

4.00: SHAREHOLDER PROPOSAL REGARDING GESTATION CRATES

PROPOSAL REQUEST:	That the Company provide disclosure on the potential risks associated with indefinitely allowing gestation crates in its supply chain	SHAREHOLDER PROPONENT:	Not disclosed
BINDING/ADVISORY:	Precatory		
PRIOR YEAR VOTE RESULT (FOR):	N/A	REQUIRED TO APPROVE:	Majority of votes cast
RECOMMENDATIONS, CONCERNS & SUMMARY OF REASONING:			
FOR -	● Increased disclosure would better allow shareholders to understand how the Company is mitigating the risks associated with its use of gestation crates		

GLASS LEWIS REASONING

- Given the attention paid to the use of gestation crates and that 60 major restaurant chains have committed to sourcing pork from suppliers who have phased or will phase out the use of gestation crates, we believe that the Company could be placed at a financial disadvantage with respect to its ability to compete for contracts or supply certain pork customers and that increased disclosure of these risks would better allow shareholders to assess how the Company is addressing this issue.

PROPOSAL SUMMARY

Text of Resolution- *RESOLVED, that shareholders request that Tyson Foods disclose to shareholders- within six months after the 2016 annual meeting, at reasonable cost and omitting proprietary information-the potential risks and operational impacts associated with indefinitely allowing “gestation crates” in its supply system, including those regarding impacts on animal cruelty, brand reputation, customer relations, public perception, and regulatory compliance.*

Proponent's Perspective

- The Company allows gestation crates in its supply chain, with no plans to eliminate them;
- More than 60 leading, global pork buyers have publicly announced plans to eliminate gestation crates from their supply chains, including McDonald's, Burger King, Costco, Safeway, Kroger, Oscar Mayer and dozens more;
- The Company has already lost business over its position on gestation crates, and the Company has not disclosed this fact to shareholders;
- The National Pork Board reports that a majority of hog farmers aren't using or have plans to move away from gestation crates;
- Competitors, like Smithfield and Cargill, are eliminating gestation crates;
- Nine U.S. states have passed legislation banning gestation crates;
- A 2.5 year Iowa State University study found that a production system without gestation crates resulted in cost “that was 11% less than the cost” of the gestation crate system;
- In 2014, the Company sent a letter to farmers in its supply system indicating that “future sow housing” should allow greater freedom of movement, and “asking” some of its contract farmers to improve the “quality and quantity of space” for some of their facilities; and
- The Company has only suggested changes to its farmers, without expressly disallowing the controversial gestation crates, meaning that, unlike its competitors, the Company neither prohibits gestation crates nor plans to phase them out.

Green Century Capital Management has filed two exempt solicitations with additional information concerning its rationale for this proposal, available [here](#) and [here](#).

Board's Perspective

- Almost all the hogs the Company buys to produce pork come from approximately 2,200 independent farmers who raise their market hogs in open pens and many of these independent farmers also have breeding operations that use individual housing - or gestation stalls - for the welfare of pregnant mother pigs, or gestating sows, while some farmers use group or pen housing;
- The Company supports continuous improvement in animal husbandry including the type of housing used for gestating sows and it urges its independent pork producers to address housing systems for gestating sows by focusing on both the quality and quantity of space provided;
- The Company recommends hog farmers address space standards for gestating sows when they redesign or build new gestation barns that should allow gestating sows of all sizes to stand, turn around, lie down, and stretch their legs;
- By the end of calendar year 2015, the Company will have 32% of its contract sow farmers utilizing group housing;
- In 2000, the Company became one of the first companies in the meat industry to create an Office of Animal Well-Being, which primarily focuses on the proper treatment of live animals at its processing plants;
- In 2012, the Company developed the Tyson FarmCheck™ program, which involves animal well-being audits of those farms that review animal access to water, proper human-animal interaction, and worker training;
- All of the farmers who sell pigs to the Company are required to be certified in an industry program called Pork Quality Assurance® Plus, which promotes best practices in food safety and animal well-being;
- The Company requires farmers who manage sows to use euthanasia methods consistent with recommendations in the most current edition of the American Veterinary Medical Association's Guidelines for the Euthanasia of Animals and strongly encourage the use of pain mitigation (such as anesthetic or analgesic) for tail docking and castration of piglets;

- Animal experts acknowledge that both individual and group sow housing systems have advantages and disadvantages when it comes to animal well-being; and
- The most important consideration is the individual care given to each animal and the caretaker's management and husbandry skills, regardless of the system used.

■ GLASS LEWIS ANALYSIS

Glass Lewis believes that it is prudent for management to assess its potential exposure to risks relating to the Company's animal welfare policies. More specifically, we believe the Company should consider its exposure to regulatory, legal and reputational risk due to its animal welfare policies and practices. As has been seen relating to other environmental, social and governance issues, including the treatment of animals, failure to take action on certain issues may carry the risk of damaging negative publicity. A high profile campaign launched against the Company could result in a decreased customer base and potentially costly litigation.

