How European Agribusiness Financiers Are Driving Deforestation in South America

EU-Mercosur trade deal increases risk of deforestation and human rights abuses

Despite repeated pledges by governments and companies to stop deforestation, the Mercosur countries[a] Argentina, Brazil, and Paraguay have experienced some of the highest deforestation rates globally over the last two decades. Extensive cattle ranching and intensive commodity-driven agriculture are the two leading drivers of deforestation. European financial institutions, by providing credits and investments, are important enablers of these agribusiness sectors.

The unrelenting growth in demand for internationally traded commodities pushes the agricultural frontier further into forest areas, facilitated by infrastructure development that enables population shifts and economic activities in remote areas. Key ecosystems under threat include the Amazon rainforest, the Cerrado savannah, the Gran Chaco dry forest, and the Pantanal wetlands.

Environmental and social impacts of the EU-Mercosur Trade Deal

The EU-Mercosur trade deal is expected to cause serious harm to people and nature. It is anticipated that the deal would further increase the trade in forest-risk commodities, and in turn make investments in these sectors more attractive and lucrative.

The EU is the most important trade partner of the Mercosur states, and the biggest foreign investor in the region.[1] Aiming to increase trade and investment, the EU-Mercosur trade deal was developed over the last two decades. Signed in 2019, its ratification would make it one of the biggest trade deals in the world.[2] The EU Commission presents the agreement as progressive and visionary in combining trade and sustainable growth, also in relation to forest protection and human rights.[3]

However, several impact assessments show the link with harmful social and environmental impacts in the Mercosur countries.[4] Upon implementation, it is expected that it will reinforce the industrial agriculture model and increase the risks of deforestation and human rights abuses due to an increase in demand for commodities like soy, beef, and sugarcane-derived ethanol.[5] Meanwhile, the Intergovernmental Panel on Climate Change (IPCC) in its latest Assessment Report stresses the urgent need to move away from intensive agricultural practices towards more sustainable approaches like agroecological farming and agroforestry.[6]

So far alarming deforestation rates and forest fires have not stopped financial institutions, such as banks, insurers, and pension funds, from investing in forest-risk commodities. Further liberalization of financial services will make investments in the Mercosur easier. Meanwhile, there is no legal framework that holds the financial sector accountable for investments in harmful activities.

At the same time, national agricultural policies in the Mercosur countries are currently aimed at expanding commodity production for exports.[7] In Brazil, the cultivation area of soybean and maize, crops that are mostly used in livestock feed and industrial purposes like biofuels, is expected to increase by respectively 10.3 million and 7.3 million hectares (ha) in the period 2020-2030, further increasing pressure on land and nature. Both crops are dominated by genetically modified (GM), herbicide-resistant varieties that are linked to high pesticide use. Meanwhile, the Brazilian Ministry of Agriculture, Livestock and Supply projects for the key food crops rice and beans a decrease in acreage by 2 million ha.[8] While exports are rising, Brazilians are facing food shortages and are increasingly going hungry.[9]

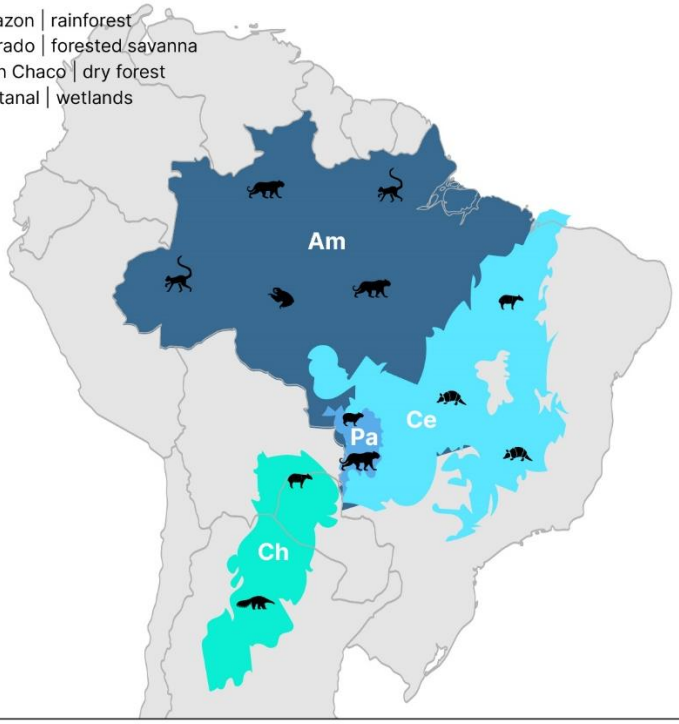
[a] The Mercosur bloc also includes Uruguay; however, it does not overlap with the analysed biomes.

