



Action Report

Environmental Management & Human Rights

Pilgrim's Pride

April 2, 2020

Ticker	Exchange	Meeting Date	Record Date	Annual Meeting Location
PPC	NYSE	4-29-20	3-10-20	Greeley, Colorado

Agenda

Item	Proposal
1	MGT: Elect JBS directors
2	MGT: Elect Equity Directors
3	MGT: Advisory vote on executive compensation
4	MGT: Approve selection of accountant
5	SH: Report on supply chain water risks
6	SH: Report on human rights risk assessment
7	SH: Adopt majority voting

Si2 Briefing [Human Rights, Industrial Agriculture and Environmental Management](#)

Report Author [Sol Kwon](#)

Links [2020 Proxy Statement](#); [2019 Form 10-K](#); [Sustainability Report](#); [Exempt Solicitation \(Water risks\)](#)

Item 5. Water

Resolved Clause RESOLVED: Shareholders of Pilgrim's Pride Corporation ("Pilgrim's") request a report assessing if and how the company plans to increase the scale, pace, and rigor of its efforts to reduce water pollution from its supply chain. This report should omit proprietary information, be prepared at reasonable cost, and be made available to shareholders by December 1, 2020.

Lead Proponent Mercy Investment Services & Socially Responsible Investment Coalition (SRIC)

Vote History Similar proposals earned 14.7 percent last year, 6.6 percent in 2018 and 14.7 percent in 2017.

Summary The proponents ask Pilgrim's to report on how it plans to "increase the scale, pace, and rigor of its efforts" to reduce water pollution from its supply chain by December this year. Management opposes the resolution, asserting that Pilgrim's current efforts are sufficient and the proposed report is "unnecessary" while imposing costs without any benefit. While the proposal focuses more on supply chain management related to water this year, the essence remains the same. The proponents want to see more from Pilgrim's on its water pollution management. The company started issuing sustainability reports in 2016 and the latest is for 2018. It says that the company set a goal to reduce

water usage intensity by 10 percent between 2015 and 2020; by 2018, water usage intensity had grown by 13 percent. While the company said it would focus more on water in the next year, it does not provide specific details on how it would do so. On suppliers, the only expectation it has on environmental management is that they comply with all laws and regulations.

Item 6. Human Rights

Resolved Clause	RESOLVED: Shareholders request the Board of Directors prepare a report, at reasonable cost and omitting proprietary information, on Pilgrim's human rights due diligence process to assess, identify, prevent and mitigate actual and potential adverse human rights impacts.
Lead Proponent	Oxfam America
Vote History	This second-year resolution received 12.3 percent support last year. A proposal from Oxfam in 2016 about worker safety was omitted on ordinary business grounds.
Summary	Pilgrim’s Pride is one of the largest poultry producers in the world and has about 20 percent of the U.S. market; its U.S. operations account for two-thirds of its revenue but in the last year pricing pressures have hurt profitability. The company specifically and the industry in general have been under fire from regulators about health and safety and Oxfam is waging a campaign, <i>Lives on the Line</i> , highlighting key safety failings as well as low pay. The company issues sustainability reports and includes health and safety in its reporting, saying its record compares favorably to the industry. Investors will have to decide if the human rights framework Oxfam wants would improve reporting and transparency, and if this would help the company head off risks that may threaten its business.

I. Pilgrim’s Pride

Pilgrim’s Pride (Pilgrim’s) is one of the largest chicken producers in the world, with operations in the United States, Mexico and Puerto Rico. It is primarily engaged in the production, processing, marketing and distribution of fresh, frozen and value-added chicken and pork products to retailers, distributors and foodservice operators. **JBS USA**, a subsidiary of the Brazilian company JBS, owns 78.3 percent of Pilgrim’s common stock. Pilgrim’s reports its business in three segments: the United States, UK and Europe, and Mexico.

Financials			
(\$ millions)	2019	2018	% Change
Total Revenue	\$11,409	\$10,937	4.3%
Net Income	\$457	\$247*	85.0%
*Includes \$1.1 m. loss attributable to noncontrolling interest.			

Pilgrim’s is fully vertically integrated, which it says means “we control every phase of the production process” and helps the company to better manage food safety and quality. At the end of 2019, it had a global network of approximately 5,200 growers, 38 feed mills, 49 hatcheries, 39 processing plants, 27 prepared foods cook plants, 24 distribution centers, 10 rendering facilities and four pet food plants. Its fresh chicken and pork processing capacities were 8.7 million per day and 9,800 pigs a day, respectively; average utilization rate for each was about 84 percent.

Management turnover: On March 22, 2019, Pilgrim’s announced that President and CEO William W. Lovette was retiring effective immediately, and that Jayson Penn, President of Pilgrim’s USA, would succeed him.

Acquisitions: Pilgrim’s has been expanding aggressively in Europe. In October 2019, the company acquired Tulip Limited, an integrated prepared pork supplier in Warwick, UK, from Danish Crown AmbA for

\$391.5 million in cash. Pilgrim’s says in its 10-K that this acquisition “solidifies Pilgrim’s as a leading European food company, creating one of the largest integrated prepared foods businesses in the UK” At the time of the purchase Tulip operated 14 fresh and value-added chicken processing plants across the UK and employed about 5,400 people. The Tulip acquisition follows the company’s 2017 acquisition of Moy Park, one of the ten biggest food companies in the UK and Northern Ireland’s largest private sector business, for which it paid \$301.3 in cash and a £562.5 million note payable to JBS. At the time of the purchase, Moy Park had four fresh processing plants, 10 prepared foods cook plants, three feed mills, seven hatcheries and one rendering facility—processing 6 million birds in seven-day work weeks, employing 10,200.

In January 2017, Pilgrim’s acquired GNP—a vertically integrated poultry business in St. Cloud, Minnesota—from Maschhoff Family Foods for \$350 million. GNP at the time of the acquisition had about 1,600 employees processing 2.1 million birds in five-day work weeks in two plants where Pilgrim’s did not already have a presence. GNP has an antibiotics-free line of products that is being integrated into Pilgrim’s similar existing line—which along with organic offerings is a higher-margin segment.

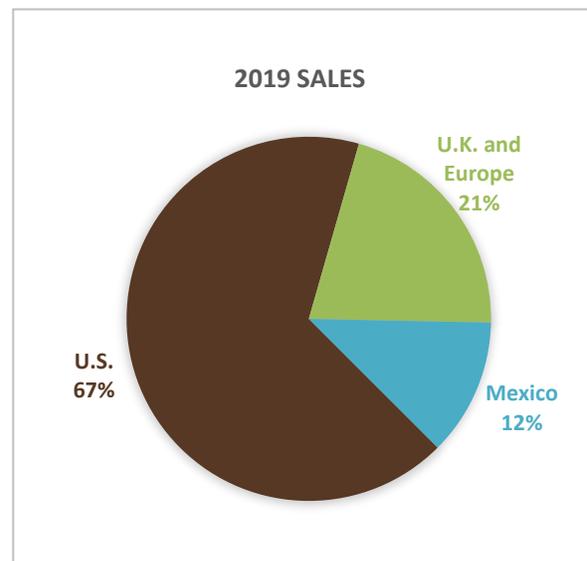
Lawsuit—On March 15, 2019, a Delaware judge ruled that executives from JBS SA and Pilgrim’s Pride Corp will [face trial](#) in a shareholder lawsuit over the Moy Park acquisition. The lawsuit contended that the acquisition was conducted because JBS needed cash, and that it was unfair to shareholders since JBS was the controlling owner for both companies. The company reached a \$42.5 million settlement in October 2019, bringing an end to the lawsuit.

