A Spotlight on Exponential Peruvian Palm Oil Growth

ESG Risks for Cargill Subsidiary, Cargill Americas Peru SPL

Niamh McCarthy
Introduction

A sharp uptick in deforestation rates over the past decade has put Peru in the spotlight for illegal mining and agricultural expansion. Although still comparatively small compared to some Latin American neighbors, Peruvian palm oil exports have risen by 93 percent since 2013, which represents both a market opportunity and a sustainability crisis as oil palm plantations compete with forested land in the Amazon.

This report explores the exponential growth of the Peruvian palm oil industry in recent years and its relationship to deforestation in the Amazon. Through a case study of a key player in the palm oil market, Cargill Americas Peru SPL, the report also provides insight into international dynamics driving local development.

Key Findings

- Peru has experienced an uptick in deforestation rates over the past decade, despite the country's Paris Agreement commitment to reduce deforestation by 30 percent.
- Recent growth in palm oil production has transformed Peru from a net importer to a net exporter.
- Peru is experiencing a trend away from smallholder farming to large production.
- No palm oil group can currently guarantee sustainable palm oil, despite some being members of the Roundtable on Sustainable Palm Oil (RSPO).
- The export market for Peruvian palm oil is dominated by Grupo Romero and its subsidiaries.
- Cargill Americas Peru SPL stands out for its role as one of the leading Peruvian palm oil exporters in 2016 and 2017, along with being a subsidiary of the largest private US company.
- Cargill Inc. is likely to face material financial consequences if linkages to negative environmental, social, and governance (ESG) impacts emerge.

Deforestation Rates in the Peruvian Amazon

Although Peru is home to just 11.3 percent of the Amazon, it covers 61 percent of the country's land area.¹ The tropical forest provides essential ecosystem services in the form of clean drinking water, climate regulation, medicine, and carbon storage. Just one hectare of the Amazon stores an estimated 257 tons of carbon and houses 160 bird species, 310 tree species, 10 primate species, 1

44 fish species, 33 amphibian species, and 22 reptile species. Alternatively, deforestation increases the risk of infectious disease emergence and disrupts water cycles. Scientists predict a tipping point when deforestation rates reach between 20 and 25 percent of the Amazon, at which time the rainforest will no longer maintain the water cycles to sustain itself. Since the Amazon is shared by nine Latin American countries, international collaboration is required to protect it. At the 2015 Paris Agreement, Peru pledged to reduce greenhouse gases to 20 percent and to cut deforestation rates by 30 percent below 2005 levels by 2030 as a part of the country’s Nationally Determined Contribution. However, rates of tree cover loss in Peru have increased significantly over the past decade, as shown in Figure 1.

The primary drivers of increasing deforestation rates in Peru are agricultural expansion and illegal gold mining and logging. The Brazil-Peru Transoceanic Highway and rising gold prices have led to an increase in illegal gold mining in the La Pampa region, which reached a historic high in 2017 as deforestation rates spiked. Agricultural production in Peru revolves around cocoa, coffee, and palm oil. Although smallholder farming has historically been the largest agricultural driver of deforestation, larger producers have entered the market in recent years and are responsible for an uptick in rates.

![Figure 1: Tree cover loss over time by region](source)

Source: Climate Advisers visual based on data from Global Forest Watch

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4 Pedroso, Rodrigo et. al. “Tens of thousands of fires are pushing the Amazon to a tipping point.” CNN. Sep 10, 2020.
5 “Peru country summary.” Climate Action Tracker.
7 “Tree cover loss in Peru.” Global Forest Watch.
Peru experienced a total tree cover loss of 3.1 million hectares between 2001 and 2019, which roughly equates to the size of Belgium. The districts that have experienced the highest absolute levels of tree cover loss in the past two decades are Puerto Inca, Coronel Portillo, Alto Amazonas, and Padre Abad. From a regional perspective, the highest tree cover loss has occurred in Loreto, San Martín, Ucayali, and Huánuco. Figure 2 summarizes tree cover loss by district over the past two decades.

**Figure 2: Tree cover loss over time by district since 2001**

Source: Climate Advisers visual based on data from Global Forest Watch

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8 “Tree cover loss in Peru.” Global Forest Watch.
9 “Tree cover loss in Peru.” Global Forest Watch.
The Growth of the Peruvian Palm Oil Industry

Peruvian palm oil makes up only 3.7 percent of Latin American production, dwarfed by Colombian and Guatemalan palm oil, which accounts for 32.3 percent and 15.3 percent respectively. Even so, the Peruvian palm oil market is expanding quickly with a 56 percent growth rate in production between 2013 and 2018. Globally, the market size for palm oil is estimated to reach USD 78 billion by 2027, primarily driven by increasing demand for its use in biodiesel and in food applications. Palm oil is an often-overlooked ingredient in everything from detergent, soap, and cosmetics to chocolate, vegetable oils, milk, and bread. As the global population rises and the standard of living increases across developing countries, the demand for and access to the wide range of consumer goods and food products that use palm oil is expected to grow.

The scale of Peru’s exponential growth in palm oil production has transitioned the country from being a net importer to a net exporter. As shown in Figures 4 and 5, palm oil exports have increased from close to zero in 2012 to over USD 50 million in sales and over 86 million kg in weight in 2019.

