

# **TACKLING DEFORESTATION**

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Soft commodities report

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## 1. INTRODUCTION

Sustainable management is key to prevent the impacts potentially attached to the palm oil, soy and timber sectors: deforestation and related climate impacts, destruction of valuable habitats and biodiversity, impact on smallholders' livelihoods, land grabbing or impact on indigenous peoples' lands. Private companies involved in agricultural commodities as well as governments and, indirectly, financial institutions such as Societe Generale, have a key role to play to foster the supply of deforestation-free soft commodities.

The objective of this report is to set a diagnosis on Societe Generale's impact on deforestation through its activities and the efficiency of the measures already implemented for tackling deforestation in order to identify how to improve (i.e. make it more operational and efficient) the Environmental and Social (E&S) risk management framework associated to soft commodities. Societe Generale is indeed willing to remain a value-adding partner to its clients in these sectors, while ensuring that such support is provided in a responsible and considered manner.

This report is aligned with the approach of the Soft Commodities Compact (SCC) that Societe Generale joined in 2015. While the zero net deforestation ambition targeted by the SCC's banks by end 2020 has not been achieved, individual and collective efforts must be pursued to accelerate the decoupling of soft commodities production from deforestation and Societe Generale is committed to progress on this path.

This report is focused on the CIB portfolio of the Group and more specifically on soft commodities traders active in the soy, palm oil and timber value chain.

Exposure to beef being low, this commodity is therefore not covered in this report although included in the SCC's framework.

## 2. THE E&S RISK MANAGEMENT SYSTEM APPLICABLE ON SOFT COMMODITIES

The Group expects its clients to comply with the legal and regulatory provisions of the territories in which they operate regarding the protection of species, habitats and ecosystems. Beyond this, the Group is committed to manage the E&S risks potentially attached to its activities and published [E&S sector policies](#) detailing the specific evaluation criteria and/or due diligence processes conducted on sensitive sectors.

The E&S Risk Management system is structured around steps of identification, evaluation and risk prevention or mitigation. It is the backbone of the [Duty of Care Plan](#) set up by the Group to identify risks and implement appropriate measures to prevent serious human rights and environmental breaches occurring as a result of its activities (as required by the French Duty of Care law of March 2017).

Specific E&S sector policies have been drawn up on Palm oil, Forestry and forest products, and Agriculture, fisheries and food considering the massive impact of these sectors on biodiversity preservation, climate change mitigation and human rights protection. Those policies detail the evaluation criteria applicable on clients, dedicated transactions and specific types of financial products.

Active clients and transactions in the palm oil, soy or timber sectors (and more largely agriculture and forestry) are identified by the CIB business lines based on relationship managers and front officers' knowledge, portfolio reviews led by risk officers and crossed-checked with NACE codes and exposure data. The E&S experts within CIB and at Group level are also participating to this monitoring.

All clients identified as significantly active in these sectors and transactions in these sectors are reviewed to analyze:

- **Client and transaction alignment with the Bank’s E&S standards.** More specifically are considered:
  - For transactions linked to specific underlying assets, projects or activities located within, or with potential material impacts on internationally or nationally legally protected areas, or Key Biodiversity Areas, the application by the client of a mitigation strategy that complies with international standards to protect and conserve biodiversity and, where relevant, adequate consultation of local population and other stakeholders;
  - In the case of palm oil and soy respectively, RSPO and RTRS memberships, the percentage of production areas, tons produced, supplied or processed that are RSPO or RTRS certified;
  - In the case of timber, FSC and PEFC certification;
  - Client commitment to Zero Net Deforestation, including Zero deforestation commitment, a “No Deforestation, No Peat and No Exploitation” policy (NDPE) or an action plan to eliminate deforestation together with a No protected area, no High Conservation Value (HCV), High Carbon Stock (HCS) and no Peat policy.
- **Client and transaction related reputation risk inferred by E&S factors, especially in case of severe E&S controversies** relating to the client or its activities or geographies. All relevant E&S issues are being looked at including deforestation, certification and human rights issues.
- **Client E&S maturity** especially in terms of E&S risk management, grievance mechanism as well as local or regional initiatives joined by clients beyond certifications to enhance its E&S performance.

