

Appetite for destruction

Cattle ranching remains the main driver of deforestation in the Amazon, with land cleared for grazing or the production of soy for animal feed. Sonya Likhtman and Joanne Beatty explain how we challenge companies on their supply chains and engage with policymakers to preserve and restore this important habitat.

Setting the scene

The Amazon rainforest represents nearly a third of all the tropical rainforest remaining on Earth. But deforestation increased under Brazil's Bolsonaro government, partly due to the weakening of policies and limited law enforcement.¹ Over 70% of this deforestation is thought to be accounted for by cattle ranching, with land cleared for grazing.² The production of soybeans, primarily for animal feed, is also a significant contributor to deforestation and the associated biodiversity loss. Clearing and burning the Amazon rainforest destroys vital habitats and releases carbon dioxide back into the atmosphere, fuelling global heating. Studies have shown that large ecosystems, such as the Amazon rainforest, may collapse quickly once critical tipping points are reached.

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In recent years, scientists, environmentalists and Indigenous peoples have become increasingly alarmed by the unprecedented destruction of the Amazon rainforest, particularly in Brazil. Following Luiz Inácio Lula da Silva's narrow defeat of Jair Bolsonaro in Brazil's October presidential elections, the new government immediately pledged to reverse this damage.

It faces a considerable challenge given the scale of the deforestation by loggers, cattle barons and illegal miners, so much so that scientists fear the Amazon is close to a critical tipping point.^{3,4} If this is passed, large parts of the rainforest could become savannah, making it even more difficult to reverse global heating.

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¹ <https://news.mongabay.com/2022/12/despite-11-drop-in-2022-amazon-deforestation-rate-has-soared-under-bolsonaro/#:~:text=Bolsonaro's%20four%2Dyear%20term%20ends,measurements%20by%20satellite%20imagery%20began>

² <https://ourworldindata.org/drivers-of-deforestation>

³ <https://www.theguardian.com/world/2022/dec/05/lula-brazil-amazon-rainforest-deforestation>

⁴ <https://www.the-scientist.com/news-opinion/amazon-rainforest-nearing-savannah-tipping-point-69782>

Why does the Amazon play such a critical role in regulating the planet's temperature?

Forests absorb carbon dioxide from the atmosphere, providing a valuable carbon store, and produce oxygen during photosynthesis. The Amazon rainforest does this on an immense scale, which is why it is often referred to as the lungs of the planet. It is also one of the most biodiverse ecosystems on Earth, providing abundant ecosystem services that sustain our economies and societies.

The Amazon rainforest at a glance

Crosses eight countries and one overseas territory in South America, representing an area approximately

28 times the size of the UK 

Covers

1% of the world's surface but contains **10%** of known wildlife species

A new species of plant or animal is discovered on average every **3** days

Approximately

76bn tonnes of carbon are stored in the Amazon rainforest

Over

400 different indigenous groups are thought to live in the Amazon rainforest

Source: WWF



Cattle ranchers have been responsible for clearing great swathes of virgin rainforest in Brazil in recent years. According to the World Resources Institute, over 40% of the global tropical primary forest loss in 2021 occurred in Brazil, a total of 1.5 million hectares.⁵ This was attributed to forest fires and agricultural expansion, with deforestation for pasture accounting for just over half of the country's total tree cover loss area between 2001 and 2015.⁶

Although 70% of this occurred in the Amazon, another 20% was cleared in the Cerrado. This is a vast region of tropical savannah identified by the WWF as one of Earth's most biodiverse places and critically important for protecting the global climate.⁷ The WWF says that just 14 global agriculture companies have the power to save the Cerrado by ending deforestation and conversion in their supply chains by 2025.^{8,9} Over the years EOS has engaged on deforestation with close to half of these global agricultural companies.

