The Banking Environment Initiative (BEI) & the Consumer Goods Forum (CGF)'s

'Soft Commodities' Compact

QUESTIONS AND ANSWERS

Context

1. **What is the Banking Environment Initiative (BEI)?**
   - The BEI is a group of international banks convened by the Chief Executives of its members to identify ways to collectively direct capital towards environmentally and socially sustainable economic development.
   - The BEI is coordinated and supported by the University of Cambridge (CISL), which also supports other, similar business platforms.

2. **Which banks are members of the BEI?**
   - There are ten international banks that are currently members of the BEI, headquartered across Asia, Europe and North America: Barclays, BNY Mellon, China Construction Bank, Deutsche Bank, Lloyds Banking Group, Nomura, Northern Trust, Santander, Sumitomo Mitsui Banking Corporation and Westpac.

3. **What is the 'Soft Commodities' Compact?**
   - The 'Soft Commodities' Compact is a unique, client-led initiative that aims to mobilise the banking industry as a whole to contribute to transforming soft commodity supply chains and therefore help clients achieve zero net deforestation by 2020. It is one of the key work streams of the BEI.
   - In 2010, the Chief Executives of the Consumer Goods Forum (CGF) Board of Directors resolved that the CGF, with its combined procurement power of over $3 trillion, will help to achieve zero net deforestation by 2020. The CGF has prioritised four of its supply chains (palm oil, soy, beef and pulp and paper) to deliver this goal. Full details can be found here.
   - The 'Soft Commodities' Compact is the result of extensive collaboration between the BEI and the CGF, with advice from WWF, to establish how to align the banking industry with this goal.
   - It was endorsed by the CGF Board in late 2013, welcomed by the Obama Administration at a meeting at the White House shortly after and used as an example of a powerful industry-to-industry partnership at a special session of the World Economic Forum's Annual Meeting in Davos in January 2014.

4. **Why is the CGF important to the BEI?**
   - Central to the BEI's overall strategy is forging collaborations with groups of major corporate clients, many of which CISL is connected to via its networks, that have ambitions to create sustainable economic systems and could be helped in this pursuit by the banking industry. The CGF is one of these groups.
   - The CGF convenes the Chief Executives of over 400 consumer goods retailers and manufacturers. A full list of CGF members can be found here.
   - CGF members have a combined procurement power in excess of US$ 3 trillion and a presence in 70 countries.
   - As well as the leadership demonstrated by the CGF Board's deforestation resolution, individual CGF members have played key roles in the development of internationally-recognised sustainability standards initiatives for commodities that they procure.

- The CGF's combined influence and expertise was therefore considered a good match to enable the BEI to deliver on its mission.

5. **Why is the BEI important to the CGF?**
   - The CGF has recognised that its chances of achieving its deforestation goal will be significantly increased if it can work in a focused way with other actors that have material influence over the functioning of soft commodity production and supply chains.
   - Governments create the enabling framework within which companies operate. This is why the CGF founded the Tropical Forests Alliance (TFA) 2020 with the Government of the United States. TFA 2020 is a public-private partnership with the goal of reducing tropical deforestation associated with key global commodities. The Governments of the United Kingdom, Norway and the Netherlands, as well as several NGOs, have since joined TFA 2020 and the Government of the Republic of Indonesia co-hosted the first major TFA 2020 workshop in June 2013.
   - Meanwhile, the provision of finance is vital to the production and trade of soft commodities. This is why the CGF has welcomed an alliance with the BEI, given its ambition to lead the banking industry in identifying ways to collectively direct capital towards environmentally and socially sustainable economic development.

6. **What was the process behind the creation of the 'Soft Commodities' Compact?**
   - The extensive consultation process included in-person and virtual meetings over the course of two years and involved a range of CGF member companies, banks – both BEI members and other banks that expressed an interest in participating – and the non-governmental organisation, the World Wildlife Fund (WWF).
   - Both the Secretariats for the BEI, at CISL, and the CGF communicated that this process was taking place via their own websites and in response to enquiries.
   - Once finalised by banking and consumer goods practitioners, the 'Soft Commodities' Compact was endorsed by the CGF Board at its meeting in New York on 3rd December 2013.
   - Although the 'Soft Commodities' Compact language is now finalised, the CGF and BEI are actively encouraging all international and regional banks to join these first movers and adopt the 'Soft Commodities' Compact.

7. **Why was WWF involved as a civil society actor in this process?**
   - Both BEI and CGF members invited WWF's participation because of its knowledge of market-based approaches to achieving sustainability in agricultural supply chains.
   - In developing its own strategy to deliver its deforestation goal, the CGF engaged systematically with a wide range of civil society actors.
   - Given that the goal of the BEI alliance with the CGF was to align banking services with the CGF's deforestation goal, it was felt appropriate to streamline the BEI's process by learning from the CGF's engagement with civil society.
   - In communicating their adoption of the 'Soft Commodities' Compact, banks are signalling their commitment to a transparent process and welcome dialogue with all stakeholders.

