THE ROLE OF FRENCH BANKS IN GLOBAL FOREST DESTRUCTION

Global Witness' investigation has revealed the scale of investment in global deforestation, including by household name banks and major investment players in France. According to data analysed by Global Witness, between 2013 and 2019 France's financial sector backed five of the six most harmful agribusiness companies investigated, and which have been directly or indirectly involved in deforestation in the world's largest tropical rainforests in the Brazilian Amazon and the Congo Basin. This backing was to the tune of almost €2 billion, making France the second largest EU contributor of funds to these companies.

These revelations come three years after the adoption of France's landmark *Duty of Vigilance* Law. The law requires French companies, including banks, to identify, mitigate and prevent human rights abuses and environmental harms in their operations. However, analysis by Global Witness uncovers that since the adoption of the *Duty of Vigilance* law in March 2017, three French banks - BNP Paribas, Natixis and Crédit Agricole – have been backing the companies linked to deforestation highlighted in Global Witness's September 2019 report *Money to Burn*.

This briefing takes a closer look at the role of France's financial sector as revealed in the data behind *Money to Burn* as well as drawing on new research. It underlines the importance of French government action to ensure that French banks are aligned with its ambition to be seen as a global leader on combatting deforestation.

THE PLEDGES MADE BY FRENCH BANKS

As climate breakdown moves increasingly higher on the news agenda, banks have recognised agribusiness as a sector posing high Environmental, Social or Governance (ESG) risk – particularly when it comes to deforestation. The three French banks highlighted here all have policies or commitments in place on agricultural commodities which are at risk of causing deforestation.

BNP Paribas signed onto a 'zero net deforestation by 2020' commitment in 2015 for financing to palm oil, soy, timber and beef under the Banking Environment Initiative.[1] Crédit Agricole also has a policy that covers deforestation, but it does not set any time bound zero deforestation targets and remains limited to only two forest-risk commodities.[2] Natixis states it has an internal palm oil policy – this means that affected communities and stakeholders do not even know what the bank has committed to.[3]

France's pioneering *Duty of Vigilance* Law, adopted in March 2017, obliges French companies of a certain size to identify, mitigate and prevent human rights abuses and environmental harm throughout their supply chain and financing.[4] These companies are required to report annually on these risks, as well as on measures put in place to mitigate them.

Crucially, French banks are among the companies covered under the law. It's still early days for this law, but given that banks themselves have statements or policies that identify deforestation as a risk it would be expected that French banks report on their measures to tackle any risks that their financing contributes to deforestation.

Since the law passed, the three French banks examined here have yet to publicly report in their annual 'vigilance plans' on identified risks posed by companies exposed to, involved in, or linked with, deforestation and related human rights abuses.[5]

BNP PARIBAS: BONDS IN MARFRIG AND SINOCHEM INTERNATIONAL

BNP Paribas is France's largest bank and the second largest in the European Union.[6] Our analysis shows that it has been financially tied to multiple companies with high-risks of deforestation in their operations.

BNP Paribas was one of the banks coordinating a US$500 million "transition bond" for the Brazilian beef-trader Marfrig in July 2019.[7] This comes at a time when deforestation of the Amazon is rapidly increasing, with many trying to profit off forest destruction driven by grazing cattle and the beef industry at large.

The bond was created to address the issues related to indirect suppliers in Marfrig's cattle purchasing chain.[8] In simple terms, this is where a company buys cattle that has not been raised and reared on a single property. Cattle may be sold several times, allowing those linked to deforestation to profit where deforestation checks focus only on the cattle's latest owner.

Daniel Brindis – Forests Director at Greenpeace US – expressed scepticism to the Financial Times over the bond because Marfrig "do not have consistent assurances that the farms that sell to their direct suppliers are free of deforestation."[9] Virgeo Eiris – the ESG consulting firm contracted to give an independent review of the bond – only gave a 'moderate' assurance of the bond's contribution to sustainable development (on a possible scale of 'reasonable, moderate or weak').[10]

According to the Thomson Eikon database, BNP Paribas also acted as a Joint Lead Manager in the underwriting of a US$1 billion bond in May 2019 for Marfrig's subsidiary NBM US Holdings.[11] This comes at a time of escalating human rights threats across Brazil, which should be leading to heightened due diligence by banks and others.

