

# The case for responsible sourcing of soy in China

This document is part of the Soy Toolkit ([www.soytoolkit.net](http://www.soytoolkit.net)) and aims to help soy buying companies in China to understand the business case and resources needed to address deforestation and other social and environmental risks in their global supply chains.



## Business in China: high dependence on soy imports

China is by far the biggest buyer of soy in the world. Chinese demand for soybeans has been driven in large part by China's rapidly expanding livestock operations, where soybeans are used as animal feed. However, much of this soy is produced abroad with China relying on supply from other countries.

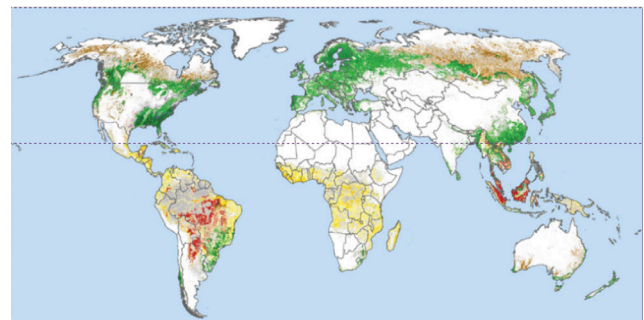
Global soybean production is highly concentrated with about 80% originating from three countries alone: United States, Brazil and Argentina. China absorbs 63% of total world exports, also covering most soybean exports coming from the U.S., Brazil and Argentina - 57%, 79%, 86% respectively<sup>1</sup>.

Country	Soybean production in 2017 (million tonnes) <sup>2</sup>
USA	119.5
Brazil	114.6
Argentina	55.0
China	13.2
India	11.0
Paraguay	10.5
Canada	7.7
Ukraine	3.9
Russia	3.6
Bolivia	3.0

## Soy supply chain: environmental and social concerns at production level

The soy sector has been facing increasing scrutiny from a range of different stakeholders concerned with environmental and social damage linked to soy production, especially deforestation and conversion of natural habitat to expand soy production to meet demand. More than half of the total forest loss across the tropics and subtropics is attributed to the expansion of agricultural and forestry land uses<sup>3</sup>.

Various stakeholders including investors, consumers, regulators, buyers and civil society have expressed concerns about the links between agricultural commodity production, deforestation and climate change<sup>5,6,7,8,9,10</sup> – in Latin America, for example, soybean production is estimated to account for 13% of deforestation<sup>3</sup> and a significant proportion of global greenhouse gas emissions. There have also been reports of land conflicts and eviction of indigenous communities in Brazil, Argentina and Paraguay associated with soy production<sup>10</sup>. Scrutiny on these issues in the soy sector by stakeholders committed to sustainability can translate into various operational, financial and reputational risks for Chinese and other companies involved in the soy supply chain.



### Primary drivers of forest over loss (2001-2015)<sup>4</sup>

■ Commodity Driven Deforestation	■ Wildfire
■ Shifting Agriculture	■ Urbanisation
■ Forestry	■ Zero or Minor Loss

## Risks for Chinese companies not addressing potential issues in their supply chains

➤ **Operational risks:** The ability to maintain predictable, sufficient supplies of soy is important for food security in China. Either a productivity reduction or supply disruption—as result of a compromised ecosystem, exacerbated changes in climate, or lack of social license to operate in producing countries—could have huge impacts on China’s ability to meet its current and growing soy demand and to ensure its food security.

“(…) Rising temperatures, changing weather patterns and increasing frequency of extreme weather events associated with climate change will significantly impact crop yields and challenge our capability to feed a growing global population<sup>11</sup>.”

Jun Lyu, Chairman, COFCO Corporation.