This evaluation is based on public information disclosed by the clients (annual or sustainability reports, external positions and policies), by certification bodies especially through annual reporting (RSPO and RTRS), by NGOs or organizations such as Forest 500; and non-public information directly gathered from the clients.

It is important to note that divestment is not considered as the preferred answer especially with clients that are partially aligned and have engaged to step up towards certification and zero net deforestation. Recognizing that certification is a long and resource consuming process and that the maturity of certification schemes varies amongst the geographies, Societe Generale is willing to support companies which are on a path towards certification, or have practices aligned with certification requirements, if their commitments are evidenced and time-bound.

Client engagement is therefore seen as a key opportunity to:

- explain Societe Generale’s commitments, including E&S sector policies on Palm oil, Forestry and Agriculture, on biodiversity as well as Soft Commodities Compact commitments;
- understand the effective steps taken by the clients to move towards relevant certification and zero net deforestation, in more detail and with more illustrations than what is externally reported by them;
- discuss actions that could be taken by the clients to improve their management of E&S risks, to support the transformation of their supply chains away from deforestation.

Finally, the trade commodity finance portfolio is subject to an annual dedicated Group Risk Committee, in which E&S considerations are addressed along with the other risk typologies.

### 3. PORTFOLIO ANALYSIS

Societe Generale CIB assesses, and monitors clients significantly involved in the palm oil, soy and timber upstream and midstream sectors, in areas with high risk of deforestation or strong impact on biodiversity. These clients are mostly integrated players, having production, processing facilities, trading and/or transport activities on a set of commodities, generally beyond palm oil, soy and timber.

#### 3.1. Client's key areas of action

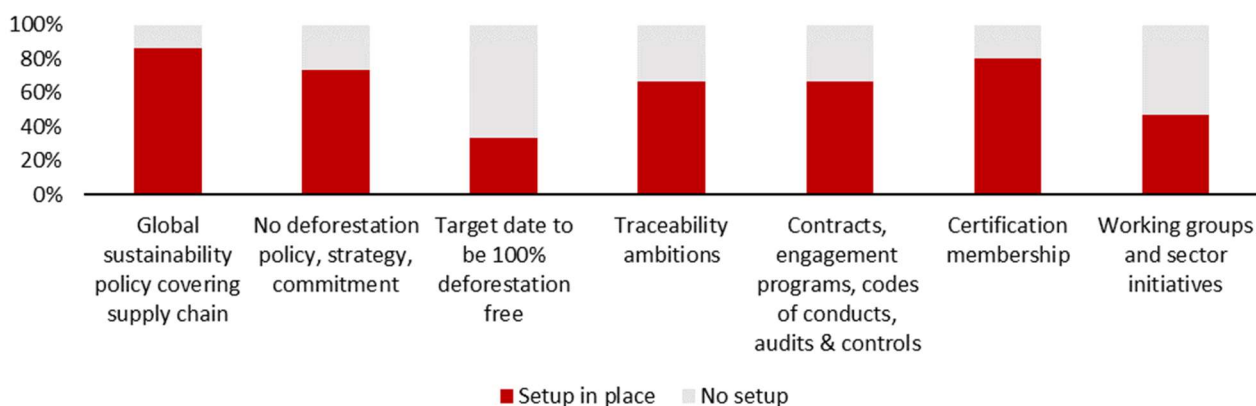
As part of the E&S assessments carried out on the clients, Societe Generale CIB focuses on applying the criteria set in the Group's E&S sector policies as well as on assessing the key levers put in place by the clients to address deforestation risks in sensitive areas. **The assessments have shown that most of CIB clients involved in the targeted commodities are gradually integrating practices which are shared as market standards:**