The deal that drives deforestation in South America

The EU-Mercosur trade deal is expected to aggravate harms to people and nature in Mercosur countries. Its implementation will reinforce the industrial agriculture model and increase the risks of deforestation and human rights abuses due to a surge in the EU's demand for commodities like soy, beef, and sugarcane-derived ethanol.

Biodiversity hotspots in South America

Am Amazon | rainforest
Ce Cerrado | forested savanna
Ch Gran Chaco | dry forest
Pa Pantanal | wetlands



Impacts of deforestation

- Extinction of animal and plant species
- Causes changes in rainfall patterns and water cycle
- Increases CO_2 emissions
- Endangers livelihoods of indigenous peoples and local communities

Key drivers of deforestation in Mercosur countries

- Cattle ranching
- Intensive commodity-driven agriculture
- Infrastructure projects - like Tapajós River ports, the 'Soy Highway' BR-163, the Ferrogrão railway – as enablers

Expected impact of EU-Mercosur deal

- Boost demand for commodities (soy, beef, sugarcane-derived ethanol)
- Reinforce the industrial agriculture model
- Increase the risks of deforestation and human rights abuses

Cerrado

- Low land prices and lack of protection drive farmland development
- From 2012 to 2021, 9 million ha deforested

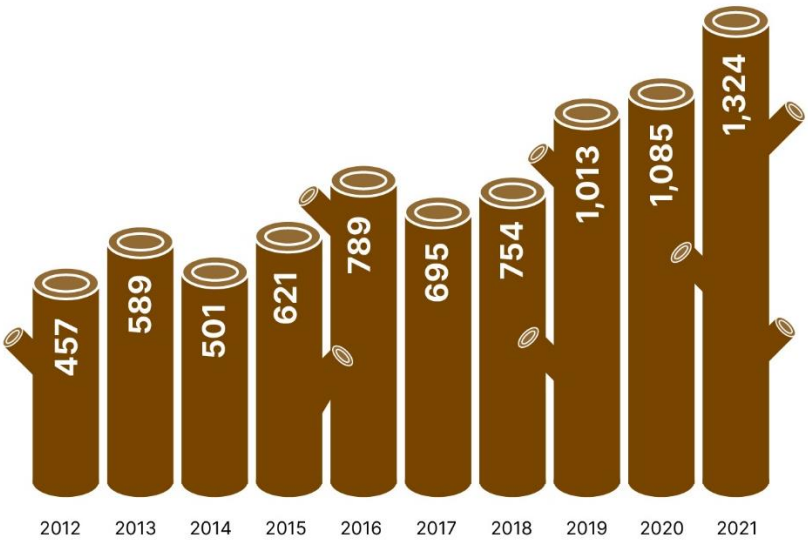
Gran Chaco

- In Argentina, 1.6 million ha tree cover loss since 2012
- In Paraguay, 2.6 million ha tree cover loss since 2012

Pantanal

- Burning by ranchers in combination with naturally occuring fires consumed more than a quarter of the Pantanal in 2020

Amazon deforestation rates, 2012 to 2021 (1,000 ha)



Source: INPE (2022); Global Forest Watch (2022); ICV, Imaflora, UMFG (2021); Greenpeace (2021)

Key ecosystems in Mercosur countries under threat from deforestation

The Mercosur countries are home to some of the most biodiverse ecosystems in the world. However, the Amazon rainforest, the forested Cerrado savannah, the Gran Chaco dry forest, and the Pantanal wetlands are all under threat from disappearing due to expanding agribusiness. Infrastructure developments accelerate deforestation, fires, and human rights.