8. **What is CISL?**
   - The University of Cambridge Institute for Sustainability Leadership (CISL) is an institution within the University of Cambridge's School of Technology.

- CISL's mission is to build strategic leadership capacity to tackle critical global challenges and its business platforms help senior practitioners identify what needs to change within their sector or system, and take practical action to achieve this with their peers.

About the 'Soft Commodities' Compact

9. What are banks that are adopting the 'Soft Commodities' Compact committing to do?

- Banks adopting the 'Soft Commodities' Compact commit to helping to achieve zero net deforestation by 2020 through their financing of soft commodity supply chains.
- Compact banks commit to:
    i. Working with CGF supply chains to find appropriate ways to finance the growth of markets producing palm oil, timber products, soy or beef without contributing to deforestation.
    ii. Confirming that all corporate and investment banking customers whose operations include significant production or processing of palm oil, timber products or soy in markets at high risk of tropical deforestation can verify that these operations are consistent with zero net deforestation by 2020.
- Full details are found in the Compact itself. The approach to beef is explained below.

10. How will these commitments help CGF companies deliver their deforestation goal?

- A lack of access to appropriate forms of finance is cited by many producers as one of the barriers they face if they are to transition their means of production to more sustainable methods.
    - The provision of finance to producers may not be straightforward, and may require the creation of new financing solutions, including the involvement of buyers or off-takers to reduce the risks involved, to be commercially viable.
    - By working with CGF supply chains to find supply chain finance solutions in this way, Compact banks hope to accelerate this transition. Without this active collaboration, proactive efforts to finance the transition will not meet the scale of demand.
- Meanwhile, CGF companies are also trying to lead supply chain transformation by making public commitments to procure commodities produced to certain standards, ie by issuing a demand signal.
    - The Compact banks' commitment to raise industry-wide banking standards hopes to reinforce and support this demand signal by committing banks to work with their customers to confirm that they meet the CGF's standards.

11. What does 'zero net deforestation' mean?

- 'Zero Net Deforestation', or more fully 'Zero Net Deforestation and Degradation (ZNDD)', is an aspirational target that reflects the scale and urgency with which threats to the world's forests and climate need to be tackled.
- In short, ZNDD means no net forest loss through deforestation and no net decline in forest quality through degradation.
- ZNDD requires a reduction in the annual rate of loss of natural or semi-natural forests to near zero. Any gross loss or degradation of natural forests would need to be offset by an equivalent area of socially and environmentally sound forest restoration. In the net accounting, plantations are not equated with natural forests as many values are diminished when a plantation replaces a natural forest.

12. Which commodities are covered by the 'Soft Commodities' Compact?

- Four commodities are covered by the 'Soft Commodities' Compact: palm oil, timber products, soy, beef.

- Conversion of tropical forests to agricultural use for the production of these four commodities alone is estimated to contribute more than 50% to tropical deforestation[1]. Deforestation accounts for up to 20% of global greenhouse gas emissions, more than the entire global transport sector and second only to the energy sector[2].

13. Which banks have adopted the 'Soft Commodities' Compact?

- A number of 'first mover' banks (hereafter 'Compact banks') have now confirmed that they will each adopt the 'Soft Commodities' Compact. This group includes Barclays, BNP Paribas, Deutsche Bank, Lloyds Banking Group, RBS and Westpac.
- As part of starting to implement the 'Soft Commodities' Compact, several of these banks are now communicating their commitment to it to their stakeholders.

14. Will other banks adopt the 'Soft Commodities' Compact?

- A range of BEI and non-BEI banks have been involved in developing the 'Soft Commodities' Compact; the CGF and BEI are actively encouraging all international and regional banks to join these first movers and adopt the 'Soft Commodities' Compact.

15. Will all BEI members adopt the 'Soft Commodities' Compact?

- Not necessarily; the BEI has a number of different work streams and not all BEI members have material commercial interaction with soft commodity supply chains.

16. How is the 'Soft Commodities' Compact governed?

- The 'Soft Commodities' Compact is the product of the alliance between the BEI and the CGF, so its governance draws on the governance procedures of these two groups.
- For the CGF, changes to the 'Soft Commodities' Compact are overseen by the CGF's Sustainability Steering Group and, as required, approved by the CGF Board. This process is managed by the CGF Secretariat in Paris.
- For the BEI, non-BEI member views will be taken actively into consideration and changes to the 'Soft Commodities' Compact are overseen by the BEI Working Group. As required, such decisions will be approved by the BEI Chief Executive panel. This process is managed by the BEI Secretariat at CISL.

What difference will this initiative make?

17. What will change as a result of this Compact?

- The 'Soft Commodities' Compact is a unique attempt by the banking industry to address collectively the issue of deforestation, building on the existing efforts of a range of leading individual banks. Recognising that a piecemeal approach is proving insufficient, the BEI is therefore attempting to bring the industry as a whole into alignment around the issue of deforestation.
- While the goal and details of the commitments which Compact banks are making are set out above, all involved are clear that the 'Soft Commodities' Compact sets out the start of a journey between now and 2020 and that there will be plenty more work to do.
- However, the collaboration between the BEI and the CGF has already produced its first tangible result in the form of a financing solution that can be used by banks to incentivise the international trade of sustainably produced commodities.