BACKGROUND

Gestation crates are enclosures that pork producers commonly use to house female breeding pigs. These crates typically measure two feet by seven feet, leaving the enclosed sows little room for movement. As of 2012, an estimated 90% of the 6 million sows in the U.S. were housed in gestation crates (Tim Carman. "[Pork Industry Gives Sows Room to Move.](#)" *Washington Post*. May 29, 2012). This practice has come under the scrutiny of lawmakers and animal activists due to the health risks and potential abuse faced by these crated sows. According to the Humane Society of the United States, the proponent of this proposal, sows housed in gestation crates face an increased risk of urinary tract infections, weakened bones, overgrown hooves, lameness, behavioral restriction and stereotypes ("[An HSUS Report: Welfare Issues with Gestation Crates for Pregnant Sows.](#)" The Humane Society of the United States).

LEGISLATION AGAINST AND PRIVATE ACTIONS CONCERNING THE USE OF GESTATION CRATES

There have been numerous recent efforts to stop the practice of housing sows in gestation crates. From a legislative perspective, the European Union and many U.S. states, including Florida, Arizona, Oregon, Colorado, California, Maine, Michigan and Ohio, have set bans on the use of gestation crates ("[An HSUS Report: Welfare Issues with Gestation Crates for Pregnant Sows.](#)" The Humane Society of the United States). In fact, according to the proponent's [exempt solicitation](#), nearly 60 pork purchasing companies have announced that they will eliminate the use of gestation crates from their supply chains. For example, in 2007, Smithfield Foods and the Company both promised to end the use of gestation crates in the facilities they own by 2017 and as of 2012, Cargill is 50% crate-free (Stephanie Strom. "[McDonald's Set to Phase Out Suppliers' Use of Sow Crates.](#)" *New York Times*. February 13, 2012). Additionally, in February 2012, McDonald's Corporation announced in a [press release](#) that it would begin working with its pork suppliers to phase out their use of gestational crates. As a part of this phasing out process, McDonald's has asked its five direct suppliers of bacon, Canadian bacon and sausage to provide their plans for reducing reliance on sow stalls. While McDonald's buys only 1% of the total pork production in the U.S., it has a significant influence on the market. For example, when McDonald's required its egg suppliers to increase the size of their hen cages in 1999, other fast-food chains followed suit and soon the vast majority of egg producers had given their chickens more space (Stephanie Strom. "[McDonald's Set to Phase Out Suppliers' Use of Sow Crates.](#)" *New York Times*. February 13, 2012). In addition to McDonald's, Burger King, Costco, Safeway, Kroger and, now, Oscar Mayer have all set timetables for a formal ban on the use of gestation crates (David Knowles. "[Tyson Foods Shareholders Pressure Company to Eliminate Use of 'Cruel' Pig Gestation Crates.](#)" *New York Daily News*. August 16, 2013). Denny's, Wendy's and CKE Restaurants Inc. (which owns Carl's Jr. and Hardee's) have also set timetables for the elimination of the use of gestation crates in their supply chains (Tiffany Hsu. "[Carl's Jr. Hardee's Parent CKE to Nix Cramped Pig Crates by 2022.](#)" *Los Angeles Times*. July 6, 2012). Chipotle also maintains a [policy](#) whereby it will not purchase pork sourced using gestation crates. In January 2015, Chipotle stopped serving carnitas (a pork product) at approximately one-third of its restaurants because it had suspended one of its major pork suppliers because the unnamed supplier was not in compliance with Chipotle's animal welfare standards, namely those prohibiting the use of gestation crates or slatted floors (Dan Charles. "[Chipotle's Pulled Pork Highlights Debate Over Sow Welfare.](#)" *NPR*. January 19, 2015). Further, this movement has spread

The movement away from the use of gestation crates in pork production appears to be gaining international traction. In 2014, Eurest, a leading food service provider in Mexico (where the Company has significant sales), announced it had committed to eliminating the use of gestation crates by 2017 ("[Eurest Announces Industry-Leading Commitment to Improve Animal Welfare in its Supply Chain.](#)" Humane Society International. December 3, 2014).

Companies' recent actions in phasing out their use of gestation crates may be unsurprising, given the potential risks associated with public perceptions of animal cruelty. A 2008 Citigroup report referred to animal cruelty concerns as a

"potential headline risk that could tarnish the image of restaurant companies" and research group Technomic found that restaurant patrons consider animal welfare to be the third most important social issue, behind health insurance and living wages (Tiffany Hsu. "[Animal Cruelty: Why McDonald's, In-N-Out, Wall Street Now Say No.](#)" *Los Angeles Times*. August 23, 2012).

