

# 3. Sector Policies

## 3.1 Agriculture

### 3.1.1 What is at stake?

Demand for agricultural commodities currently grows faster than the global population. Amongst other reasons, this is a result of changing consumption patterns in upcoming markets (such as BRIC countries: Brazil, Russia, India and China), which increasingly resemble those of those of industrialised countries. The *wealthier* diet, which includes more meat, requires larger quantities of staple commodities to be produced and used for animal feed.

Another factor that exacerbates the strong surge in demand for agricultural commodities is the recent trend to combat climate change by replacing some fossil fuels by biofuels made from palm oil, corn, sugarcane or other crops.

The steep rise in global demand raises significant environmental, economic and social issues:

- Agriculture is the largest cause of soil degradation, pollution and habitat conversion of all human activities. Many natural ecosystems and habitats are threatened by conversion into farmland to meet the increasing demand for agricultural commodities. Agriculture also uses more than twice the amount of water as for all other human activities combined. It also has an enormous direct and indirect footprint associated with pesticides and toxicity;
- The agricultural sector, mainly through the conversion of natural ecosystems, is responsible for a very considerable part of global greenhouse gas emissions;
- On the local level, expansion of agricultural production is often realised by appropriating lands to which local or indigenous communities have legal or customary rights. Local and indigenous communities are thereby deprived of their habitats and sources of income and nutrition;
- Labour conditions in the production of agricultural commodities in many countries are not in line with established labour rights. There are countless examples of forced labour, child labour, low payments, health and safety hazards, etc.;
- The development of an export-oriented agricultural sector is necessarily accompanied by the development of a transport infrastructure of roads, railways and waterways, which has a strong impact on ecosystems (i.e. by facilitating the access by poachers and loggers) as well as social impacts (replacements, land conflicts, increasing land prices, etc.);
- The macro-economic impacts of the agricultural sector are often unfavourable to developing countries, this as a result of adverse terms of trade, developed country subsidies and dumping practices and the uneven distribution of power in the production, distribution and end-consumption chain.

To feed over 6 billion people in a sustainable way is one of the most important challenges the world is facing today. Banks that are active in the agricultural sector should therefore

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develop a comprehensive agriculture policy, which deals with all issues described above. In developing such a policy, banks could make use of the best international standards available as described below.

### 3.1.2 Best standards available

Over the past years various initiatives have been taken to develop standards in the agriculture and food sectors, both on a general, sector-wide level as for specific agricultural crops and commodities. What follows is a brief overview of the most promising developments:

#### General certification and ecolabels

The demand for more sustainable agricultural products is growing, though at present most target only niche markets. Eco-labelling takes place on an ever larger scale, using many different voluntary and mandatory environmental performance labels and declarations. The different terminology used, - varying from *organic* or *fair trade* to *GMO-free* and *reduced impact* - makes the market for *sustainable* products somewhat opaque.

Therefore, the International Federation of Organic Agricultural Movements (IFOAM) has made efforts to implement third-party certification of *organic* agricultural products according to an elaborate and comprehensive [Organic Guarantee System](#), accrediting certifiers who agree to apply the [IFOAM Basic Standards for Organic Production and Processing](#). IFOAM has also expressed [Norms for Organic Production and Processing](#).

The Sustainable Agriculture Network (SAN) developed the [Standards and Policies for Sustainable Agriculture](#), supported by the Rainforest Alliance Agriculture Program.

[One World Standards](#) (OWS) and SAN currently cooperate to develop international standardisation procedures and policies to optimise conditions of tropical agriculture. OWS also assists IFOAM with a study of strategic options for its international accreditation programme.

Fairtrade Labelling Organizations International (FLO) is an association of 20 *Labelling Initiatives* that promote and market the Fairtrade label in their countries. Products carrying the Fairtrade label are certified to meet the [Fairtrade Standards](#), both the applicable *Generic Standards* and the *Product Standards*. The *Product Standards* guarantee a minimum price considered as fair to producers. They also provide a Fairtrade premium that the producer must invest in projects enhancing its social, economic and environmental development.<sup>6</sup>