[1] Global Canopy Programme, November 2013: http://www.globalcanopy.org/LittleBookofDrivers
[2] http://www.un-redd.org/aboutredd/tabid/102614/default.aspx

- This is known as the BEI's Sustainable Shipment Letter of Credit and a paper outlining how it works is available at www.cisl.cam.ac.uk/banking.

18. What will the reporting mechanism be for the 'Soft Commodities' Compact?

- The banks involved in developing the 'Soft Commodities' Compact have agreed that regular and effective reporting mechanism(s) for everyone to monitor how the 'Soft Commodities' Compact is being implemented will be critical.
- Compact banks will now work with the CGF to identify whether a common approach to reporting would be appropriate.
- In addition, individual Compact banks may make use of their own existing reporting mechanisms.

19. Will Compact banks stop doing business with customers who cannot prove their operations are consistent with zero net deforestation and report on their progress?

- The intent of the 'Soft Commodities' Compact is for Compact banks to develop their capacity to *engage* customers, when needed, to strengthen and improve their approach to deforestation. Research[3] has identified that such business changes can result in increased profitability, access to markets and reduced risk. In the longer-term, the 'Soft Commodities' Compact should therefore improve banks' offer to customers and their underlying risk-adjusted returns.
- The 'Soft Commodities' Compact is intended to align banking services with the CGF's strategy to deliver its deforestation goal, so that banks help to achieve zero net deforestation by 2020 through their financing of soft commodity supply chains.
- To ensure compliance with Competition Law, the 'Soft Commodities' Compact is not intended to result in Compact banks taking collective action or decisions beyond their commitment to align banking industry services with the CGF's resolution to help achieve zero net deforestation by 2020.
- Compact banks will therefore continue to assess business opportunities and decisions individually and unilaterally and this will include decisions about who they will and will not do business with.

20. Will CGF members stop doing business with banks that have not adopted the 'Soft Commodities' Compact?

- It will be for individual CGF members to decide on this.

21. Is the 'Soft Commodities' Compact linked to any other commodity or sustainability initiatives?

- The BEI and CGF are not aiming to set their own, new sustainability standards.
- The 'Soft Commodities' Compact prioritises and aims to build on existing initiatives and standards that have been, or are being, developed by players within these industry sectors.
- Examples being used as the starting points are the Roundtable on Sustainable Palm Oil (RSPO), Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification (PEFC) and the Roundtable on Responsible Soy (RTRS).

What next for banks not yet involved in this initiative?

22. Why should banks adopt the 'Soft Commodities' Compact?

- **Connect risk management practices with client approaches to drive market transformation**
  As global population continues to multiply, driving further growth in consumer demand, reconciling the competing human and environmental demands on agricultural value chains will only become more

[3] Eg http://wwf.panda.org/?204548/Profitability-and-Sustainability-in-Palm-Oil-Production/ and http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/sustainable-insight/Documents/roadmap-responsible-soy.pdf

sensitive. The CGF is a progressive group of globally influential buyers, already working with suppliers and governments from around the world to raise standards on the journey to 2020. For banks seeking to track changing market expectations and manage their own business risks, while strengthening client relationships, the 'Soft Commodities' Compact offers a mechanism for efficient collective engagement with the buyers raising sustainability standards in corporate value chains.

- **Develop financing solutions at a scale that offers material commercial rewards**
  In order to achieve their goal, CGF companies require nothing less than a complete transformation of the supply chains on which they depend. Bilateral financing solutions alone will not achieve this. The BEI's Sustainable Shipment Letter of Credit is an example of an outcome from the BEI's collaborative work which offers early mover advantage in what could become a significant new market practice as supply chains transition to adopt new norms around sustainability. The BEI is working with CGF companies on other financing solutions which meet both supply chain and banks' commercial needs.
- **Enhance client relationships by catalysing a truly industry-wide approach**
  Some banks have already adopted individual policies which address deforestation. On occasion, acting alone has created challenges in engaging with clients and ensuring adherence to these policies, especially while alternative sources of finance have been readily available. The 'Soft Commodities' Compact seeks to address this challenge directly; it is client-led and aims to secure the support of a critical mass of the banking industry. This reduces implementation risks and offers the opportunity to strengthen client relationships, while also preparing banks should CGF companies seek to favour relationships with banks whose policies are aligned with their sustainability objectives.

23. What should international or regional banks interested in adopting the 'Soft Commodities' Compact do next?

- Once banks have understood the 'Soft Commodities' Compact's objectives and specific commitments, they should contact Andrew Voysey, CISL's Director of Finance Sector Business Platforms, to discuss their participation: andrew.voysey@cisl.cam.ac.uk