We recognize that phasing out the use of gestation crates could be an expensive undertaking. Smithfield Farms estimates that it will cost \$300 million to convert all company-owned farms to group housing for sows and a 2010 study estimated that it would cost the pork industry between \$1.87 billion and \$3.24 billion to convert to group housing (Tim Carman. "[Pork Industry Gives Sows Room to Move.](#)" *Washington Post*. May 29, 2012). Despite these costs, Smithfield has embraced this business decision, which was based on input from its customers. According to the president and CEO of Smithfield Foods, although "these projects require a significant investment on the part of [its] growers,...a well planned renovation to a group housing system will maintain the farms' value for years to come, while at the same time supporting [Smithfield's] commitment to animal care" ("[Smithfield Extends Recommendation on Group Housing.](#)" *PorkNetwork*. January 7, 2014).

ACADEMIC RESEARCH REGARDING THE USE OF GESTATION CRATES

The use of gestation crates could place companies at a financial disadvantage from an operational perspective. Several academic studies have found a negative correlation between the use of gestation crates and the costs of weaned pigs as well as the overall welfare of the pigs. A 2008 study on the [Impact of Gestation Housing System on Weaned Pig Production Cost](#) by researchers at Iowa State University suggests that the use of group housing may be more cost effective than that of gestation crates in pork production. The researchers found that "the group housing in hoop barns [traditional group barn systems] for gestation resulted in a weaned pig cost that was 10% less than the cost of a weaned pig from the individual stall confinement system [gestation crates]." In addition, a 1997 report of the Scientific Veterinary Committee of the European Union stated that "overall welfare appears to be better when sows are not confined throughout gestation, sows should preferably be kept in groups." Further, a 2008 Pew Commission on Industrial Farm Animal Production recommended, after extensive research, "the phase-out, within 10 years, of all intensive confinement systems that restrict natural movement and normal behaviors, including swine gestation crates" (Tim Carman. "[Pork Industry Gives Sows Room to Move.](#)" *Washington Post*. May 29, 2012).

Other researchers have a more positive or neutral view of the use of gestation crates. A 2004 report by the U.S. Department of Agriculture found that "gestation stalls or well-managed pens generally...produced similar states of welfare for pregnant [females] in terms of physiology, behavior performance, and health." Further, both the American Veterinary Medical Association and the American Association of Swine Veterinarians recognize gestation crates as valid animal husbandry tools (Tim Carman. "[Pork Industry Gives Sows Room to Move.](#)" *Washington Post*. May 29, 2012). Additionally, [Purdue University's Food Animal Education Network](#) states that sows housed in gestation crates show reduced levels of aggressive behaviors, and pig farmers are allowed to employ more precise individual feeding management to these pigs. Further, according to Mark Estienne, a swine research physiologist at Virginia Tech's Agricultural Research and Extension Center, group-housed sows gained more weight but display more severe injuries and those placed in gestation crates had higher levels of cortisol- a hormone often triggered by stress- but also higher pregnancy rates. Estienne ultimately concludes that the "overall welfare was similar" for those sows that were group housed and those that were placed in gestation crates (Philip Walzer. "[Best for Pig Breeding: Crates or Group Pens?](#)" *Virginian-Pilot*. January 30, 2011).

COMPANY POLICIES AND INDUSTRY COMMITMENTS TO PHASING OUT GESTATION CRATES

Regarding the Company's disclosure of animal well-being initiatives, generally, the Company [states](#) that one of its [core values](#) is to "serve as stewards of the animals land and environment entrusted to [the Company]." The Company also maintains a [mission statement on animal well-being](#) where it states that it pledges its "diligence in leading the industry pursuit of new and improved technology and methods to improve animal well-being."

The Company also maintains a [position statement](#) on sow housing, as follows:

We're committed to the proper treatment of the livestock and poultry in our supply chain. That's why we implemented the Tyson FarmCheck™ program in 2012, which involves third-party auditors who check such things as animal access to food and water, proper human-animal interaction and worker training on the farms that supply us. It also includes an external Animal Well-Being Advisory Panel and a professional staff to manage our animal well-being efforts.

Unlike some of our competitors who raise their own livestock, we rely almost entirely on independent farmers to sell us the pigs we need for our pork plants. While we don't own many pigs, we do support continuous improvement in the way they're managed, including the type of housing used for pregnant mother pigs, known as sows.

We believe the most important aspect of animal health is the care they receive from farmers, and we believe the family farmers who supply us share our commitment to proper animal treatment and desire for continued improvement. Last year we sent the farmers a letter encouraging them to focus on the quality and quantity of the space for sows when they remodel or build new barns.

All of the farmers who sell pigs to us are required to be certified in an industry program called Pork Quality Assurance® Plus (PQA Plus®), which promotes best practices in food safety and animal well-being. They're also expected to cooperate with Tyson FarmCheck™ audits and comply with audit guidelines.

