

RATCHETING UP CORPORATE ACTION

To manage deforestation in soy and cattle supply chains



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FOREWORD



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Global Director of Forests, CDP

Latin American deforestation is yet again on the rise. In the last year, Brazil has seen the highest rate of forest loss in the Amazon for the past ten years. From January to March 2020, deforestation in the Amazon rose 51% compared to the same time last year.¹ The Brazilian Cerrado, a highly biodiverse savannah, is also being cleared at an alarming rate.² Meanwhile, the second largest forest in Latin America, the Gran Chaco in Paraguay and Argentina, has seen accelerated clearance in recent years and is estimated to lose millions of hectares of forest cover by 2030.³

Causing further alarm are the ongoing effects of the novel Coronavirus (COVID-19) on Brazil's forests. In tandem with an opening up of the rainforest to loggers, ranchers and miners, the COVID-19 pandemic has now spread quickly through the Amazonas capital Manaus as well as to its indigenous communities. While the Brazilian government continues to advance controversial legislation regarding indigenous lands, tribes are reporting an increase in land-use related bloodshed during the pandemic.⁴

The forces that drive the destruction of Latin America's largest and most crucial forests are complex and deeply intertwined into products used every day around the globe. Cattle and soy production are the largest drivers of deforestation in Brazil, Paraguay and Argentina.⁵ In the Brazilian Amazon, cattle ranching and clearing for pasture are the primary drivers of deforestation, accounting for around three quarters of deforestation. Meanwhile soy has been a primary catalyst for habitat loss in Paraguay and Argentina, and half of all native vegetation has been lost to cattle and soy production in Brazil's Cerrado.^{6,7}

The Food and Agriculture Organization (FAO) estimates that livestock production will grow by 19% by 2027, with soy and other crops growing at a rate of 1.8% per year by 2027 in Latin America. That growth is estimated to consume eleven million hectares of land by 2027.⁸ As global demand for livestock and soy grows, the risk of increased deforestation for grazelands and arable farmland will increase as well, making it all the more important for companies to commit to deforestation-free supply chains – and that they begin working to implement those pledges sooner rather than later.⁹

If the Covid crises has taught us anything, it is that we are all deeply interlinked – and that holds true for companies within the soy sector. There is an urgent need to accelerate collaborative action across the soy value chain, ensuring that purchasing companies are working with suppliers to find practical solutions to their specific challenges. There is good news, in that recent months have shown increased collaboration and action starting to take hold.

1. Farand, Chloe. "Amazon faces 'perfect storm' of forest clearance, coronavirus and wildfire". *Climate Change News*, June 5, 2020. <https://www.climatechangenews.com/2020/05/05/amazon-faces-perfect-storm-forest-clearance-coronavirus-wildfire/>
2. Ministerio do Meio Ambiente. "O Bioma Cerrado". Accessed August 14, 2019. <https://www.mma.gov.br/biomas/cerrado>
3. WWF. "Gran Chaco." Accessed August 13, 2019. <https://www.worldwildlife.org/places/gran-chaco>
4. Evans, Simon and El Hammar Castano, Aicha. "Deforestation of Amazon rainforest accelerates amid COVID-19 pandemic". *ABC News*, May 6, 2020. <https://abcnews.go.com/International/deforestation-amazon-rainforest-accelerates-amid-covid-19-pandemic/story?id=70526188>
5. WWF, IN-DEPTH, WHAT ARE THE BIGGEST DRIVERS OF TROPICAL DEFORESTATION? Accessed April 27, 2020. <https://www.worldwildlife.org/magazine/issues/summer-2018/articles/what-are-the-biggest-drivers-of-tropical-deforestation>
6. Prager, Alicia. "Saving the Cerrado: Six Commodities Traders to Disclose Supply Chain Data." *Mongabay*, March 7, 2019. <https://news.mongabay.com/2019/03/saving-the-cerrado-six-commodities-traders-to-disclose-supply-chain-data/>
7. Gonzales, Jenny. "South American Soy Fed to EU Livestock Drives Gran Chaco Deforestation." *Mongabay*, August 15, 2018. <https://news.mongabay.com/2018/08/south-american-soy-fed-to-eu-livestock-drives-gran-chaco-deforestation/>
8. FAO Regional Office for Latin America and the Caribbean. *OECD/FAO Forecasts 17% Increase in Agriculture and Fisheries Production in Latin America and the Caribbean by 2027*, 2018. <http://www.fao.org/america/noticias/ver/en/c/1143493/>
9. Zero Deforestation Cattle. "A Path Towards Zero Deforestation Cattle." Accessed August 14, 2019. <http://www.zerodeforestationcattle.org/>