Customers: Pilgrim’s sells to more than 6,500 customers (up from about 6,000 in 2018) across the United States and Mexico, and in 110 other countries (up from 100 in 2018). Its sales are mostly to the foodservice industry, and mainly to chain restaurants such as **Chick-fil-A** and grocery store chains and wholesale clubs such as **Kroger, Costco, Publix** and **H-E-B** in the United States; chain restaurants such as **McDonald’s** and grocery store chains such as **Tesco** and **Waitrose** in the UK and Europe; and grocery store chains such as **Wal-Mart** in Mexico. No single customer accounted for more than 10 percent of its sales in the last two years.

Employees and unions: Pilgrim’s had 58,500 employees at the end of 2019, including 31,900 persons in the United States, approximately 11,000 persons in Mexico and approximately 15,600 persons in the

UK and continental Europe. At the end of 2018 it had 52,100 employees, including 31,100 employees in the United States, 10,700 in Mexico, and 10,300 in the United Kingdom. Collective bargaining agreements covered 35.8 percent of its workers at the end of 2019, down slightly from 37.1 percent from the previous year. The company has not had any strikes in more than a decade. The United Food and Commercial Workers seems to be their main representative.

Financial results: Pilgrim’s total revenues increased about 4.3 percent in 2019, to about \$11.4 billion. This increase was primarily due to sales increases across its three reportable segments, although sales in the U. and Europe increased almost 11 percent and primarily accounted for the overall. The sales increase in the UK and Europe was due to the Tulip acquisition. In the United States, sales increased almost 2.8 percent to over \$7.6 billion. Pilgrim’s 2019 net income jumped significantly from last year, alt-



though last year's figure was affected by a one-time charge related to non-controlling interests, to \$455.9 million. It reported profit before tax totaling \$617.5 million, gross profit of \$1.1 billion and \$666.5 million of cash from operations. The increase in net income came from the healthy jump in sales minus more moderately increased expenses.

Risk items: Pilgrim's identifies certain risks related to these proposals as potentially having a material impact on the company's bottom line. On water management, it notes "extensive and increasingly stringent" environmental laws and regulations to which it is subject, including those governing waste and groundwater contamination. It acknowledges compliance costs as well as the risk of "serious consequences" arising from compliance failure, including "civil and administrative penalties, claims for property damage, personal injury and damage to natural resources and negative publicity." Pilgrim's also discusses the risks it faces from some aging facilities:

Some of our facilities have been operating for many years, and were built before current environmental standards were imposed, and/or in areas that recently have become subject to residential and commercial development pressures. Failure to comply with current and future environmental, health and safety standards could result in the imposition of fines and penalties, and we have been subject to such sanctions from time to time. We are upgrading wastewater treatment facilities at a number of these locations, either pursuant to consent agreements with regulatory authorities or on a voluntary basis in anticipation of future permit requirements.

On human rights, the company includes certain health and safety issues alongside environmental issues:

Some of our facilities have been operating for many years, and were built before current environmental standards were imposed, and/or in areas that recently have become subject to residential and commercial development pressures. Failure to comply with current and future environmental, health and safety standards could result in the imposition of fines and penalties, and we have been subject to such sanctions from time to time....

New environmental, health and safety requirements, stricter interpretations of existing requirements, or obligations related to the investigation or clean-up of contaminated sites, may materially affect our business or operations in the future.

New this year, the company discloses that "media campaigns related to food production and regulatory and customer focus on environmental, social and governance responsibility" could expose Pilgrim's to "additional costs or risks." It says:

... could cause damage to the reputations of our company and/or the food production industry in general. This damage could adversely affect our financial results. In addition, ... interested parties have focused increasingly on the environmental, social and governance practices of companies. This has led to an increase in regulations and may continue to cause us to be subject to additional regulations in the future. Our customers or other interested parties may also require us to implement certain environmental, social or governance procedures or standards before doing or continuing to do business with us. This increased attention on environmental, social and governance practices could cause us to incur additional compliance costs, divert management attention from operating our business, impair our access to capital among certain investors and subject us to litigation risk for disclosures we make and practices we adopt regarding these issues.

II. Sustainability: Water and Human Rights

Aside from its discussion of health and safety in its 10-K and its Code of Conduct, noted above, the company issues sustainability reports that also cover environmental management and health and safety. Pilgrim's published its first full sustainability report in 2016; the [latest was published last year](#), covering 2018.

Sustainability governance: A Chief Sustainability Officer (CSO) and two others form the Corporate Sustainability Department and have “direct oversight” from the CEOs of Pilgrim’s and JBS USA. The CSO is a member of the JBS USA executive team. The sustainability department “partners with subject matter experts” to help facility-level managers implement and improve performance, the company reports.

Code of Conduct: The company’s Code of Conduct was last updated in August 2018 and [posted](#) on its website. It covers a range of ethical issues including those on environmental and employment practices.

Its “Environment and Sustainability” section offers brief guidelines to comply with all laws and regulations, and to observe humane slaughter of animals and responsibly use resources, including water.

Its employment practices and work environment sections say that the company is committed to providing a safe work environment, promoting equal opportunity and diversity, providing a harassment-free work environment and observing all labor laws including those for collective bargaining. It also says the following.

Pilgrim’s forbids the use of child or forced labor, and will not tolerate exploitation of children or Team Members, physical punishment, abuse or servitude. Pilgrim’s is also committed to hire only those individuals who are legally authorized to work in the country where they are seeking employment.

Supplier Code of Conduct: Pilgrim’s has a [Supplier Code of Conduct](#) that addresses a variety of issues including environment, conflict of interest, gifts and data privacy. On the environment, Pilgrim’s expects all vendors to comply with all laws and regulations where it operates. They “should use best efforts to meet industry best practices and standards and responsibly manage the environmental impact of their operations.”

On labor and human rights, the code says that its suppliers have to follow the United Nations Principles on Business and Human Rights, the 10 Principles of the United Nations Global Compact, and the Core Conventions of the ILO. Suppliers must forbid child and forced labor; they must respect workers’ rights to join a union or collective bargaining; and they must not discriminate.

Materiality assessment: In its latest sustainability report, Pilgrim’s says that it conducted a materiality analysis in 2015 that relied heavily on the views of external stakeholders including non-governmental organizations, community organizations, key customers, suppliers, financial institutions, government officials, academia, industry trade associations and other industry stakeholders. The analysis identified the following priorities for the company.

- **Product Integrity:** *product quality, communities, food safety, consumer and customer information and supplier ethical business practices*
- **Team Member Health and Safety:** *occupational health and safety*
- **Animal Welfare:** *animal breeding and genetics, livestock husbandry, transportation, handling and harvesting*
- **Water:** *water use and water quality*
- **Energy and Climate Change:** *energy use and emissions*

According to the materiality analysis, the most important issues from management’s perspective included animal welfare, land management, water use, and technology and agriculture. Human rights and labor rights were among the social issues identified but not as relevant as animal welfare and team member health and safety.