Deforestation rates in the **Brazilian Amazon rainforest** declined for several years after reaching a peak in 2004. Since 2012, the trend turned around again. Data for 2021 show a year-on-year increase by 22% to the highest loss since 2006. Driven by weakening of environmental legislation and its enforcement, scientists predict that the rainforest may reach a tipping point soon that would replace it with a dry savannah, with profound consequences for biodiversity, carbon sequestration, precipitation, and the livelihoods of communities.[10]

Cattle ranching remains the major cause of deforestation in the wider Amazon region. It commonly occurs along the forest frontier - areas that are marked by uncertain land rights, violence, and corruption.[11] Next to the growing beef industry, land speculation is another economic driver for the conversion of forests into pasture, with rearing cattle as a cheap way to prevent the forest from growing back.[12] A self-declaratory system for land rights increases the risk of illegal land grabbing and deforestation.[13] Roads, trainlines or river ports are important underlying causes for further deforestation as they facilitate population shifts and economic activities in forest landscapes, aggravating impacts on the environment and indigenous people.[14]

Infrastructure projects increase deforestation risk in the Amazon rainforest

According to estimates, around one fifth of Brazil's soy and grain production are transported via Amazonian rivers. The Tapajós River in Pará state has already developed into an important global commodities supply chain hub through the construction of several industrial river ports by leading agri-commodity traders like Cargill.[15] Louis Dreyfus Company (LDC) operates a fleet of barges on the Tapajós River via a third-party transhipment terminal, pending completion of its own.[16] Unitapajós is a joint venture set up between traders Amaggi and Bunge in 2013. It connects the Amazon highway BR-163 via a river terminal in Miritituba to the Barcarena port terminal where soy and corn are transferred to bulk carriers.[17]

The BR-163, whose final stretch was paved in 2020, has been dubbed the 'Soy Highway' as millions of tonnes of oilseeds and grains are transported by truck from Mato Grosso to the Amazonian River terminals for export to China and Europe. The highway is notorious for lawlessness and seen as a driver of illegal deforestation and forest fires.[18] In July 2021, the private consortium *Via Brasil,*[19] the only bidder, won the auction to administer and maintain a 1,009 km tract of the highway connecting Sinop in the soy production centre of Mato Grosso to the Miritituba port in Pará for the coming ten years.[20] The project is expected to generate investments of R$ 1.89 billion (€ 365 million).[21] The public notice had been questioned by indigenous communities in Pará as well as the Federal Prosecution Service. The prosecutor raised concerns not only for the indigenous people, but also for the concessionaire due to unpredictable socio-environmental costs and hurdles in obtaining environmental licenses.[22] In 2019 and 2021, the Spanish Santander Bank participated in two bond issuances of consortium member Conasa Infraestrutura, with estimated commitments of respectively US$ 100 million (€ 90 million) and US$ 19.6 million (€ 17.3 million).[23]

Brazil's president Bolsonaro is pushing to legalize various economic and extractive activities on Indigenous land and plans are underway for the so-called Ferrogrão railway on a similar route as the highway to further increase soy transport capacity while decreasing costs.[24] While the project is still in the preparatory phase, during roadshows several financial institutions expressed interest in providing financing, including the Italian Cassa Depositi e Prestiti and Intesa Sanpaolo, and the Spanish Santander.[25] A 2021 study by the Society for Threatened Peoples also identified various European financial institutions among the financiers of potential future stakeholders in the project.[26]

The **Cerrado biome is a forested savannah** in the central and north-eastern part of Brazil. It is home to rich biodiversity and of great importance for carbon sequestration and the fresh water supply of large parts of the country.[27] Today only about 55% of the natural Cerrado vegetation remains,[28] as most of the agricultural expansion in recent decades replaced native Cerrado vegetation.[29] This expansion is enabled by low land prices,[30] and the fact that most of it is legal under the Brazilian Forest Law. Only 8% of the biome are protected,[31] and Cerrado farmers are required to set aside only 20-35% of the natural vegetation, in contrary to 80% in the Amazon Biome.[32] Producers that have been linked to soy-driven Cerrado deforestation in recent years, such as the Brazilian Brasilagro and SLC Agrícola, in turn often supply the leading soy traders Cargill, Bunge, ADM, all three headquartered in the U.S., the French LDC, and Chinese COFCO.[33]