In June, a group of 29 global investment firms, managing US\$3.6tn demanded meetings with Brazilian diplomats to call on President Jair Bolsonaro's government to stop the increase in deforestation.¹⁰ Companies too are working collaboratively to act on the ground to secure sustainable sourcing of soy. The Cerrado Funding Coalition, an industry-led initiative to effectively halt deforestation at scale, launched in July 2020. It aims to support Brazilian led solutions to protect the Cerrado and to promote sustainable expansion of soy production.¹¹

This report aims to provide a high-level overview of the current state of corporate action within the soy and cattle supply chains. There is an urgent need for all stakeholders to increase efforts to halt deforestation of the critical biomes across Brazil, Argentina and Paraguay.

At CDP, we believe that high quality, relevant and comparable information is the fundamental basis for environmental action. Being able to monitor progress, verify the positive impact of the actions and report publicly is critical. Without transparency, there can be no accountability and without accountability, any sustainability effort will ultimately ring hollow. There is a unique opportunity to reassess our actions in this post-COVID-19 world, and for companies to act.



10. Spring, Jake. "Global investors demand to meet Brazil diplomats over deforestation". *Sustainable Business*, Accessed June 23, 2020. <https://www.reuters.com/article/us-brazil-environment-investors/global-investors-demand-to-meet-brazil-diplomats-over-deforestation-idUSKBN23U0L8>

11. The Cerrado Funding Coalition. "Supporting Brazilian-led solutions to protect the Cerrado and promote sustainable expansion of soy production". Accessed 27 July 2020. <https://www.cerradofundingcoalition.com/>

KEY MESSAGES

1 **Transparency in cattle & soy supply chains is severely lacking**

- ▼ Nearly half of companies taking part in the production, trade and processing of soy and cattle are not reporting on their management of these critical commodities.

2 **Action has yet to cascade down in cattle and soy supply chains**

- ▼ Just over half of disclosing soy and cattle companies are working directly with their suppliers, and even fewer are working beyond their first-tier suppliers.

3 **Despite having the tools to do so, companies are not yet implementing full traceability through their supply chains**

- ▼ Just two thirds of companies in cattle and soy supply chains have any traceability system in place.

DRIVING ACTION

Increasing global attention on Latin American deforestation puts pressure on companies operating in soy and cattle supply chains. In response to the fires raging last year, a group of 230 investors called on companies to take urgent action to address “financial material deforestation risks”.¹²

In addition to the reputational scrutiny these companies face, deforestation presents real operational and market risks to companies that have not taken action to safeguard their business. Companies without responsible environmental policies may face a host of financial impacts including price volatility, and an inability to access markets for deforestation-free products. Environmental destruction can endanger the supply of commodities as resources like water become limited, leading to reduced productivity and increased production costs.

Yet, companies operating in soy and cattle supply chains have been slow to react – not only to the recent attention on the Amazon, but to years of deforestation and forest degradation. Companies in cattle and soy supply chains are setting deforestation-free commitments on par with commodities like palm oil and timber. However, implementation of soy and cattle commitments have lagged behind other commitments across the board.

The Amazon is already showing signs of reduced rainfall and longer dry seasons, which could harm future yields.^{13,14} Companies must ratchet up their efforts in response to stakeholder pressure, and to ensure their own ability to operate in Latin America for years to come.



12. <https://www.ceres.org/news-center/press-releases/investors-call-corporate-action-deforestation-signaling-support-amazon>

13. Coe, M. et al., "The Forests of the Amazon and Cerrado Moderate Regional Climate and Are the Key to the Future" (August 2017) <https://doi.org/10.1177%2F1940082917720671>

14. Wu, M., Schurgers, G., Ahlström, A., Rummukainen, M., Miller, P.A., Smith, B. and May, W. "Impacts of land use on climate and ecosystem productivity over the Amazon and the South American continent." (May 2017), Environmental Research Letters. <https://iopscience.iop.org/article/10.1088/1748-9326/aa6fd6>

STATE OF PLAY

CDP works with companies and investors to shed light on the action being taken to implement deforestation-free commitments. This report, examining corporate management of soy and cattle supply chains, tracks the steps required to protect critical habitats as well as local communities that rely on intact forests. Specifically, CDP focuses on the corporate ambition required to reduce risk and ensure robust supply chains – as well as the actions necessary to implement that ambition, including transparency, supplier engagement, and traceability.