Water

Usage: One of Pilgrim’s sustainability goals is to reduce water use intensity (gallons per pound of finished product) by 10 percent by 2020, from 2015 baseline. Its 2018 sustainability report indicates that it

has not met that goal at the time of the report, its overall water use intensity having increased by 13 percent. See table below for more details.

Pilgrim’s says that water is important to ensure food safety standards for its products. It says that, at some of its facilities, drastic water usage reduction could compromise food safety and quality standards. Its cross-functional teams are working on ways to reduce water usage without compromising food safe-

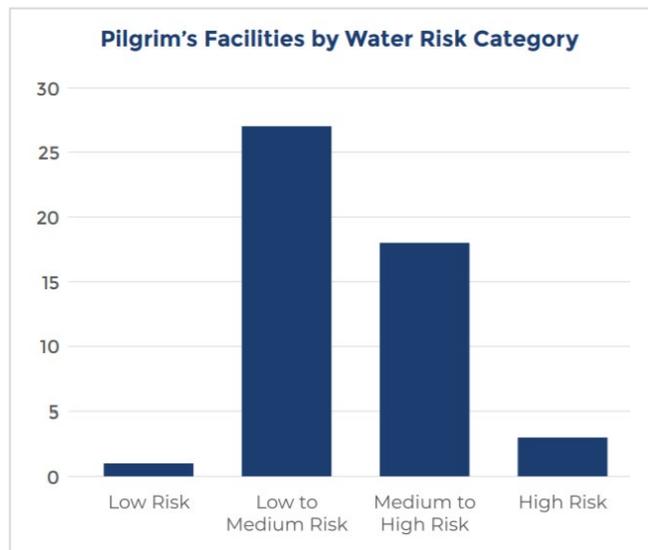
Water Use Intensity <i>(Gallons per lb. of finished product)</i>				
	2015	2016	2017	2018
Pilgrim’s U.S. and Puerto Rico	1.09	1.15	1.15	1.23
Pilgrim’s Mexico	0.53	0.50	0.50	0.51
Pilgrim’s Moy Park	0.82	0.95	0.82	0.84

ty; the biggest opportunity lies in recycling water projects.

Treatment: Each of Pilgrim’s facilities has a Water Treatment Program tailored to its discharge permit requirements, the company said in its 2018 sustainability report. It says that all of its facilities treated wastewater to achieve water-quality levels suitable for discharge. It also says:

We have steadily increased our investment in our wastewater programs to make sure we maintain and, where needed, improve compliance with permits, laws and regulations. Discharged water is measured for its overall quality at each facility to ensure it meets permitting requirements. The majority, 62 percent, of discharged water is sent to city-owned treatment centers, while 30 percent is discharged into non-municipalities, and 8 percent is used as land irrigation.

Water risks: Pilgrim’s says that it has conducted a water risk assessment, although it does not say when the latest was conducted. The review included quantity (baseline water stress, inter-annual variability, seasonal variability, flood occurrence, drought severity, upstream storage and groundwater storage), quality (return flow ratio and upstream protected land) and regulatory and reputational risk (media coverage, access to water and threatened amphibians) for each Pilgrim’s facility location. It found that about half of its facilities reviewed were low- to low-to-medium risk, and the other half were in the medium-to-high to high-risk. See graph on right.



Supply chain management: The company says in its 2018 sustainability report that it works with more than 16,500 suppliers that range from small farmers to multinational companies, including more than

5,400 growers. One of its sustainability goals is for 100 percent of its suppliers to be in compliance with the Supplier Code of Conduct by 2020; Pilgrim’s says that it was “on track” to meet this goal as of 2018, although it does not elaborate further. The company says that it is committed to sustainable management throughout its supply chain, and that its management approach is one of “constant and consistent collaboration” while it expects all suppliers to comply with all laws and regulations. Pilgrim’s notes that it is a founding member of the U.S. Roundtable for Sustainability Poultry and Eggs (USRSPE) and member of the Sustainable Agriculture Initiative (SAI Platform), through which work it demonstrates its commitment to sustainability.

Controversies

A Washington, D.C.-based advocacy group, [Environment America](#), published a 2016 report on the impact of agribusiness on U.S. water systems, called [Corporate Agribusiness and the Fouling of America’s Waterways](#). The report asserted that agribusiness and its concentrated animal feeding operations were “responsible for some of America’s most intractable water quality problems – including the ‘dead zones’ in the Chesapeake Bay, the Gulf of Mexico and Lake Erie, and the pollution of countless streams and lakes with nutrients, bacteria, sediment and pesticides.” It asserted that agriculture was the “probable cause” of pollution in more than 145,000 miles of rivers and streams, 1 million acres of lakes and reservoirs, and 3,000 square miles of bays and estuaries, and provided profiles of five U.S. companies—**Tyson Foods, Smithfield Foods, Cargill, JBS** (including Pilgrim’s Pride) and **Perdue**—and their water pollution footprints. Their releases are shown in the table at right.

**Direct Dumping of Toxic Pollutants 2010-2014
(EPA’s Toxic Release Inventory)**

Company	Pounds Released to Waterways
Tyson	104,468,732
Cargill	50,405,770
JBS*	37,625,829
Perdue	31,002,822
Smithfield**	27,301,782
TOTAL	250,804,935

*includes Pilgrim’s Pride

**includes United Global Foods US Holdings

Source: *Environment America*

Environment America recommended that the big agribusinesses take full responsibility for their impact on waterways and surrounding communities, including using third-party certifications, limiting further expansion in already burdened areas and adopting metrics to measure progress against goals. It also stressed the need for more robust regulation and enforcement by state and federal governments.

JBS/Pilgrim’s—The report noted that, based on 2015 production data, JBS produced an estimated 45.8 tons of animal manure every year. JBS facilities released 37.6 million pounds of toxic pollutants into waterways between 2010 and 2014, the report noted, including runoff from the grain required to feed more than 1.5 billion animals per year in its supply chain.

While crediting JBS for noting water quality issues in its 2015 annual report, Environment America asserted that its “limited reports of progress” raised even more questions, contending that the scale and scope of JBS’s water footprint required a “dramatically better response from the company.”

An updated report from the Environmental Integrity Project (EIP) published in October 2018 found that three quarters of large U.S. slaughterhouses violate water pollution permits, with some dumping as much nitrogen pollution as small cities and facing little or no enforcement. In [Water Pollution from Slaughterhouses](#), the EIP examined EPA records for 98 large meat-processing plants that released more than 250,000 gallons per day into waterways from January 2016 through June 2018. According to the group’s findings, **Tyson Foods** owned the most plants (26) with water pollution permit violations, followed by Pilgrim’s (7), **Sanderson Farms** (6), JBS (4), **Wayne Farms** (4) and **Smithfield** (3). Pilgrim’s

owned the plant that discharged the third most nitrogen pollution in 2017—JBS and Smithfield owned the only two that polluted more.

