



Livestock farming sector position paper

Introduction

It is our view that how the sector deals with the side effects of livestock production, e.g., exhaustion of natural resources, consumers' perception of animal welfare and animal diseases being a risk for human health, is becoming increasingly important for the long-term economic viability of our clients, which impacts Rabobank's operation as well. Therefore, we have developed this updated livestock farming sector¹ position paper to provide guidance to clients and to our own operations on how to deal with this change.

The goal of this paper is twofold. First, this paper summarises Rabobank's² view on a sustainable livestock farming sector to support relationship managers when engaging with clients and to provide the framework for, among other uses, making sustainability assessments of clients in this sector. Second, this paper summarises Rabobank's view on a sustainable livestock farming sector for our external stakeholders. This is an update of the existing livestock farming position paper, taking into account the most recent developments in the sector and its environment.

Our ambition

The Rabobank wants to contribute to a livestock farming sector that is environmentally and economically sustainable and has broad public support. As a service organisation we have a social responsibility, which is why we contribute tangibly to the sustainable development of welfare and prosperity. Rabobank has significant commercial interests in a sustainable livestock farming sector and its surrounding value chain, both in the Netherlands and globally. Rabobank aims to grow financing to the livestock farming sector to further realise the goal of becoming the leading global food and agribusiness (F&A) bank.

Rabobank's vision of a long-term sustainable livestock farming sector

As sustainability is not a term that is easily defined, Rabobank developed five Food & Agribusiness principles that guide our efforts in sustainable food & agribusiness³ to strike a fair balance between the three Ps: People, Planet and Profit.

Being closely involved with the livestock farming sector, Rabobank has a well-considered vision for a sustainable livestock farming sector. Although this view is based on today's knowledge and opinions in society, we should be aware that the concept of sustainability is a moving target because of scientific advances, technological developments and changing perceptions as welfare levels increase. Moreover, achieving a sustainable global livestock farming sector is a long-term goal as — given the highly divergent social views, circumstances and legislation — the starting points differ considerably worldwide. Rabobank respects the culture and customs of the countries where it is active. Therefore, targets should be adjusted to what is feasible locally. The direction should always be to strive for more sustainability and a broader platform of support in society.

¹ The term 'livestock farming sector' refers to all farmed animals excluding fish. Fish are covered in the position paper on the aquaculture supply chain. Animal welfare is touched upon in this paper, but is covered more extensively in the animal welfare statement.

² This position paper applies to all Rabobank group entities. Where the word Rabobank is used in the text, it covers the entire group.

³ The five Food & Agribusiness principles are: sufficient and safe food production, responsible resource management, socially responsible society to improve social well being, responsible treatment of animals, consumer and citizen awareness.

We have identified the following global trends that will shape the future of the global livestock farming sector:

1. Increasing demand for agri commodities (grains & oilseeds) and meat and dairy products, caused by a growing world population and growing demand for biofuel production feed stocks.
2. A switch in diets from grain-based foods to meat and dairy products — a result of growing per capita incomes, predominantly in Asia — which adds to the increasing demand for meat and dairy products and further accelerates the demand for agri commodities, as feed-to-meat conversion rates for various meats range from 2 to 10
3. Tighter and more volatile agri commodity markets as supply faces difficulties in keeping up with demand growth. Due to limited land expansion opportunities productivity increases have to realise between 85 percent and 90 percent of supply growth.
4. Increasing global trade of agri commodities and meat and dairy products as demand growth and supply growth are not located in the same regions.
5. Increasing use of modern farm technology and innovations that further improve farming efficiency have caused and will continue to cause farms to change from backyard farming and small to medium-sized family farms to large-scale livestock production complexes with modern optimised feeding and housing systems.
6. Consolidation in the downstream value chains, such as animal slaughtering, meat processing, dairy products manufacturing, retail and foodservice.
7. Growing concerns in society, especially in developed economies, about potential negative external effects of livestock farming including emissions of harmful substances into the environment, the risk of spreading animal diseases to humans, sustainability issues in relation to raw materials used for feed, bacteria's growing resistance to antibiotics, pollution of the landscape by large livestock complexes and the well-being of animals. Nongovernmental organisations (NGOs) and retailers are instrumental in imposing measures to counteract these concerns on the value chain.
8. Declining tolerance among consumers in relation to food-safety risks.

