



# Rabobank's Commitment to Sustainable Agriculture and Forests

Rabobank is committed to the Paris Agreement and acknowledges the crucial role of forest protection to reach the climate goals. Agriculture and agriculture-related activities are known contributors to global carbon emissions and loss of natural resources. As a bank financing the food and agricultural sectors, we value biodiversity and commit to avoid causing or contributing to adverse impacts on biodiversity and ecosystem services.

With financial products and services, as well as our networks and knowledge, we aim to support our corporate clients in soft commodity value chains to achieve zero net deforestation. In Brazil, home to a large part of the Amazon forests, we do not finance deforestation in any biome, even if legally allowed.

## Rabobank Brazil and sustainability

- The issue of climate and sustainability is close to our hearts; as part of Rabobank Group, Rabobank Brazil (RBB) has played a pioneering role in financing commercial farming in Brazil, and has led in proactively developing the sustainability agenda of farmers and the rest of the agribusiness value chain.
- Rabobank Brazil's sustainability criteria for acceptance and maintenance of customers is broader than mere compliance with Brazilian law or Rabobank Group policies, and is an integral part of our customer relationship agenda.
- The sustainability practices of our customers are expected to progress positively over time, but could also be (and have been) a factor of exclusion.

## Brazil and sustainability

- Current developments around the world and in Brazil point to deterioration of the climate in general, partially caused by deforestation and also resulting in more forest fires.
- 2019 saw a spike in deforestation and forest fires in Brazil, which have raised concerns globally on the importance of Brazil and its forests as a contributor to climate trends.
- Notwithstanding, current statistics indicate that over 65% of the Brazil landmass still consists of primary vegetation, and only 9% is used for agriculture; some 22% consists of pasture land, of which around 50% remains underutilized and could be converted into productive farm land.
- Brazil is a signatory to the Paris Agreement, and over 60% of Brazil's energy supplies are considered sustainable and renewable.
- Most land owners are subject to a mandatory "Legal Reserve" of primary vegetation, which varies from 20 to 80% of land owned, depending on the biome in which the land is located. We periodically check compliance with these legal requirements as an integrated part of our lending process.

## Regulatory environment

- The Brazilian regulatory and environmental standards, both on banks and on commercial farmers operating on registered land with title deeds, are restricting. Compliance is actively monitored by regulators, with applicable corrective action required and penalties levied where required.
- Commercial farmers are fully regulated and in some cases still have rights to deforest lands they own, subject to prior authorization and subject to a mandatory “reserve area” which varies from 20 to 80% of land owned, depending on the biome in which the land is located.
- According to industry estimates, over 90% of deforestation in Brazil is illegal, the balance being deforested legally, by established and identifiable entities, with the necessary governmental and environmental permits, and subject to tight government inspection regimes and financial and/or criminal penalties for illegal actions.
- Illegal deforestation occurs generally as a result of criminal activities such as illegal mining, logging/charcoal operations, and land grabbing of public or non-titled land, where government has not been able to exercise its control and rights.
- Due to geographic distances, lack of available or allocated monitoring capacity on remote or public lands, prosecution of illegal and land grabbing activities remains a challenge; this perceived impunity undermines what are, in principle, solid laws and governmental policies and reflects adversely on agribusiness in general. Rabobank Brazil checks relevant documentation in transactions.

## The Brazilian economic context in issues concerning sustainability and deforestation

- Land deforestation, whether legal or illegal, is ultimately driven by economics and the legal/regulatory environment.
- Illegal deforestation is aimed at criminally extracting short-term value (mining, logging, subsistence farming, cattle grazing) or long-term value (land grabbing, establishing de-facto ownership and then legalizing ownership for subsequent re-sale)
- In the Brazilian context, surplus forest area could be legally deforested (with the proper authorizations) in order to become productive.
- The biggest opportunity for sustainable farming, and avoiding deforestation, is to convert existing pasture land into farmland; however, it is cheaper to deforest land and make it productive, than to convert pasture land; similarly, holding land with primary forest brings regulatory obligations and generates maintenance and capital costs.
- Thus, in addition to the law, the economics of holding productive or non-productive land is an important factor in deforestation calculations.

