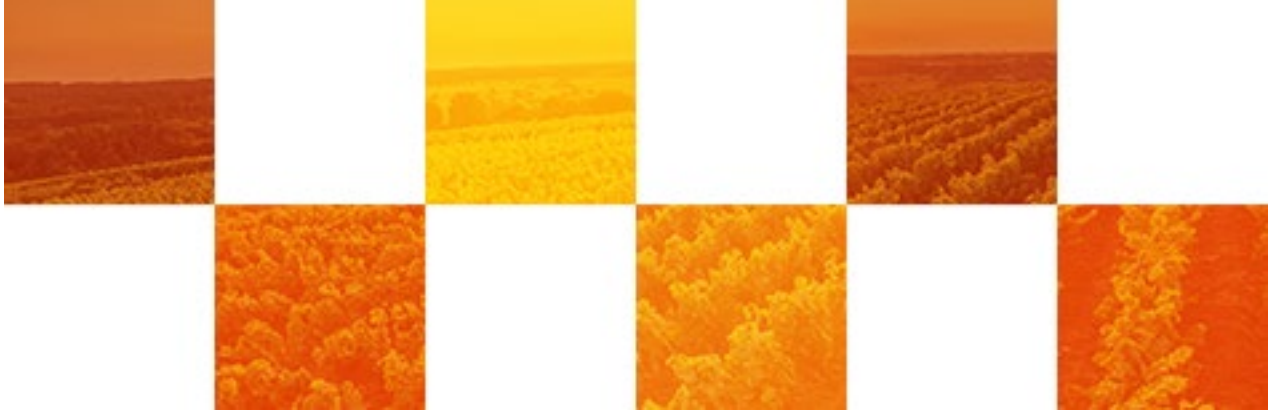


GUIDE TO THE SOY
VALUE CHAIN:
INTERPRETING TRADERS'
PROGRESS REPORTS ON
DEFORESTATION AND CONVERSION
FREE (DCF) SOURCING





INTRODUCTION

It is common for soy traders to have corporate policies linked to the deforestation of natural vegetation and to uphold human rights in the sourcing of soy. Most traders use annual sustainability reports (generally released in March-April) and/or more frequent commodity-specific progress reports, to communicate the actions they have put in place to meet their corporate policies, particularly around reducing deforestation and conversion in their supply chains.

However, such reports are often inconsistent - with ambiguous definitions, overly aggregated data, and the absence of key indicators that can make progress reports confusing and even misleading. Information provided without details on how the data was acquired, research sources, specifications of criteria and concepts, and methodologies used may also compromise the quality of information and make comparing suppliers more onerous for sustainability and procurement leads at crushers, distributors and the feed industry that buy soybeans from traders.

To address ambiguity and incompatibility in sustainability reports, in 2022 Imaflora and The Nature Conservancy (TNC) released the document *Deforestation and Conversion free soy reports between lines: a quick guide to transparency*, a guide for traders outlining key requirements and indicators to increase transparency about progress in implementing their commitments to deforestation and conversion-free soy and respect for human rights.

Building from this work, Imaflora and TNC have once again come together to release this follow-up guidebook – this time around targeting downstream actors in the soy value chain. As a critical node in the soy value chain, downstream companies can use their commercial leverage to make more impactful choices that consider if traders are 1) disclosing progress adequately in general, and 2) demonstrating annual progress consistently and in line with market expectations and ambition.

Both guides are fully aligned with the Accountability Framework.



WHOM IS THIS GUIDEBOOK AIMED AT

This guidebook aims at companies buying soy (or derivative products) that are interested in understanding the sustainability and progress reports of the traders they have a commercial relationship with (or intend to have a commercial relationship with) in regard to zero deforestation and respect for human rights.