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⁵ The Latest Analysis on Global Forests & Tree Cover Loss | Global Forest Review (wri.org)

⁶ Deforestation Linked to Agriculture | Global Forest Review (wri.org)

⁷ <https://www.worldwildlife.org/pages/save-the-cerrado-our-climate-depends-on-it>

⁸ Save the Cerrado: Our climate depends on it | Pages | WWF (worldwildlife.org)

⁹ Agriculture Sector Roadmap to 1.5 degrees C

Risks posed by deforestation

Commodity-driven deforestation poses significant risks to companies and their investors. These risks can be summarised as follows:

1 Reputational risk

Supermarkets in the UK have come under pressure from consumers, NGOs and investors to address deforestation in animal feed supply chains. In some cases, they responded by ending relationships with suppliers that had links to deforestation in the Amazon rainforest.¹⁰

2 Regulatory risk

A new EU law would require commodities placed in the EU market to be deforestation-free, produced in accordance with the laws in the country of origin, and covered by a due diligence statement.¹¹ In the UK, under the Environment Act 2021, large companies that source commodities are expected to conduct due diligence to ensure their products are free from illegal deforestation and conversion.¹²

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3 Physical risk

Deforestation exacerbates climate change and biodiversity loss, causing more frequent and severe physical climate change impacts and creating risks to the provision of ecosystem services such as water and climate regulation. In addition, many companies are dependent on products derived from the Amazon rainforest, such as pharmaceuticals and cosmetics.

4 Systemic risk

Transgressing any of the safe planetary boundaries, especially those for biodiversity loss and climate change, greatly increases the risk that the earth will shift irrevocably away from the stable state that has characterised the last 11,000 years.¹³

Our engagement approach

Investors have a critical role to play in halting and reversing deforestation, especially through engagement with companies and capital allocation. Federated Hermes Limited (FHL) signed the *Commitment on Eliminating Agricultural Commodity-Driven Deforestation* ahead of COP26 in Glasgow. The commitment focuses on increasing engagement and due diligence to reduce exposure to deforestation in portfolios.

A collaborative initiative called Finance Sector Deforestation Action (FSDA) has been launched to support investors in delivering against this commitment. It uses data from Forest 500 and Global Canopy to help identify those companies at risk of having links to deforestation. EOS is supporting these efforts through collaborative engagements with over 30 focus companies.

For example, following the FSDA letter that we sent to Yum! Brands, which operates fast food chains such as KFC and Pizza Hut, we met the company's chief sustainability officer together with other FSDA coalition members. We pushed for Yum! Brands to increase commodity traceability in its supply chain.

The company said that all its beef was sourced locally for its restaurants and that less than 2% was sourced from Brazil, which supplies Brazilian restaurants. It underlined the challenge of achieving traceability in its soy supply chain but said it had made efforts to map this, and had joined the UK Soy Roundtable. It was good to hear that the company was conscious of emerging deforestation-related regulatory risks, especially in European markets.

We expect companies that source or produce soy, beef and leather, which are commonly linked to deforestation in the Amazon rainforest, to commit to deforestation-free and conversion-free production and sourcing by 2025. The commitment should cover all commodities, regions and suppliers, including indirect suppliers. We also encourage a commitment to achieving full traceability of commodities to source, across all tiers of the supply chain, in order to demonstrate that the company's value chain is deforestation and conversion-free. There should also be an explicit commitment to respect human rights.

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¹⁰ Tesco suspends supply from deforestation farms in wake of recent report – Grocery Gazette – Latest Grocery Industry News

¹¹ <https://www.europarl.europa.eu/news/en/press-room/20221205IPR60607/deal-on-new-law-to-ensure-products-causing-deforestation-are-not-sold-in-the-eu>

¹² <https://www.iisd.org/articles/policy-analysis/deforestation-overview-eu-british-proposals#:~:text=The%20UK%20Environment%20Act%202021,compliance%20with%20relevant%20local%20laws>

¹³ Planetary boundaries: Guiding human development on a changing planet | Science

Companies should focus on the implementation of the commitment by articulating a clear strategy for how their operations and supply chain will become deforestation and conversion-free. This includes setting clear expectations for suppliers and creating mechanisms to enforce them. Ongoing due diligence and monitoring of suppliers and operations will be critical for effective implementation. Equally, ongoing collaboration will be necessary to tackle this complex issue.

