

Cargill: EUR bond, EU deforestation regulation

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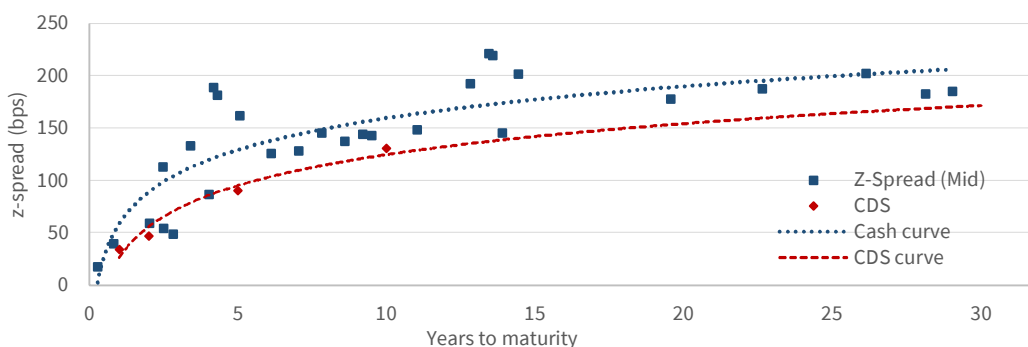
American food corporation Cargill (CARGIL) is in the market for a potential EUR bond issuance (preliminary deal FIGI BBG01G7NS861).¹ The company has no other EUR bonds outstanding, with a EUR bond having matured in mid-February (XS1031019562, issued in 2014).

The company has clear deforestation/land-use change exposures, with critiques being raised against its activities in soy, palm oil and cocoa, linked to deforestation.² This would be one of the first bonds with such high deforestation exposures entering the EUR bond space since the introduction of the EU deforestation legislation announced late 2022.³ The legislation seeks to ensure certain key goods placed on the EU market do not “contribute to deforestation and forest degradation in the EU and elsewhere in the world.” The financial sector is currently out of scope, but there are discussions around a future inclusion.⁴

Potential investors in the upcoming CARGIL bond issuance need to consider the risk that at some stage between now and 2030 (the expected maturity date for the bond), EU regulation may require the company to provide supply chain data that proves zero deforestation in line with the new legislation. The relatively sparse information on the company’s impact on deforestation in the deal road-show presentation leaves questions around whether the company’s policies will be aligned with the EU requirements, were the bond loan to come into scope.

We recommend that investors with biodiversity/deforestation investment guidelines conduct enhanced due diligence.

Figure 1. Cargill cash bond (USD) and CDS spreads, interpolated curves. Sources: Bloomberg, AFII, 13 Apr 2023.



¹ Expected rating of A2/A/A (Moody’s/S&P/Fitch). BNP, Santander and Standard Chartered Bank are acting as joint bookrunners and holding calls with European fixed income investors.

² “[Bunge and Cargill linked to soya supply chains with deforestation risk](#)”, Financial Times, 13 Dec 2021.

³ “[Green Deal: EU agrees law to fight global deforestation and forest degradation driven by EU production and consumption](#)”, EU Commission, 6 Dec 2022.

⁴ “[Climate change: new rules for companies to help limit global deforestation](#)”, European Parliament News, 13 Sept 2022. For an example of calls to include the financial sector, see “[Triodos Bank supports call to include the financial sector in the EU-Deforestation Regulation](#)”, Triodos Bank, 9 Nov 2022.

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Background

Cargill is a frequent issuer in the USD bond market with 33 bonds outstanding totaling USD 12.60bn. It is the first time the company has come back to the EUR bond market since 2014.

Cargill has been identified by Trase Finance as the fifth largest food producer responsible for Brazilian soy deforestation and the first for Cote d'Ivoire cocoa deforestation.⁵ In an unusual move, seafood company Grieg's issued a green bond (NO0010885007) in 2020 explicitly excluding Cargill from its suppliers on the back of Brazilian soy deforestation concerns.⁶

Alongside thirteen other major food companies, Cargill is part of the roadmap launched at the 2022 COP27 in Egypt to eliminate deforestation from its supply chains by 2025.⁷ It is not the first time Cargill has committed to such ambitious targets. The company was part of the Consumer Goods Forum that pledged to reach "net zero" deforestation by 2020. As the deadline approached, Cargill recognised that the industry would fail to meet the target.^{8,9}

In December 2022, the EU adopted a regulation requiring traders and operators placing soy, palm oil, cocoa, beef, coffee or timber and derived products on the European markets to have proof that they do not contribute to deforestation¹⁰ in the EU and elsewhere in the world. Once the regulation is enforced, companies will have 18 months to implement the new rules. Companies not complying with the regulation will face "dissuasive penalties" according to the European Commission. Whilst the regulation currently addresses forested land, a first review of the regulation planned for 2024 may include other biomes such as "other wooded lands". Under that scenario, Cargill's exposure to conversion and deforestation would increase by almost fivefold according to Trase Finance.¹¹

There is a certain dissonance between Cargill's public commitments and actual implementation, where two key factors stand out:

- **There is no mention in neither the company's sustainability report¹² nor the bond's marketing material¹³ of the actual capex dedicated to achieving its deforestation and land conversion goals.** Considering the magnitude of deforestation issues within the company's supply chains, it should be standard due diligence to enquire about investments required to comply with no-deforestation requirements.
- **Cargill's lobbying against the EU Deforestation law could raise doubts about its ability/willingness to comply with the regulation.**¹⁴ Furthermore, this can also be problematic for investors that have placed investment restrictions on companies that are lobbying against their own policy priorities.

It seems reasonable these questions should be addressed as part of the investor due diligence process ahead of the potential EUR bond deal.

⁵ See [Trase Finance's Cargill deforestation profile](#), external webpage, accessed 14 April 2023.

⁶ "[Grieg Seafood takes aim at Cargill through \\$105m green bond](#)", Financial Times, 4 July 2020.

⁷ "[COP27: Major food firms detail plans to eliminate deforestation by 2025](#)", Reuters, 7 Nov 2022.

⁸ Ibid.

⁹ "[Consumer Goods Forum will not achieve deforestation goal](#)", Forest500, Sept 2019.

¹⁰ "[Green Deal: EU agrees law to fight global deforestation and forest degradation driven by EU production and consumption](#)", European Commission, 6 Dec 2022.

¹¹ "[Beyond forests: traders face EU regulatory risks from soy expansion in Brazil](#)", Trase insights, 21 Mar 2023.

¹² "[2022 ESG report](#)", Company webpage, accessed 14 April 2023. Also see "[Cargill Policy on Forest](#)", Company webpage, accessed 14 April 2023.

¹³ "[Cargill deal road show](#)", accessed 13 April 2023.

¹⁴ "[Agribusiness giants tried to thwart EU deforestation plan after Cop26 pledge](#)", The Guardian, 4 Mar 2022.

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