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SOY MARKET PRESSURE TO SAVE THE AMAZON WEAKENED IN 2021

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The U.S. soy supply is in a slump, with sales dropping and forecasts by the USDA of a record-low stock already battered by the recent freeze that covered much of Texas and the mid-west. That leaves Brazil as the only significant player in the global soy market right now, with Brazilian crop futures booked through 2022 and lines of soy laden ships waiting to sail for ports abroad.

What does this have to do with forests? It suggests that demand for more sustainably-produced soy—or "zero deforestation" soy—is easier to ignore.

"The Brazil of 2021 is not the Brazil of 2019," says EII Senior Policy Analyst João Shimada, noting that over the past year Brazil's largest agricultural state, Mato Grosso, logged 12% growth on year, "a growth rate not even seen in China." Mato Grosso's agribusiness sector alone saw 16% growth on year between 2019 and 2020, according to the state's office of planning and management.

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Estimates of US soy supply by year provided by the USDA

That economic growth has generated an air of optimism and opportunity in the state despite the COVID 19 pandemic and has come on the back of a dizzyingly rapid expansion in soy production. "In the past 10 years, Brazil has boosted its output of soyabeans… from 75 million tonnes to more than 130 million tonnes in 2020 surpassing the U.S. to become the world's largest producer," the Financial Times notes.

The boom in Brazil's farm sector means threats from the international community—including the European Union and the United Kingdom, both now considering policies on "imported deforestation

”—to restrict market access unless Brazil reverses course on Amazon deforestation carry far less weight.

“The price of soybeans now is the highest in 30-40 years. The price for corn is at record highs,” notes Shimada. “If you tell a Brazilian farmer to invest in sustainability in return for access to European markets or face restrictions, given the current reality, that proposition doesn’t make sense.”

Indeed, the message to Brazil’s farmers is that despite rising deforestation—which reached its highest point this decade in 2020—the world is hungry for soy, with strong demand from markets across Africa and Asia, including China, where farmers are rebuilding their herds after an outbreak of swine flu.

Bjørn Rask Thomsen directs EII’s European operations. The former head of Denofa, Norway’s leading soy importer, he agrees that in the short to mid-term, “the odds of influencing Brazil does not so much come from commodity demand.”

Longer term, if and when prices begin to fall, that picture may change. For now, however, tackling Amazon deforestation will have to come through what Thomsen calls “big politics,” meaning diplomacy and dialogue. “This is where the U.S. and Europe do play key roles, not least of all if we stand together.”

There are promising signs emanating from Washington on the diplomatic front. Under newly appointed U.S. climate envoy John Kerry the Biden team appears to be holding the door open to discussion with Brazil on solutions to Amazon deforestation and the climate. The two sides have committed to ongoing discussions in the lead up to COP 26 in November, where world leaders will attempt to formalize pledges and finalize agreements on key issues relating to global emission reductions, including those from reduced deforestation.

Image available online: view image

A Brazilian farmer working soy fields. Brazil is now the world's leader supplier of soy, with demand surging across Asia and Africa.

Given that a majority of Brazil's farmers want to see strong trade agreements in place, despite international tensions over deforestation, the most important step the U.S., EU and UK can now take now would be to recognize Brazil's Forest Code as the basis of future agreements.

Passed in 2012, the revised Forest Code, among the world's most stringent environmental laws pertaining to agriculture, regulates how much forest must be preserved on a given property. Percentages vary, from 80% for farms in the Amazon to 20% in the Cerrado, the giant savannah woodland that is home to 60% of soy production in Brazil.

Conserving these forests—which comprise most of the remaining forest in Brazil outside protected areas—is essential if we are to prevent global warming beyond the 2° limit set under the Paris accord.

While supported by farm sector leaders in Brazil, however, the Forest Code has yet to be fully implemented. Finding ways to collaborate on carrying this through—a monumental task involving over 700,000 farms in the Amazon region alone—would allow for more rigorous monitoring and regulation of illegal activity in the Amazon region. Part of that implementation should also entail rewarding farm level forest conservation under the Forest Code through the voluntary forest carbon market.

Together, these steps could provide the muscle Brazil needs to protect its forests while continuing to expand production in an increasingly hungry world.

"After 10 years of government and private sector promises, of signing commitments with a finish line of 2020, almost all of them failed," Shimada notes. "No one here in Brazil believes in commitments anymore, and they won't respond to pressure. This is not the way: you have to talk the language of business."

Which means you have to treat farmers as partners.