T20 Policy Brief

Task Force 02

SUSTAINABLE CLIMATE ACTION AND INCLUSIVE JUST ENERGY TRANSITIONS

Regulatory Instruments for Granting Credit to the Meat Chain: Contributions to Mitigate Deforestation and Climate Change

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Abstract

A significant part of greenhouse gas emissions arises from agricultural activities. Brazil is responsible for 3% of global GHG emissions, and agricultural area emissions have furthermore increased by 3.2% since 2021. (SEEG,2023)[1]. Worldwide the meat industry accounts for nearly 60% of all greenhouse gas emissions related to food production (Xu, 2021). It is, moreover, directly related to the accelerated deforestation of biomes, such as the Amazon, which are fundamental to the entire planet, thus contributing to the worsening of the climate crisis.

The agricultural chain is complex and involves different actors globally such as livestock farmers, feed producers, slaughterhouses, the distribution and retail sector. Financial institutions play a fundamental role in this sphere, as they grant credit to different companies in the production chain and invest in companies in the meat value chain. According to Greenpeace press release in March 2024, since the 2015 Paris climate agreement, European banks have lent about €256 billion to corporations that put forests, savannahs and other climate critical natural ecosystems at risk, according to new research.

[1] In the agricultural sector, emissions from the digestion carried out by herds of ruminant animals, which emit methane – enteric fermentation, the popular "burp" of the ox –, from the treatment and disposal that the waste of these animals receive, from the cultivation of rice under the irrigated regime, the burning of agricultural residues from the cultivation of sugarcane and cotton and those caused by the way agricultural soils are managed, considering the increase in nitrogen through the use of inputs, agricultural operations and the use of limestone (managed soils).

Given the relevance of the necessary transformations in food systems for the G20, the T20 Indonesia published recommendations on sustainable agriculture. These recommendations attribute responsibility to governments for subsidies granted to farmers whose practices harm nature and suggest contributing financial resources to encourage sustainable transition of food systems.

In this context, taking the Brazilian case as an example, in which agriculture is responsible for the rise of deforestation and, consequently, the worsening of climate crisis, and considering the important role of financial institutions in tackling these issues, this policy brief aims to contribute to the development of policies and recommendations for different actors in the value chain. It emphasises the role of governments and the G20, in establishing good practices and overcoming challenges and gaps to put in place a meat production chain aligned with socio-environmental protection.

To reduce the environmental and social impact of the meat chain, it is necessary for G20 central banks and governments to require banks and investors to make more rigorous commitments regarding their financing of the food sector. Additionally, they should consider their role in making environmental and social due diligence processes binding for banks and investors.

Diagnosis of the Issue

The sustainable development and transitional energy agendas are among the priorities of the 2024 edition of the G20. One of the cross-cutting priority themes is "environmental sustainability", which advocates that member countries' actions and policies should seek to reduce greenhouse gas emissions, promote clean energy sources and conserve and sustainably use ecosystems.

With regards to sustainable finance, the last G20 in India, in September 2023, committed to the following: “[...] reiterate our commitment to take action to scale up sustainable finance. In line with the G20 Sustainable Finance Roadmap, we welcome the analytical framework for SDG-aligned finance and voluntary recommendations for scaling up adoption of social impact investment instruments and improving nature-related data and reporting, informed by the stocktaking analyses, considering country circumstances.”

The text reiterates the need for more sustainable finance and climate finance, but does not address the issue of regulating the financial sector in order to stop the financial flows fueling deforestation and associated human rights abuses. The problem is not only that there is insufficient funding for protection of forests, more significant again is that billions of dollars still flow, without adequate criteria, to agribusiness and the meat sector, which are a primary cause of deforestation.

In Brazil cattle ranching is the main activity with a negative impact on the Amazon and Cerrado biomes, contributing to deforestation, human rights violations and, consequently, the serious climate emergency.

In this context, financial institutions play a key role in tackling - or, on the other hand, deepening - these problems, as they are responsible for financing the meat value chain.

This policy brief does, therefore, aim to shed light on and propose recommendations for the gaps and challenges in regulating, financing and controlling irregular practices in the livestock chain, considering their local and global impacts.

In order to tackle these issues, it is important to point out that the meat chain is made up of a complex set of actors, involving livestock farmers, feed producers, slaughterhouses and the distribution and retail sector. Thus, the first issue that arises from the complexity of the chain is the possibility of tracing and monitoring the origin of cattle, especially in the case of indirect suppliers. On this point, it should be noted that traceability and monitoring strategies are being proposed around the world, but in a fragmented manner and without coordination between the different links in the chain.