1 Demonstrating transparency

CDP runs the world's largest disclosure system, which enables companies, cities, states and regions to measure and manage their environmental impacts. This analysis, published with National Wildlife Federation, is based on the voluntary disclosures of 306 high impact forests risk companies that used CDP's forests disclosure platform in 2018 to share information with their investors and/or customers. Transparency by companies engaged in cattle and soy supply chains is urgently needed. Without this data investors and purchasing companies cannot adequately assess their exposure to risks or identify opportunities, and civil society and other stakeholders cannot effectively hold companies to account to ensure action is being taken to halt deforestation.

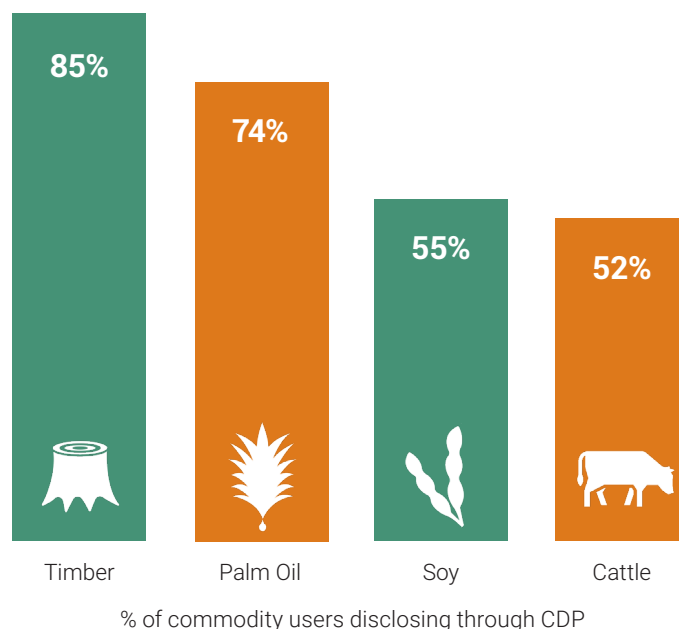
Currently, a large number of companies reliant on deforestation-linked commodities show little sign that they are managing deforestation in supply chains or that they are aware of the risks deforestation pose to their business. Of the 1,500 companies who were requested by investors and/or purchasing organizations to disclose supply chain-linked deforestation data in 2018, 70% failed to respond. In total, fewer than one third of requested companies disclosed on their management of commodity-driven deforestation.

CDP forests disclosure

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Transparency on cattle and soy is particularly weak when compared to the disclosure on palm oil and timber products [figure 1]. Just 30% of all 2018 CDP forests disclosures, covered soy or cattle supply chains. Meanwhile, nearly half of the companies that utilize soy and/or cattle and disclosed to CDP's forests questionnaire declined to provide information about these critical commodities – choosing to report only about palm oil or timber.