- **Global sustainability policies applicable throughout the supply chain;**
- **Specific commitments and policies on no deforestation**, including No Deforestation No Peat No Exploitation (NDPE) policies and targets to reach 100% deforestation and conversion free sourcing;
- **Supply chain traceability** used to assess the risks of deforestation in the sourcing areas, using tools such as satellite views, geolocation, verifications on the ground... Most clients monitor their share of products traced back to plantations and/or back to mills or silos and some of them disclose target dates for achieving 100% traceability along the supply chain. Large agri-commodities are seeking to maximize the ratio of soy purchased directly from farmers, as they can monitor the farmers' practices through on-the-ground and satellite observation, while their ability to trace the productions sourced indirectly from intermediaries is more limited;
- **Enforcement of policies**, using (i) mechanisms to contractually encourage their suppliers to apply responsible agricultural practices, without resorting to deforestation of HCV/HCS areas; (ii) codes of conduct specific to suppliers to which they are required to adhere; (iii) supplier engagement and sustainability programs; (iv) audit and verification systems on the field;
- **Certification memberships**, through which companies monitor the share of certified volumes in their total produced/processed/traded volumes and set up roadmaps to achieve 100% certified sourced products;
- **Participation in global initiatives** to collectively tackle deforestation in priority areas, such as moratoriums and common platforms on soybean culture. For instance, all large agri-commodities traders have signed the 2006 Amazon Soy Moratorium, by which they have pledged not to source soy from areas deforested after 2008 in Amazon Biome or from producers who are not compliant with other socio-environmental requirements across Brazil. Most large agri-commodities traders have also joined the Cerrado Working Group formed in 2017, which is seeking solutions to end legal conversion of natural areas (by developing an environmental compensation mechanism that would compensate farmers to keep native vegetation inside their lands beyond the legal requirements)
- **Introduction of KPIs in financing solutions** is developing among the soft commodities players, for instance, in relation with the traceability of soy sourced directly from farmers or the ratio of zero-deforestation certified soy in total sourced products.

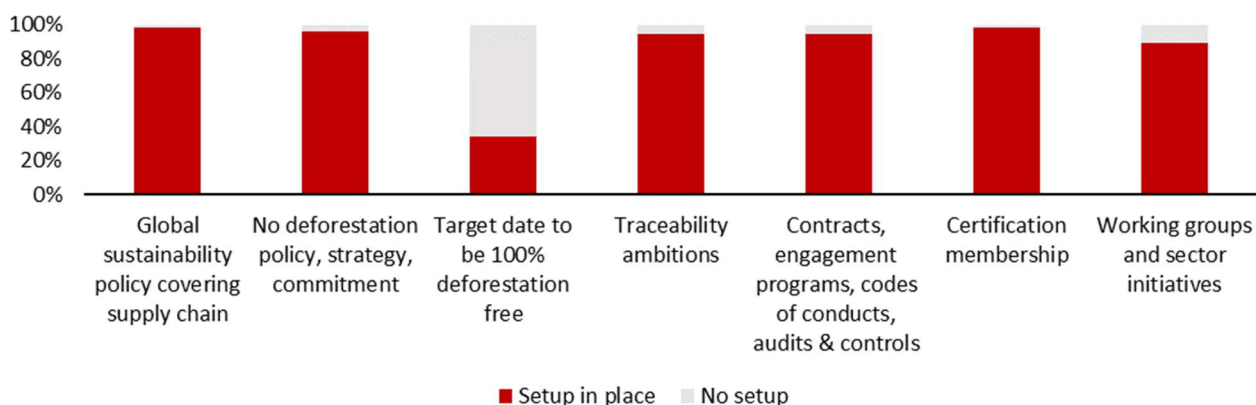
**At this stage, while the results are generally positive on the scopes these integrated clients fully control, management of the supply chain remains more difficult due to traceability hurdles.**

## Status of relevant Societe Generale CIB clients against policies and practices to tackle deforestation

### In number of companies



### In bank's exposure



- ⇒ **Takeaway: Societe Generale's exposure is concentrated on players that are in the right track in terms of no-deforestation policies and practices. Yet, focus should be maintained on engaging with clients to reach a commitment to achieve 100% "deforestation and conversion free" supply chains.**

