Measures for financial institutions to help stop soy-driven deforestation

Introductory note

Soy as a main driver of deforestation

In addition to its dramatic impact on biodiversity, local populations and water resources, deforestation in the tropics is also responsible for about 8% of the world's annual greenhouse gas emissions. This is more than the entire EU's emissions and is just behind the US. As stated in the IPCC's Special Report on climate change and land, drastically reducing annual emissions from deforestation is vital if we are to limit global warming to 1.5°C. Yet destructive deforestation activities continue to be well-funded worldwide.

Soy has caused more deforestation than any other commodity imported into the EU between 2005 and 2017, even more than palm oil. Indeed, its production is one of the leading drivers of both deforestation and ecosystem conversion in the Brazilian Cerrado and Amazon regions.

Amidst a climate emergency and high levels of ecological degradation, each year lost is a death sentence for thousands of hectares of forests. Last year, deforestation in Brazil was greater than in the next six countries combined, according to data from the University of Maryland and the digital monitoring platform Global Forest Watch.

A study published in April this year confirmed what scientists have long feared: due to deforestation and degradation, the Amazon region released nearly 20% more carbon dioxide into the atmosphere over the last decade than it absorbed. Indeed, deforestation in the Brazilian Amazon is at its highest level in 15 years. Similarly, the Cerrado has already lost 50% of its original surface area, threatening not only the climate and natural species, but also the water supply of the entire country. Less well-known than the Amazon, the Cerrado is the world's most biodiverse savannah, and its disappearance would be a disaster for the climate and for biodiversity. Indeed, it stores the equivalent of 13.7 billion tons of carbon dioxide (CO_2) and is home to 5% of the world's biodiversity.

The role of soy traders

Soy traders contribute significantly to this complex problem. Only six of them - ADM, Bunge, Cargill, Louis Dreyfus, Amaggi and Cofco - constituted 66% of the deforestation risk directly related to soy expansion in 2017. **While all of them have a deforestation policy pertaining to soy, they all fail to effectively prevent deforestation in their supply chains.**

Most of the policies lack two vital elements. None of the policies has a commitment to a clear "cut-off date", defining from what date soy from deforestation or conversion is no longer accepted. And only Bunge has committed in March this year to achieve 100% traceability of both direct and indirect farmers by 2025 in Brazil, including the Cerrado.

Moreover, to assess soy traders, it is not enough to look at their sustainability policies. We also need to consider the implementation and the real impacts on the ground.

Cargill and Bunge are the worst performing soy traders as they continue to be linked to deforestation cases, despite their own commitments around deforestation, according to new Mighty Earth and Aidenvironment monitoring data covering the period from March 2019 to March 2021. Cargill is linked to the clearing of over 66,000 hectares, while Bunge can be connected to the clearing of almost 60,000 hectares in the last two years alone.

Even being aware of numerous clearance cases, traders continue to source from farms linked to deforestation. For instance, Cargill and Bunge still source their soy from SLC Agricola regardless of repeated instances of deforestation on their land totaling more than 11,000 hectares.[1] SLC Agricola admitted its plan to clear more land, has actively opposed limits to deforestation in the Cerrado and has been associated with a $200 million land grabbing corruption scheme.

This briefing aims to provide insights on why soy traders' commitments have so far failed to eliminate soy issued from deforestation and conversion from their supply chains. It explains why measures such as certification schemes, reporting and engagement without ambitious targets, systematic assessment of results and escalation processes do little to alleviate the magnitude and urgency of soy-related deforestation.

Most importantly, the briefing provides recommendations to financial institutions for concrete measures that a credible policy to address soy-related deforestation should include.

[1] Data covering from March 2019 to March 2021, available at Mighty Earth's Soy and Cattle Deforestation Tracker.

1. January 2020 cut-off date, at the latest

As has been mentioned, soy traders´ policies to address deforestation lack the inclusion of a cut-off date. A clear cut-off date is essential to indicate a commitment to excluding soy from deforested and converted land from their supply chain. Cut-off dates in other commodity sectors, such as palm oil and cattle, have proved to be successful in establishing a benchmark upon which companies can be held accountable.