Lawsuit: In March 2017, Environment Florida, a state chapter of Environment America, [filed a lawsuit](#) in the U.S. District Court accusing Pilgrim’s Pride of violating the Clean Water Act for 1,377 consecutive days by discharging wastewater that nearly triples the legal limit of pollution outlined in its permit. The company has a permit to release wastewater into the Suwanee River in Florida until May 2020. Environment Florida sued the company to ensure it complies with its permit and is seeking civil penalties for past violations and to deter future offenses, according to press reports, with maximum possible penalty of \$100 million. An attorney from the National Environmental Law Center, which filed the lawsuit on behalf of Environment Florida, [told The Gainesville Sun](#) that the Florida Department of Environmental Protection (FDEP) should be doing a better job monitoring the company and enforcing stricter penalties. FDEP responded that it fined Pilgrim’s Pride \$36,000 in 2010 and \$2,000 in 2015 for violations, and that it had unsuccessfully ordered the company to develop a toxicity plan to address further violations. FDEP vowed to require Pilgrim’s to develop and implement “a more robust” compliance plan and pay additional fines. Pilgrim’s [settled the lawsuit](#) with Environment Florida and Sierra Club in November 2017, agreeing to pay \$1.4 million and to upgrade equipment to help reduce the plant’s waste.

State-level legislation: [Washington](#), [Wisconsin](#) and [Virginia](#) have recently tightened requirements related to nutrient management plans, manure disposal, field application of manure and groundwater monitoring for animal agriculture. In Iowa, [which has 10,000 intensive farms](#), lawmakers are seeking a moratorium on building or expanding concentrated animal feeding operations until the state’s list of impaired waterways shrinks from 750 to fewer than 100.

Federal regulatory rollback: The Trump administration has rolled back various environmental regulations since taking office, including those that protect the country’s waters. In 2019, Trump’s EPA [repealed](#) the Waters of the United States Rule, a major Obama-era regulation that provided federal protections for small streams and wetlands by limiting the amount of chemicals that could be released into them from farming, construction and other activities. The repeal [followed](#) an earlier executive order by Trump; EPA’s head Andrew Wheeler signed it at the D.C. headquarters of the National Association of Manufacturers, according to press reports.

Following this move, the Trump administration signed the Navigable Waters Protection Rule in January this year, representing the biggest [rollback](#) of the Clean Water Act (CWA) since its passage in 1972. The new rule redefined “navigable waters,” otherwise called “waters of the United States”; whereas the CWA places restrictions on chemicals being released into such waters, a new, narrower [definition](#) by the Trump administration would allow discharges into smaller bodies of water including streams and wetlands. An article in *Politico* noted that the new rule drew complaints from EPA’s outside scientific advisers, that it was “in conflict with established science ... and the objectives of the Clean Water Act.” Half of the country’s wetlands could lose protections, the article said.

But Trump’s EPA and the new rule are facing lawsuits from many environmental groups and stakeholders. In December 2019 a coalition of environmental groups [sued](#) the EPA for refusing to update national water pollution standards for slaughterhouses. In addition, the Natural Resources Defense has a number of [lawsuits](#) currently in progress over the administration’s environmental regulatory rollbacks, including those on water. As such, legal experts [say](#) that Trump’s new rule will likely be put on hold until the lawsuits work their way through the courts. Meanwhile, companies will have to decide how much risk they are willing to take.

Signs of community backlash: An October 2018 [article](#) in *Global Meat News* lends credence to the proponent’s assertion that industrial animal agriculture operations are encountering growing resistance

from local communities in which they currently or prospectively operate. The article initially discusses the lawsuits targeting many hog producers in the wake of multiple breaches of pig manure storage lagoons during last year's Hurricane Florence, saying the problem goes further:

As companies expand production, risks from waste and water pollution are accumulating. A systemic failure to manage these risks will mean that existing facilities face community protests and, as the Smithfield cases demonstrate, costly lawsuits. Companies may even be blocked from building new facilities.

Intensive livestock farming companies' social licence [sic] to operate, or communities' acceptance of companies' operations, is an emerging risk, as evidenced by recent protests faced by companies such as Tyson. The company was unable to proceed with a planned \$320m chicken processing facility in Tonganoxie, Kansas after protests from residents, and had to find an alternative location in Tennessee. The \$320m facility represents 30% of Tyson's 2016 total capital expenditure.

Additional [reports](#) reveal repeated protests against poultry farms in California in areas that have historically been deeply supportive of the industry. A 2016 *National Hog Farmer* [blog post](#) opines that protesting agriculture is becoming "a professional sport."

Industry precedent: Some of Pilgrim's primary competitors are taking steps to reduce water pollution:

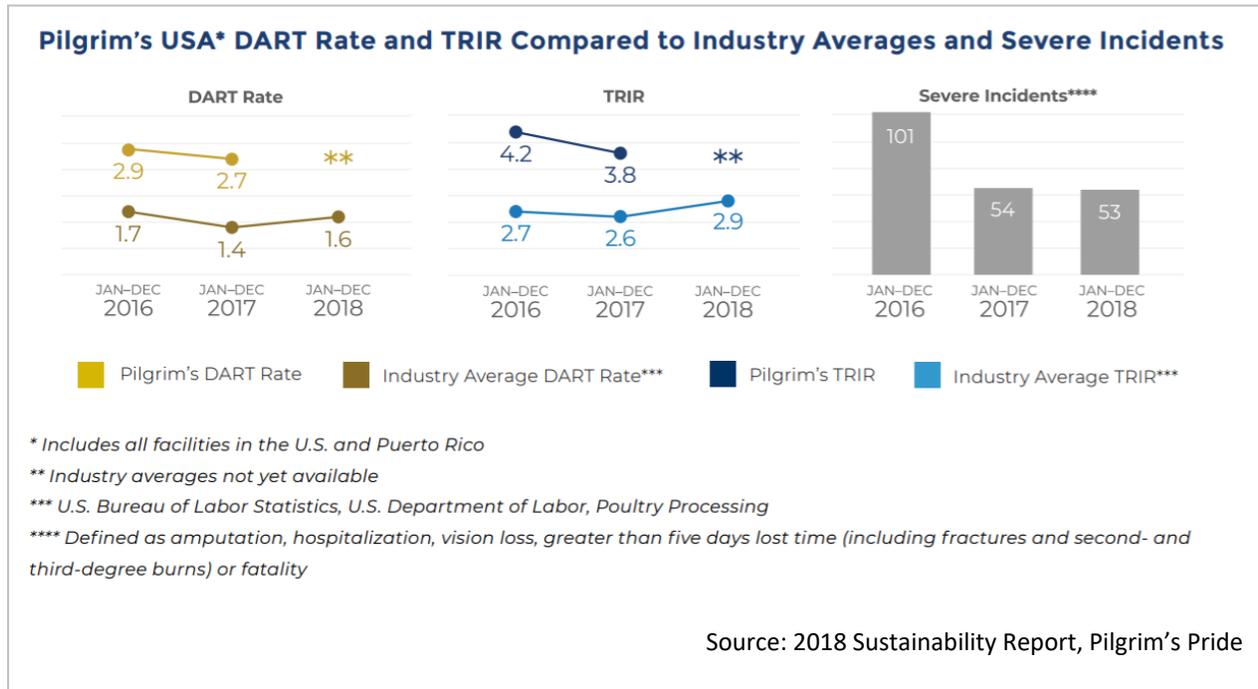
- As of February 2019, **Smithfield Foods** had [surpassed its target](#) to purchase 75 percent of its grain from farms managed to reduce water pollution.
- In November 2018, **Perdue** launched a [large-scale poultry litter recycling operation](#) to prevent nutrient pollution.
- In 2017, **Hormel Foods** adopted a [Sustainable Agriculture Policy](#) with commitments on water quality and supply chain management.
- In 2018, **Tyson Foods** began [investing in plant-based protein](#) and committed to supporting [improved environmental practices](#) on two million acres of corn by the end of 2020.