According to the same database, as of November 2019, BNP Paribas managed bonds of US$1 million in Sinochem International.[12] Sinochem is the majority shareholder in Halcyon Agri.[13] According to Greenpeace, in 2016, Halcyon Agri took control of rubber plantations in Cameroon with a legacy of deforestation, and proceeded to cut a further 2,300 hectares between April 2017 and April 2018.[14] The project has also been criticized for its impact on communities in the area - including indigenous Baka Forest People groups — who depend on the forests and have reportedly been forced from their homes and denied access to their customary lands.[15] Halcyon Agri told Global Witness: "Since Halcyon took over management of Sudcam in late 2016, it has been a priority to address the legacy issues we inherited in Cameroon. There is no 'overnight' solution to fixing the issues." The company insisted it had ceased all felling and clearing in Cameroon and established a community forest.[16]

With regards to Marfrig, and beef sector clients more generally, BNP Paribas told Global Witness that it is currently engaged in a dialogue with such clients to ensure that they adopt responsible practices. BNP Paribas states that "all our clients operating in the Amazonian and Cerrado regions are either already certified or engaged in a certification process which we are monitoring." [17] BNP Paribas stand by their participation in the Marfrig transition bond, stating that "the use of proceeds of this bond is strictly focusing on reducing deforestation and land rights issues within Marfrig's cattle supply chain, notably through a satellite monitoring of 100% of the areas where they source cattle in the Amazon Biome."[18]

In four successive audits of the company's Amazon cattle purchases between 2015 and 2018, Marfrig's auditor DNV-GL concluded that its indirect suppliers "are not systematically verified yet."[19] Marfrig insisted to Global Witness that it had a commitment to zero deforestation in the Amazon, with a rigorous and technologically advanced sourcing procedure – including satellite geomonitoring.[20]

Monitoring indirect suppliers is something that Marfrig, as a signatory of a 2009 Cattle Agreement with Greenpeace, committed to achieve within two years of signing onto the agreement.[21]

NATIXIS: CREDIT FACILITY TO OLAM INTERNATIONAL

In 2019, French investment bank Natixis contributed USD$50 million to a syndicated three year revolving credit facility to one of the world's largest agribusiness groups, Olam International.[22] This is despite a 2016 report by NGO Mighty Earth calculating that since 2012, Olam had deforested approximately 20,000 hectares of forest in Gabon.[23] Olam continues to operate the plantation on land that they deforested.

Natixis informed Global Witness that because it has had a relationship with Olam since 1999, it annually reviews the company – a process that includes assessing environmental and social risks associated with their activities. The bank highlights that since the 2016 report, a joint Mighty Earth and Olam statement noted that Olam has achieved significant progress.

The bank also stated that Olam has received Roundtable on Sustainable Palm Oil certification for 78% of their palm concessions in Gabon and is on track to have all concessions in Gabon certified "by 2021."[24] An Olam spokesman told Global Witness the company is committed to no further expansion until all their plantations achieve full certification with the Round Table on Sustainable Palm Oil in 2021. He said Mighty Earth's report contained factual errors, and that Olam's palm oil plantations in Gabon were developed on "savannahs, regenerated farmland and degraded logging areas".[25]

CRÉDIT AGRICOLE: SUPPORT TO HALCYON AGRI AND SINOCHEM

Crédit Agricole is listed as a 'principal banker' in Halcyon Agri's 2018 annual report.[26] According to the Thomson Eikon database they also acted as a Joint Lead Manager on a US$300 million bond for Halcyon's majority shareholder Sinochem (owning 54.99% of the company) in July 2017, through which they directly provided US$10 million of underwriting services.[27]

In Global Witness's view, Crédit Agricole's policy framework does not adequately identify and address the full spectrum of activities that can lead to deforestation. With a forestry policy limited only to timber and palm oil, other commodities such as rubber, beef and soy can indeed be financed without any breach of its deforestation policy.[28] Crédit Agricole chose to have a business relationship with rubber company Halcyon Agri despite the deforestation caused by its operations in Cameroon.