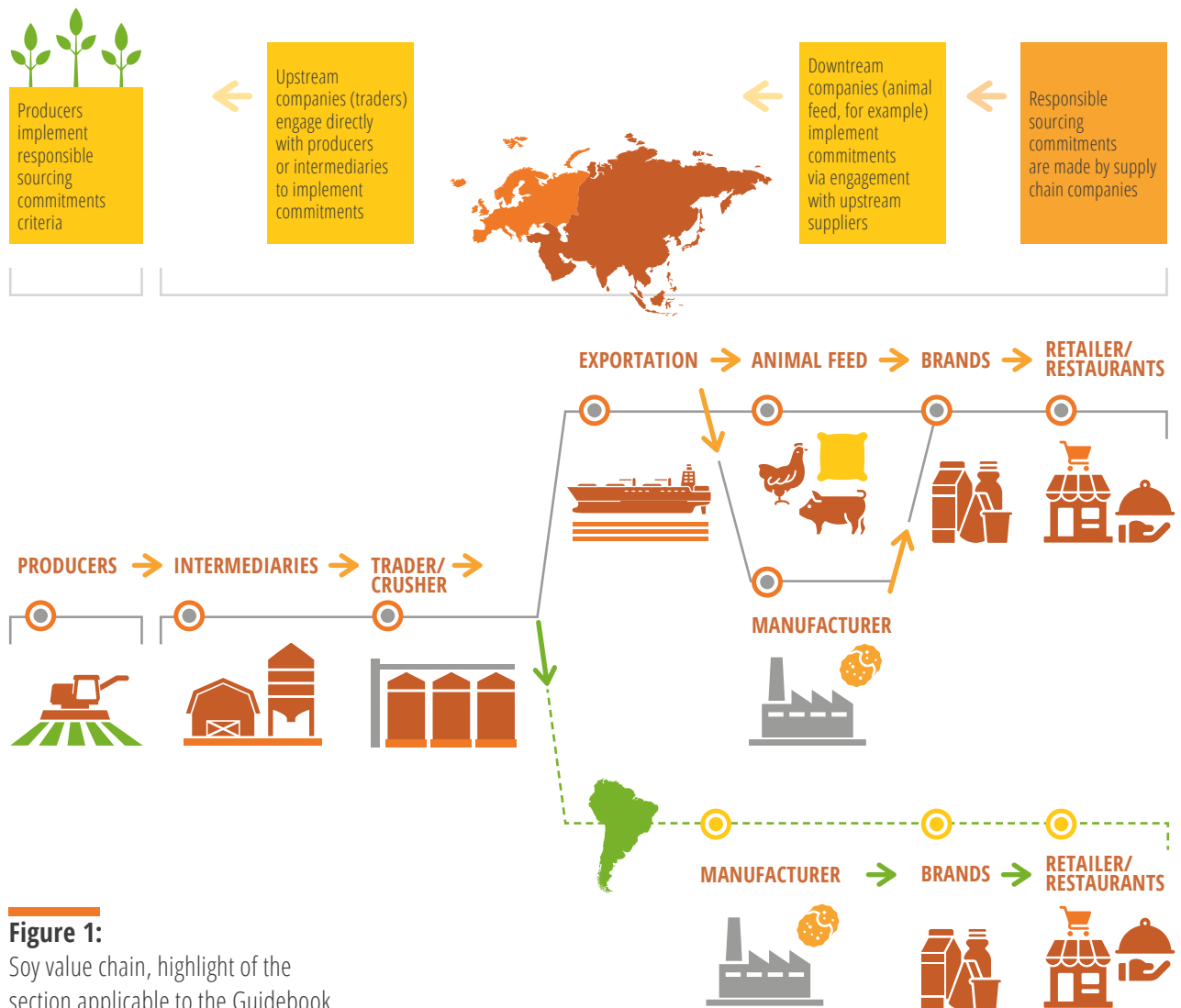


Figure 1: Soy value chain, highlight of the section applicable to the Guidebook.

WHAT INFORMATION IS VITAL IN UNDERSTANDING IF YOUR SUPPLIER TAKES APPROPRIATE MEASURES TO ENSURE THE SALE OF SOY FREE OF DEFORESTATION AND CONVERSION OR HUMAN RIGHTS VIOLATIONS?

REGARDING THE TOPIC OF DEFORESTATION AND CONVERSION

- What concept of deforestation and conversion-free (DCF) soy is the trader adhering to?
- Does the percentage of DCF soybeans set out in the disclosure cover the totality of the soy sourced by the company?
- Does the information in the report apply to direct and indirect suppliers?
- Does the report refer to all soybeans traded or has a scope based on risk analysis been defined? Are the criteria adopted clear?
- How does the trader attest DCF soy status?
- How does the trader monitor the supply chain in relation to deforestation and conversion?
- Does the report show the progress of the deforestation-free soy commitment?