Specific water discharge information: Under the Clean Water Act and corresponding state regulations, Pilgrim's must report specific water discharge information. The EPA has created a publicly available, searchable database—the [Discharge Monitoring Report \(DMR\) Pollutant Loading Tool](#). The tool calculates pollutant loadings from permit and DMR data from EPA's Permit Compliance System (PCS) and Integrated Compliance Information System for the National Pollutant Discharge Elimination System (ICIS-NPDES). Data for specific operations are available for the years 2007 to the most recent reporting year; the database is not searchable by company name, however.

Human Rights

Pilgrim's does not have a statement or stand-alone policy on human rights, but related issues including labor and worker safety are addressed in its sustainability report. It says the following about its management approach:

We operate our facilities in compliance with labor and human rights laws and adhere to strict internal policies and programs that provide additional guidance to best serve our team members. Pilgrim's condemns and does not tolerate child labor or degrading conditions in the workplace that could put our team members' health or lives at risk. We uphold applicable wage and hour laws, such as minimum wage and overtime compensation, and legally mandated benefits. We also respect our team members' rights of association, of joining labor unions and of collective bargaining. In 2018, 62 percent of our team members working in the U.S. and Puerto Rico, 75 percent in Mexico and 35 percent in Europe were covered by collective bargaining agreements.



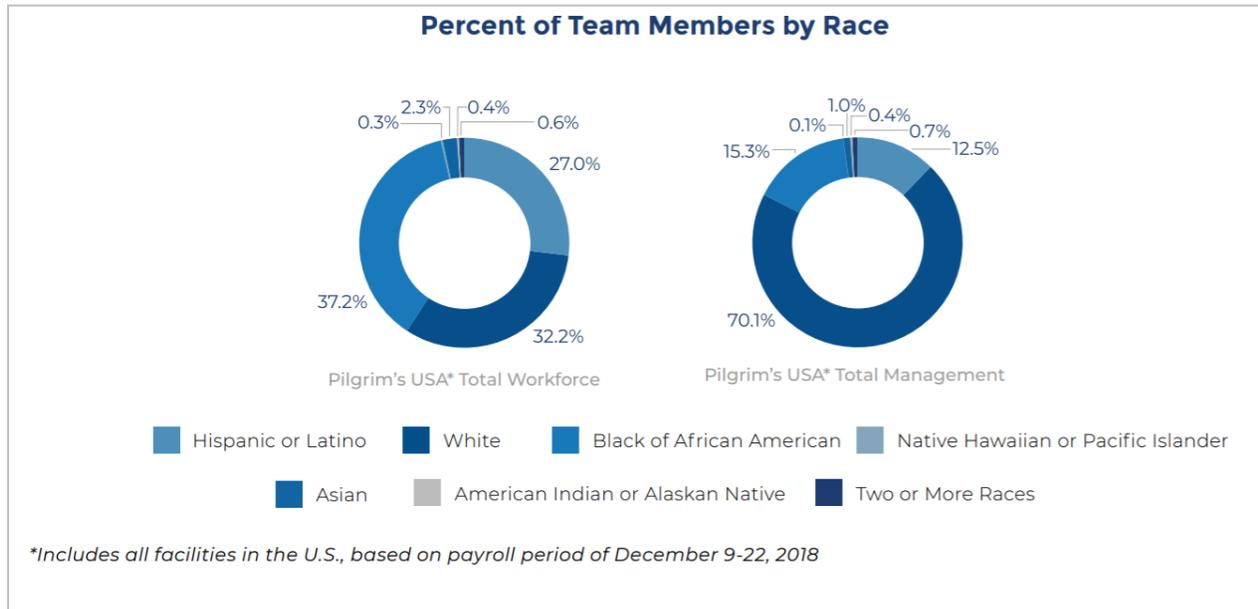
Worker safety: Pilgrim’s says in its 2018 sustainability report that about 99 percent of its team members work in production facilities. It says that its team member health and safety is a “key area of attention” and has set an aggressive goal for 2020, based on 2015 baseline, to reduce severe incidents year over year by 15 percent. The goal only applies to its U.S. operations; in 2018 the company reduced severe incidents by 2 percent, failing to meet its goal. But the company says that it has started to track its global severe incidents rate and achieved a reduction of 26 percent between 2017 and 2018 at that level. Pilgrim’s also emphasizes that its record is usually better than the industry average. (See graphs above.)

Pilgrim’s says that safety is managed at each level of the company’s operations, from personal ownership by each team member all the way up to the executives. It says that safety-related compensation is included in business unit bonus plans, based on business unit performance on various indicators to safety. Safety goals are set at facility- and company-levels and are reviewed regularly. Each facility undergoes a safety audit every year; it provides safety training in multiple languages.

2019 priorities—Pilgrim’s says that sets three priority initiatives every year based on results from its safety audits. The three initiatives include one company-wide and two at the facilities level. In 2019, the company-wide initiative was to improve walking and working surfaces with a specific focus on uneven surfaces, designated walking paths and three points of contact. After the facilities implement programs to address this they go on to implement two additional initiatives; most are focusing on ergonomics and fall protection.

Pilgrim’s says that it plans to transition to BladeStop Bandsaws, which are designed to reduce serious injuries by mechanically stopping the blade when the unit senses human contact with the blade. In addition, it has partnered with a JBS USA subsidiary, Scott Technology, to develop an automated whole bird trussing machine to further reduce injuries.

Diversity and inclusion: Pilgrim’s 2018 sustainability report includes workforce statistics, noting the breakdown of employees by gender and age in the United States, in Mexico and at Moy Park. Women made up 43.4 percent of Pilgrim’s U.S.A, 32.3 percent of Pilgrim’s Mexico and 37.7 percent at Moy Park for the whole workforce, while they accounted for 34.0 percent, 25.3 percent and 32.7 percent of management at



each division, respectively. The report also included statistics on representation by race for the U.S. workforce overall and in management (See graph above).

Oxfam America Lives on the Line Report and Campaign

In late October 2015, Oxfam America published a report entitled *Lives on the Line*, describing in detail concerns about pay, safety and worker voice in the chicken processing industry in the United States. Oxfam has updated the report since, and presented updated statistics in a January 2018 webinar presentation. The campaign continues, with a [dedicated section](#) of Oxfam’s website replete with many videos. The report focused on the four largest chicken processors in the United States –Tyson Foods, Pilgrim’s Pride, Perdue and Sanderson Farms – which together control about 60 percent of America’s poultry market. It notes Pilgrim’s is second behind Tyson’s 23 percent market share, with 19 percent; Perdue and Sanderson each have 8 percent. Together, they employ about 100,000 people.

The well-documented report was 40 pages and contained 177 footnotes. It described in detail general conditions in the industry based on a review of 200 sources and including worker stories, concluding pay is too low, work is unsafe, and employees (mostly from vulnerable populations) work in a climate of fear. It made recommendations for industry reforms and more stringent government regulation.