Taking into account these trends, Rabobank developed a number of characteristics that define sustainable practices in the livestock sector (*see Appendix 1*):

1. Efficiently produces affordable meat and dairy products to meet growing global demand. In other words a sector that by constant innovation produces more with less inputs.
2. Based on selling its products in the global market, realises acceptable profitability and is capable of dealing with increased volatility in input and output markets.
3. Optimally allocated across the globe, taking into account local resource availability, i.e., land, water, capital, labour, knowledge, climate and infrastructure in addition to the effects of transport (i.e. costs, pollution, animal welfare).
4. Produces safe products based on sustainably produced inputs. Among other criteria, this entails:
 - a. minimal emissions of minerals, metals and greenhouse gases originating from animals, manure, fertilisers and crop protection chemicals;
 - b. responsible use of antibiotics, hormones, growth promotants, drugs and other chemicals;
 - c. responsible grazing practises that do not negatively impact biodiversity and natural habitats;
 - d. use of feed that is also produced sustainably.
5. Treats workers well, has good relationships with neighbours and society at large and minimises nuisances for its neighbours, ensuring a strong license to produce in the community where it is located.
6. Treats animals responsibly.
7. Transparent to consumers and citizens and adapts easily to changing demands.

Although adaptations that are needed to meet changing demands and regulations generally result in higher costs, anticipating changing consumer preferences and changing views of what a sustainable livestock farming sector entails offers commercial opportunities as well. It provides the opportunity to supply differentiated new products that take such preferences and views into account. Specific education, information, labelling, farm sales, open days, etc. can motivate the consumer to pay more attention to sustainability, so stimulating demand for the differentiated product.

Although consumer demands in relation to issues like animal welfare differ between regions, this may be less so going forward. Trade is increasing worldwide, standards for sustainable production are becoming increasingly global. Take the example of retailers that are developing standards in the Global GAP initiative that affect all their suppliers, no matter where they produce. Therefore, we can increasingly expect elements of sustainability concerns in, for example Europe to affect producers outside Europe as well, maybe not through domestic markets in the first place but via their international off takers.

Clients of Rabobank are very diverse, ranging from small farmers to leading global meat processing companies. Discussions with clients will differ depending on the local context and the impact the client has on the value chain. We will assess the activities of global leading companies in the context of local laws and customs. However, leading companies can be expected to take a more leading role in increasing sustainability, as they have a higher responsibility due to the higher impact they can have on the value chain.

Rabobank's role in increasing sustainability of the livestock farming sector

There are many drivers for change operating in parallel, including government programs, industry, consumers, subsidies, incentives and voluntary market approaches. As a financier of the livestock farming sector, Rabobank is one of the drivers. We are committed to developing adequate products and setting appropriate financing conditions that facilitate the process of increasing the sustainability of the sector.

Our own efforts are the following:

1. In consultation with clients throughout the value chain we discuss the current and future developments of livestock farming in an approach we call 'engagement'. It is our role to increase awareness, supporting clients in making the right choices and in facilitating them as they develop towards a more sustainable business operation. It is something we do with full respect for the client's autonomy.
2. Our view of our clients' activities plays an important role in the credit process and determining the conditions for financial services. Predicting future cash flow and stability are always determinants of the conditions of our financial services. If we have reason to believe the client shows insufficient progress in integrating sustainability measures in its daily operations, the bank will engage with the client and may insist on specific, time-bound improvements. However, if discussions do not provide good prospects for changes to the operations the bank deems unsatisfactory, Rabobank may consider ending the relationship with the client (*see Appendix 1*).
3. Rabobank supports innovation by supporting initiatives that contribute to a sustainable livestock farming sector through knowledge, products and funding.
4. Our vision sees dialogue with the authorities and NGOs as a contributor to more sustainable business and broader support. In our dialogue with the various authorities we discuss our vision and the role of politics and governance in relation to the livestock farming sector. In our regular meetings with stakeholders in the value chain, including NGOs, we discuss each other's views and vision of the livestock farming sector in order to contribute constructively to a more sustainable livestock farming sector based on making feasible progress.

Examples of Rabobank's concrete actions in these categories can be found in Appendix 2.