REGARDING THE TOPIC OF RESPECT FOR HUMAN RIGHTS

- Does the company have a policy and commitment in place to uphold human rights across the supply chain?
- What topics are covered in regard to human rights?
- Is an analysis made of the impacts on human rights in the supply chain? What are the methods and criteria adopted?
- Does the report provide information on how to proceed in the event of situations where human rights have been impacted adversely?

REGARDING THE TOPIC OF DEFORESTATION AND CONVERSION

For the purpose of clarity, let us assume that a sustainability report (or a disclosure) released by the company that your company purchases soy (or soy products) from makes the following statement:

“90% of the soy sourced by our company is deforestation and conversion free”

It is crucial to ask some additional questions to understand what the data really means in terms of deforestation- and conversion-free soybeans. The progress report will often provide an explanation of how the company calculated this percentage.

WHAT NEEDS TO BE LOOKED INTO IS:

1. What does the trader consider deforestation and conversion-free soy?

The definition of deforestation and conversion-free soy is key to understanding the information in the disclosure. In general, the reports show which reference they are using. It is important that the definition states the geographical area, the

description of the protected natural vegetation (not limited to forest areas), the target and/or cut-off date established and the scope of the commitment in the supply chain.

SOY ROADMAP REQUIREMENTS AND INDICATORS USEFUL FOR THIS VERIFICATION:

Item 10 from the Organisational Information section:

Item 10 - Commitments of soybeans without deforestation/conversion of native vegetation. The company must detail:

- i.** Whether it has made public commitments on deforestation/soy without conversion of native vegetation in its supply chain for the Amazon, Cerrado and/or Chaco region, and the reference link for such public commitment.
- ii.** With which Deforestation and Conversion-Free (DCF) concept of native vegetation does the company work with (what does it consider forest, to which biomes it applies etc.).
- iii.** Whether the commitment indicates a target and/or cut-off date for eliminating deforestation/conversion of native vegetation in its soy supply and implementation deadlines for the Amazon, Cerrado and Chaco. Specify dates and deadlines.
- iv.** The scope of the commitment in the supply chain (indirect and indirect suppliers, geographical coverage).

¹ In Brazil there is some conceptual confusion as to the use of the literal translation of the English term “deforestation” as “(de)forestation”, i.e. the removal of forest and not necessarily the conversion of any native vegetation into an area of agricultural production. This idea opens the door for the monitoring measures not to consider, for example, part of the Cerrado biome, which falls under the classification of “native vegetation” instead of “forest”, but is also of great environmental importance, or the areas of non-forest formations within the Amazon biome. The term “Deforestation” from the DCF (Deforestation- and Conversion-Free) acronym is translated in Portuguese as “Desmatamento” and not “Deflorestação” in an attempt to underline this importance of considering other phytophysiognomies besides the forest, even if it seems wrong not to consider deforestation under both concepts. Therefore, if the report mentions DCF soy, it is quite possibly referring to a broader concept than just the scope that defines a forest. It is worthwhile pointing out that Brazilian law considers the word deforestation to mean the conversion of any native vegetation.

2. How does the trader certify the status of soy sourced as deforestation - and conversion-free?

The source used to classify soy as deforestation and/or conversion-free is key to understanding the quality of the information disclosed in the progress report. Some reports use sectoral data or secondary data that has been developed by research institutions in the regions from where the soybeans originated, but which were not developed with the intention of reporting

exactly the occurrence (or not) of deforestation for the production of soybean specifically sourced by the trader who is using this reference. The use of these secondary sources diminishes the quality of the information. Attention should also be paid to the currentness and relationship of the data in regard to the amount of soybean sourced (e.g. crop year)

SOY ROADMAP REQUIREMENTS AND INDICATORS USEFUL FOR THIS VERIFICATION:

Items 12 and 14 of the Organisational Information section:

Item 12 - Does the organisation have a tracking system(s) to track and monitor the origin of the soybeans?

