

Sector supply-chain guidance – soy



European Bank
for Reconstruction and Development

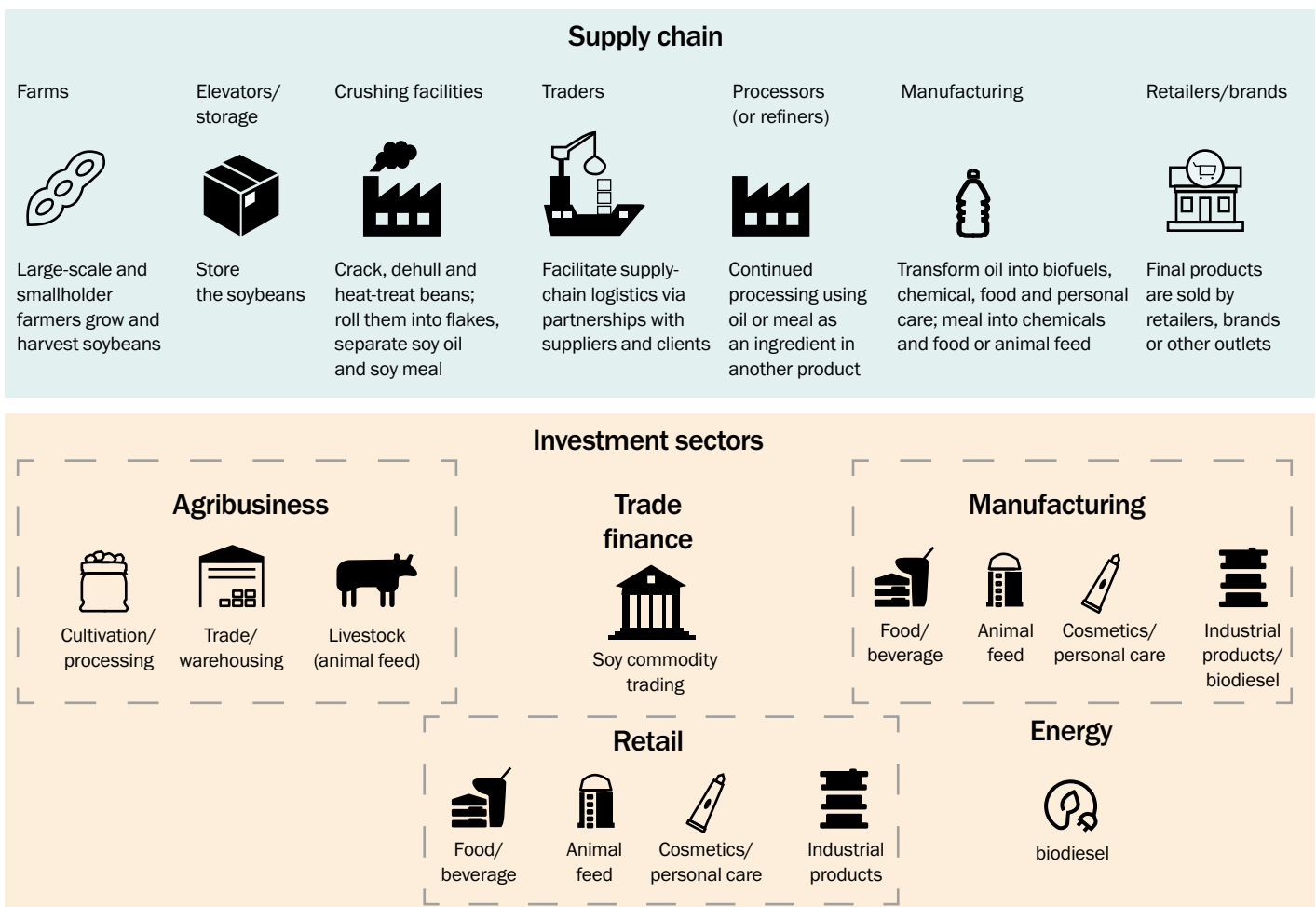
1. Introduction

This note focuses on actions a company in the soy supply chain can take to address environmental and social risks. The company may be a client to which the EBRD is providing direct finance or a sub-borrower of one of the Bank’s financial

intermediaries (FIs). It could also be an investee company of a fund in which the EBRD is investing.

Below is a generic soy supply-chain map setting out the key elements of the supply chain and associated investment sectors.

