

The Banking Environment Initiative (BEI) & Consumer Goods Forum (CGF)'s

'Soft Commodities' Compact

What is the 'Soft Commodities' Compact?

The 'Soft Commodities' Compact is a unique, client-led initiative that aims to mobilise the banking industry as a whole to contribute to transforming soft commodity supply chains and therefore help clients achieve zero net deforestation by 2020.

In 2010, the Chief Executives of the [Consumer Goods Forum \(CGF\) Board of Directors](#) committed their 400 members, with a combined procurement power of over \$3 trillion, to achieving zero net deforestation in their supply chains by 2020.

The 'Soft Commodities' Compact is the result of two years of extensive collaboration between the [Banking Environment Initiative \(BEI\)](#) and the CGF, with advice from the World Wildlife Fund (WWF), to establish how to align the banking industry with this goal. It was endorsed by the CGF Board in late 2013, welcomed by the Obama Administration at a meeting at the White House shortly after and used as an example of a powerful industry-to-industry partnership at a special session of the World Economic Forum's Annual Meeting in Davos in January 2014.

The 'Soft Commodities' Compact includes two commitments. First, for banks to work with consumer goods companies and their supply chains to develop appropriate financing solutions that support the growth of markets producing palm oil, timber products, soy or beef without contributing to deforestation. Second, for banks, where needed, to raise the standards they expect of certain clients in high risk geographies so that they are encouraged to improve their sustainability performance in line with CGF expectations through to 2020.

The first tangible result of the 'Soft Commodities' Compact has been produced; the [BEI's Sustainable Shipment Letter of Credit](#) is a financing solution that can be used by banks to incentivise the international trade of sustainably produced commodities. The International Finance Corporation (IFC) has confirmed it will offer preferential terms to its partner banks that target this type of shipment, offering the potential to reduce the cost of capital.

Barclays, BNP Paribas, Deutsche Bank, Lloyds Banking Group, RBS and Westpac have adopted the 'Soft Commodities' Compact. The CGF and BEI are now encouraging further relevant international and regional banks to join these first movers.

Three reasons why banks should adopt the 'Soft Commodities' Compact:

1. Connect risk management practices with client approaches to drive market transformation

As global population continues to multiply, driving further growth in consumer demand, reconciling the competing human and environmental demands on agricultural value chains will only become more sensitive. The CGF is a progressive group of globally influential buyers, already working with suppliers and [governments from around the world](#) to raise standards on the journey to 2020. For banks seeking to track changing market expectations and manage their own business risks, while strengthening client relationships, the 'Soft Commodities' Compact offers a mechanism for efficient collective engagement with the buyers raising sustainability standards in corporate value chains.

2. Develop financing solutions at a scale that offers material commercial rewards

In order to achieve their goal, CGF companies require nothing less than a complete transformation of the supply chains on which they depend. Bilateral financing solutions alone will not achieve this. The BEI's Sustainable Shipment Letter of Credit is an example of an outcome from the BEI's collaborative work which offers early mover advantage in what could become a significant new market practice as supply chains transition to adopt new norms around sustainability. The BEI is working with CGF companies on other financing solutions which meet both supply chain and banks' commercial needs.

3. Enhance client relationships by catalysing a truly industry-wide approach

Some banks have already adopted individual policies which address deforestation. On occasion, acting alone has created challenges in engaging with clients and ensuring adherence to these policies, especially while alternative sources of finance have been readily available. The 'Soft Commodities' Compact seeks to address this challenge directly; it is client-led and aims to secure the support of a critical mass of the banking industry. This reduces implementation risks and offers the opportunity to strengthen client relationships, while also preparing banks should CGF companies seek to favour relationships with banks whose policies are aligned with their sustainability objectives.

Get involved

For further information, please visit the BEI webpages via its Secretariat at the University of Cambridge (CISL): www.cisl.cam.ac.uk/banking.

To participate in this initiative, please contact Andrew Voysey, Director of Finance Sector Business Platforms at CISL: andrew.voysey@cisl.cam.ac.uk / +44 20 7216 7530.