Item 14 - Does the organisation have a system to control, monitor or verify compliance with commitments of non-conversion of native vegetation and/or deforestation for soybeans? Please provide details about the system, approaches used to monitor compliance, quantitative progress against the indicators in this document and non-compliance protocols to implement the organisation's commitment(s) not to convert native vegetation and/or deforestation.

3. Does the percentage of DCF soy specified in the disclosure cover the total amount of soy sourced by the company?

Without knowing the total volume of soybean traded, it is impossible to understand the data only in percentage terms. As such, it is important to understand the scale and scope of the

company, its size and exposure to risk, its distribution by biome and region.

SOY ROADMAP REQUIREMENTS AND INDICATORS USEFUL FOR THIS VERIFICATION:

1 - Total soy traded

1.1 Total amount of soybeans traded in South America.

1.2 Percentage of the total volume distributed by priority biome (Amazon, Cerrado and Chaco).

1.3 Percentage of soybeans sourced at the highest level of geographical detail defined by the company.

4. Does the statement refer to the entire supply chain or just direct purchases?

In order for the trader to claim that the sourced soy is free of deforestation and conversion it is important to know exactly where the soy traded comes from. This means knowing all the links in the chain: direct and indirect suppliers. It is important to know, for example, how much of the soybean volume is bought directly from soybean producing farms and how much is traded from third parties. If, for the example in question (“90% of the soy sourced by our company is deforestation and conversion free”), the information the company knows were collected only from a group of suppliers, e.g. from direct suppliers with whom the company has some kind of contract and/or longer-term commercial relationship. If this is the case, the data presented is incomplete because it does not refer to all suppliers - in this case, spot and intermediate suppliers. The essential information is to know how much of the amount traded, regardless of direct or indirect supply, has its origin monitored.

It is important to understand the total number of direct and indirect suppliers, whether the exact location and size of farms are known, their distribution by biome (or geographical distribution) and how much they represent in relation to the total amount of soybeans sourced by the trader. Commitments linked to deforestation and conversion-free soy production should not be limited to direct purchases from farmers. Indirect or intermediary suppliers - rural co-ops, for example - should be included in the company’s monitoring and traceability targets. Progress reports must provide evidence that soy purchased through indirect suppliers did not originate from areas that have been opened after the cut-off date of the zero deforestation/conversion commitment. Traceability that extends solely to aggregation sites is not sufficient evidence to attest that soy from indirect suppliers is deforestation-free. It is necessary for the trader or indirect supplier to monitor and track the soybean to the polygon of the property.

SOY ROADMAP REQUIREMENTS AND INDICATORS USEFUL FOR THIS VERIFICATION:

Item 07 from the Organisational Information section:

Item 07 - Description of the company’s supply chain (number of direct and indirect suppliers, identified by geographical scope).

Category - 2.1 - Traceability:

Indicator 2.1.1 Percentage of suppliers for which the company has traceability at farm level (polygon or CAR [Rural Environmental Registry]). Qualify the information by:

- a) Geographical scope
- b) Ratio of direct and indirect suppliers
- c) Ratio of total volume of soybeans traded in South America
- d) Ratio of total volume distributed by priority biome (Amazon, Cerrado and Chaco).

5. Has the company defined a geographical range limiting the deforestation and conversion risks linked to the soybeans it sources?

Some disclosures include information on deforestation- and conversion-free soy only for a region that the company has delimited through a risk analysis. Therefore, for example, if the company has determined that monitoring of deforestation and conversion applies only to a set of municipalities considered critical and/or of a certain supplier profile. It is important to be aware if the percentage shown in the progress report **refers only to this specific scope**. In this case, the “deforestation-free” qualification is limited to the total volume of a given

area or region of origination - and not in relation to the entire geographical scope of origination. It is important to point out that the adoption of risk analysis is an acceptable strategy to prioritise actions in a large and pulverised universe such as the soy supply chain; however, the progress report must specify that this information is restricted to a geographical scope to ensure transparency regarding the data disclosed. Disregarding this detail may call into question the very criteria for monitoring the commitments of the wholesale and retail segment.