Figure 1: Disclosure by commodity in 2018



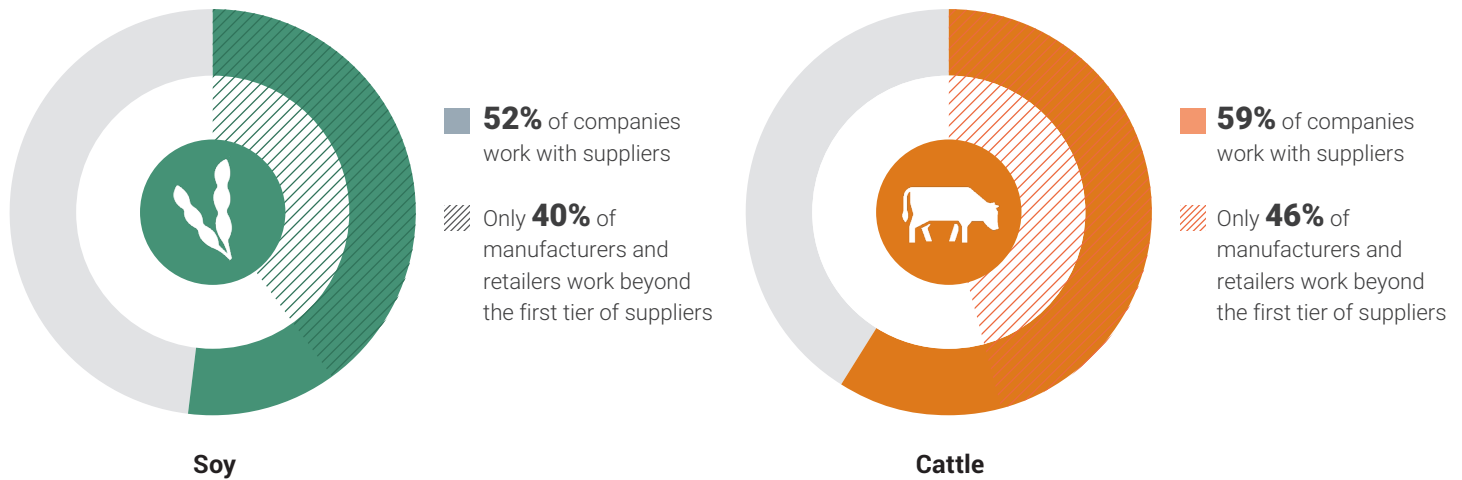
By managing deforestation risks and shifting towards a deforestation-free supply chain, companies can create opportunities to improve their businesses. They can benefit from access to emerging markets for sustainably sourced products, secure long-term availability of raw materials, and strengthen brand value by associating their products with environmentally-friendly practices. However, none of these benefits will be enjoyed by companies if they do not measure and communicate their successes to their stakeholders.

2 Engaging suppliers

Action has yet to cascade down cattle and soy supply chains. Only half of companies work directly with suppliers and few are providing the kind of support to upstream supply chain partners that may help foster and facilitate the rapid elimination of deforestation.

Since no single link in a complex supply chain can shift the market alone, it is imperative that companies work closely with their partners – both up and down stream – to implement and communicate expectations of best practice. Particularly for manufacturers and retailers, which includes reaching past the first tier of suppliers to communicate with the upstream supply chain.

Figure 2: Supplier engagement remains limited



Currently, just over half of disclosing soy and cattle companies are working directly with their suppliers, and even fewer are working beyond their first-tier suppliers [figure 2]. Those working with their suppliers tend to rely on supplier questionnaires and audits, and rarely offer the kind of support – including technical or financial – that could make a real difference in the ability of suppliers to comply with increasing demands from their customers.

Support for smallholder producers is even more rare. Only 11% of companies utilizing soy and cattle report engaging directly with these producers. Companies that are working with smallholder soy farmers tend to emphasize the use of certification, while companies engaging smallholder cattle ranchers tend to utilize beef quality standards and stress the resulting increasing productivity. These engagements can be useful for increasing the capacity of smallholders to produce a higher quality product. However, it does not suggest that deep engagement is taking place on the management of deforestation with those producers who are potentially well-suited to implement environmental best practice.



In Brazil, we have a partnership with Alianca de Terra, together with 4 other enabling companies (Bayer, Santander, Yara and Syngenta) where we enrolled a dedicated group of 48 farmers into a sustainability program with the aim to be RTRS certified in 2016 and 2017 thus covering our total soy volume for our Brazil business. ...Growers receive a financial incentive and full technical support covered by the program. This program is part of a wider program to drive sustainable practices not only in the Unilever supply chain but impacting the entire landscape.

- Unilever



Cerrado Funding Coalition

The Cerrado Funding Coalition (also referred to as "CFC") is an industry-wide mechanism launched in December 2019 by Tesco, Grieg Seafood and Nutreco (three European companies with sourcing links to Brazilian soy) to tackle forest loss caused by agricultural expansion in the Cerrado. The CFC is a mechanism to provide Cerrado soy farmers with financial incentives for conservation, compensating the costs needed to only expand soy production onto previously cleared land. It has been calculated that soy expansion could continue with the current pace in already cleared land until 2070, without expanding production on forests. The mechanism has been modelled by soy supply chain experts to require US\$250 million. This amount will be paid for by companies using Brazilian soy in their supply chain.