Figure 1. Key elements of a generic soy supply-chain and associated investment sectors



2. Supply-chain mapping and traceability

2.1. Production and supply-chain context

The soy supply chain consists of upstream, midstream and downstream players. Upstream typically refers to primary soy producers, such as farmers, storage and crushing facilities. During the crushing process, the beans are cracked and dehulled. The dehulled beans are then heat-treated with steam and rolled into flakes. The soy oil is removed using solvent extraction. Once the oil has been separated using the solvent, it is refined, bleached and filtered. The remaining

soybean flakes are usually toasted, dried and ground. The soy meal and soy oil are separated into their respective product supply chains. Midstream refers to continued processing using oil or meal as an ingredient in another product. Downstream refers to retailers and brands or industrial products. Note that depending on the setup of the supply chain, traders/buyers may have their own processing sites or contract directly with processing sites, giving them significant leverage over these processors.



Most soy products are used for animal feed or biodiesel. Seventy-seven per cent of all soybeans are used for animal feed (particularly poultry and pigs, the main drivers of increasing demand) and just 7 per cent are used directly

for human food products (such as tofu, soy milk, edamame beans and tempeh).¹ Soy makes up about 27 per cent of vegetable oil production and is commonly found in cooking oils and processed foods, such as margarines, dressings and mayonnaise.² It is also used in industrial products, such as fatty acids, soaps and biodiesel, as well as in the alternative proteins market.³

The top producing countries are Brazil (49.9 per cent), the United States of America (35.5 per cent), Paraguay (3.8 per cent), Canada (3.16 per cent), Argentina (2.88 per cent) and Uruguay (1.15 per cent), which collectively produce around 80 per cent of the global soybean supply.⁴ Eighty per cent of soybean growers are large-scale farmers, while 18 per cent are smallholders.⁵ In Brazil, smallholders are responsible for only 15 per cent of soy,⁶ while in Argentina, Bolivia and India, smallholders account for about 70 per cent of soybean production.⁷ China is the top importing country, at 61.4 per cent.⁸

A small number of players dominate the supply-chain, namely, Cargill, Bunge, Louis Dreyfus and ADM.

Table 1. Key control points in supply-chain mapping and traceability

	<p>The storage phase is a key control point in the soy supply chain. Once the beans are mixed, it is nearly impossible to trace back to the individual source if no chain-of-custody process is in place. This is why there is such an emphasis on farmer-/grower-level accreditation. Sourcing from assured farms/growers means that crops have been produced within the defined and recognised parameters of the accreditation.</p>
	<p>Traders can purchase soy directly from producers (direct sourcing) or from intermediaries, such as at silos, grain elevators or ports, where soy from multiple farms has been mixed (indirect sourcing). Direct sourcing can also include fully vertically integrated supply chains, while indirect sourcing can also include imports from other countries.</p> <p>For traders, traceability can go back to farm level only when they buy directly from producers; it is much more challenging for indirect sourcing.</p> <p>As individual producers and cooperatives invest more in independent storage, there is a growing number of tiers between traders and the farm, hindering visibility at production level. In these cases, understanding the distribution of volumes purchased between direct and indirect suppliers is a key first step in defining the approach to mapping the supply chain.</p>

2.2. Sourcing and purchasing practices

Different buyers' sourcing strategies can vary widely depending on their risk tolerance, the size and scale of their operations, and the level of price volatility in the soybean market. Many may use a combination of sourcing strategies to manage risk and ensure a stable supply of soybeans over time.

Forward contracts (a private contract between buyer/seller, with the physical exchange of soy happening at a pre-determined "maturity" date) are the most common marketing tools of soybean farmers. Soy buyers and sellers enter into a contract that sets the terms and conditions for exchanging soy and agree on the price when the contract is initiated. Both sellers and buyers are obligated to fulfil their end of the deal at maturity. The contract is settled by delivery.

Soy producers can use forward contracts to ensure a minimum selling price for their soy at harvest, but they lack the option to sell their product at a higher price if the market changes in their favour. In some cases, producers receive prepayments for their yields and, if their yields fail, they are contractually obliged to repay, which may put them in debt. Farmers may also receive seeds or inputs from buyers as part of their contracts, which may make them more reliant on their buyers and translate into lower profits. Forward contracts are particularly important in long-distance trade, where buyers and sellers need to plan for transportation and logistics. Retailers and food-processing companies mostly use forward contracts to ensure a stable supply of soybeans over a long period of time and provide price predictability. In the United States, forward contracts can account for up to 85 per cent of soybean crop transactions.⁹

Only a small proportion of the soybean trade takes place through spot buying (when an available product is sold and delivered to the buyer almost immediately). Traders are most likely to use this strategy to take advantage of short-term market fluctuations. Food processing and manufacturing may also use spot buying to meet their sales targets. If the market fluctuates (affecting demand) and/or their sales forecasting is incorrect, these entities may use spot buying to either sell unused contracts or buy additional product to cover their requirements.