For example, in an October 2022 call with the head of sustainability at JBS, we reiterated our concern about controversies related to the acquisition of cattle raised on deforested land. JBS confirmed the company's target of achieving 100% full traceability of the supply chain by 2025. Currently, 36% of all cattle acquired by JBS can be fully traced.

The company highlighted its engagement with smaller farmers in its supply chain and its provision of technical assistance. Approximately 3,000 small farmers that had been excluded from its list of approved suppliers were reinstated after engaging with JBS and implementing the recommendations made by the company's technical assistance team.

We continue to engage with companies that are exposed to deforestation risks. Our vote policy also includes a deforestation dimension, which targets companies that are lagging on disclosure and risk management. In 2022, we expanded the policy to look at poor performing financial institutions, as well as companies. In 2022 we recommended opposing directors on the Archer-Daniels Midland board due to concerns that the company had not taken adequate climate and deforestation risk mitigation measures. The company is one of the world's largest agribusiness traders in soft commodities including soy (see case studies).



CASE STUDIES

Agri-commodity traders and processors: Cargill, Bunge and Archer-Daniels Midland



We have engaged with Cargill, a global soft commodities trader, Bunge, a US agribusiness and food company, and Archer-Daniels Midland, a food processing and commodities trading company, which are all on the FSDA list. The three are also signatories to the Agriculture Sector Roadmap to 1.5°C, outlined in a joint statement agreed at COP26 by 13 of the world's largest agri-commodity traders and processors.¹⁴ The statement commits the signatories to developing a shared roadmap for supply chain action, consistent with a 1.5°C pathway.¹⁵

The roadmap aims to reduce emissions from land-use change in the cattle, palm oil and soy sectors through three pillars. These are: to accelerate supply chain action to reduce emissions; to drive transformation of commodity producing landscapes; and to support forest positive sector transformation.

Although the roadmap was hailed for its collaboration by the sector, critics argued that it did not meet its primary aim of defining enhanced action in line with a 1.5°C pathway, as there was no plan to eliminate land use change quickly enough or broadly enough. This was particularly the case for the soy sector, according to the Accountability Framework Initiative.¹⁶

Cargill

As a signatory to the roadmap, in November 2022 Cargill announced it would eliminate deforestation in its supply chain in the Amazon, Cerrado and Gran Chaco biomes by 2025.¹⁷ As part of the FSDA initiative, we sent Cargill a letter asking for a meeting to discuss our expectations of company action towards eliminating deforestation and its progress.

In December 2022 we joined an FSDA collaborative engagement with the company.

Bunge

Bunge complies with the Amazon Soybean Moratorium, a multi-stakeholder initiative that forbids the purchase of soy grown on land in the Amazon biome after 2008. The Moratorium has resulted in a reduction in soy-driven forest loss. Bunge continues to observe the Moratorium and reports on its progress annually.

In a November 2022 call with the company, Bunge was confident it would achieve its commitment on deforestation, having already reached 64% traceability for indirect sourcing. It had taken a collaborative approach with peers to engage smaller suppliers, the aim being to have all sellers engaged. It will stop engaging with those sellers who are not on board by 2025 and it is unlikely those suppliers will be in the company's supply chain. In February 2023, it stated that it had achieved 80% traceability and monitoring of soybeans from its indirect supply chain in the Brazilian Cerrado.¹⁸

¹⁴ <https://www.tropicalforestalliance.org/assets/Agriculture-Sector-Roadmap-November-2022-v2.pdf>

¹⁵ Agricultural Commodity Companies Corporate Statement of Purpose – UN Climate Change Conference (COP26) at the SEC – Glasgow 2021 (ukcop26.org)

¹⁶ <https://accountability-framework.org/commodity-traders-must-take-action-beyond-the-agriculture-sector-roadmap-to-achieve-a-true-1-5c-pathway/>

¹⁷ <https://www.cargill.com/doc/1432219233265/2022-esg-report-all.pdf>

¹⁸ <https://www.bunge.com/news/bunge-announces-increased-monitoring-soybeans-its-indirect-supply-chain-brazil>

In December 2022 we joined an FSDA collaborative engagement with the company. Bunge welcomed investor commitments to ending deforestation, saying that this support had helped the sector enormously, and its own leadership on the topic. Having compared the FSDA commitment with its own actions, the company said it was aligned.