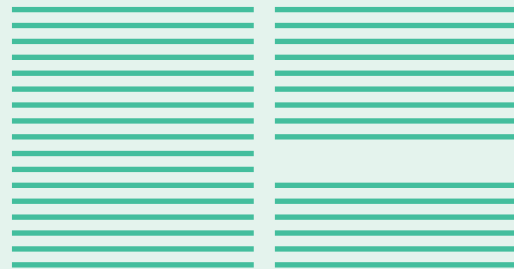
➤ **Legal risks:** Under Brazilian legislation, buyer companies are liable if they fail to verify commodity suppliers’ compliance with environmental laws and regulations when providing credit or entering into contracts<sup>12</sup>. This can result in fines and embargoes.

●●● ENVIRONMENTAL NEWS  
**BRAZIL FINES 5 GRAIN TRADING FIRMS, FARMERS CONNECTED TO DEFORESTATION<sup>13</sup>**

➤ **Reputational risks:** Public-facing companies can face reputational risk from Non-Governmental Organization (NGO), media or consumer campaigns highlighting the soy sector’s links to environmental destruction or human rights violations. Several high-profile companies, brands and even financial institutions are currently under the spotlight of NGO campaigns. According to CDP’s latest report *The Money Trees*<sup>14</sup>, reputational risks were identified as the most frequently reported risks to companies when it comes to forest-related concerns. These can have serious financial consequences: for fast-moving consumer goods (FMCG) companies, events that damage a company’s reputation (such as a campaign associating the company with deforestation) can impact its value by up to 30%<sup>15</sup>.

### ENVIRONMENTAL NEWS

#### CHINESE BANKS RISK SUPPORTING SOY-RELATED DEFORESTATION, REPORT FINDS<sup>16</sup>



➤ **Failing to meet market demands:** Many companies in the food and agriculture sector have pledged to eliminate deforestation from their supply chains and are working to address their customers’ concerns. Not addressing supply chain risks can hinder Chinese companies hoping to expand internationally since they might not meet more demanding market demands.

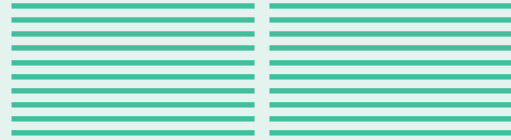
**Over 70 international companies signed up to the Statement of Support of the Cerrado Manifesto. They commit to working with local and international stakeholders to halt deforestation and native vegetation loss in the Cerrado<sup>17</sup>. Signatories include<sup>18</sup>: Unilever, McDonald’s, Nestlé, Danone, Carrefour, Groupe Casino, Mondelēz, Walmart, Mars, and Kellogg’s.**

➤ **Failing to meet headquarters’ demands:** Many international brands who operate in the Chinese mainland have made public commitments on environmental protection and respect for human rights and will ask their subsidiaries in China to implement them.

➤ **Failing to meet customers’ demands:** International brands operating in China are beginning to request soy traceability information from their Chinese suppliers. Chinese suppliers associated with deforestation could risk losing buyers if they cannot address the deforestation risks in their supply chains, creating a constraint for Chinese companies wanting to supply to international brands.

➤ **Failing to meet the finance sector’s growing scrutiny:** Financial institutions involved in the soy supply chain, such as those that invest in food and beverage manufacturing or retail companies, may also be exposed to deforestation risks. Reputational, market, regulatory, physical and operational risks faced by portfolio companies can potentially translate into material risks for their investors. Financial institutions must have a good understanding of the impacts associated with the deforestation risks faced by companies, with their environmental footprints, and with their capital exposure<sup>20</sup>.