In response to Global Witness' invitation to comment on these relationships, Crédit Agricole stated that Sinochem is a participant in sustainability initiatives. They said that Halcyon Agri has addressed its legacy issues "with the publication of a Corporate Responsibility Policy in March 2016, the release in November 2018 of a Sustainable Natural Rubber Supply Chain Policy ("SNRSCP") and through different partnerships with NGOs and stakeholder engagement process."[29]

The bank said that it would engage further with the company in the case of "continued incidence of events that are in contradiction with the sustainability policies published by Halcyon Agri". This appears to focus on new incidents. It is unclear how the bank views the ongoing implications of previous poor practices, and how it addresses companies that seek to profit from previously deforested land that a rigorous due diligence process should have excluded.

FRENCH GOVERNMENT ACTION TO TACKLE DEFORESTATION

President Macron has himself acknowledged the role agribusiness plays in deforestation, stressing at the UN General Assembly that there are "predatory agricultural activities […] not compatible with biodiversity and the forest."[30]

2019 saw President Macron lead multiple global initiatives to halt climate breakdown: the One Planet Summit in Paris focusing on climate finance; his call for funding the protection of the Amazon at the G7 in August; the Alliance for forests preservation launched in New York UN General Assembly in September and reaffirmed in December at the COP25 in Madrid alongside a coalition of Brazilian States for the protection of the Amazon forest[31]; and the Alliance for biodiversity launched in Madrid too.

France is one of the few countries that has already recognised and pledged action to tackle the role of its own consumption and investments in fuelling deforestation by adopting a national strategy against imported deforestation.[32] This includes commitments to make finance responsible and incentivise financial actors to systematically incorporate the fighting against deforestation in their investment policy and strategy.

France has also led the way with its adoption of the *Duty of Vigilance* Law in 2017 which obliges French companies of a certain size to identify, mitigate and prevent human rights abuses and environmental harm throughout their supply chain and financing, and to annually report on these risks, as well as on measures put in place to mitigate these risks. Crucially, the law also applies to French banks.

These initiatives, strategies and legislation must now be followed with urgent and bold action to shift corporate behaviour.

As Sonia Guajajara, Executive Coordinator of the Network of the Indigenous Peoples of Brazil (Articulação dos Povos Indígenas do Brasil – APIB) told Global Witness :

> “Over the last year the dangers faced by indigenous peoples in the Amazon and across all Brazil's biomes have increased. Agribusiness is a widespread driver of deforestation in the Amazon and is causing more threats against indigenous communities that protect forests through their lifestyles. We are being silenced, threatened, jailed and even killed. Our forests are the world's forests and they are being destroyed. We need to act together and there is no more time left. Global finance is fuelling the destruction of our forests, our homes, our cultures. Last year we travelled to 12 European countries warning everyone about what is happening in Brazil, and asking that urgent measures be taken to fight this barbarism. European governments need to pass legislation to ensure its banks and companies do not support this destruction.”

CONCLUSION & RECOMMENDATIONS

According to the UN Intergovernmental Panel on Climate Change, humanity now has eleven years left to avoid the worst effects of climate change. To stand a chance, we need to keep our forests standing. The IPCC has also identified tropical deforestation as a major driver of greenhouse emissions. Yet forests do not need to be destroyed for agribusinesses to plant crops and raise cattle. There is no need to choose between protecting forests and producing food.

The financing strategies by the French banks exposed in this report are short-sighted. French banks urgently need to improve their policies as well as the quality of checks and controls throughout their provision of services, financing and investments to ensure they are not financing deforestation. This is particularly pressing as governments, the public and shareholders across the global are becoming increasingly attentive to the impacts of deforestation on climate change and its frequent ties to human rights issues.

Unless they exercise more rigorous checks and move away from financing deforestation risk agricultural commodities, the banks risk undermining the French government's commitment to tackle climate change and deforestation, as well as the 2030 SDGs, the Paris Climate agreement and protection of biodiversity.

President Macron must prioritise tackling head on the French financial system's role in financing climate breakdown and deforestation in 2020. He must work with other global leaders to make clear that banks and other financiers should no longer be funding harmful agricultural commodities without regard for the consequences.

The French government should:

- Lead a national and global strategy to tackle the role played by financial institutions in financing deforestation
- Ensure that French financial institutions, including those named here, are reporting under the duty of vigilance law on measures taken to identify and address any risks that their financing contributes directly or indirectly to deforestation or human rights abuses
- Continue to support EU legislation to require companies and financial institutions to undertake mandatory due diligence to ensure they are not contributing to deforestation or human rights abuses.

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