SOY ROADMAP REQUIREMENTS AND INDICATORS USEFUL FOR THIS VERIFICATION:

Items 8 and 9 of the Organisational Information section:

Item 8 - Are there any parts of your direct operations or supply chain that are not included in your disclosure?

Item 9 - Identify the parts of your direct operations or supply chain that are not included in your disclosure.

² This is the case, for example, with reports developed for the Soft Commodity Forum (SCF) initiative. The SCF reports adopt a cut-off based on a risk analysis that determines the target municipalities that will be monitored. The municipalities selected are those that have at least 95% of their territory located in the Cerrado, with a soybean-growing area of over 5,000 hectares and that are among the main municipalities in the region measured based on area of native vegetation converted into soybean crops (Agrosatélite and PRODES) and availability of remaining native vegetation in legal reserves suitable for soybean cultivation. A total of 61 municipalities were ranked based on these parameters in 2022 (WBCSD, 2022).

6. If the grain trader opted for a risk analysis, what was the methodology and information used?

As mentioned earlier, risk analysis is an acceptable strategy. Soy verification can start with municipalities that are a priority for the company - with the highest deforestation rates, conservation potential or purchasing volume, for example. However, commitments for the complete elimination of deforestation and conversion must not be restricted to these areas of interest. To qualify for an effective percentage free of deforestation and conversion, companies must achieve total verification of their soybean purchases - regardless of biome, municipality, or supplier level - direct and indirect. The adoption of statistical methods to estimate volumes compatible with the public commitment can also make it difficult to interpret data on deforestation and conversion throughout the soybean chain.

It is important for the progress report to provide transparency to the methodology and criteria used for the risk analysis, as well as show how much of its supply chain (in which biomes and regions) is excluded from this decision, what challenges and obstacles led to such decision, and if the company has a work plan and schedule in place for the other soybean sourcing areas to be included in the company's monitoring strategies within the goals and deadlines that have been set. It is worth remembering that zero deforestation does not allow suppressions of native vegetation authorised by environmental law.

SOY ROADMAP REQUIREMENTS AND INDICATORS USEFUL FOR THIS VERIFICATION:

Items 11 and 15 of the Organisational Information section:

Item 11 - If risk analysis is used to define priority areas, detail the methodology used, the scope defined and the deadlines of implementation for the rest of the supply chain.

Item 15 - Describe the main barriers or challenges that need to be overcome to eliminate deforestation and/or conversion of native vegetation of other natural ecosystems from your direct operations or other parts of your supply chain.



7. What methods does the trader use to monitor deforestation and conversion?

The closer the company comes to generating primary data from technically-based monitoring methods, the closer it comes to providing more reliable data regarding deforestation and conversion in its supply chain. The traders are expected to use traceability and monitoring systems that map the path of the grain from the respective farms - the so-called property polygon, in corporate jargon. Information based on the Rural

Environmental Registry (CAR) or on the polygon of the farm generated by the company's own monitoring system or by certified georeferencing provides greater reliability and accuracy to soybean source data because it is the level of greater capacity and effectiveness of risk management associated with the supply chain. Second- or third-party verification increases the credibility of the company's management system.

SOY ROADMAP REQUIREMENTS AND INDICATORS USEFUL FOR THIS VERIFICATION:

Indicator 2.2.4

2.2.4. Percentage of suppliers monitored by cross-referencing the polygons of the farms generated by the monitoring system or by certified georeferencing with public deforestation databases. Qualify the information by:

- a) Geographical scope (see Section 1)
- b) Ratio of direct and indirect suppliers
- c) Ratio of total volume of soybeans sold
- d) Specify the criteria monitored using the farm polygons (e.g: Prodes, Indigenous Land, Protected Areas, environmental embargoes by IBAMA, etc.).

NOTE: Indicators 2.2.1 (percentage of suppliers monitored via cross-referencing the CPF/CNPJ taxpayers' numbers with public databases), 2.2.2 (percentage of suppliers monitored via cross-referencing geographical coordinates with public databases) and 2.2.3 (percentage of suppliers monitored via cross-referencing CAR with public deforestation databases) of the Soybean Progress Report may also be useful. These methods create different possibilities in the monitoring methodologies generally used by companies. Monitoring by comparing polygons offers greater security in terms of monitoring capacity and risk management, largely because it works with more precise data from the production area. This creates the best condition for decision-making by the company as compared with other methods.