## 3.2. Focus on specific commodities

### 3.2.1 Palm oil

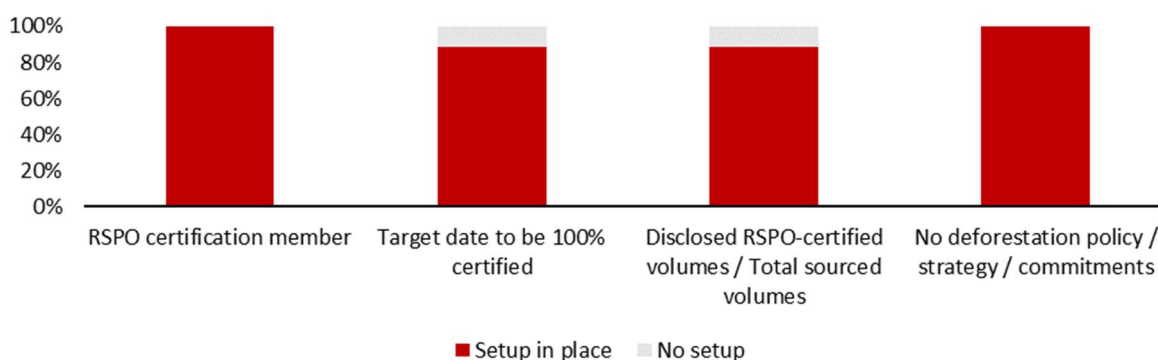
All Societe Generale clients operating in the palm oil industry, whether as producers, processors or traders, integrate RSPO certification of their plantations or activities in their strategy to combat deforestation in HCV/HCS areas. Their strategy generally includes a No Deforestation No Peat No Exploitation policy, supply chain traceability systems and supplier engagement programs.

Almost all the clients have also defined target dates to certify their own facilities or to achieve 100% RSPO-certified sourced products. However, most report difficulties to meet their initial target due to various factors including the need to implement preliminary projects to trace palm oil from mills, delays in the certification processes and the lack of market demand for certified palm oil.

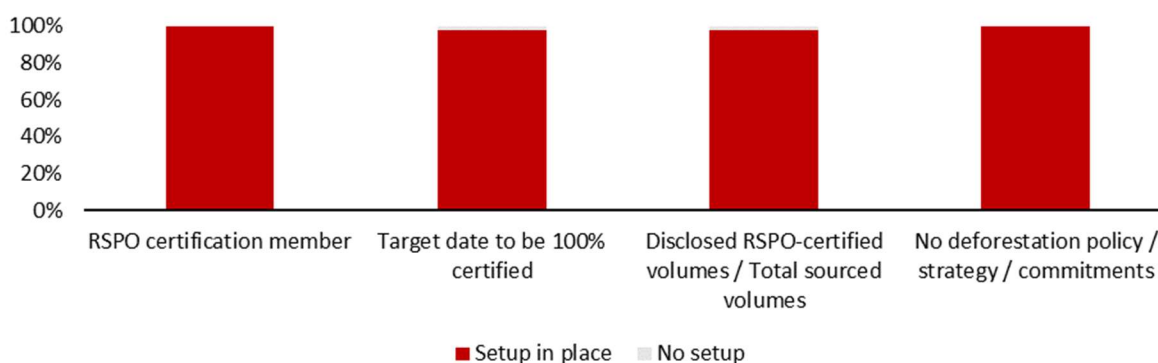
Societe Generale intends to continue following up on progress of its clients, especially those that would show the least maturity in adopting responsible practices in the production or trade of palm oil and palm products.

#### Status of relevant Societe Generale CIB clients on RSPO certification

##### In number of companies



##### In bank's exposure



⇒ **Takeaway: Societe Generale's exposure is concentrated on players that are in the right track in terms of no-deforestation policies and practices in their palm product activities.**