The Cerrado deforestation rate had shown a declining trend from 2016. However, legal and illegal deforestation continue, especially in high-risk communities on the soy deforestation frontier.[34] In a turning trend, 2020 and 2021 saw year-on-year increases in deforestation by 25% and 8%, respectively.[35] It is estimated that by 2058, Mato Grosso will triple and Tocantins and Goiás will more than double their crop production, all states overlapping with the Cerrado biome.[36]

The **dry and semi-arid Gran Chaco** is the second largest and biodiverse forest ecosystem in South America, stretching across Argentina (60%), Paraguay (28%), and Bolivia (11%)[37] As one of the major agricultural frontiers in South America, deforestation in the Argentinian and Paraguayan Chaco between 2004 and 2017 destroyed 26% of the forest still standing in 2000.[38]

Soybean production acts as a direct driver of deforestation in the **Argentinian Chaco**.[39] Since the late 1990s, the introduction of GM soy, combined with the proliferation of pesticide spraying on the GM crops resulted in largescale monocultures in marginal areas like the Chaco or the Cerrado.[40] Much of the conversion in Argentina is illegal, enabled by weak forest law enforcement.[41] Since the 2007 enactment of the Forest Law, almost 1 million ha of protected forests were cleared until 2019.[42] Recent infrastructure initiatives include rebuilding major railway lines connecting the forest frontier in the Chaco to ports on the Paraná River, where traders like Bunge, Cargill, COFCO, and Dutch Viterra operate silos, crushing plants and port facilities.[43]

Conversion rates have also been high in the **Paraguayan Chaco**,[44] where extensive cattle pastures are the primary driver of deforestation.[45] The development of large-scale cattle ranches is an important governmental instrument to promote economic growth and has pushed land conversion in the remote areas of the Chaco.[46] Further production increases are anticipated as an expansion of beef export markets is eyed. At the current pace, experts fear that the ecosystem and its rich biodiversity would be lost within decades.[47] Illegal deforestation on Chaco farms is widespread.[48] At least 5,000 ha of federally protected land in national parks were illegally deforested in 2020 and 2021.[49] These developments also threaten the livelihoods of indigenous peoples, some of which are living traditionally in voluntary isolation in the Chaco Forest.[50]

Soy production in Paraguay is concentrated in the **Atlantic Forest** in the East of the country, where only 13% of the native vegetation remains.[51] Despite a Zero Deforestation Law from 2004 meant to protect the remaining forest area, illegal deforestation for soy is still being detected there.[52]

The **Pantanal wetland,** sprawling from Brazil into Bolivia and Paraguay, is the world's largest tropical wetland and one of the most biodiverse environments globally. The biome is threatened by infrastructure development, agricultural activities, and water pollution.[53] Cattle ranching and other farming activities have taken over about 16% of the Pantanal. While only 0.01% of the wilderness has been converted to soy farms, the wetland is polluted by vast amounts of agrochemical residue washing into its waterways from farmland in Mato Grosso state to the north.[54]

More than 90% of the Pantanal is in private hands.[55] In 2020, roughly a quarter of the Brazilian wetland burned in unprecedented wildfires. Natural fires, but especially burning by ranchers went out of control as a drought worsened by climate change had seared the vegetation.[56] Also 2021 saw a high number of fires set by humans, either intentionally or accidentally.[57]

Who would profit from the EU-Mercosur Trade Deal?

The large commercial actors in the production and trading of forest-risk commodities like soy and beef are likely to profit from the anticipated increase in demand and investments following a ratification of the Mercosur deal. Many of these leading meatpackers, soy producers and traders have repeatedly been linked to environmental and social abuses in the past, as illustrated in the following examples.