8. Is the report able to show progress in the company's commitment to eliminate deforestation and conversion in the supply chain?

The target date must be included in the corporate commitments for zero deforestation and conversion in the soy chain. In practice, this is the deadline by which the company agrees to eliminate all forms of conversion and deforestation in its grain purchases.

It should be noted that a cut-off date must also be associated with the target date in order to allow for progressive analysis. Knowing the target and/or cut-off dates and cross-

-referencing them with the answers to the other questions shows if the company is on track to meet the dates, targets and commitments it has undertaken. It is important for the disclosures to describe if the deadlines and targets are being met.

Based on scientific evidence, the *Accountability Framework Initiative (AFI)* recommends full implementation of these commitments by 2025. The *Science Based Targets initiative's Food, Land, and Agriculture (SBTi-FLAG)* follow the same timeframe.

SEE MORE:

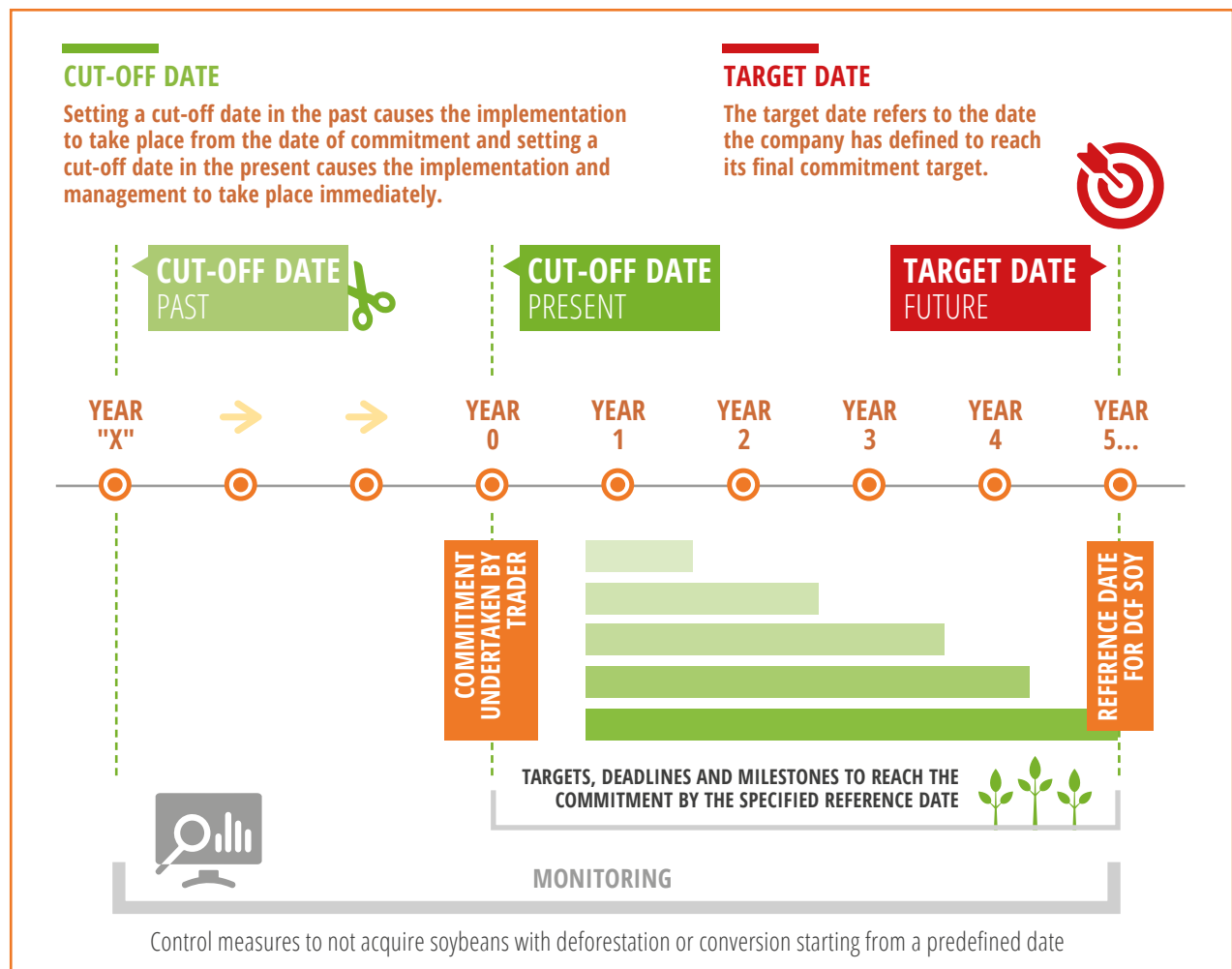
CUT-OFF DATE

Date after which deforestation or conversion of native vegetation renders a given area or production unit non-compliant with commitments of no deforestation or no conversion of native vegetation, respectively.

TARGET DATE

The date on which a certain company (or other entity issuing commitments or policies) intends to have fully implemented its commitments or policies.

Source: AFI



SOY ROADMAP REQUIREMENTS AND INDICATORS USEFUL FOR THIS VERIFICATION:

Item 10 from the Organisational Information section

Item 10 - Commitments of soybeans without deforestation/conversion of native vegetation. The company must detail::

- i.** Whether it has made public commitments on deforestation/soy without conversion of native vegetation in its supply chain for the Amazon, Cerrado and/or Chaco region, and the reference link for such public commitment.
- ii.** With which Deforestation- and Conversion-Free (DCF) concept of native vegetation does the company work with (what does it consider forest, to which biomes it applies etc.).
- iii.** Whether the commitment indicates a target and/or cut-off date for eliminating deforestation/conversion of native vegetation in its soy supply and implementation deadlines for the Amazon, Cerrado and Chaco. Specify dates and deadlines.
- iv.** The scope of the commitment in the supply chain (indirect and indirect suppliers, geographical coverage).
- v.** Does the commitment also include possible joint ventures of the trader?

Indicator 3.1. Soy free from deforestation and conversion of native vegetation

3.1.1. Total volume of soy sold without deforestation and/or conversion of native vegetation. Qualify the information by:

- a)** Geographical scope (see Section 1)