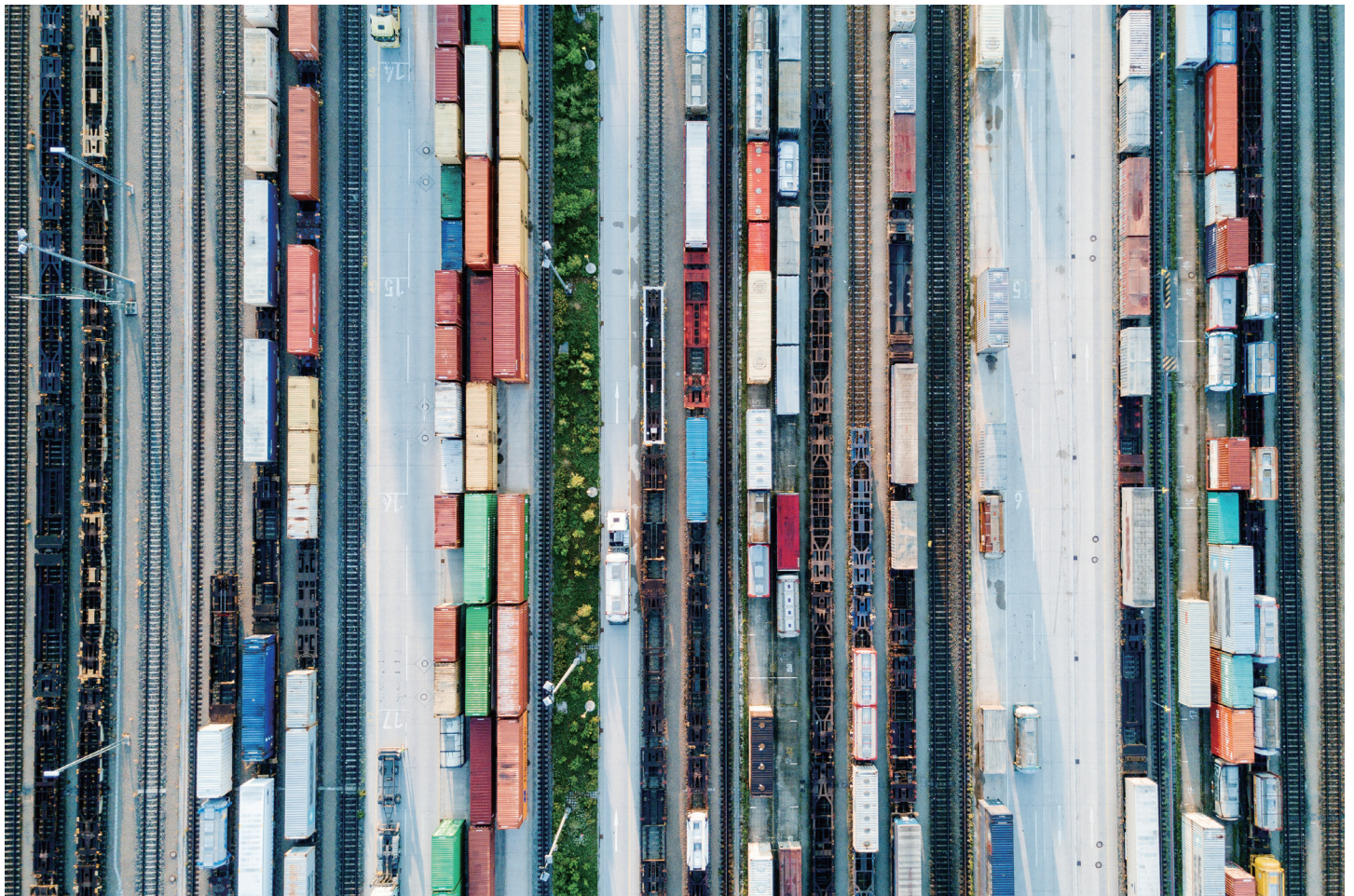
The mechanism has the potential to solve the issue of deforestation from all Brazilian soy (in conjunction with the Soy Moratorium in the Amazon) and it will mitigate future environmental damage that could increase supply chain risks, availability and cost. Companies that want to join the Coalition have to commit with a minimum of US\$2 per tonne of soy purchased from Brazil. For more information please visit: <https://www.cerradofundingcoalition.com/>

3 Implementing traceability

Traceability is also an essential tool to be employed in removing deforestation from supply chains. While many companies across all commodities employ traceability systems, they are still not ubiquitous in normal business practices. Just two thirds of companies in cattle and soy supply chains have some kind of traceability in place. More than a quarter of cattle users and more than half of soy users can only trace to the country of origin [figure 3].