JBS –world's largest beef processor linked to deforestation, slave labour, and corruption

JBS, the world's largest beef processor and international actor with broad investments in the poultry and processed meat market as well as alternative protein products, is a scandal-ridden company. Over the last 15 years, a plethora of evidence has linked the Brazilian company to illegal deforestation, slave-like labour, and corruption.[58] The brothers Joesley and Wesley Batista, who control JBS via the family's J&F Investimentos holding, paid a record fine of US$ 3.2 billion (€ 2.7 billion) in 2017 in a leniency deal for their involvement in a corruption scandal that threatened to overthrow the then-president Michel Temer.[59]

Despite promises to clean up its supply chain from deforestation and Amazon fires, monitoring especially of the many indirect suppliers is falling short. In 2021, the company vowed to eliminate illegal Amazon deforestation from its supply chain by 2025, 14 years later than the initial target of 2011 agreed with Greenpeace in 2009. JBS' deadline for other Brazilian biomes is set to 2030, and for zero deforestation by 2035, allowing for another 14 years of deforestation.[60]

Recent reports linking JBS to social and environmental issues include research by Repórter Brasil from December 2021, showing links between JBS, and to a lesser extent other meatpackers, with multiple cases of labour analogous to slavery on supplying farms,[61] a meat industry issue that is likely underreported.[62] The latest monitoring of cattle purchases in Pará presented by the public prosecutor in October 2021 identified JBS as the meatpacker with most irregularities, with 300,000 heads of cattle of doubtful origin in the meatpackers supply chain in the 18-months to June 2019.[63] In October 2021, deforestation-tainted beef from the Amazon was tracked to products like beef jerky and corned beef supplied by JBS to European supermarkets.[64]

Greenpeace research based on satellite data found that 15 current or recent suppliers of Brazil's leading beef processors, JBS, Marfrig, and Minerva, were involved in illegally setting fires on their Pantanal ranches in 2020, including 13 tier-one suppliers. Thousands of hectares burned on these ranches, of which several were also linked to other violations like illegal clearing or property registration irregularities.[65]

Moratorium loophole allows 'deforestation-free' soy farms to continue deforesting, agri-commodity traders ship tainted soy to Europe

Until the mid-2000s, the spread of soy cultivation was also an important direct and indirect engine of Brazilian Amazon deforestation. At the same time, the expansion of soybean cultivation in areas that were previously used as pastureland led to a relocation of extensive cattle ranching to still untouched forest areas, thus indirectly driving deforestation. An 'Amazon Soy Moratorium' was first agreed in 2006 and later indefinitely extended.[66] It is based on a voluntary agreement between civil society, industry, and government not to buy soybeans produced in areas of the Amazon that were converted after 2008.[67,68]

It is undisputed that the Moratorium was a key instrument in significantly reducing the contribution of soy expansion to Amazon deforestation. But recent evidence shows that a gap in the agreement enables farmers to sell their soy crop as 'deforestation-free' while still clearing land for cattle, maize, or other commodities, owing to its focus on soy. Research by Instituto Centro de Vida and partners documented 118,000 ha of deforestation on soy farms in the Amazon between 2009 and 2019, most of it illegal. The cleared areas were used to grow other crops or as cattle pasture. Shipments of soy from municipalities with hidden deforestation were traced to European countries, involving top traders Bunge and Cargill.[69]

European financiers provide billions to forest-risk sectors

The financing by EU27, Swiss and UK financial institutions of 106 companies engaged in forest-risk sectors in Mercosur countries has been analysed with data from Forests & Finance.[70] It proves widespread involvement of European financiers in beef and soy in Argentina, Brazil, and Paraguay. The supply chains of various financed companies have been linked to deforestation, fires, slave-like labour, and land conflicts in the last three years.[71]

