

Nestlé

1. Preamble

- 1.1 In July 2002 the Joint Advisory Committee on the Ethics of Investment (JACEI) initiated a review process in order to help it advise the Central Finance Board of the Methodist Church (CFB) on the ethical suitability of holding shares in Nestlé. This culminated in November 2004 with a full day consultation in which both Nestlé and Baby Milk Action agreed to take part.
- 1.2 In preparation, the CFB produced a major briefing paper that addressed the ethical issues concerning Nestlé with particular emphasis on breast-milk substitutes. Nestlé and Baby Milk Action both responded in writing to the briefing paper and answered a related questionnaire.
- 1.3 An advisory panel was convened consisting of members of JACEI and JACEI's Staff Preparation Group. An independent nutritional expert and an observer from the United Reformed Church were in attendance. In the morning, Baby Milk Action made a presentation to the panel. They then withdrew whilst the panel had a private discussion before returning for a question and answer session. The format was repeated with Nestlé in the afternoon. The day concluded with the panel holding a private discussion. Baby Milk Action and Nestlé were sent draft minutes and each party agreed the minutes of their part of the meeting.
- 1.4 The JACEI Chair concluded the consultation by reminding the panel that the objective of JACEI was not to rule on the subject of breast milk substitutes, but to advise the CFB on whether it felt that Nestlé was an acceptable investment on ethical grounds.

2. Application of Food Safety Policy Statement and Other Ethical Precedents

- 2.1 Breast milk substitutes have an important life-saving role in certain circumstances. This would indicate that these products are not inherently unethical and therefore an exclusion policy based on their manufacture and sale is not appropriate.
- 2.2 Nestlé state that infant and follow-on formula represent around 2% of the company's total business. Even if breast milk substitutes were considered inherently unethical, precedent would indicate that they would need to be considered in a worse light than tobacco for an exclusion policy to be justified.
- 2.3 The marketing of breast milk substitutes in developing countries has attracted particular criticism and calls into question the ethical acceptability of the company.
- 2.4 There have been regular allegations of violations of the WHO Code over a number of years. Nestlé has introduced measures aimed at reducing the incidence of such breaches. In JACEI's view this has resulted in progress in reducing the more serious breaches of the Code.
- 2.5 The CFB must not apply different standards to Nestlé than it would to other companies. The CFB owns shares in other multinational companies that may breach codes of conduct, environmental or other regulatory standards from time to time. For exclusion to be appropriate, violations in relation to breast milk substitutes would need to be considered worse than other code or regulatory violations. Alternatively, the CFB policy in relation to such violations may need to be hardened.
- 2.6 There are other ethical issues in relation to the company's behaviour that need to be considered. These include, disputes with local communities over water, allegations of human rights abuses in Colombia, legal action initiated by the company in Ethiopia and fair trade. Taken in isolation each issue would seem to indicate active dialogue with the company (engagement) rather than avoiding it as a possible investment (exclusion).
- 2.7 Although no single issue may warrant exclusion, the possibility that this may still be an appropriate response when they are aggregated must be considered.

3. General Principles

- 3.1. There are occasions when the appropriate response to an ethical issue is to disinvest from or avoid investment in the company involved.
- 3.2. There are other occasions when the appropriate response to an ethical issue is to engage with the company in expectation that concerns will be heard and appropriate changes will be instigated.
- 3.3. The behaviour of some companies regardless of the business in which they are engaged may be considered incompatible with Methodist aims and values. If, when challenged, there appears no prospect that such companies will alter their behaviour then investment would be ethically inappropriate.
- 3.4. JACEI has a policy statement entitled *Ethical Issues Relating to the Food Industry*. It has applied this policy to Nestlé and it will inform JACEI's continuing assessment of the company.

4. Conclusion and Recommendations

- 4.1. There are some products whose manufacture and sale may be considered incompatible with Methodist aims and values. The opinion of JACEI is that breast milk substitutes manufactured and sold by Nestlé do not fit into this category.
- 4.2. There is sufficient recent evidence of responsiveness from Nestlé to campaign pressure and investor dialogue to make engagement an appropriate approach for the CFB.
- 4.3. Based on the information received and the three year evaluation process, JACEI advises the CFB that there are presently insufficient reasons to avoid an investment in Nestlé on ethical grounds. JACEI makes the following recommendations:
 - the CFB should seek a meeting with the chief executive of Nestlé to discuss the ongoing response of the company to the areas of ethical concern;
 - the CFB should seek an annual meeting with senior company executives to discuss outstanding ethical issues;
 - the CFB should continue to monitor closely Nestlé's ethical performance, not only with regard to alleged WHO Code violations, but also its support for fairly traded products, provision of safe and fair working conditions for workers; use of food advertisements aimed at children and other ethical issues as they arise.
 - the Methodist Church should continue to listen to the views of other groups with particular knowledge of areas of potential concern.

5. Acknowledgements

- 5.1. JACEI acknowledges and respects the work of organisations such as Baby Milk Action in highlighting the scandal of inappropriate marketing of breast milk substitutes. The way in which the CFB responds to such activities is to engage with company managements and seek change from within. These approaches should be seen as complementary strategies working to achieve a common aim.

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This paper represents the position of JACEI and the views expressed are those of JACEI. Although Nestlé and Baby Milk Action participated in the consultation process this does not imply that either party agrees with the contents of this Statement.