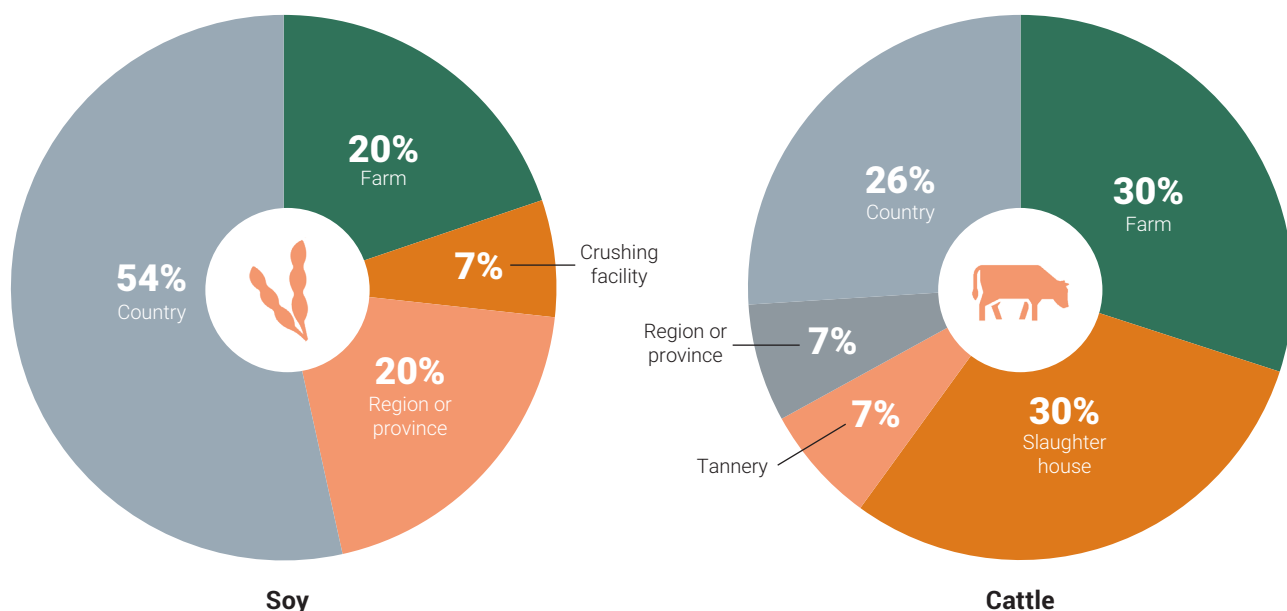
This level of traceability may be insufficient when sourcing from a country like Brazil with high rates of forest loss. Without more granularity than the country of origin, a manufacturer or retailer utilizing soy has no way to know if the commodity is derived from the Amazon biome (that is, where the operation of The Soy Moratorium assures buyers their soy has been produced without driving deforestation); or whether they are buying from a region like the Cerrado (where there is not the same protection in place, native habitat is being rapidly converted to farmland, and companies are therefore introduced to significant risk).

In cattle supply chains, roughly a third of companies trace only to the country or region, a third trace to the slaughterhouse or tannery, and the third trace directly to farms. Regardless, without full traceability all the way to the breeder and rearer, purchasers are again exposing themselves and their downstream supply chain to deforestation. Disclosing traceability to the 'farm' level often means only that a customer only knows what fattening farm cattle come from – and not what indirect suppliers those same cattle have utilized, or the related impact to the forests -- from early in the life cycle of the animal. Breeding and rearing farms often remain invisible to downstream manufacturers and retailers. Yet, recent research suggests that 48% of deforestation in the Brazilian Amazon can be linked to indirect suppliers. This means that without a more comprehensive approach to measuring and managing a company's full supply base forest loss is likely to continue unchecked.¹⁵



15. Walker, Nathalie F., Sabrina A. Patel, and Kemel A. B. Kalif. "From Amazon Pasture to the High Street: Deforestation and the Brazilian Cattle Product Supply Chain." *Tropical Conservation Science*, (August 2013), 446–67. doi:10.1177/194008291300600309.

