed its legal status noting these are recommendations to government and are not legally binding. There were also concerns that when companies were not yet fully meeting the aspirations of the previous WHO Code, that the new WHA resolution set an even more unrealistic proposition. There were many strong and differing views on this topic.

There was also a discussion around inappropriate promotion in stores as a recurring issue. Again, the point was made that while BMS manufacturers do have some influence over distributors and retailers, they generally do not have control.

3.5 Follow Up/Ongoing Monitoring

It was queried how country-specific issues identified in the verification exercise will be monitored going forward, and whether verifiers should go back and re-assess the same countries to identify if progress has been made. FTSE Russell stated that its aim was to get a broad assessment of whether companies were following through with a consistent approach globally, and to identify areas where companies were systematically not meeting the Criteria and not making improvements. If companies were found to have systemic issues and were not improving they would be deleted.

In response to a question as to whether a company had been deleted from the FTSE4Good Index Series on the BMS Criteria, it was confirmed that Pfizer had been deleted after acquiring Wyeth and then failing to meet the standards required. Further, now that RB has acquired Mead Johnson, RB will have to meet the BMS Criteria in order to remain in the FTSE4Good Index Series. RB will be researched by FTSE Russell before June 2018. If it does not meet the BMS criteria at that point, it will be formally entered into the FTSE4Good engagement process and will be given one year to meet the BMS Criteria (although this timeframe may be extended if the company is making significant progress towards meeting the Criteria). FTSE Russell also noted that hundreds of companies had been deleted from FTSE4Good over the years for failing to keep pace with the ESG thresholds it applied to the index, but that the majority of companies would improve to meet those criteria to retain inclusion.

4 Building on and integrating with other initiatives

Although all parties are working in different ways to improve infant and child nutrition, the approaches and initiatives undertaken remain diverse. It continues to be recognised that in some cases there would be direct opportunities to work together, or build on one another’s initiatives.

Three particular areas FTSE Russell agreed to consider were;

- (i) The work of the Meridian Institute and the possibilities this creates for increased collaboration and impact going forward.
- (ii) Whether NetCode could be used as a tool to guide the follow up with companies.
- (iii) Collaboration with Access to Nutrition Foundation and Index.

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