We also discussed Bunge's involvement in developing the Agriculture Sector Roadmap to 1.5°C. We spoke about the growing pressure on the no deforestation cut-off date of 2025, which creates the risk of more rapid deforestation in the years running up to 2025. We highlighted policies that encourage the adoption of a retrospective date of 2020. But Bunge said that to adopt this, it would be forced to exclude certain suppliers, and it would not do this unless there was a mainstream (sector-wide) commitment.

Nevertheless, Bunge develops and provides multiple programmes and incentives to its suppliers that discourage native vegetation conversion. These include the use of technology tools providing information on open clearing zones and preferential financing and certification programmes for farmers who meet certain criteria. It also works with industry partners to advance collective impact projects, such as through the Soft Commodities Forum, and through Abiove. We welcomed the progress on Bunge's vegetation restoration efforts with farmers.

Archer-Daniels Midland (ADM)


During 2022's Earth Week, ADM committed to achieving 100% deforestation-free global supply chains by 2025, five years earlier than its previous 2030 target. In a subsequent engagement in August 2022 with the chief sustainability officer and investor relations representative, ADM again highlighted its accelerated no deforestation goal. This has been supported by advancements in technology, combining satellite technology with farmer updates. By the end of 2022 it had achieved its 100%

traceability goals in direct and indirect soy supply chains in Brazil, Paraguay and Argentina.

Given that industry targets for zero deforestation were missed in 2020 (although ADM itself did not have a 2020 goal), we asked the company in a Q1 2023 engagement how confident it was that it could meet its new 2025 target. It was confident that the current timeline was possible due to satellite imagery developments, which can show forest clearing in real time. We encouraged the company to remain focused on traceability and supply chain due diligence.

We pointed out that the current targets for sustainable agriculture are not sufficiently ambitious, as they are focused on a small proportion of wheat in the US. We encouraged ADM to scale up its targets and its approach, extending this to other regions and commodities. We also asked the company to provide more clarity on how it encourages farmers to transition to regenerative agriculture, and how it tracks the outcomes on carbon, water, biodiversity and other indicators.

In March 2023 ADM disclosed further details about its regenerative agriculture initiative. It has engaged 1.2 million acres in regenerative agriculture practices and announced a seven-year agreement with PepsiCo to engage a further two million acres, amongst other partnerships. Finally, we asked ADM to develop an overarching strategy on biodiversity and take leadership in this area, including by assessing and disclosing its impacts and dependencies in line with the upcoming Taskforce on Nature-related Financial Disclosures.



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Outlook for 2023 and beyond

A change of government policy in Brazil, regulatory developments in the UK and EU, and renewed industry focus on deforestation offer some hope for protecting one of the world's most biodiverse ecosystems. However, the 2025 zero deforestation goals are now relatively near-term and there is still significant work ahead to deliver on these commitments. Investors must hold companies to account for delivering on the tight timeline, and ongoing collaboration between stakeholders will remain important.

With the Kunming-Montreal Global Biodiversity Framework now agreed, countries must get to work on translating the framework into targets and policies at the national level. Investors and

companies should keep abreast of emerging regulatory developments, such as biodiversity disclosure requirements. The final version of the Taskforce on Nature-related Financial Disclosures (TNFD) is due in Q3 2023 and expected to strengthen company disclosure on biodiversity risks and opportunities.