Key areas of concern: *Lives on the Line* pointed out that the chicken industry has a wholesale value of \$50 billion and that the average American consumes nearly 90 pounds of chicken annually. While 83 percent of poultry sales were of whole chickens in 1965, changes in consumer tastes have led to dominance by poultry parts (40 percent) and processed meats (49 percent) by 2015, meaning that the need for labor to cut and process the chicken has grown exponentially. Industry profits have risen, Oxfam noted, and workers struggle to keep up with processing lines that are twice as fast as they were four decades ago. *Lives on the Line* described serious concerns about low pay and unsafe working conditions, the latter of which unreasonable speed of the processing line put the workers in perilous danger. The report noted that the USDA sets a limit of 140 fowl that may be eviscerated per minute (birds per minute or bpm) in an automatic process; industry efforts have pushed to increase this up to 175 bpm. The line speed puts workers in danger as they work close to fast-moving sharp knives and equipment; also dangerous is the repetitive movement the work has on the workers’ bodies that can result in pain and disorders. In comparison, the maximum line speed for non-automated chicken processing was 70

bpm, the report said. In addition, workers have noted that they don't get adequate bathroom breaks, making them resort to wearing diapers. While the United Food and Commercial Workers represent about one-third of the poultry industry workers, the rate is much lower than those in the beef and pork industries.

HRW report—In addition to Oxfam's *Lives on the Line* is the Human Rights Watch's report last year titled, *When We're Dead and Buried, Our Bones Will Keep Hurting*, which highlight similar concerns. It noted that between 2015 and 2018, a worker in the meat and poultry industry lost a body part or went to the hospital for an in-patient treatment every other day. Making a grim picture even worse, HRW noted that the Trump Administration has now granted chicken processors waivers to raise previously set limits on maximum line speed, allowing the companies to process up to 175 birds per minute.

GAO report—In December 2017, the Government Accountability Office released a [report](#) that called for more safety inspections at meat processing plants, but said employees might not contact regulators for fear of employer retaliation. Workers in five states cited concerns about inadequate bathroom breaks and one of the seven final recommendations GAO made was to encourage better access.

For more information on these issues see Si2's [2020 Briefing Paper on Human Rights](#).

II. Proponents Positions

Item 5: Water

Mercy Investment Services and Socially Responsible Investment Coalition (SRIC) ask Pilgrim's to report on how it plans to "increase the scale, pace, and rigor of its efforts" reduce water pollution from its supply chain by December this year. SRIC has filed a similar resolution at the company in the past three years, although those resolutions did not focus on the supply chain. These resolutions earned 14.7 percent last year, 6.6 percent in 2018 and 14.7 percent in 2017.

The proponents note that meat production is "the leading source of water pollution in the U.S., exposing 7 million Americans to nitrates in drinking water and many more to toxic algal blooms." They say that the cultivation of feed for Pilgrim's chickens is "a primary source" of nitrates and phosphates "if improperly managed," in addition to animal waste from over 5,300 poultry farms that "may contain nutrients, antibiotic-resistant bacteria, and pathogens." Such pollution endangers "public health, workers, and the environment," the proponents assert.

The proponents note that there is "a growing trend toward increased state regulation and oversight of pollution from the meat industry," including in several states where Pilgrim's has operations. They say that the company's "competitors are working to reduce supply chain pollution":

Smithfield met its target to purchase 75% of its grain from farms managed to reduce water pollution; **Perdue** has invested \$80 million in a poultry litter recycling operation to prevent nutrient pollution; **Hormel** adopted a sustainable agriculture policy addressing fertilizer and manure management; and **Tyson** committed to support improved fertilizer practices on two million acres of corn by the end of 2020.

They add that **Walmart** uses a Sustainability Index to assess its suppliers; the Index includes indicators on manure management and fertilizer use.

While they "acknowledge" Pilgrim's efforts to reduce its own water usage and the requirement for all suppliers to comply with laws and use industry best practices, the proponents assert that Pilgrim's has not "address(ed) the primary drivers of the company's supply chain water pollution," including manure from contracted facilities and nutrient runoff from animal feed crops. The company's disclosures "lack

sufficient detail to assure investors that it is adequately managing the risks associated with water pollution within its supply chain,” they say.

Exempt solicitation: The proponents filed an [exempt solicitation](#) this year to ask other shareholders’ support. *(The solicitation indicates the proposal is Item 6 on the proxy statement, but it is Item 5.)* The following is a summary of their arguments.

- **The vast majority of Pilgrim’s Pride Corporation’s (PPC’s) water pollution footprint is associated with its supply chain.** Two of the most significant drivers of nutrient pollution of freshwater ecosystems are runoff from fertilizer used to grow crops for animal feed, and improperly managed animal waste.
- **Supply chain water pollution poses material financial risks to PPC.** Potential state and federal regulation of agricultural practices contributing to water pollution may impose additional costs of compliance. Many of PPC’s largest customers expect improvements in the management of risks associated with supply chain water pollution. Failing to mitigate water pollution impacts may therefore harm PPC’s position as a competitive supplier, resulting in reduced market share. Failing to address supply chain water pollution also threatens PPC’s reputation and brand value.
- **PPC lags its competitors in managing risks associated with supply chain water pollution.** PPC’s industry peers, including several of its principal competitors, have either implemented practices to mitigate pollution from fertilizer and manure runoff or have committed to disclosing relevant information on this topic to investors.
- **PPC’s existing disclosures are inadequate to assure investors that it is proactively managing risks associated with supply chain water pollution.** Neither PPC’s disclosures nor its policies specifically address the primary drivers of its water pollution footprint, including manure from contracted facilities and nutrient runoff from animal feed crops.

Item 6: Human Rights

For the second year in a row, Oxfam America wants Pilgrim’s Pride to prepare and release a human rights risk assessment. It wants to know more about how the company is assessing, identifying, preventing and mitigating “actual and potential adverse human rights impacts.” The proposal says the report should:

- Include the human rights principles used to frame its risk assessments;
- Outline the human rights impacts of Pilgrim’s business activities, including company-owned operations, contract growers, and supply chain, and plans to mitigate any adverse impacts;
- Explain the types and extent of stakeholder consultation; and
- Address Pilgrim’s plans to track effectiveness of measures to assess, prevent, mitigate, and remedy adverse human rights impacts.

Oxfam asserts that companies should respect human rights in their own operations and within business relationships, using the [UN Guiding Principles on Business and Human Rights](#) as guidance. To adhere to these principles, they must assess if operations adhere to international standards, determine if they do not and identify how to address any problems that have occurred, Oxfam points out.

The resolution goes on to set out the problems that occur in industrial meat production for workers, farmers and communities. It says:

Poultry processing workers face serious labor rights violations, including injuries from unsafe line speeds and other hazards, exposure to toxins, wage and hour violations, sexual harassment, and workplace discrimination. . . . Factory farming contributes to economic struggles for contract growers and family farmers, exploitation of migrant farmworkers, and occupational health and safety risks. Monoculture farming to grow animal feed requires heavy use of chemical fertilizers and pesticides, impacting human health, soil and water quality.

A key risk for the company, in the proponent’s view, is “public resistance to the expansion of its operations and footprint to meet growing demand for protein.” It cites as an example [pushback](#) to its plans to build a new plant in northern Georgia, which opponents call “a chicken slaughtering megasite” on 300 acres in Walker County, about 20 miles south of Chattanooga, Tenn. According to the pending resolution, “A proactive assessment of Pilgrim’s salient human rights risks, informed by meaningful stakeholder consultation, would mitigate adverse human rights impacts and threats to the company’s social license to operate and business opportunities.”