Soy buyers and sellers may also enter into futures contracts (traded on a public exchange as a risk management/speculative tool, with no physical exchange of soy) to hedge against price movements. The prevalence of futures contracts depends on the farming context, but is usually used by large producers selling soy to a variety of customers rather than smallholder farms, which may have a single customer. Smallholders may, therefore, be particularly affected by fluctuating commodity prices, as they have limited power to negotiate higher prices and cannot raise them in the same way as larger industrial or estate farms when their costs increase. The Chicago Board of Trade is the main futures exchange for soybeans, which are among the most actively traded agricultural futures contracts.

The consolidation of the agriculture sector has also influenced how farmers can buy their inputs, such as seeds and

¹ See Our World in Data (2021). ² See WWF (n.d.). ³ See IISD (2020). ⁴ See TrendEconomy (2024). ⁵ See FOLUR (n.d.). ⁶ See Chain Reaction Research (2022). ⁷ See IISD (2020). ⁸ See TrendEconomy (2024). ⁹ See US Department of Agriculture Foreign Agricultural Service (2021).

fertilisers, for the season. Four major companies (Bayer, Syngenta, Dupont and BASF) own more than 50 per cent of the world's seeds, which impacts where and when items are available and reduces competition.¹⁰ It is common throughout the agricultural sector for farmers to go into debt to secure the inputs they need for the current season's harvest.

Soy-producing countries are likely to be impacted by the requirements of the [European Union \(EU\) Regulation on Deforestation-Free Supply Chains](#) (which will come into force in December 2024) and may look to redirect exports to other markets with less stringent regulations. This regulation ensures that any set of key goods made from soy placed on the EU market no longer contributes to deforestation anywhere in the world (even if such deforestation is allowed under the local laws of the producing country). Buyers subject to the new legislation are likely to shift their sourcing to lower-risk production countries with sufficient volumes for export. Although the EU regulation is expected to have a lesser impact on smallholder farmers, who account for just 15 per cent of production in Brazil, Argentinian smallholder farmers may be affected (they account for 80 per cent of national production and the country is the leading producer and exporter of soy cake to the EU).

2.3. Traceability

While many brands have some knowledge of processing level, they often lack complete information about the farm or plantation where their soybeans are grown.

The type of sourcing can create challenges for soy supply-chain traceability. Traders can purchase soy directly from producers (direct sourcing) or from intermediaries, such as at silos, grain elevators or ports, where soy from multiple farms has been mixed (indirect sourcing). Direct sourcing can also include fully vertically integrated supply chains, while indirect

sourcing can also include imports from other countries (for example, [Argentina](#) imports significant volumes of soy from Paraguay, which is crushed and then exported). For traders, traceability can go back to farm level only when they buy directly from producers; it is much more challenging for indirect sourcing. As individual producers and cooperatives invest more in independent storage to help them negotiate better with buyers, there is a growing number of tiers between traders and the farm. When buying from intermediaries, there may be one or several tiers of supplier between traders and producers (indirect suppliers), hindering their visibility over the production level.

In addition, although only a small proportion of the soybean trade is done through spot buying, when it does take place, it makes it challenging to map the supply chain and have visibility beyond the tier-one supplier level, as spot buying is not fixed (buyers can purchase from any producer/seller).

There is a strong legislative push towards greater supply-chain transparency and traceability. The [EU Regulation on Deforestation-Free Supply Chains](#), which will come into effect in December 2024, will require the [traceability](#) of soy with precise geographical information from the farm level to prove products are deforestation free. Mandatory due-diligence requirements will be especially rigorous for countries deemed "high risk".