The 2004 Social Accountability in Sustainable Agriculture (SASA) project was a collaboration between the four main social and environmental verification systems in sustainable agriculture: Sustainable Agriculture Initiative Platform (SAI), FLO, SAN and IFOAM. The SASA objectives were to improve social auditing processes in agriculture and to foster closer cooperation and shared learning between the participating initiatives. The project was rounded off with the [Code of Good Practice for Setting Social and Environmental Standards](#), an international, normative document that is applicable to all social and environmental standards. The [International Social and Environmental](#)

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[Accreditation and Labelling Alliance \(ISEAL\)](#) has taken over the responsibility for the further implementation of this initiative.<sup>7</sup>

With support of UNCTAD and IISD, the Sustainable Food Laboratory started the Sustainable Commodities Initiative (SCI) and developed the [SCI-Benchmark tool](#), in order to improve the social, environmental and economic sustainability of commodities production and trade by developing global multi-stakeholder strategies on a sector-by-sector basis.<sup>8</sup>

### **Product-specific standards**

For a range of agricultural commodities, appropriate management practices that improve the key social and environmental impacts have been or are being articulated by, amongst others, multi-stakeholder initiatives. Standards or guidelines for cotton, palm oil, sugarcane, coffee, cocoa, soy, biofuels and other agricultural commodities have been, or are currently being developed.

Stakeholders in these initiatives or roundtables include representatives drawn from the entire value chain of the respective industries, researchers, financial institutions, NGOs and other interested parties. Nevertheless, balanced representation is not always achieved. Banks are under-represented in some of these round tables, particularly at Steering Committee level. Further, not all relevant civil society stakeholders have embraced these initiatives as the proper way forward.

As these efforts progress, these initiatives may define global, measurable standards for different commodities that enjoy wide stakeholder acceptance and support. It should be stressed however that many of these initiatives are still in their early stages and they do not all provide credible standards yet to which bank policies could refer. Credible sector standards need to be developed with the participation of all relevant civil society stakeholders, need to have an effective verification and control mechanism and should generate measurable improvements in social and environmental performance.

Before referring to sector standards in their policies, banks should check whether these elements are in place. It is however recommended to monitor their development and actively participate in them, as some banks already do. What follows is a list of the main initiatives

- **Soy:** The [Roundtable for Responsible Soy](#), set up with active participation of the respective industries as well as NGOs, seeks to address some of the problems associated with soy plantations. The [Basel Criteria for Responsible Soy Production](#), developed by WWF and Coop Switzerland, includes guidelines with respect to legislation, environmental management and traceability.<sup>9</sup> The Brazilian Soy Platform developed [Social Responsibility Criteria for Companies that Purchase Soy and Soy Products](#) which includes guidelines on soy production on deforested grounds, agrarian reform, drained wetlands or swamps. They hope to encourage large soy traders, consumers and the private financing sector worldwide to adopt these or similar criteria.<sup>10</sup>
  - **Palm Oil:** In November 2005 the [Roundtable on Sustainable Palm Oil](#) (RSPO), a multi-stakeholder initiative with 100 members representing more than one-third of the global palm oil trade, adopted the [Principles and Criteria \(P&C\) for sustainable](#)
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[palm oil production](#). The principles currently undergo a two-year field trial implementation.<sup>11</sup>

- **Sugarcane:** Because of the enormous water usage of the sugar sector, and the increasing importance of sugarcane as bio-fuel, the WWF Action for Sustainable Sugar campaigns for sustainable sugar production and better management practices. The [Better Sugarcane Initiative \(BSI\)](#), supported by a range of interested stakeholders, is collaborating with the entire sugarcane chain to develop internationally-applicable sustainability measures and baselines which can be used by companies and investors across the globe.
- **Bio-fuels:** Palm oil, soy as well as sugarcane are increasingly used as feedstock for bio-fuels. The recently initiated [Roundtable on Sustainable Bio-fuels](#) is currently developing global standards for sustainable bio-fuels production and processing, to be ready by 2008.<sup>12</sup>
- **Cocoa:** The [World Cocoa Foundation \(WCF\)](#) supports programs to drive sustainable cocoa farming. A common agenda for the development of sustainable cocoa, coffee and cashew tree crop systems in Africa was shaped at the Sustainable Tree Crop Development Forum.<sup>13</sup>
- **Coffee:** One of the objectives of the [International Coffee Agreement 2001](#) is to encourage Members to develop a sustainable coffee economy. The [Common Code for the Coffee Community](#) (4C) was developed by the 4C Association in 2004, and organisations like Utz Certified and FairTrade have been certifying coffee for years.<sup>14</sup> Other coffee initiatives can be found in the [Coffee Certification Database](#).
- **Cotton:** The [Better Cotton Initiative \(BCI\)](#) is a global process, involving a wide range of representatives along the cotton & textiles value chain. BCI, in collaboration with regional and global partners, will identify appropriate international norms for cotton production. BCI aims to put Better Cotton in the supply chain by 2012.<sup>15</sup>
- **Other standards:** The Sustainable Agriculture Network published [Additional Criteria and Indicators](#) to its sustainable agriculture standards, for i.e. cocoa and coffee. Fairtrade Labelling Organizations International (FLO) has [Product Standards](#) for i.e. coffee, tea, chocolate, vanilla, fresh fruits, rice and sugar.