The proponents also point to legal complaints filed against the company about:

- **Hiring discrimination**—The U.S. Department of Labor Federal Contract Compliance Program (OFCCP) and Pilgrim’s [entered](#) into two consent decrees and paid \$1 million to settle gender and racial discrimination complaints made over two years that involving 5,300 applicants, at plants in Dallas and Nacogdoches, Texas.¹ In another case, filed in 2015, the OFCCP [alleged](#) that applicants at plants in Marshville, N.C., and Athens, Ala., were systematically discriminated against on the base of race and gender when they sought jobs with the company.
- **Disability discrimination**—The U.S. Equal Employment Opportunity Commission [sued](#) the company in September 2018, alleging Pilgrim’s illegally fired disabled employees who needed leave for medical treatment, in an incident at a Guntersville, Ala. facility.
- **Federal fines**—The proponents reference a [website](#) that lists cases against JBS, Pilgrim’s parent company, starting in 2000; it has 165 records and reports total penalties of more than \$34 million for violations of laws on the environment, wages and working hours, workplace safety and health, and labor relations. Nearly half the fines (\$15.5 million) were for wage and hour violations and almost \$7 million more concerned employment discrimination.

Oxfam contends that the number of complaints against the company “indicate that although Pilgrim’s commits to respect human rights in its Code of Conduct and Sustainability Report documents, adoption of corporate principles is only the first step in effectively managing human rights risks.” It therefore urges the company to be more proactive, to conduct the requested assessment, and to report to investors.

III. Management Positions

Item 5: Water

Management opposes the resolution, asserting that Pilgrim’s current efforts are sufficient and the proposed report is “unnecessary” while imposing costs without any benefit. Creating a separate report “is not an effective way to ‘increase the scale, pace and rigor of its efforts to reduce water pollution from its supply chain,’” they assert. Management says that the company is “committed to our role as a steward of the environment” and has “been in the process of upgrading wastewater facilities at a number of [its] facilities.” Such facilities “are operated in accordance with site-specific permit requirements” that are set by local authorities, it says, adding that it “also expect(s) responsible and efficient water stewardship” from its partners and suppliers.

Pilgrim’s says that it primarily works with independent contract growers to raise the chickens it processes, and that it “strive(s) to support” them to “run their businesses wisely and to be independent and sus-

¹ The proponents cite this case, but their source is a website that provides no date for the case, only the month of October. Si2 was unable to determine when it occurred, but it does not appear to have been in the last few years and is not listed on the Department of Labor’s website.

tainable enterprises.” Pilgrim’s requires that they “comply with all local, state, and federal environmental regulations,” and it is “not aware of any court judgments or regulatory rulings finding that our live bird operations pose a danger to the environment or neighboring water sources.” Management says that it is proud of its current water conservation and environmental measures; it values water as an “essential” resource and it “take(s) actions to preserve water quality... in and around our facilities.” Pilgrim’s asserts that the requested report is unnecessary and not in the best interests of [its] shareholders,” and recommends a vote against the proposal.

Item 6: Human Rights

Management opposes the resolution using the same arguments from last year. It asserts that it already is taking sufficient action to address any problems that may arise in its operations with regard to human rights.

Pilgrim’s says it is “strongly committed” to human rights throughout its operations, in its relationships with contract growers and throughout its supply chain. Further, “We also greatly value the health and safety of our employees and other parties associated with our operations and we continue to focus on creating a workplace atmosphere with the goal of eliminating workplace incidents, risks and hazards.” In addition, management asserts it conducts business in “a respectful manner” and complies with all applicable health and safety laws and regulations.

Management says that while the board is “strongly committed to promoting social responsibility and human rights throughout every facet of our operations,” it believes current “practices and procedures appropriately and adequately address the concerns raised in the proposal.” Noting the company’s “continued engagement and commitment” on human rights issues, the report “is unnecessary and would impose additional costs on the Company.”

The company’s Code of Conduct articulates relevant values on human rights and has been adopted by the board, management says. The code “sets high standards” for employees, officers and directors, including human rights, which it enumerates as follows:

- Health and safety in the workplace;
- The right to legal wages and benefits;
- Appropriate working hours and overtime pay;
- Prevention of child labor or forced labor;
- The fair and ethical treatment of all team members, including non-discrimination; and
- Our employees’ rights to join or not join a trade union or to have recognized employee representation as required by local law.

The assessment and report are also unnecessary, in the company’s view, because it already has a hotline for anonymous reporting of Code of Conduct violations, with both a telephone and web-based reporting option. This means the company has “an effective tool for gauging the effectiveness of our Code of Conduct and we continuously monitor and respond to all reported matters.” Further, the human resources department works with management “to drive improvement in worker conditions and facilitate compliance with applicable laws and regulations” at company facilities. Finally, the company trains its employees on “health and safety, sexual harassment, discrimination in the workplace and environmental impacts of our operations,” which shows the company is promoting “a workplace culture that acknowledges the importance of all human rights.”

Pilgrim’s Pride’s annual sustainability report includes information for all stakeholders on the issues raised in the proposal and its five current key priorities include employees’ health and safety, management notes—pointing to the report on its website.

In addition to its own operations, the company says it expects its suppliers and contract growers “to operate their businesses in a manner that promotes ethical behavior and that focuses on managing the impacts of their operations on their workers and the communities in which they operate.” It stresses that while contract growers “are independent contractors responsible for their own farms and for day-to-day compliance with applicable health and safety regulations and applicable human rights principles,” Pilgrim’s requires that they “comply with all local, state, and federal environmental regulations applicable to their operations.”

Management reiterates that it believes its current policies and practices and reporting make the requested assessment and report unnecessary and urges a vote against the proposal.

IV. Analysis

Item 5: Supply Chain Water Risks

Key Points at Issue

- Does water resource management at Pilgrim’s Pride facilities pose legal, reputational and other risks?
- Does Pilgrim’s Pride adequately report on water and other environmental impacts?

For more on water management and its environmental impact, see Si2’s [2020 Briefing Paper on Environmental Management](#) and [2017 Briefing Paper on Industrial Agriculture](#). The following is specific to Pilgrim’s Pride.

Pilgrim’s Pride is one of the largest poultry producers in the world. The company has production facilities throughout the United States, Mexico, Puerto Rico, the United Kingdom and Europe. Some researchers have identified Pilgrim’s Pride as one of the heaviest polluters in the country; it also settled a lawsuit recently for \$1.4 million. The lawsuit had alleged that one of its facilities released toxic chemicals into waterways for years, despite warnings from local government. A recent report found that three quarters of U.S. slaughterhouses violate water pollution permits, and a Pilgrim’s facility was the third worst offender.

Meanwhile, there is at least anecdotal evidence, including among meat industry observers, that public resistance to industrial animal agricultural expansion is growing, in part because of its heavy polluting. A recent article in *Global Meat News* described intensive livestock farming companies’ social license to operate as an emerging risk. The proponent is concerned that the environmental impacts of chicken production expose the company to reputational, legal and financial risks. It is particularly concerned about water-related impacts and wants to see a responsible manure management policy, a sustainable feed sourcing policy and diversification into plant-based protein production systems.