- b)** Ratio of total volume of soybeans sold



REGARDING THE TOPIC OF HUMAN RIGHTS

Knowing if the soy is produced upholding Human Rights requires traceability, monitoring and control methods that are suitable for an approach that can be adapted to the context and reality of each company.

In reference to the human rights topic, it is important to check if the report answers the following questions:

1. Does the company have a policy and commitment in place to uphold human rights across the entire supply chain?

Many companies, especially those with global operations, have already developed their own policies related to human rights. In general, these policies are related to their own activities or those carried out by service providers in their own areas

and facilities and do not encompass the supply chain. It is important to check that the commitments are undertaken by the entire supply chain

2. Which human rights issues does the company report refer to?

Human rights issues are wide-ranging. It is important to verify if the company's commitment includes commitments to respect human rights related to indigenous peoples and traditional communities, quilombolas, settlements, local communities, and rural workers. It is important to underscore that each company, depending on its size and area of activity, must understand and define the issues that are relevant in terms of

human rights. It is recommended for the Human Rights approach be aligned with the UN's Guiding Principles on Business and Human Rights - Protect, Respect and Remedy Framework", in particular section II which deals with the corporate responsibility to respect human rights and with Principle 2 (Respect for Human Rights) of the AFI Fundamental Principles.

3. Does the company monitor all impacts on human rights across its supply chain?

It is important to understand if the company monitors possible human rights impacts throughout the supply chain. Monitoring actions must be consistent and must aim to avoid, cause or contribute to adverse impacts on human rights, prevent (or

mitigate) such impacts and provide or cooperate to provide remediation where the company is found to have caused or contributed to an adverse impact.

4. What methods and criteria do the company adopt to monitor the impact of human rights across the supply chain?

It is important to understand what criteria the company uses to assess and monitor its impact on human rights. If the company has a due diligence system in place, what topics are assessed, how often and what percent of suppliers is assessed. Monitoring practices based on verifying the blacklist of slave

labour and geospatial analysis in relation to the overlapping of production areas with Indigenous Land and Quilombola Territories can be considered part of the analysis on human rights but are insufficient to address the issue as a whole.