**INVESTORS WITH \$6.3 TRILLION IN ASSETS CALL ON COMPANIES TO CUT CLIMATE, DEFORESTATION-RELATED RISKS IN GLOBAL SOYBEAN SUPPLY CHAINS<sup>21</sup>**



**Case study: COFCO International Sustainable Soy Sourcing Policy - Key Points<sup>22</sup>**



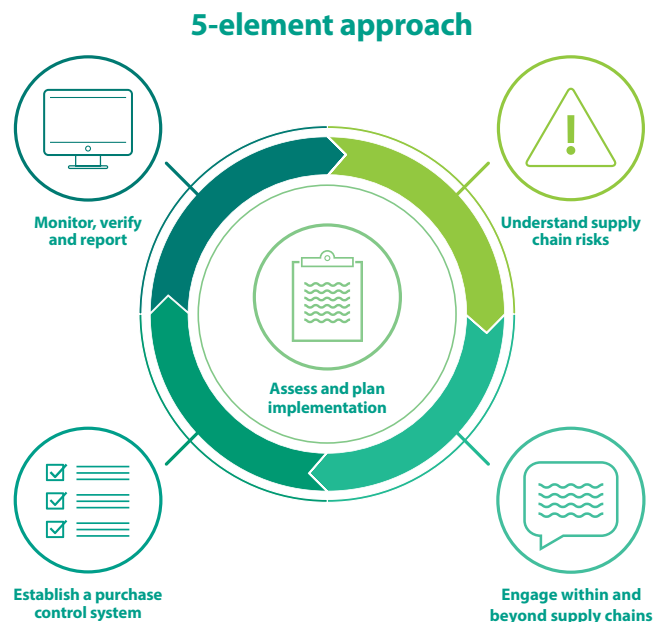
- COFCO International commits to support the sustainable and responsible production and sourcing of soy.
- All our soy suppliers are expected to comply with our Supplier Code of Conduct; pre-financed soy suppliers in the Brazil Cerrado and Amazon biomes are expected to comply with additional specific requirements set out in this Policy
- We will develop procedures to assess supplier performance against this Policy. (...)

**A toolkit for addressing risk and sourcing soy responsibly**

The Soy Toolkit provides clear and accessible guidance on a wide range of existing and emerging solutions to responsible soy sourcing. It facilitates greater understanding for international decision-makers about the tools, approaches and initiatives relevant to their soy supply chains—in particular those originating in Brazil<sup>23</sup>.

**What does it do?**

- Simplifies the wide array of existing tools and initiatives by highlighting those most relevant to a company’s sustainability journey, focusing on 5 key elements required for responsible sourcing of soy (see figure on the right).
- Builds companies’ capacity to identify and use the tools best suited to their needs.
- Empowers traders, feed/food processors and retailers to deliver on their soy sourcing commitments.

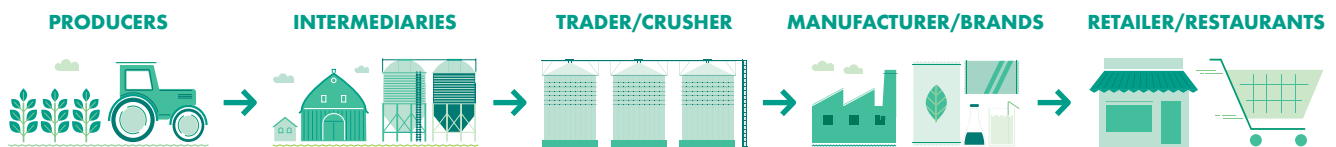


**“ The Soy Toolkit is a great tool to help companies understand the multitude of resources and initiatives available to help them address crucial aspects of sustainable soy supply chain management, such as supply chain traceability, risk assessment, supplier engagement, etc. By building on these resources, we believe companies will be better equipped to meet their sustainable soy sourcing commitments, as well those of their clients. ”**

**Wei Peng,**  
COFCO International  
Head of Sustainability

## Learn more and help us improve

- Briefing notes on each of the 5 elements of this approach are available for download in Mandarin, English, and Portuguese at [www.soytoolkit.net](http://www.soytoolkit.net)
- Free trainings for groups of companies are available upon request
- Updates and case studies are presented at major soy meetings like Roundtable on Responsible Soy annual conference and Tropical Forest Alliance events
- For more information or to provide comments, requests, suggestions via [soytoolkit@proforest.net](mailto:soytoolkit@proforest.net)



## References

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