From vision to daily practice

As mentioned in the introduction, it is our view that adequately addressing growing societal concerns, in addition to traditional parameters such as costs and returns, is crucial for the long-term economic viability of entrepreneurs in the livestock farming sector. If not properly addressed, the sector and its entrepreneurs run the risk of losing all goodwill and thus their ability to produce/operate. Therefore, as a bank, in addition to the traditional financial and business risk analysis, Rabobank's analysis of clients' sustainability related issues is gaining importance.

This position paper provides the framework for this analysis which will need to be worked out in more detail by each business unit in each country where Rabobank is active. Implementation of local credit policies, client acceptance tools, financing conditions, etc., is the responsibility of Rabobank management at the subsidiary/country level. This way, our newly developed, socially responsible policies will become visible in our daily financing activities, showing our commitment to improve sustainability in the livestock farming sector.

APPENDIX 1: Best practices by the value chain

Establishing a list of best practices which define sustainability in the livestock sector provides a framework of indicators to make a sustainability assessment of a client and to measure progress in this field. Nevertheless, making an assessment will never be straightforward, as often the best practice will be a compromise. For example, improving animal welfare sometimes conflicts with minimising the environmental impact.

F&A principle	Best practices by the value chain
1. Sufficient and safe food production	<ul style="list-style-type: none"> a) Produce affordable meat and dairy products in an efficient way (meet minimum feed conversion ratios, acceptable costs of production and profit margins) b) Realise sufficient supply on a global level to meet consumer demand, optimally allocated on a global level in the perspective of available natural resources locally c) Produce safe products (no contaminations with antibiotics, harmful bacteria (salmonella, e-coli), viruses, unnatural hormones etc.), safety claims based on scientific research. d) Use antibiotics, hormones, growth promotants, drugs and other chemicals in a responsible way e) <u>Minimise use of antibiotics to prevent resistance against antibiotics</u>
2. Responsible natural resource management	<ul style="list-style-type: none"> a) Use sustainably produced raw materials (feed) that are not produced at the detriment of high conservation value areas and biodiversity in general⁴ b) Minimise emissions to the environment of NH₃, minerals and metals (present in manure), in order to minimise pollution of air, ground and surface water and prevent land degradation. Close mineral cycles where possible c) Minimise production of greenhouse gasses (e.g., CO₂ and methane) d) Minimise waste
3. Socially responsible society to improve social well being	<ul style="list-style-type: none"> a) Minimise risk of zoonoses spreading to humans b) Minimise landscape pollution, maintain historical landscapes where possible c) Minimise nuisance for the neighbourhood (dust, odour, noise) d) Establish good relationships with neighbours to ensure a license to produce in the region
4. Responsible treatment of animals ⁵	<ul style="list-style-type: none"> a) Prevent and suppress animal diseases b) Provide sufficient feed and water to ensure healthy animals c) Minimise transport of live slaughter animals and ensure acceptable transport conditions d) Use husbandry practices that minimize distress and pain for animals and avoid injury e) House animals in acceptable housing systems, where animals can behave naturally f) Minimise pain and stress when handling, restraining and killing animals g) Execute breeding programmes that take into account the quality of life of the animal
5. Consumer and citizen awareness	<ul style="list-style-type: none"> a) Inform consumers about origin and production method of the product on offer b) Inform consumers about sustainability issues of the products on offer (e.g. ecological foot print) c) Inform consumers about health aspects of the product on offer (e.g. nutritional value, saturated fat content) d) Facilitate tracking and tracing in the value chain, provide transparency to off-takers, consumers and society in general to build bridges with society, establish trust and maintain a license to produce as a sector

⁴ See also soy supply chain policy paper

⁵ See also animal welfare statement

APPENDIX 2: Examples of Rabobank's actions in the livestock sector

Organise a dialogue with Dutch pig farmers

Rabobank organises and chairs a dialogue with Dutch pig farmers. The participants discuss about four topics, being: (1) the farm and its surroundings, (2) manure and minerals, (3) use of antibiotics and (4) new business opportunities. Some 15 farmers participate in each session. In 2011 it is the intention to reach over 1,000 pig farmers in this dialogue.

Sustainability field days in Brazil

The Sustainability Field Day is designed to bring the concepts and practices of Corporate Social Responsibility (CSR) closer to the bank's clients.