Key resources on mapping and traceability
<ul style="list-style-type: none"> Consumer Goods Forum, Forest Positive Soy Roadmap Engage the Chain. Soybeans The Soy Toolkit, Soy traceability and supply chain transparency Tropical Forest Alliance EU Deep Dives – Geolocation & Traceability Session: Soy

2.4 Overview of potential actions to improve mapping and traceability

Table 2. Potential actions for midstream and downstream investee companies to improve mapping and traceability

	Examples of foundational actions	Examples of intermediate actions	Examples of leading practice
Mapping and traceability	<p>Company maintains a complete and accurate list of business partners supplying soy and soy products to the level of processors/refiners.</p> <p>Company starts mapping its soy origins back to the country of harvest and then prioritises countries where more action is needed.</p> <p>Company starts mapping products with a greater soy footprint and a shorter supply chain.</p>	<p>Company starts to develop approaches to increase visibility of provenance of soy. Company may begin at country level and progress to biome, state, municipality and then crusher level.</p> <p>Company commences efforts to ensure third-party soy certification using one of the following chain-of-custody models: identity preserved, segregated or mass balance.</p>	<p>Company establishes a progressive, time-bound commitment to increase soy supply-chain traceability to reports on progress.</p> <p>Company develops segregated chain-of-custody models. (Under the EU regulation on deforestation-free products, only certified soy under segregated chain-of-custody models (rather than mass balance or book and claim) will ultimately comply with the requirements. Currently, only Proterra, the Roundtable on Responsible Soy (RTRS), Certificazione Sicurezza Qualità Agroalimentare (CSQA) and Donau Soja/Europe Soy use such segregated chain-of-custody models.)</p>

¹⁰ See Food and Power (n.d.).

Supply-chain data collection and management	Company records identify soy and soy products according to their country/jurisdiction of harvest.	Company defines “known” volumes of soy that can be traced back to the production/municipality/ regional level and “unknown” soy that cannot be traced back. For indirect sourcing, company includes contract clauses indicating that traceability is required.	Company validates traceability information provided by suppliers. Company deploys technology-based approaches to create whole-value-chain visibility and transparency.
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3. Risk identification

3.1. Linked upstream and downstream risks

3.1.1. Soybean farming

Deforestation is the most pressing risk in the soy supply chain.

Child labour

While child labour is not a key risk in larger soy-producing countries, the US Bureau of International Labour Affairs has identified Myanmar as a country producing soybeans using child labour – with reports of children being forced by the military to work on rotation year-round, planting and harvesting beans for military camps.¹¹ Local officials and the military enforce these work orders; the children cannot refuse to work, even if sick. Furthermore, as smallholders form almost 20 per cent of global soy production (and about 70 per cent in Argentina, Bolivia and India), the soy supply chain may be exposed to child labour risk.¹²

Forced labour

While forced labour is not a key risk in larger soy-producing countries, the US Bureau of International Labour Affairs has identified Myanmar as a country producing soybeans using forced labour – with reports of 15-17 year-olds working under conditions of forced labour, as well as children and adults being forced by the military to work on rotation year-round, planting and harvesting beans for military camps.¹³

Deforestation

The largest risk when it comes to soy is deforestation, particularly at harvesting level in South America. Deforestation may be either a direct and/or indirect result of soy production,¹⁴ whether the land is cleared specifically for that purpose or first cleared for cattle ranching and later rented or sold for soy production.

Soybeans require a large amount of land to grow, and the continuing increase in global demand has led to widespread deforestation, particularly in Brazil,¹⁵ in the Amazon tropical rainforest and the Cerrado.¹⁶ Sixty per cent of soybean

production is grown on the Cerrado, and almost half of this land has already been converted for this purpose.¹⁷ If conversion continues, an additional one-third could be destroyed by 2050.¹⁸ Large parts of Argentina, Bolivia and Paraguay have also been affected. As demand for meat expands, deforestation due to soy (a main ingredient in animal feed) will continue.

Safeguards have been put in place to reduce deforestation in Brazil, however, nothing prevents deforestation completely. There is intense monitoring of deforestation by the international non-governmental organisation (NGO) community, but few initiatives have been successful in halting it, though there has been a momentary deceleration in deforestation rates.¹⁹ Eventually, the Amazon rainforest could dry out completely.²⁰

Key resources on risk identification

- US Department of Labor [List of Goods Produced by Child Labor or Forced Labor](#)
- International Finance Corporation [Global Map of Environmental and Social Risks in Agro-Commodity Production, Soybeans](#)
- [Global Forest Watch, Soy](#)
- The Soy Toolkit, Soy risk analysis: [Prioritisation for positive engagement](#)
- The Soy Toolkit, [Cross-cutting issues for the soy sector](#)

¹¹ See US Department of Labor (2022). ¹² See IISD (2020). ¹³ See US Department of Labor (2022). ¹⁴ See BanQu (2023). ¹⁵ See Tortajada and Zhang (2022). ¹⁶ See WWF (n.d.). ¹⁷ See World Economic Forum (2024). ¹⁸ Ibid. ¹⁹ See Antonarakis et al. (2022).