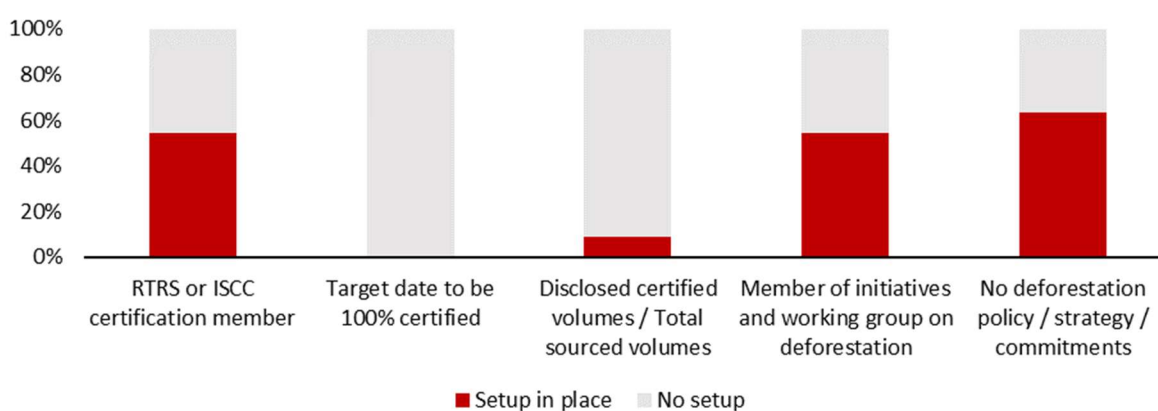
### 3.2.2 Soy

A majority of Societe Generale clients operating in soy, whether as producers, processors or traders, integrate RTRS, ISCC or other recognized certification scheme of their plantations or activities in their strategy to combat deforestation in HCV/HCS areas. Most of them have specific Responsible Soy policies which include supply chain traceability systems and supplier engagement programs. A number of them have also joined common initiatives to tackle deforestation in areas with the strongest impacts on biodiversity. These initiatives have so far proved effective in combating deforestation in these most vulnerable areas and should be extended to or duplicated in other highly sensitive areas.

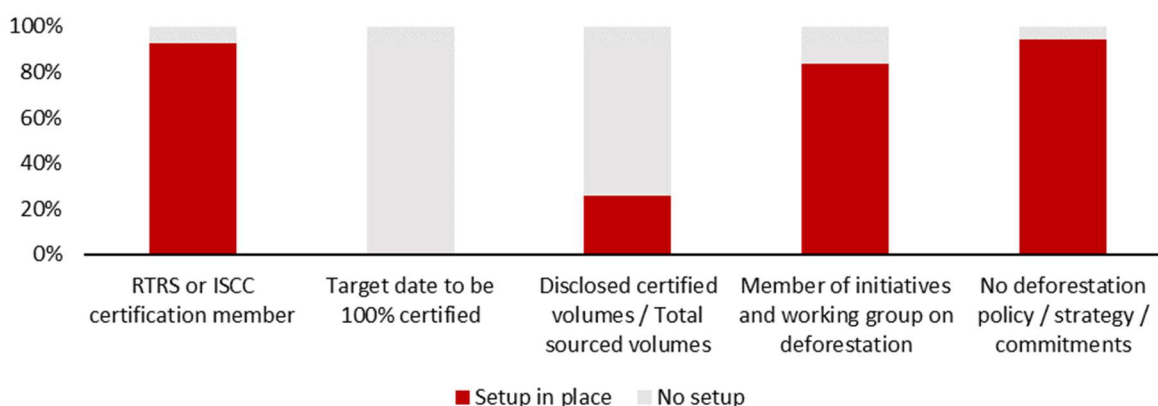
However, only a limited part of the clients with RTRS membership report on the extent to which soy produced or sold is certified and none of them have committed to a target date to only source certified products.

#### Status of relevant CIB clients operating in soy

##### In number of companies



##### In bank's exposure



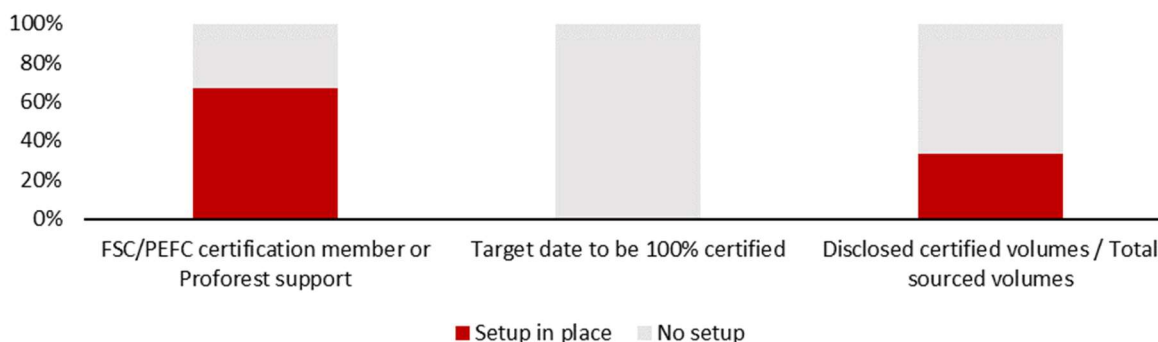
⇒ **Takeaway: Societe Generale's exposure is concentrated on players that are in the right track in terms of no-deforestation policies and practices in their soy product activities. Yet, focus should be maintained on engaging with client to reach a commitment to achieve 100% "deforestation and conversion free" soy supply chains. The results need to be considered in a context of low penetration of certification schemes for this commodity.**