Pilgrim’s direct competitors have been expanding their efforts to manage the water pollution impacts of industrial meat facilities, with Smithfield Foods, Hormel Foods, Perdue and Tyson’s Foods all implementing stronger policies to tackle the issue. Various states are tightening their requirements concerning industrial animal agriculture’s water impacts. In Iowa, a state with a high concentration of intensive animal operations, lawmakers are seeking a moratorium on building or expanding concentrated animal feeding operations until the state’s list of impaired waterways shrinks from 750 to fewer than 100.

Pilgrim’s published its first sustainability report in 2016, offering more information on how the company is approaching this issue. Its latest sustainability report for 2018 shows that “water usage” is one of the top sustainability priorities of the company, according to its materiality analysis; it says it conducted a water risk assessment of its facilities and found about half to be in the medium-to-high and high-risk categories. It says it is investing in water treatment and reuse technologies. It set a goal to reduce wa-

ter intensity by 10 percent between 2015 and 2020; by 2018, its overall water usage intensity had increased by 13 percent. The company says the increase was due to “additional necessary food safety interventions,” and that it will focus more on water in the next year. On suppliers’ management of water, Pilgrim’s says that it expects them to comply with all laws and regulations and does not elaborate further on if and how it works with them on water related issues.

The company’s efforts still fall short of what the proponent wants, especially at the supply chain level including growers. Shareholders voting on this resolution will have to decide if they would like to see more commitment to responsible water management by Pilgrim’s, including possibly engaging its contract growers, or if they believe that the company’s current efforts are sufficient to mitigate the financial, reputational and environmental risks that they may face from these issues.

Item 6: Human Rights Risk Assessment

Key Points at Issue

- Is more detailed reporting on health and safety at the company warranted given its record and industry?
- Would the suggested human rights framework provide meaningful benefit to the company’s disclosures?

See Si2’s Briefing Paper on Human Rights for a discussion of codes of conduct and human rights standards. The following is specific to Pilgrim’s Pride.

Pilgrim’s Pride is one of the largest poultry producers in the world. The company has production facilities throughout the United States, Mexico, Puerto Rico, the United Kingdom and Europe, with recent acquisitions fueling expansion in Mexico and Europe. While the company’s Code of Conduct includes a typical statement of non-discrimination and says harassment is not tolerated, it does not explicitly reference human rights. Its Supplier Code of Conduct, however, references a number of international human rights frameworks including the United Nations Principles on Business and Human Rights, setting a standard for suppliers that it does not set for itself.

The 10-K and Code of Conduct include references to health and safety. Since at least 2016, Pilgrim’s has issued sustainability reports, and it indicates its “sustainability journey” has been shaped by what appears to be a reasonably robust initial materiality analysis that identified five priority areas for which it has set goals. One of these is for health and safety and Pilgrim’s reports key performance indicators that show it performs better than the industry average; it touts a few industry awards in this area. Regarding the supply chain, the company says it is working to ensure compliance with its code, but provides no details. With regard to diversity and inclusion, the company provides data on employees by gender and age overall, and by race in the United States, but its seven top executives include only one woman and no women sit on its board.

The proponent, Oxfam America, has been leading a campaign highly critical of the chicken processing industry in the United States, highlighting low rates of pay and high injury rates. Insufficient bathroom breaks force some workers to wear diapers at work, it points out. This last point was validated by a December 2017 report from the Government Accountability Office.

In Oxfam’s view, the company’s approach to concerns about workers at its plants would be improved if it were to follow the recommendations of the UN Guiding Principles on Business and Human Rights, which have been internationally validated. This process would set out a structured way to assess problems and identify how they can be resolved, with transparency. Such transparency might alleviate reputational risks

such as pushback to locating its facilities that threaten the company’s social license to operate. Oxfam offers as evidence a litany of complaints about discrimination at the company and federal fines.

From the company’s perspective, it is doing enough and already provides sufficient reporting through its sustainability report. It points out that employee health and safety is one of its priority concerns, where it has made recent investments—but says the requested action by Oxfam “would impose additional costs.” Part of the company’s current setup includes an anonymous employee hotline for complaints, it says, and it contends all its employees receive training to promote “the importance of all human rights.”

While the company’s reporting has improved in the last few years, it faces significant continued controversy about employee health and safety, and is a dominant player in an industry that has well-known problems. Investors will have to decide if they believe the company’s current reporting is sufficient, or if more transparency about how it is working to improve is needed. They will want to keep in mind recent financial results that suggest cost-cutting measures will be preeminent with many company executives. They also will have to weigh how much information they think is necessary about conditions in the company’s supply chain—data which now are lacking.

Voting Considerations

Item 5: Water

Voting in favor: Those investors who share the proponent’s concerns about risks posed by the company’s environmental management and want the company to do more than it is currently doing will vote for the resolution. Those who believe that the company should provide more detail on the issue, including specific targets and metrics, and/or engage its contract growers on their environmental impacts will also vote for this resolution. They may be joined by shareholders who are concerned that industrial animal agriculture may be losing its social license to operate.

Voting against: Investors who believe Pilgrim’s has already provided adequate information on its water impacts and committed enough resources to the issue are likely to vote against the proposal. These investors are likely to be satisfied with the company’s recent efforts and may not feel the need for the company to engage its growers on their environmental impacts. They may also believe that Pilgrim’s growers are independent and responsible for their own practices.

Item 6: Human Rights

Voting in favor: Those investors who share the proponents’ concerns about workers’ health and safety are likely to vote in favor of the proposal. They may believe that the suggested human rights framework suggested by Oxfam would impose needed rigor in reporting and remedies. They may also think that given intense competition in the industry, the company’s reputation cannot afford possible damage that can come from continued controversy.

Voting against: Investors who believe Pilgrim’s has already provided sufficient information on health and safety are not likely to support the proposal. They will point to the company’s sustainability reporting and its data that suggest better safety performance than the industry as evidence, and they may think the human rights framework is not necessary. They may also be concerned about the cost of reporting given recent financial results.

Resources

- Pilgrim’s Pride 2020 Proxy Statement
https://www.sec.gov/Archives/edgar/data/802481/000080248120000028/ppc_2019proxy.htm
- Pilgrim’s Pride 2019 10-K
<https://www.sec.gov/ix?doc=/Archives/edgar/data/802481/000080248120000009/ppc-2019x12x29x10k.htm>
- Pilgrim’s Pride 2018 Sustainability Report
https://sustainability.pilgrims.com/wp-content/uploads/2019/08/Pilgrims_Full_Report_081419.pdf
- *Water Pollution from Slaughterhouses*
<http://www.environmentalintegrity.org/news/slaughterhouses-violate-water-pollution-permits/>
- *Corporate Agribusiness and the Fouling of America’s Waterways*
http://www.environmentamerica.org/sites/environment/files/reports/CorpAgFoulingWaterways2016-web_0.pdf
- Oxfam America *Lives on the Line* website
<https://www.oxfamamerica.org/livesontheline/>
- “Workplace Safety and Health: Better Outreach, Collaboration, and Information Needed to Help Protect Workers at Meat and Poultry Plants,” Government Accountability Office, Nov. 9, 2017. (Released Dec 7, 2017)
<https://www.gao.gov/products/GAO-18-12>