Figure 3: Point in supply chain to which supply is traceable



Today the cattle market has two types of suppliers: (i) 'full cycle' and (ii) partial cycle. For the first group ("full cycle"), Marfrig has 100% traceability of cattle supply through the Marfrig Club program. Whereas in the second group Marfrig developed the RFI tool (Request for Information), which is submitted to our direct suppliers to collect information about where they are buying animals from. Cattle ranchers who supply cattle purchased from third parties (indirect suppliers) must inform the origin of the animals purchased. Marfrig is increasing the utilization of the RFI and is engaging the best efforts to achieve 100% of its indirect suppliers covered by 2025 through RFI. In addition, we aim to increase the number of suppliers participation in the Marfrig Club good farming practices program from 83% to 100% by 2020, which will permit a higher traceability and compliance with no deforestation in the Amazon Biome.

- Marfrig

While a lack of appropriate tools may have been a barrier to establishing full traceability in the past, there has been a recent expansion of tools and systems available to companies throughout the supply chain. This includes supply chain engagement and data collection through CDP disclosure and indepth traceability tools such as the National Wildlife Federation's Visipec. Companies utilizing traceability tools increase their visibility of where and under what

conditions these commodities are produced. And while traceability can highlight high-risk parts of the supply chain that require additional information and engagement, it can also help companies pinpoint responsible suppliers who may be operating in relatively higher-risk regions, enabling targeted sourcing, which can help support more sustainable practices in the places that need it the most.

Companies working in these high risk supply chains associated with significant forest loss must increase their visibility all the way to the ground, in order to ensure the integrity of their supply, and to protect themselves and their full downstream supply chain from deforestation.

Visipec offers enhanced traceability for Brazilian cattle supply chains

Visipec is a new traceability tool that offers meatpackers in Brazil enhanced supply chain traceability by bringing together property monitoring datasets, deforestation maps, and livestock transfer data all seamlessly integrated in an easy-to-use tool that is available for free. By aggregating public data from different sources, Visipec offers a simple and more comprehensive understanding of impacts up the supply chain, including the links between direct and indirect supplying ranches. The tool is currently being trialed by some of the largest meatpackers in Brazil for their operations in the Amazon region. For more information, please visit: www.visipec.com

CONCLUSION

Companies are setting deforestation-free commitments to produce and source cattle and soy at the same rate as timber and palm oil; yet they lag on the implementation. Given the rate of deforestation, the rising call from both investors and governments to act, and the urgency of advancing climate change solutions, it is imperative that companies ramp up their efforts to implement deforestation-free supply chains.

Companies must take urgent action including:

- Commit to sourcing cattle and soy exclusively from suppliers with robust and credible assurance systems, including effective monitoring, traceability and disclosure practices.
- Support approaches emerging in the Cerrado to work together in a pre-competitive manner to effectively address deforestation at scale. These approaches combined with financial support from downstream supply chain actors to soy producers, for example through the Cerrado Funding Coalition, will help ensure production in the region can continue to grow via deforestation-free pathways, such as by expanding production on the vast extent of already cleared areas.
- Continue to support and help strengthen the Cattle Agreements in the Amazon, by explicitly requesting enhanced traceability and transparency, including to indirect suppliers, which can be achieved by use of new tools, such as Visipec.
- Establish visibility into supply chains and engage suppliers in order to ensure deforestation is not entering a company's supply chain through indirect suppliers. Suppliers who are not complying with deforestation-free agreements must be identified and addressed.

Whether they are directly or indirectly utilizing deforestation-risk commodities, companies need to increase ambition and establish supply chain performance plans to ratchet up implementation efforts. The gulf between acknowledgement, commitments, and actions is substantial.

Cattle and soy reliant companies cannot do it alone, but the actions by the world's largest companies could create a substantial and lasting impact. Best practices will have to be implemented by companies across the board to prevent a climate catastrophe and save the Amazon, Gran Chaco, and Cerrado forests for future generations.

This report is developed in collaboration with the National Wildlife Federation.

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About CDP

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