During the Field Day, guests visit a carefully selected farm with installations that represent best practices in CSR, such as pesticides storage and waste disposal. Normally, about 60 to 80 people attend, most of them farmers. On these field days, visitors receive the 'Manual on CSR Practices in Agribusiness of Rabobank Brazil', which is based on 3R thinking (reduce, recycle, reuse). There have been structural improvements on farms of farmers that attended sustainability field days such as:

- Better conservation of existing High Conservation Value Areas (HCVAs) on the property by fencing off such areas to prevent access by animals;
- Reforestation of HCVAs;
- Installation of a native plant nursery on the farm, including the creation of a seed bank from the region's remaining forests;
- Conservation of water sources and springs by fencing off degraded areas;
- Licensing wells and dams for water resource use;
- Selective waste collection with proper disposal of used tires, burned oil, dirty rags, light bulbs, used batteries, medical waste (needles, gloves, medicine bottles, and sheaths from cattle vaccination and management), organic waste and recyclable material;
- Water and energy waste reduction through raising employees' and residents' awareness of rational use;
- Construction of wells to hold rainwater;
- Reuse of washing water from the animals in the stalls;

Signatory of the Dutch initiative: 'Agenda for a Sustainable Livestock Farming Sector'

Rabobank is one of the signatories of the Agenda for a sustainable livestock farming sector in the Netherlands (Uitvoeringsagenda Duurzame Veehouderij), a group initiated by the Dutch government. The group has the goal to accelerate the process of making the Dutch livestock farming sector more sustainable. Rabobank's role is to support, facilitate and stimulate initiatives, and to apply and share knowledge and expertise. Insights gathered are translated into credit risk policies and criteria for the acceptance of a credit/client.

Support innovations that contribute to making the livestock sector more sustainable

Via a special project fund Rabobank stimulates innovation that increases the sustainability of the livestock farming sector. For example, a subsidy was given for a new housing system for broilers that gives more space for broilers within existing stables, without reducing the number of broilers. Another example is a subsidy for a project where parental stock is separated between male and female chickens during a part of the day to reduce the stress levels for the female chickens.

Support the development of sustainable energy in the livestock sector

Much effort and time is put into stimulating and facilitating initiatives on the production of sustainable energy (wind, biogas, green gas and solar) on livestock farms, including initiatives for processing manure into specific usable products. Two people within Rabobank have specialised in this topic. They provide support to credit requests in this field and share expertise with the sector. In 2010 a benchmarking report about biogas installations was created. In 2011 or 2012, this report will be updated to enable clients to benchmark their operations against others in the sector.

Participate in the Global Conference on Sustainable Beef

Rabobank representatives participated in the first Global Conference on Sustainable Beef, which was hosted by the World Wildlife Foundation (WWF), Cargill, Intervet/Schering-Plough Animal Health, JBS, McDonald's and Wal-Mart. The three-day conference gathered approximately 300 participants from around the world, to address the current state of sustainability in the beef sector. Attendees included beef industry supply chain managers, business leaders and practitioners, as well as experts, innovators, financiers, nongovernmental organisations and policy-makers. This was the first conference of this magnitude and scope, fostering a frank and useful exchange of information among beef industry stakeholders with diverse opinions. It was important for Rabobank to be represented at the conference as a significant financier to the beef industry and a supporter of sustainable business practices in the sector.

Refrain from financing certain deals

It is one of the best practices to minimise transport of live slaughter animals and ensure acceptable transport conditions. In the past, this principle has made us decide not to finance a specific deal involving sea transport of live sheep from Australia to the Middle East. The reason for this decision was the combination of the duration of the transport, the uncertainty of the conditions during the transport and especially the fact that, once the animals arrived in the country of destination, there would be little sight of what ultimately happened to them.. In another case, Rabobank decided to finance a specific deal involving sea transport of 2,000 live dairy cattle from Australia to Sri Lanka. The reasons Rabobank made this deal were that the exporter was a well-known company with considerable experience in comparable projects, that the animals would be used for dairy production and that, during the five-year project, continuous supervision would take place by the exporter. The provided international education and permanent supervision ensured high-standard treatment of the cattle, both during transport as well as during their time in Sri Lanka.

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