This brings us to a second problem: although the companies that buy cattle - and the financial institutions that finance them - have a duty to monitor their supply chain to avoid those that come from deforested areas, this does not happen in practice, i.e. they do not accurately verify the declarations and information from the farms throughout the supply chain.

For this reason, it is imperative to build appropriate responsibilities for each actor in the value chain, to prevent them from escaping possible sanctions and to move forward in promoting best practices throughout the chain. Financial institutions and policy makers and regulators have to play their part.

At the international level, the movement for more robust regulation of financing instruments related to production chains and environmental issues is recent and lacks assessment of results. Most of the international agreements and risk management frameworks for the financial sector with a focus on environmental sustainability are voluntary or have limited applicability to specific sectors.

This scenario is changing with the adoption of some laws, such as the Regulation on Deforestation Free Products 2023-1115, which was adopted by the European Union and aims to minimise the risk of goods and products associated with deforestation being placed on the European market or exported. Other examples include the German Due Diligence in Supply Chains Act; the US Environmental Protection through Trade Restriction Amendment of 2008; the French Duty of Vigilance Act No. 2017-399; and the British Environment Act of 2021.

Despite the progress made, these laws do not include obligations for the financial sector, which is responsible for financing a large proportion of the companies involved in socio-environmental violations. For example, the European regulation requires retailers to verify that items have been produced on land that has not suffered deforestation or forest degradation, and under principles that protect human rights and indigenous peoples. However, it does not require EU-based banks and investors to stop financing deforestation through their financial services. In other words, the law does not yet incorporate rules to restrict the financing of companies responsible for environmental degradation and human rights violations around the world, even in cases of companies that are repeat offenders (Porto et al, 2023).

Given this context, it is clear that the challenges for regulating the meat chain to curb deforestation, address the climate emergency and prevent human rights violations are complex and require different sectors, including financial institutions, to take responsibility.

Recommendations

New measures are needed to tackle deforestation, human rights violations and the climate emergency are in line with the G20's sustainable development and energy transition priorities. Considering the impact of meat production on the exacerbation of these issues, it is essential to highlight the gaps in the chain's financing, to seek better regulation that addresses the different dimensions of the problem.

In this context, this policy brief outlines the following recommendations, assigning specific responsibilities to each sector, including the banks and regulatory bodies of the national financial systems of the G20 countries:

A. To G20 governments

I. The G20 should introduce specific obligations for banks and investors based on the 2021 G20 Sustainable Finance Roadmap such as standards for disclosure of sustainability-related information that is internationally consistent, comparable, and reliable. Additionally, the G20 should encourage relevant international organisations, networks, and initiatives to further advance the understanding of nature and biodiversity-related metrics and indicators used in disclosures by corporates and financial institutions to ensure that their financial flows do not contribute, directly or indirectly, to ecosystem conversion or degradation and related human rights abuses. These obligations should also extend to other financial services, such as insurance.

B. To the governments, central banks and financial regulatory bodies of the G20 countries

Considering that the bodies responsible for regulating financial services formulate their countries currency and credit policies and can therefore induce and encourage the adoption of socio-environmental safeguards by the entire banking system, it is imperative that they impose specific rules on the financing of the meat chain. We recommend:

I. Encouraging the adoption of periodic monitoring policies and clauses on contracts granting credit to the different actors in the meat production chain, from the initial stages to the suppliers of final products.

Such a measure would be an essential tool for monitoring the entire production chain, including indirect suppliers, since the vast majority of players depend on credit and financing to operate. The compliance and due diligence areas of financial institutions should adopt the same socio-environmental criteria.

II. Imposing an obligation for each bank and investor to have a grievance mechanism aligned with UN Guiding Principles that seeks to effectively provide or enable remediation of environmental negative impacts. This includes guaranteeing its legitimacy, accessibility, transparency, compatibility with UN criteria, continuous monitoring of its efficiency, and openness to dialogue with civil society.

III. Adopting sanctions for proven cases of socio-environmental and human rights violations, such as warning notices, fines, requests for actions to repair the damage caused and, ultimately, the cancellation of authorization for creditor institutions.

C. To the national governments of G20 countries

I. To build a single national platform hosted by governments, the agriculture, livestock, and sustainable development departments should integrate data to centralise information, enhance transparency and control the entire supply chain, both direct and indirect. For instance, the Brazilian platform AgroBrasil+Sustentável currently under development by the Ministry of Agriculture and Livestock will provide organised, traceable and reliable information about sustainable agricultural production in Brazil.