There is also a growing need for a harmonisation of these product-specific standards and guidelines. Banks could benefit from, and play a useful role in the harmonisation of these standards and guidelines for mainstream agriculture.

### **Ecosystem conversion and land rights**

Sectoral initiatives can play a role in limiting the conversion of forests and other natural ecosystems as well as the appropriation of lands to which local or indigenous communities depend for their sources of income and nutrition. But as long as the global demand for agricultural commodities is growing at such a rapid pace these initiatives alone are unlikely to succeed in stemming these unwanted ecological and social impacts.

Furthermore, in some countries government policies continue to promote massive conversion of natural ecosystems and disenfranchise land rights of local people for expanded production of agricultural commodities. Under such conditions sectoral initiatives run the risk of “leakage” or displacement of destructive activities to other countries, regions or commodities.

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Complementary to sectoral initiatives, government policies are therefore needed:

- Policies in producing countries which adequately cover issues such as forest conversion, violation of indigenous rights, labour standards, etc.;
- Policies in consuming countries which effectively limit international demand for agricultural commodities, by promoting local food production, non-meat protein products, reduction of energy and meat consumption and sustainable energy production (including sustainable bio-energy).

### **Food entitlement and economic development**

The agricultural sector has the potential to contribute to achieving universal entitlement to adequate and nutritious food and to economic development in developing countries. To realise this potential, adverse terms of trade, developed country subsidies and dumping practices and the uneven distribution of power in the production, distribution and end-consumption chain need to be addressed. Using agricultural lands to produce feed and biofuel commodities for export markets, instead of food products for the local population, should be discouraged as it is threatening food entitlement. It is also crucial to locate more value added activities in major agricultural and food chains in developing countries.

### **Protected areas**

Agricultural activities in any of the protected areas covered by the [IUCN](#) I-IV categories, the [UNESCO World Heritage Convention](#) and the [Ramsar Convention](#) should be excluded from financing. This subject is dealt with in paragraph 4.1 on Biodiversity.

### **Genetically Modified Organisms**

The [Cartagena Protocol to the Convention on Biological Diversity](#) sets out some labelling and notification provisions with respect to genetically modified organisms (GMOs). For example, trade in living modified organisms is prohibited without the approval of the importing country. Signatories are also supposed to apply the precautionary principle to the production and use of GMOs. The parties to the Protocol continue to address and develop standards with respect to GMOs. This subject is further dealt with in paragraph 4.1 on Biodiversity.

Another problematic aspect of GMOs is that they make small farmers dependent on buying seeds and related inputs such as pesticides and fertilizers from large companies. This also leads to a loss of biodiversity.<sup>16</sup>

### **Rights of indigenous peoples**

Agricultural companies need to respect and guarantee the rights of indigenous peoples to protect their land, societies, cultures and livelihoods, by acknowledging their sovereignty and self-determination. This subject is dealt with in paragraph 4.4 on indigenous peoples.

### **Labour rights**

Health and safety conditions in the agricultural and food sector are often poor, among others because of extensive use of pesticides. Wages are generally low and bargaining rights regularly disrespected. Reference to best international standards on labour rights therefore is very important. This subject is dealt with in paragraph 4.5 on Labour rights.

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## **Pesticides**

Regarding the use of pesticides the FAO issued the [International Code of Conduct on the Distribution and Use of Pesticides](#), setting out voluntary, internationally accepted standards for the handling, storage, use and disposal of pesticides. This subject is dealt with in paragraph 4.7 on Toxics.