5. Does the company describe how it will proceed in situations when adverse impacts on human rights have been identified?

It is important to identify if the company describes the reparation procedures and remedial measures put in place for possible adverse impacts identified or reported to the com-

pany in regard to the rights of indigenous people, traditional and local communities and rural workers.

REQUIREMENTS AND INDICATORS OF THE SOY ROADMAP USEFUL FOR THE VERIFICATION OF THE TOPICS AND HUMAN RIGHTS:

Item 16 from the Organisational Information section

Responsibility to respect human rights. The company must specify:

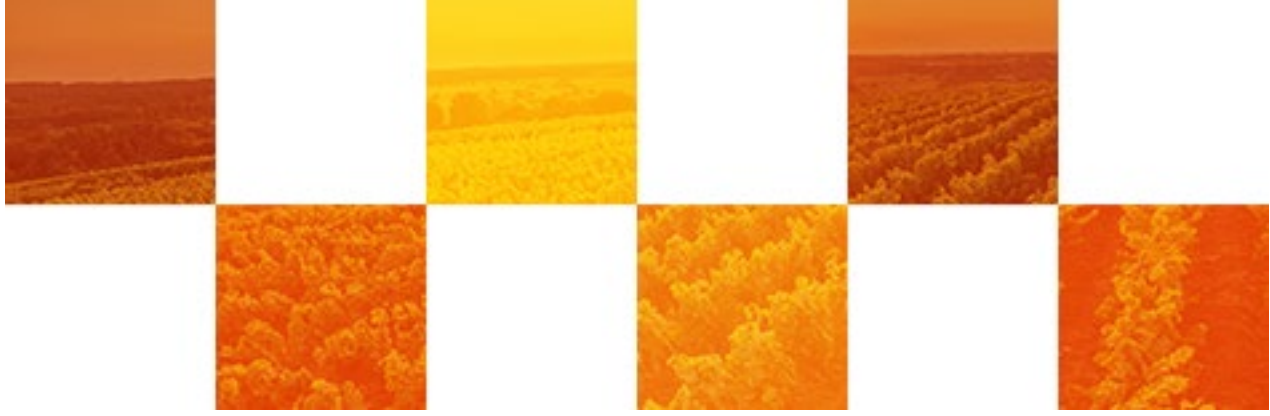
- a. If it has a public commitment to fulfill its responsibility to respect human rights throughout the supply chain.
- b. If the policy includes commitments to respect human rights in the supply chain, in priority biomes, including the rights of:
 - i. indigenous people, *quilombolas*, traditional people and communities
 - ii. local communities and settlements
 - iii. male and female workers
- c. If it has a human rights due diligence process in place to identify, prevent, mitigate and account for how it addresses its human rights impacts in the supply chain. If yes, describe how it is carried out, which items are assessed, geographical scope, scope within the chain and other related procedures.
- d. In regard to indigenous people and traditional communities describe:
 - i. the methods adopted to identify and monitor the impact of soybean production, in own or supplier areas, on Indigenous Land or Local Communities and settlements.
 - ii. the reparation procedures and remedial measures put in place for possible adverse impacts identified or reported to the company, in regard to the rights of indigenous people and traditional and local communities.
- e. In relation to male and female workers describe:
 - i. procedures to identify and address work situations in its supply chain that may not be in accordance with ILO core labour rights and/or may fail to abide by current labour laws.
 - ii. procedures to remedy any adverse impacts of the company on working conditions identified or reported to the company in the supply chain.

Indicator 4.1 – Assessment of human rights in the supply chain

4.1.1. Percentage of suppliers evaluated according to human rights. Qualify the information by:

- a) Geographical scope
- b) Ratio of direct and indirect suppliers
- c) Ratio of total volume of soybeans sold





REFERÊNCIAS

IMAFLORES & TNC. Deforestation and Conversion free soy reports between lines: a quick guide to transparency. 2022.

WBCSD. Soft Commodities Forum Progress Report. 2022. Available at: <https://wbcspublications.org/scf/pt/metodologias-e-referencias/> Accessed 08/07/2022.





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