## Rabobank's stance on deforestation in Brazil

- Considering the estimated high percentage of illegal deforestation, we believe in an active dialogue with Government and other stakeholders through a variety of roundtables and other channels.
- As to the deforestation that can occur legally (currently estimated at some 10% of total), with prior approval from the authorities, by registered and well identified landowners with title deeds, there are a number of opportunities to make the economics of holding and protecting primary forest more attractive, thus preventing legal deforestation being rewarding:
  - provide economic/financial or other incentives to farmers to NOT deforest that land, even if legally entitled to; CO<sub>2</sub> trading schemes, "payments for environmental services" to maintain primary forest are increasingly being considered to compensate farmers who have the legal right to deforest and thus create value for these farmers; Rabobank Brazil has a number of such structures – partly in development phase

And/or

- provide an economic interest to farmers to develop degraded pasture land, by way of longer term finance, better loan pricing, lease/transfer solutions, etc.; another good example is the USD 1 billion AGR13 Fund, set up by Rabobank with the support of the United Nations Environmental Program (UNEP)

And/or

- provide better financing conditions (tenor, pricing) depending on the closely monitored sustainability ratings of our customers, thus encouraging them to embrace our market leading sustainability guidelines, over and above the minimum required by law

And/or

- while already using satellite technology for other customer related purposes, Rabobank intends to map all its clients landholdings and native forest, in order to be able to better monitor land usage (change) through geospatial tools and be able to track forestry protection commitments under clients' mandatory "reserve areas" and under any surplus native forest they may also own

## Rabobank sustainability and lending practices

- Rabobank Brazil always acts in an inclusive way with its clients, aiming to contribute to their economic, environmental and social development, and helping them to realize their ambitions in a sustainable way.
- Please refer to our Rabobank Brazil Sustainability Policy, in place since 2006 and periodically amended, which describes the criteria that are expected to be applied by customers, as well as the so-called "exclusion criteria," which constrain the relationship. As required by the Central Bank, the policy is public and can be assessed through Rabobank's Brazil website [www.rabobank.com.br](http://www.rabobank.com.br).
- Rabobank Brazil understands that each country has different challenges and works on different solutions to influence the agricultural sector on sustainability, given local social realities and legislation. Accordingly, we seek to maintain a positive agenda of engagement with our customers and our other stakeholders in relation to sustainability in general, and avoidance of deforestation specifically, as there is no simple solution for a complex and developing country like Brazil.

## Summary of Rabobank Brazil practices and customer engagement

In line with Rabobank's cooperative values, we believe the best pressure to reduce deforestation is to maintain an agenda of positive engagement with government, society in general, and with the farming community specifically, and to actively promote best practices.

### Accordingly:

- Rabobank maintains tight sustainability standards, and encourages customers to achieve higher standards, which can result in cheaper loan pricing.
- Rabobank promotes best farming practices, which are generally seen favorably by its customers, as these practices also lead to higher economic value.
- Non-compliance with Rabobank's sustainability policy can threaten the relationship, unless damages are repaired and compensated within a reasonable time frame to be agreed upon by the bank.

### We have a clear stance on deforestation in Brazil:

- We do not finance any deforestation, even if legally allowed.
- We do not on-board or maintain customers involved in illegal deforestation that occurred after 2005.
- We do not accept as collateral land in the Amazon biome which has been deforested in the last five years, even if done legally.
- We encourage and support clients to convert degraded land for agricultural production, thus discouraging deforestation. We provide attractive tailor-made services, including the [AGRI3 Fund](#) for forest protection and sustainable agriculture.
- We promote the provision of ecosystem services by clients and offer financing solutions to enable a sustainable agriculture transition.
- We promote innovative solutions like "payments for environmental services" to encourage farmers not to deforest and to keep native vegetation in place.
- We monitor our client performance annually, including their land use through on-site visits. In addition we will work with geospatial solutions in order to map all customer landholdings and then improve land use monitoring on a permanent basis.

Furthermore, Rabobank is a member of a variety of industry bodies, like the Round Table on Responsible Soy, the Global Roundtable for Sustainable Beef, the Brazilian Roundtable on Sustainable Livestock, and other initiatives that promote sustainable agriculture.