²⁰ See Human Rights Watch (2021).

3.2. Overview of potential risk identification actions

Table 3. Potential actions to identify risk

	Examples of foundational actions	Examples of intermediate actions	Examples of leading practice
Risk assessment and identification	<p>Company identifies and verifies supply-chain risks using self-assessment questionnaires with suppliers.</p> <p>Company overlays information on the location of production with environmental and/or social risk information that has a geographical component.</p>	Company conducts some risk assessment and prioritisation that informs its soy supply-chain risk management activities.	Company conducts or commissions risk assessments to prioritise key countries and sourcing regions within the soy supply chain.
Ongoing monitoring	Company develops simple communication materials for suppliers to understand what they need to monitor and report.	Company develops ongoing monitoring and verification systems for deforestation/conversion in high-risk landscapes.	Company reports on percentage of soy traceable to at-risk origins (country or subnational) and progress on ensuring soy is deforestation and conversion free for at-risk origins.

4. Risk mitigation

Effective risk mitigation for the soy sector is likely to include participation in industry certification schemes and multi-stakeholder initiatives. Another key area is engaging with the root-cause drivers of complex socioeconomic and environmental challenges that underpin the key risk issues. Note that soy traceability is not an end in itself: improving supply-chain transparency on how and where soy is produced is only a tool to enable companies to take positive action towards compliance with their commitments.

4.1. Certification schemes

While there is no single certification scheme that is considered the “gold standard” for soy, credible certifications include those by FEFAC the European Feed Manufacturers’ Association ([Soy Sourcing Guidelines](#)), [Proterra](#) and the [Roundtable on Responsible Soy](#) (RTRS), as well as in-house schemes such as Cargill’s Triple S, ADM’s Responsible Soy Standard, Louis Dreyfus’ Program for Sustainable Agriculture and Cefetra’s Certified Responsible Soya standard.

The [Roundtable on Responsible Soy](#) (RTRS) created a platform to develop, implement and verify the RTRS standard for soy, whose 108 indicators and 5 principles notably include no deforestation and responsible labour conditions (including the absence of child and forced labour). The RTRS Chain of Custody Standard is enforced at producer level and can be applied across the entire supply chain. It is mandatory for organisations wishing to receive, process and trade RTRS soy. RTRS certification is also a management tool to ensure transparency. According to the 2020 RTRS Annual Report,²¹ the RTRS mass balance certification accounts for 12 per cent of the global trade in soy, while the RTRS Credits certification

accounts for 8 per cent. In 2021, 49,918 producers (mostly in India), 1,332,065 hectares and 4,639,071 tons of soy were RTRS certified.²²

The [US Soybean Sustainability Assurance Protocol](#) is a certified aggregate approach audited by third parties that verifies sustainable soybean production on a national scale. This approach is quantifiable and results driven, with mass balance international verification available. It notably covers environmental standards (including deforestation) and working conditions (including child and forced labour).²³

Created in 2006, the [ProTerra Standard](#) certification scheme has long-standing history and experience in promoting sustainability in the food and feed supply chains. ProTerra certifies agricultural production, transport, storage, traders, dealers and industrial processing using segregation and mass balance models. It does not differentiate traceability requirements by volume, turnover or quantity of certified soy, and applies the same rules to all actors in the supply chain. Criteria notably cover deforestation, child and forced labour.

The [Fairtrade Standard for Oilseeds and Oleaginous Fruit](#) applies to both producers and traders. Using a segregation model, Fairtrade operates with economic, environmental and social criteria, including freedom from forced/compulsory labour and child labour.

The [International Sustainability and Carbon Certification](#) has multiple certifications that may apply to soy. Its most basic certification requirements include deforestation-free supply chains and safe working conditions. It uses segregation and mass balance models.

The [Roundtable on Sustainable Biomaterials](#) (RSB) covers feedstock production, entire supply chains and novel technologies, including fuel, biomass and material products from bio-based and recycled carbon, including fossil waste. It is acknowledged as a best practice by the World Wide Fund

²¹ See RTRS (2021). ²² Ibid. ²³ See US Soybean Export Council (2021).

for Nature (WWF), the International Union for Conservation of Nature (IUCN) and the Natural Resources Defense Council (NDRC).²⁴ It is also recognised by regulatory authorities in the EU and Japan, allowing preferential market access to RSB-certified biomaterials. Different chain-of-custody models are accepted for certification, including identity preservation, product segregation, mass balance, content ratio accounting, and certificate trading. Its criteria include environmental, human and labour rights, including deforestation, child and forced labour.