### 3.2.3 Timber

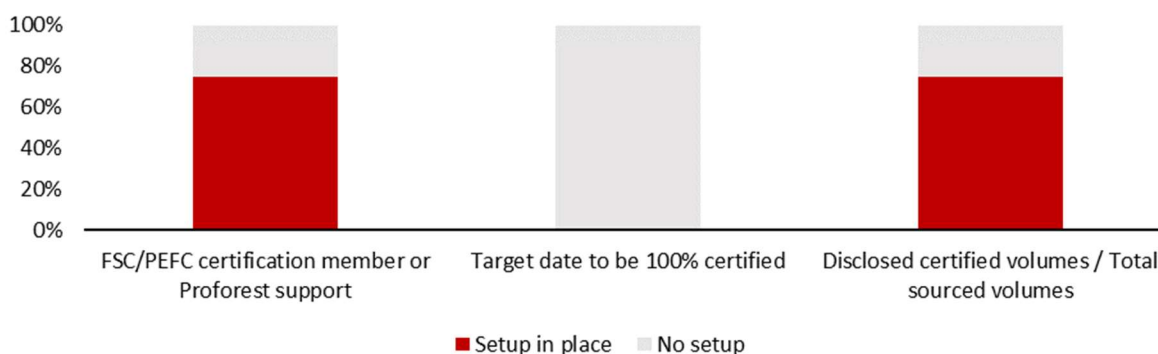
Most of Societe Generale clients in the forestry sector are not operating in areas with high risk of deforestation. All relevant Societe Generale clients with operations in high risk of deforestation countries have a no deforestation strategy but 2/3 of them are either FSC or PEFC certified or supported by Proforest in their HCV/HCS assessment of plantations. Societe Generale intends to continue following up the progress made by its clients on sustainability and deforestation-free value chains.

#### Status of relevant CIB clients operating in timber

##### In number of companies



##### In bank's exposure



⇒ **Takeaway: Societe Generale's exposure is concentrated on players that are in the right track in terms of no-deforestation policies and practices in their timber product activities. Yet, focus should be maintained on engaging with clients to reach a commitment to achieve 100% "deforestation and conversion free" timber supply chains. The results need to be considered in a context of low penetration of certification schemes for this commodity.**

## 4. LIMITATIONS AND PERSPECTIVES

While the analysis carried out by the Group on its soft commodities portfolio highlighted that our major clients active in these sensitive sectors are aware of the issues related to their supply chains, have made commitments and are gradually implementing measures to limit the risks associated with their activities, it revealed also the limits:

- for our clients to implement these initiatives and ensure their effectiveness,
- for the bank to monitor/measure the progress actually made by its clients.

### Difficulties encountered by our clients:

- **Difficulties to trace soft commodities supply origin:** Both leeway and traceability schemes are burdened when a direct access to the production and the lands is not possible, what may represent the largest share of sourcing for some traders. In Brazil for example, large companies often depend on a very large network of local farmers who own the land and sell their production through intermediaries. Traceability is still insufficient to identify the original plantations of these productions and the E&S practices of the growers who operate them. However, satellite monitoring, geolocation and risk mapping are being developed to improve the traceability of productions back to plantations.
- **Difficulties to engage of whole supply chain, beyond direct suppliers:** Supplier engagement, sustainability programs and contracts including requirements on sustainable agricultural practices mainly target large companies' direct suppliers, while a significant share of the companies' total sourcing may come from indirect suppliers who rely on cooperatives, mills and silos, to sell their production. Engagement and contracts including clauses governing deforestation issues remain a major challenge throughout the value chain.
- **Limits of the certification approach:** Although certifications processes like RSPO for palm oil and RTRS for soy are widely recognized standards and were supported by the Soft Commodities Compact as adequate certification schemes to achieve zero net deforestation, the level of coverage of global production by these certifications remains insufficient (19% for RSPO and less than 5% for RTRS) and the demand in certified products is weak and very dependent of their destination. That explains why soft commodities companies have such difficulties to meet their target date to be 100% certified.