In 2019, the Accountability Framework initiative (AFi) enabled the establishment of a single global benchmark for agricultural and forestry commodity chains that includes a cut-off date of 1st January 2020 at the latest - for the Amazon the cut-off date is 2008, and for all areas outside the Amazon the cut-off date should not be later than the 1st of January 2020, or earlier if policies were published before this date. Although they took part in this initiative, the major soy traders still refuse to adopt a cut-off date. However, more than 160 global companies and groups support the 2020 cut-off date for the Cerrado through the Statement of Support for the Cerrado Mechanism.

2. Monitoring, reporting, and disclosure

All six soy traders mentioned above have failed to adopt a credible monitoring system to ensure soy in their supply chain is free of deforestation and conversion, according to Mighty Earth's assessment. The evaluation also highlights that, although traders report on their progress annually, this reporting is insufficient because traders do not report on the results of their monitoring efforts, but rather on the incremental steps taken in monitoring, such as the percentage of their supply that is traceable. Without a credible monitoring system, traders have no way of detecting deforestation and conversion in their supply chain and therefore cannot assure buyers of the sustainability of their soy.

3. Certification schemes

Third-party certifications of agricultural products are often used as a means of validating and homogenizing efforts towards better practices in terms of environment and social justice. While certifications might have benefits, they do not alone solve the problem of deforestation.

For soy, two main certification systems exist: RTRS and Proterra. The RTRS is considered to have helped make the practices of some soy producers more responsible. However, RTRS soy remains a very small minority of global production since all certified soy, through different mechanisms, account for only 1.5-3% of total production. Moreover, while the eligibility criteria of these certifications may

be considered ambitious, they still have major weaknesses: RTRS and Proterra allow for large–scale monocultures that use huge quantities of pesticides and water resources, while creating limited employment opportunities.

The RTRS have three modalities for certification, of which only one would guarantee the absence of soy linked to deforestation. These three modalities are: segregation, mass balance and country material balance. Only segregation allows for fully tracing and segregating the flux to ensure that 100% of the soy comes from non-conversion parcels. The other two modalities allow instead for a mixture of certified and non-certified soy, contributing to market segmentation, and failing to fix the problem of conversion / deforestation: they are simply inefficient. However, segregation still represents a very low volume of certified soy, because of being more expensive than the mass balance system.

Overall, there is no evidence that voluntary certification standards have broader effects on deforestation outside the boundaries of certified areas.

5. Just transition

Soy production in Brazil is at the origin of numerous land conflicts, and indigenous and human right violations. But there does not need to be a contradiction between a thriving local soy industry and an end to soy related deforestation and conversion.

A study by the Nature Conservancy demonstrated that "it is possible to greatly minimize or even stop further conversion of habitat in the Cerrado by focusing expansion on the areas that have already been cleared, mostly for low-productivity cattle pastures." This is possible mainly due to the existence of approximately 18.5 million hectares of pastureland identified as suitable for conversion to soy crops – more than twice the amount of land needed for soy expansion over the next decade - and the untapped potential to increase productivity through the implementation of improved farming practices.

The Steering Group of the Cerrado Manifesto Statement of Support, for instance, backs calls by NGOs for future soy expansion in the Cerrado to only take place on existing agricultural, or previously cleared land.

6. It is possible to act now

Certification schemes, reporting and engagement without an ambitious plan and escalation process, do little to alleviate the magnitude and urgency of the problem. Moreover, with soy trade

concentrated in a few traders, it is possible for them to act now[2] and have wide-ranging impacts. Every year, between June and September, traders sit down with soy producers in Brazil to negotiate purchase contracts for the coming year. This is the time of the year when businesses agree contractual requirements, and when they should demand a clause not to provide soy grown on land deforested after the earliest agreed cut-off dates and no later than the 1st of January 2020, in accordance with the AFi. It is important to consider that soy linked to direct conversion in the five previous years only represents 1.5% of all Brazilian production. Excluding this soy from their supply chains would therefore not represent a challenge, since all the necessary monitoring tools and land registry data are available to traders.

The role of financial institutions and our recommendations

Soy traders are facing increasing pressure from a variety of actors to address deforestation and conversion in their supply chains, and financial players should be no exception.

Indeed, the financial sector is finally showing signs of taking deforestation seriously. AXA and BNP Paribas updated their agricultural sectorial policies this year to address the soy-driven deforestation issue. While their timescales for the implementation of the measures fell flat, notably in the case of BNP Paribas, they succeeded in incorporating fundamental concepts such as the acknowledgement of the cut-off date of no later than the 1st of January 2020.[3] Similarly, this summer Bunge's shareholders voted for the company to evaluate and disclose its efforts to eliminate deforestation from its operations. This is an important step as it shows that asset managers are recognizing that agribusiness-deforestation poses significant risks, not only to our collective future, but also to their portfolios.