The Company does not appear to provide information concerning its use of gestation crates in either its 2015 sustainability highlights report or its most recent 10-K. However, we note that in 2014, a similar shareholder proposal appeared on the Company's ballot. Shortly before its annual meeting, on January 8, 2014, the Company sent [a letter](#) to its suppliers urging the following:

- Increase the number of third-party sow farm audits conducted through the Company's FarmCheck program;
- The use of video monitoring in hog producers' sow farms to increase oversight and decrease biosecurity risks;
- Ending manual blunt force as a primary method of euthanizing sick or injured piglets;
- Support for the use of pain mitigation (such as anesthetic or analgesic) for tail docking and castration of piglets; and
- The improvement of housing for pregnant sows by focusing on the quality and quantity of space provided, including using all future sow barn construction or remodeling to allow for pregnant sows of all sizes to stand, lie down, stretch their legs and turn around.

Animal rights groups appeared to be encouraged by the Company's announcement. Mercy for Animals, the animal rights group that released the most recent undercover video of a Company supplier stated that it was "heartening that Tyson has finally begun to address the rampant and horrific cruelty uncovered at its factory farm facilities," and that this recent announcement "signals an important new era and direction for the company." However, the group encouraged the Company "to add more teeth to the new guidelines by making them a mandate for all of its pork producers, rather than a mere recommendation" (Anna Schecter. "[Tyson Foods Changes Pig Care Policies After NBC Shows Undercover Video.](#)" *NBC News*. January 9, 2014). The Humane Society of the United States, one of the proponents of the 2014 proposal, had similar sentiments. According to the Humane Society, although the letter "does not mandate anything of its suppliers with regard to sow housing, nor does it outline any time-line by which alternative housing systems must be in place," the Company's announcement is a "big movement from an important company." Further, as a result of this recent announcement, the Humane Society announced that it had withdrawn its shareholder proposal (Wayne Pacelle. "[Even More Progress for Pigs in Gestation Crates.](#)" The Humane Society of the United States. January 9, 2014).

In recent years, a number of some of the largest pork producers have established commitments to phasing out the use of gestation crates from both their own, and in some cases, their suppliers' operations. For example:

- **Smithfield:** In 2007, Smithfield committed to phasing out its use of gestation crates in company-owned facilities and in January 2014, it announced that it would require the same from its contractors by 2022. Smithfield stated that it would only offer to extend its suppliers contracts once they had converted their gestational crates to group houses (Eliza Barclay. "[Smithfield Prods its Pork Suppliers to Dump Pig Crates.](#)" *NPR*. January 7, 2014).
- **Cargill:** In June 2014, Cargill announced that it would end the use of gestation crates on its company-owned facilities by 2015 and that it would require contractors to phase out the use of gestation crates by 2017 (Mike Hughlett. "[Consumer Pressure Leads Cargill to Give Pigs More Room.](#)" *Minneapolis Star Tribune*. June 8, 2014).
- **Hormel:** In 2012, Hormel announced plans to eliminate gestation crates from Company-owned facilities by 2017, though these facilities represents only 6% of its pork supply (Tiffany Hsu. "[Spam Maker Hormel to Treat Its Pigs Better.](#)" *Los Angeles Times*. February 03, 2012). However, it does not appear that it has established timelines or commitments for phasing out the use of gestation crates at its contract growers.

Overall, the Company's response to this issue lags that of its other pork-producing peers, as all of its peers have established some form of timeframe with respect to their policies or commitments concerning the use of gestation crates, while the Company has provided little disclosure in this regard. Moreover, the Company appears to provide less disclosure concerning this issue in 2016 than it did when we originally reviewed this proposal two years ago. Given that other major U.S. pork producers have announced commitments to phase out the use of such crates from their own and their suppliers' operations, the Company could be at risk of losing customers on account of its outlier status in this regard,

particularly given the significant and growing shift toward eliminating pork produced with gestation crates from many supply chains.

CONCLUSION

We believe that the increased disclosure of the risks facing the Company on account of its use of gestation crates would allow shareholders to better understand the risks to the Company's operations. Given the attention paid to the use of gestation crates and that 60 major restaurant chains have committed to sourcing pork from suppliers who have phased or will phase out the use of gestation crates, we believe that the Company could be placed at a financial disadvantage with respect to its ability to compete for contracts or supply certain pork customers. Moreover, we note that this proposal is not mandating that the Company eliminate the use of gestation crates throughout its supply chain, or initiate a timeline in which it does so. Rather, it is asking for increased disclosure concerning the risks of its use of gestation crates in its supply chain, which appears to be a financial and operational risk to the Company that it has largely unaddressed. As such, we believe that shareholders would benefit from more information concerning how the Company is considering and mitigating these risks.

We recommend that shareholders vote **FOR** this proposal.