### Difficulties for the bank:

- **Difficulties to link the financing to the environmental impact:** On large and often fully integrated corporate clients, the bank's lever is strongly dependent on the nature of the entity the financing is provided to (producing subsidiary, trading entity, financial holding, mother company) and the type of funding. While Societe Generale could be asked to finance dedicated transactions like trade commodities finance, funding can also be provided through corporates financial products or services, not directly linked to soft commodities supply and not giving access to origin data.
- **Disparities in the maturity of the companies on sustainability issues** (the largest players generally being the most advanced) and on reporting capacities.

Based on these observations and taking comfort on the progress already done by corporate companies involved in the agri-food value chain and a more supportive external context, Societe Generale is therefore willing to support its clients that are already engaged in a transition to anti-deforestation compliance but also intend to strengthen its monitoring of actions.

To this end, Societe Generale will examine the following tracks of progress:

- **Review of its E&S risk management framework for soft commodities:** As part of the continuous improvement process of its E&S risk management framework, Societe Generale initiated the review of several E&S sector policies including those on Agriculture, Palm oil and Forestry. Updated policies are expected to be published in 2021. This review aims at clarifying the evaluation criteria, ensuring that the policies are fully operational and reflect the relevant standards of these sectors. Societe Generale intends to work closely with its clients, local and international NGOs as well as banking peers to integrate efficient, feasible and measurable mechanisms and will strive to identify, for each commodity, the most relevant sustainability KPIs that could be implemented beyond existing certifications schemes.
- **Set targeted action plan on specific clients:** In addition to the E&S risk management framework that is applicable on all companies active in sectors covered by E&S policies and in order to increase its local leverage on critical activities, Societe Generale may require specific action plan on clients identified as having a local serious negative impact on deforestation. On the other hand, some commercial positive incentives could be further developed to accelerate actions in favor of deforestation- or conversion-free commodities supply, using for example sustainability-linked financial solutions.
- **Extend analysis and actions throughout the agri-food value chain:** As stated above, soft commodities flow along supply chains from producer to consumer, during which time they are processed and traded. While traders are a key link in the value chain, actions on local producer clients for on-the-ground material progresses could be considered as well as incentives on downstream industrial clients that are driving the demand.

## 5. KEY TERMS

**Active client:** Are considered active clients in this report, companies with whom Societe Generale Corporate and Investment Bank has active banking relationship, i.e. to whom CIB provides financial services and/or has credit exposure.

**Areas with high risk of deforestation or strong impact on biodiversity:** Palm oil plantations are almost always in humid tropical forests areas, so that all production regions are considered high priority. The primary focus areas on soy are the Amazon, the Cerrado, the Atlantic Forest, the Gran Chaco, and the Chiquitano.

**RSPO:** Round Table for Sustainable Palm Oil. Unites stakeholders from the 7 sectors of the palm oil industry: oil palm producers, processors or traders, consumer goods manufacturers, retailers, banks/investors, and environmental and social non-governmental organizations (NGOs), to develop and implement global standards for sustainable palm oil.

**RTRS:** Round Table on Responsible Soy. Promotes the growth of production, trade, and use of responsible soy. It works through cooperation with those in, and related to, the soy value chain, from production to consumption.

**FSC:** Forest Stewardship Council. Promotes responsible management of the world's forests: ecologically appropriate, socially beneficial and economically viable to meet the needs of present and future generations.

**PEFC:** Programme for the Endorsement of Forest Certification. Endorses national forest certification systems that have been developed through multi-stakeholder processes and tailored to local priorities and conditions.