Friends of the Earth Europe

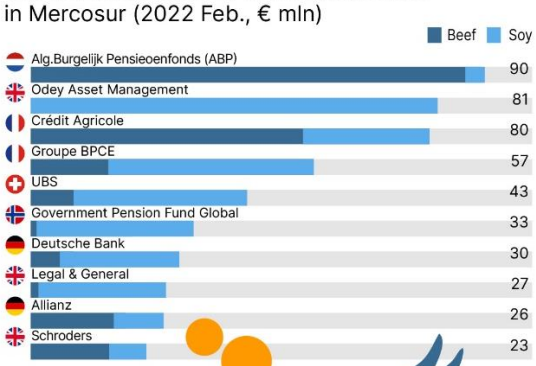
S2B SEATTLE TO BRUSSELS NETWORK

A forest disaster funded with billions of euros

Alarming deforestation rates and forest fires have not stopped European financial institutions, such as banks, insurance companies and pension funds, from investing in forest-risk commodities in Mercosur countries.
Note: The Mercosur includes Argentina, Brazil, Paraguay and Uruguay

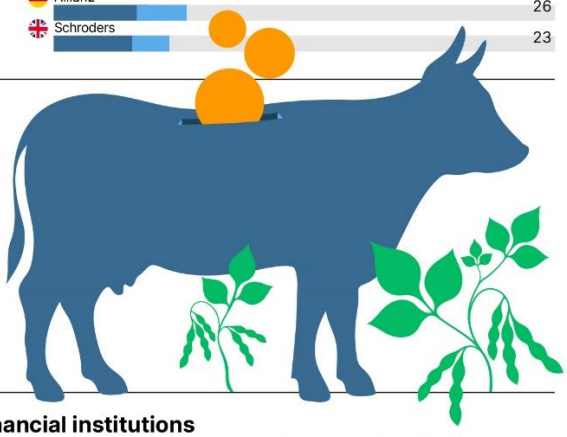
Top 10 European beef and soy creditors
in Mercosur (2016-2022 Feb., € mln)

Top 10 European beef and soy investors
in Mercosur (2022 Feb., € mln)

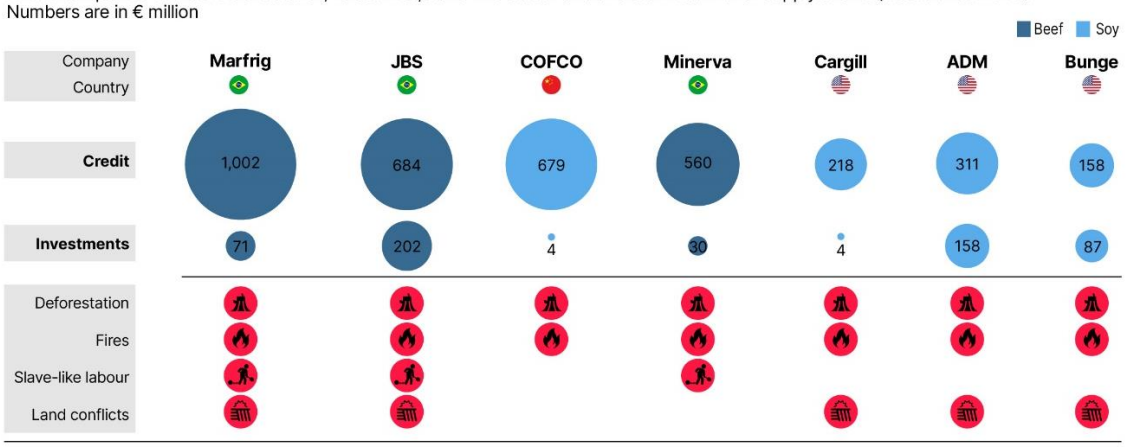


Total by European creditors
January 2016 to February 2022
€ 13.5 billion

Total by European investors
February 2022
€ 815 million



Top soy and beef companies backed by European financial institutions
These companies tolerate deforestation, forest fires, slave-like labour and land conflicts in their supply chains (cases since 2019).
Numbers are in € million



Source: Forests & Finance. All values are adjusted for the proportion of the borrower/issuer activities related to the key forest-risk commodities in the relevant countries.
European financial institutions including EU27, Switzerland and the United Kingdom (credit since 2016, investments as of Feb. 2022).

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All identified financing values are adjusted for the proportion of the borrower/issuer's activities related to the key forest-risk commodities in the relevant countries. For globally active traders or diversified companies this can mean that only a very small proportion of their overall financing is considered for a specific country sector.

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