### **3.1.3 Content of a bank policy**

Banks play an important role in the global agriculture sector, by financing producers, processors and traders. Banks should ensure for all their services in these production chains to avoid adverse sustainability impacts caused by their clients and by the suppliers of their clients. Banks should endeavour to contribute to the entitlement of all to an adequate and nutritious supply of food and to economic development through sustainable investments in the agricultural and food sector in developing countries.

Banks could also reward sustainable producers in terms of access and price of financing in light of the reduced risk that improved environmental and social impacts are likely to represent. They are also encouraged to actively participate in the development process of standards in the roundtables emerging for specific commodities, and use their influence to advocate policies in producing and consuming countries which adequately address the negative social and ecological impacts of the rising global demand for agricultural commodities. The following elements should therefore be incorporated in a banks' agricultural policy or policies:

- Improving the key environmental and social impacts of production;
- Stimulating good practices for different products, following standards mentioned in paragraph 3.1.2;
- Advocating policies supportive to these good practices in producing and consuming countries;
- Contributing to achieving universal entitlement to adequate nutritious food and to economic development;
- Exclusion of protected areas;
- Avoidance of GMOs;
- Acknowledgement of the rights of indigenous peoples;
- Acknowledgement of principal labour rights;
- Careful and minimal usage of pesticides;
- Careful management of water resources.

Banks should either develop an integrated agriculture policy as long as sufficient attention is given to the specific characteristics of individual commodities, or choose to develop different policies for individual agricultural commodities, as long as the content of these policies is consistent on overarching issues.

### **3.1.4 Scoring table**

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on the agriculture sector:

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0. *The bank has no policy on this sector;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy sets as precondition for its financial services the best international standards for at most three of the elements listed in paragraph 3.1.3;*
3. *The bank's policy sets as precondition for its financial services the best international standards for at least three of the elements listed in paragraph 3.1.3;*
4. *The bank's policy is fully in line with all international standards and guidelines for all elements listed in paragraph 3.1.3;*

When one or more of the elements listed in paragraph 3.1.3 are dealt with in a comprehensive way in other policies of the bank, these elements will be regarded as being included in its agriculture policy as well.

When the bank does not have an integrated agriculture policy but has policies on some individual commodities, the average score for these commodity policies will be multiplied with the estimated percentage which these commodities represent in the bank's overall exposure in the agricultural sector.

### **3.1.5 Results**

In spite of the fact that agriculture is the largest source of soil degradation and pollution of all human activities, and that the sector in many countries faces labour conditions that do not comply with established labour rights, there are only a few banks that have developed a sector policy on agriculture.

Nine banks have developed some sort of agriculture policy, of which Fortis (Belgium), ING (the Netherlands), Rabobank (the Netherlands) and Westpac (Australia) have good or reasonable policies. The scope of some policies is limited to a selection of crops, and not all policies are disclosed to the public. Five other banks have published policies or position statements on crops of which the production can lead to major environmental or social problems, such as soy or palm oil. The large majority (36) of the banks researched have not yet developed credit policies for their agricultural clients.

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Scores on Agriculture policies					
Fortis	2	BBVA	0	Nedbank	0
ING Group	2	BNP Paribas	0	RBS	0
Rabobank	2	China Construction	0	Royal Bank of Canada	0
Westpac	2	Citi	0	Saudi-American Bank	0
ABN AMRO	1	Crédit Agricole	0	Santander	0
Banco do Brasil	1	Credit Suisse	0	Scotiabank	0
Barclays	1	Deutsche Bank	0	Société Générale	0
Goldman Sachs	1	ICBC	0	Standard Bank	0
HSBC	1	Intesa Sanpaolo	0	Standard Chartered	0
ANZ	0	JPMorgan Chase	0	State Bank of India	0
Banco Bradesco	0	KBC	0	Sumitomo Mitsui	0
Banco Itaú	0	Merrill Lynch	0	UBS	0
Bank Mandiri	0	Mitsubishi UFJ	0	Unicredit	0
Bank of America	0	Mizuho Financial	0	WestLB	0
Bank of China	0	Morgan Stanley	0	Dexia	X