We will continue to engage on deforestation and biodiversity loss directly with companies and through collaborative initiatives such as the FSDA. Biodiversity has rightly shot up the investor agenda; looking ahead, it will be critical to maintain the momentum and focus on halting and reversing biodiversity loss in this decade.



What does COP15 mean for investors and companies?

The UN's Biodiversity Conference – also known as COP15 – delivered a new Global Biodiversity Framework that aims to halt and reverse destruction of the natural world. We attended COP15 as part of the Finance for Biodiversity Foundation delegation. Sonya Likhtman outlines our involvement, what was achieved, and the implications for investors.

What was agreed at COP15?

The Kunming-Montreal Global Biodiversity Framework (GBF) features four goals for 2050 and 23 action-oriented targets to stimulate action up to 2030. Highlights include a commitment to effectively conserve and manage at least 30% of land and oceans and a pledge to restore at least 30% of degraded ecosystems. There are targets to halve global food waste, address the risk from pesticides and highly hazardous chemicals, and implement nature-based solutions to align climate and biodiversity action. Important finance-related targets for 2030 include phasing out or reforming subsidies that are harmful to biodiversity by at least US\$500bn per annum and mobilising at least \$200bn annually from public and private sources for biodiversity-related funding.

The reaction to the Kunming-Montreal agreement was broadly positive, although some experts pointed to the need for more numerical targets and specificity in some areas. The Aichi targets that were in place from 2010 to 2020 were almost completely missed.¹ However, with greater awareness of the systemic risk posed by biodiversity loss, it is likely that there will be heightened scrutiny for the newly agreed framework.

How did we participate?

Federated Hermes Limited (FHL) was at COP15 as part of the Finance for Biodiversity Foundation delegation. We actively participated in COP15 in our capacity as co-chair of the Public Policy Advocacy working group within the Foundation. For a year and a half leading up to COP15, the Public Policy Advocacy working group followed the negotiations, engaged bilaterally with member states, and provided suggestions for the draft text. We developed three position papers ahead of each round of negotiations to explain the position and rationale behind the text suggestions.

The core goal was to ensure that the GBF captured and emphasised the important role that the private finance sector must play in halting and reversing biodiversity loss. We advocated for the framework to require the alignment of public and private financial flows with biodiversity goals and targets. This language signals the need for financial institutions to reduce financial flows

that are currently harming biodiversity, and increase flows that can support nature protection and restoration, especially through stewardship and capital allocation.

What are the implications for investors and engagement?

Parts of the framework that reference private finance closely mirror the position we advocated for through the Finance for Biodiversity Foundation. Goal D and Target 14 require the alignment of financial flows with both the 2030 targets and the 2050 vision, which secures a focus on implementation in the short, medium and long term.

Target 15 requires governments to ensure that large companies and financial institutions assess and disclose their risks, impacts and dependencies on biodiversity throughout their operations, value chains and portfolios. This closely reflects the expectation we set in our white paper, *Our Commitment to Nature*,² for companies to assess, measure and disclose their impacts and dependencies on nature throughout their operations and supply chains. The Taskforce on Nature-related Financial Disclosures (TNFD) framework is due to be completed in the third quarter of 2023, which will enable companies and financial institutions to produce more standardised and relevant nature-related disclosure.

The GBF references other areas that are relevant to companies and investors, which will support our ongoing engagement efforts on topics such as deforestation, climate change and the circular economy. The framework also recognises the important role of Indigenous communities.

The Kunming-Montreal agreement is an important step, but it is just the starting point. All eyes must now turn towards effective implementation of the GBF at the national level. Countries are required to submit their National Biodiversity Strategies and Action Plans (NBSAPs) ahead of COP16, which will take place in Turkey in 2024. All stakeholders, including the financial sector, have a significant amount of work to do to successfully implement the full scope of GBF goals and targets.

¹ <https://www.theguardian.com/environment/2020/sep/15/every-global-target-to-stem-destruction-of-nature-by-2020-missed-un-report-aoe>

² <https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/our-commitment-to-nature/>

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