Another relevant sign is the recent engagement in the context of the COP26 of 30 financial institutions to work on eliminating agricultural commodity-driven deforestation risks in their investment and lending portfolios by 2025. For these good intentions to deliver on this objective, it will depend on the concrete measures that each financial institution will establish in 2022.

Given that soy traders' approach of no-deforestation policies and progress reporting has not been effective to date, we strongly encourage financial actors to enact robust consideration of soy-linked deforestation and demand of the soy traders among their clients that they implement concrete

[2] Representatives of the Steering Group of the Cerrado Manifesto Statement of Support, alongside other supply chain companies, worked with the Brazilian soy industry over nearly 3 years to co-develop the Cerrado Conservation Mechanism (CCM). At the time of its impending launch on 7th November 2019, there were several supply chain companies who had committed funding to launch the CCM. Frustratingly, ABIOVE withdrew their support the week before its launch and the CCM never saw the light of day.

[3] See AXA's policy and our press release. See BNP Paribas's policy and our press release.

measures to address the issue. Failure to convincingly illustrate deforestation-free and conversion-free sourcing should be grounds for suspending financial services until the necessary steps are taken, and eventually ceasing them in case of a persistent failure to act.

Our recommendations to financial players for a credible policy to address soy-driven deforestation and conversion:

- All financing to soy traders must be contingent upon the adoption and implementation of the following requirements:[4]

    1. A commitment by the end of 2022 to no longer purchase soy produced in any land deforested or converted from natural ecosystems, either legally or illegally, either directly or indirectly, after the earliest agreed sectoral cut-off dates. For the Amazon region, the cut-off date is 2008, and for all areas outside the Amazon, the cut-off date should not be later than the 1st of January 2020, or earlier if policies were published before this date, in accordance with the AFi. This commitment must be integrated in a contractual clause with producers.

    2. The implementation of a supplier engagement protocol requiring supplying farms to comply with their no deforestation and conversion commitment across their entire operations or face exclusion from the supply chain.

    3. The establishment of a full traceability system to the source of raw materials. This system should also be independently reviewed and verified, in addition to covering direct and indirect suppliers.

    4. The use of a robust monitoring, reporting, and independent verification system including frequent public reporting regarding conversion on all supplying farms, in compliance with the AFi best practices.

    5. The assurance of the full respect of human rights, specifically the rights of indigenous peoples, including the rights to their water and territories through respect for their right to give or withhold free, prior and informed consent (FPIC) to proposed and

[4] These demands refer to legal deforestation and conversion. As part of an adequate due diligence process, financial institutions should not be financing any illegal operation.

existing developments. The right to remedy and reparation should also be considered, in accordance with the UN Guiding Principles on Business and Human Rights.

- From January 2023, publicly suspend financial services to soy traders that have not committed to the earliest agreed sectoral cut-off dates by the end of 2022.
- From January 2024, cease financial services to soy traders that cannot demonstrate a full adoption and implementation of the 6 measures mentioned above by the end of 2023.

Contact information

For more information on this briefing or any comment/question, please contact:

Andrea Hernández
Research and Prospective
Reclaim Finance
andrea@reclaimfinance.org

ANNEX 1 – Useful resources

Useful resources to track soy trading and supply chain:

- Mighty Earth site.
    - Soy & cattle deforestation tracker, connecting meatpackers and soy traders with large cases of deforestation and land clearance in the Brazilian Amazon and Cerrado. It shows clearance cases by trader and the dates on which they occurred, a useful tool to validate cut-off date commitments.
    - Soy Traders' Performance on Deforestation Ranking comparing the soy traders' performance in four categories: 1) sustainability policy; 2) monitoring, reporting and disclosure; 3) sourcing areas, and; 4) observed impacts and violations.
- Trase Earth platform for tracking the global supply chain of forest risk commodities.
    - Trase Finance platform, providing risk analysis and portfolio assessments.
    - Commodity traders watchlist, providing a benchmark of commodity traders using a variety of deforestation risk metrics.
    - Traders' profile, showing detailed information on each trader, such as its sourcing regions and deforestation risk.