Another example is the European Union food traceability law system that intends to trace all food products through all stages of cultivation, production, processing and distribution. In this system all cows are tagged from birth to slaughter, resulting meat products have a traceability code from the abattoir. Although the EU requirements were initially intended to prevent food contamination, the same system can be used to prevent meat production that is causing deforestation and other social and environmental rights violations.

As described above, the lack of traceability in the meat chain is a serious problem, necessitating the availability of up-to-date and accurate databases. It is important to note that while the recommendation to create such platforms is directed at national states, their success depends on the ability of livestock farmers to adapt. In order to guarantee the participation of small livestock farmers in the market, while complying with more stringent traceability requirements, governments should support them to ensure a level playing field for all farmers by monitoring challenges in implementation, and allocating adequate resources to empower smallholder farmers through grants, investments and technology transfer.

II. Strengthen public environmental policy by making public institutions responsible for tracking and monitoring processes. This should occur through investments in state job vacancies that attract qualified professionals and enable career development.

III. Public institutions should be equipped with advanced technologies such as the World Wildlife Fund (WWF) Forest Foresight tools which predict forest loss up to six months in advance using satellite images, topological data, population density analysis, historical forest loss data and assessment of increased human activity near forests. The tool also allows for the creation of a forest risk map that can be adapted to prevent illegal deforestation. Public institutions responsible for monitoring processes can also reference the methodology used by Trase Earth which maps supply chains of agricultural commodities, enabling the linkage of products and actors in the supply chain to specific areas of production and associated deforestation.

D. To the financial institutions, livestock farmers, feed producers, slaughterhouses and retailers:

I. That they establish standards of good practice; set up systems for monitoring and ensuring due diligence in their supply chains as well as with clients, conducting periodic checks, and implementing extra due diligence when potential clients are registered as environmental offenders, such as IBAMA's registrations in Brazil.

E. In general:

I. That G20 governments implement Due Diligence Laws, inspired by the Brazilian bill 572/22, the German Act on Corporate Due Diligence Obligations in Supply Chains, the French Duty of Vigilance Act, the EU Corporate Sustainable Reporting Directive, and the Corporate Sustainability Due Diligence Directive. These laws may also hold financial institutions accountable for socio-environmental and climate impacts by producing and requiring risk analysis on direct and indirect suppliers. Require commitments by the financial sector to adopt national and international initiatives that respect social and environmental rights such as the Equator Principles, the Paris Agreement, IFC standards and the OECD Guidelines for MNCs. Create landmark laws that ensures shared responsibility extends throughout the production chain, including the controlling company, controlled companies, as well as public and private investors, including subcontractors, branches, subsidiaries, economic and financial institutions with activities both within and outside the national territory, and national economic and financial entities participating in investing or benefiting from any stage of the production process, even in the absence of a formal contractual relationship.

Scenario of outcomes

The outlined scenario requires action from various actors in the chain, including national governments, cattle ranchers, meatpackers, retailers, financial institutions and the regulating bodies overseeing them. Without the commitment and accountability of each link in the chain, strategies to tackle deforestation, human rights violations and the climate emergency linked to the livestock chain are prone to failure.

It is crucial, therefore, to monitor financial institutions and their regulating bodies specifically. This is due to the significant role they can play in bringing about effective change throughout the chain, as well as in terms of looking at the existing gaps in their accountability.

With regard to the application of stricter rules by financial system regulators, and the adoption of stricter criteria by financial institutions when granting credit to actors linked to different stages in the meat chain, it is hoped that these measures will incentivize ranchers, meatpackers and retailers to adapt to sustainable practices, free from deforestation and other socio-environmental violations along the chain.

To achieve this, it is essential to address the problem of traceability and monitoring of the chain, with emphasis on the role to be played by national states in the creation of public information platforms. As mentioned earlier, there are several obstacles to achieving traceability throughout the entire cycle, especially among producers at the initial stages of the supply chain, but not only.

In this context, state investment in environmental policies and command and control in the inspection and investigation of environmental crimes is fundamental. Only by coordinating efforts to regulate the production chain, especially with regard to environmental inspection, will we achieve the necessary traceability throughout the entire chain.

Advancing national and international regulations that hold financial institutions accountable and liable for human rights and socio-environmental violations arising from their financing and investments should be one of the steps towards sustainable objectives. This includes reducing deforestation and greenhouse gas emissions, as well as guaranteeing the human right to a sustainable, clean and healthy environment, in line with resolution 48/13 recognized in 2022 by the UN General Council.

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Appendices:

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