

## **Investor expectations on deforestation in soybean supply chains**

*This statement is endorsed by 57 investors representing approximately US \$6.3 trillion in assets.*

As investors, we have a fiduciary duty to act in the best long-term interests of our beneficiaries. To that end, we are committed to the incorporation of material environmental, social, and governance issues into investment and active ownership practices, with a belief that these factors will impact the long-term financial performance of portfolio companies.

Agriculture, forestry, and land use accounts for almost a quarter of all anthropogenic greenhouse gas emissions. Deforestation driven by soft commodities is a major source of emissions in this sector, and soybean production is the second largest soft commodity driver of tropical deforestation. Globally, more than one million square kilometres are now dedicated towards growing soybeans.

While we recognise the important role of agriculture and soybean production to economic development and the livelihoods of farmers, we are also concerned that the environmental and social issues associated with unsustainable soybean production could have a material impact on companies that source the commodity.

Companies that source soy products grown in South America are exposed to a number of deforestation-related business risks. These include reputational risks as consumers become aware that a company's supply chain is linked with deforestation, or land and labour rights issues, operational risks from potential changes in local climate and falling agricultural yields, as well as regulatory and litigation risks, and market access risk.

Increased demand for soybean products, in particular soymeal for livestock feed, has been a significant driver of deforestation within South America and particularly Brazil, now the largest exporter of soybeans globally. This means that multinational companies could be increasingly exposed to deforestation risks associated with their sourcing of soy products.

While the Brazilian Soy Moratorium has been successful in reducing deforestation within the Amazon biome, there is now concern that agricultural expansion and soybean production will lead to increased deforestation in other important regions and biomes within South America, such as the Cerrado and Gran Chaco. For example, in recent years the Cerrado has seen significant conversion of native vegetation driven largely by increases in soy production. This biome plays an important role as a carbon sink, storing equivalent to approximately 13.7 billion tonnes of CO<sub>2</sub>, and deforestation in the region has been linked to changes in regional rainfall and reductions in agricultural yield. It is therefore important that attention is paid to these other globally important biomes.

We expect companies to demonstrate commitment to eliminating deforestation within their entire soybean supply chain, and will seek evidence of this on multiple levels<sup>1</sup>, including:

### **1. Awareness and Governance**

- a. Awareness and oversight of sustainability and deforestation issues at board level.
- b. A publicly-disclosed, commodity-specific deforestation policy with a quantifiable, time-bound commitment covering the entire supply chain and sourcing geographies.

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<sup>1</sup> The four key expectations within this statement are intentionally aligned with the final recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The signatories to this statement recommend that companies follow the TCFD's guidance in their disclosures to investors.

## **2. Risk Management and Traceability**

- a. Public disclosure of processes to identify, assess, and manage deforestation risks across the soy supply chain, including:
  - i. The materiality and/or dependence on soy products as inputs or outputs.
  - ii. A traceability commitment that is time-bound, quantifiable and covers both direct and indirect soy suppliers, tracking the percentage of soy procurement that is traceable to product origin.
  - iii. Evidence of a well-documented and transparent monitoring and verification system for supplier compliance with the company's deforestation policy.

## **3. Strategy and Risk Mitigation**

- a. Public disclosure of the percentage of soy sourced from suppliers in compliance with the company's deforestation policy.
- b. Public disclosure of the protocol for supplier non-compliance including requirements for a time-bound corrective-action plan to return to compliance.
- c. Public disclosure of a time-bound strategy to reduce Scope 1, 2, and 3 GHG emissions.

## **4. Metrics and Monitoring**

- a. Public disclosure of the metrics used to identify, assess, and manage soy-driven deforestation risks within the entire supply chain.
- b. Public disclosure of Scope 1, 2 and 3 GHG emissions, calculated in line with internationally recognised GHG estimation methodology and practices.

We will therefore seek to engage relevant investee companies on deforestation-related risks within their supply chains, particularly those with direct or supply chain exposure to soybeans and related products, with a view towards protecting long-term value and mitigating risks.

Endorsed by:



*Aberdeen Standard Investments*



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