4.2. Multi-stakeholder initiatives

The soy supply chain comprises a number of different multi-stakeholder initiatives with similar and, in some instances, overlapping objectives. No one initiative is considered the “gold standard” in the soy industry, but the best-practice ones are outlined below. To note, participation in a multi-stakeholder initiative demonstrates goodwill but does not guarantee due-diligence implementation (unless required for initiative participation).

The aforementioned **RTRS** is a global multi-stakeholder initiative that unites actors in the soy industry (including those in the supply chain, companies, civil society organisations and financial institutions) to facilitate open dialogue on and monitoring of responsible soy production. After receiving a grant from the International Finance Corporation’s Biodiversity and Agricultural Commodities Program in 2010, RTRS is developing national broad-scale maps of Brazil that can inform how to responsibly expand soy and determine high conservation value areas.

The [European National Soya Initiatives](#) (ENSI) work to ensure that all European soya is deforestation and conversion free. The group engages with European value-chain members and serves as a knowledge-sharing and collaborative space for members of the European soy value chain. Subgroups of ENSI include: the Danish Alliance for Responsible Soy, Donau Soja, the Dutch Soy Platform, Germany’s FONEI/INA, the French Platform for Sustainable Animal Feed, the Norwegian Dialogue on Responsible Soy, the Swedish Platform on Risk

Commodities and the UK Roundtable on Sustainable Soy. In Brazil, the [Soy Moratorium](#), a coalition of investment institutions and global corporations, published an open letter to the government aiming to protect the Amazon from soy-related deforestation. It is supported by investors and corporations such as Ahold Delhaize, ALDI SOUTH Group, Carrefour, Lidl GB and Tesco Stores Plc. According to the alliance, deforestation caused by soy production has decreased substantially since the initial call to action in December 2019. However, investigations in 2022 still showed that large swathes of land were being deforested. This has been attributed to a loophole in the moratorium, which only monitors land on which soy is being grown; it seems farmers are now clearing land for other crops and using already cleared land for soy production.²⁵

Another similar initiative in Brazil, the [Cerrado Manifesto](#), comprises 60 Brazilian NGOs and 23 global brands, which in 2017 published a manifesto calling for the immediate protection of the Cerrado savanna as a hotspot of biodiversity. The initiative is supported by investors such as Swedbank Robur Fonder AB, Strathclyde Pension Fund and Öhman. The Cerrado Manifesto demonstrates continued support for eliminating deforestation in the Cerrado, particularly when it comes to soy production. Stakeholders are encouraged to create fair and effective mechanisms to provide financial incentives for soy farmers to reduce/eliminate deforestation. Payment for a conservation system is proposed as one possible solution. In December 2019, signatories Tesco, Grieg Seafood and Nutreco launched the Cerrado Funding Coalition to incentivise soy farmers to only use existing agricultural land.²⁶ Although Tesco pledged £10 million to the initiative, the money has not been spent.²⁷

4.3. Overview of potential risk mitigation actions

Specific risk mitigation actions should be based on the results of mapping and risk identification. Based on the overall risk profile for soy, the key focus area is likely to be deforestation linked to soy production.

Table 4. Potential actions to mitigate risk

	Examples of foundational actions	Examples of intermediate actions	Examples of leading practice
Deforestation	Company develops written responsible sourcing policy, including commitment to deforestation and conversion-free (DCF) soy.	<p>Company has a public time-bound action plan in place for the actions it will take to achieve a DCF soy supply chain, including target dates.</p> <p>Company focuses on positive engagement with suppliers/traders and on landscapes where action is most needed to promote continuous improvement in relation to deforestation.</p> <p>Company engages with (or encourages suppliers to engage with) credible, third-party soy certification schemes, such as Proterra and the RTRS.</p>	<p>Company invests in projects in growing areas that address the root causes of soy-linked deforestation. This may include conservation or forest protection and restoration activities.</p> <p>Company has a pre-sourcing and ongoing supplier evaluation system that includes the assessment of a business partner’s/ supplier’s commitment to labour and deforestation standards and cascades the requirements down the supply chain.</p>

²⁴ See RSB (n.d.). ²⁵ See Jordan, Ross, Mendonça, Wasley and Slattery (2022). ²⁶ See Tesco (2019). ²⁷ See Phillips (2021).

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