Figure 3: Value of Peruvian palm oil imports and exports over time (USD M)

Source: Climate Advisers visual based on data from Trend Economy

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11 “Global palm oil market (2020-2027) – Size, share & trends analysis report by origin, product, end use, region, and segment forecasts.” Business Wire. 9 April 2020
12 “Annual international trade statistics by country.” Trend Economy.
Mounting Environmental, Social, and Governance (ESG) Risks

Since oil palm plantations are most suited to tropical, equatorial climates, Peru is ideally situated to meet growing demand and increase market share. The familiar dilemma with palm oil, however, is that equatorial climates are also home to the world's largest tropical forests, which increases the risk of deforestation and encroachment of territories long inhabited by indigenous and traditional communities. In fact, palm oil was found to be responsible for 11 percent of deforestation in the Amazon between 2007 and 2013, despite only accounting for 4 percent of agricultural crops. The competition for land between palm oil producers and the Amazon can be seen in Figure 5, where districts with the most land designated for palm oil production in 2018 also experienced among the highest rates of tree cover loss.

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13 “Annual international trade statistics by country.” Trend Economy.
An estimated 68 percent of palm oil processing plants are located in the Ucayali region, which incentivizes higher production in surrounding areas. The Ocho Sur company has a capacity of 45 tons per hour in its Ucayali plant, while the Palmas Group operates three plants in San Martin and Loreto with a combined capacity of 140 tons per hour. These three regions also experienced the highest tree cover loss in Peru over the past two decades, as shown in Figure 2. As large palm oil producers increasingly buy land for palm oil cultivation from smallholders to avoid deforestation-related fines, they provide a market for converting and selling forested land. In this way, complex changes in ownership reduce transparency and blur the lines for holding deforesters accountable.

Land conversion for palm oil is also associated with setting intentional fires to burn any remaining forest debris after clearing the land. Palm oil producers frequently use this practice to reduce costs and increase nutrients in the soil in the short-term, but the long-term consequences include soil erosion and higher fertilizer costs. Figure 6 aggregates the fire alerts tracked through Global Forest Watch and shows a sharp rebound since 2017.

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15 “Tree cover loss in Peru.” Global Forest Watch.
In order to mitigate ESG risks, the Peruvian Palm Oil Producers’ Association (JUNPALMA) made a 2019 commitment towards achieving sustainable, deforestation-free palm oil by 2021. However, only seven Peruvian palm oil groups are members of the Roundtable on Sustainable Palm Oil (RSPO), and none can yet guarantee 100 percent sustainable palm oil.

**CASE STUDY: CARGILL AMERICAS PERU SRL**

Cargill Americas Peru SRL operates in the grain and field bean wholesale industry from Lima, Peru. As a fat and oil products manufacturer, the company’s key priorities are agriculture, food (ingredients and applications), animal productivity, animal nutrition, commodities, and trading. The company was founded in 1953 and most recently reported USD 216 million in annual revenues. Cargill Americas Peru SRL is a subsidiary of Cargill Inc., an American company with operations in 64 countries around the world and 12 countries in Latin America. Cargill Inc. is a major presence across agricultural commodities in Latin America and is among the top soy traders in Brazil. Although the majority of Cargill’s palm oil is sourced from mills in Indonesia and Malaysia, the company has entered the Peruvian palm oil market in recent years and also sources palm oil from Latin American countries like Colombia and Guatemala. The scale of Cargill’s presence around the world can be seen in Figure 7 through its subsidiaries.

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17 **Tree cover loss in Peru.** Global Forest Watch.
18 **Peru aims to eliminate palm oil deforestation by 2021.**
19 **Cargill Americas Peru SRL.** Thomson Reuters.
20 **Cargill mill list.** Cargill.
Cargill operates 165,364 palm oil plantations globally. The company has come a long way since it began improving its sustainable palm oil commitments in 2014. Cargill first released its no deforestation policy in 2014 for palm oil and has since incorporated policies to prevent fires and peatlands and apply the High Carbon Stock Approach and High Conservation Value principles. Cargill is a member of the RSPO and has certified 92 percent of mills, 72 percent of refineries, and 73 percent of managed smallholders to date.\(^2\) Given the scale of Cargill’s palm oil demand, however, the risk of material environmental and social impacts is still high. For the uncertified mills, Cargill uses its grievance system to address deforestation and human rights issues and currently has 12 grievances lodged against direct third parties and 62 lodged against indirect third parties. Ninety-six percent of grievances relate to operations in Indonesia, Malaysia, and Papua New Guinea, while the remaining 4 percent concern Latin America. It is likely that the proportion of Latin American grievances may increase as the Southeast Asian market becomes increasingly saturated and Latin American countries experience growing land use competition between tropical forests and palm oil production.

Cargill Americas Peru SRL exported USD 5.6 million and USD 17.4 million in palm oil during 2016 and 2017 respectively.\(^3\) The company stands out in an export market dominated by Peruvian conglomerate, Grupo Romero. Between 2013 and 2019, Grupo Romero companies accounted for 70.4 percent of palm oil exports through four subsidiaries: Industrias del Espino (39.5 percent);...
A Spotlight on Exponential Peruvian Palm Oil Growth

Alicorp SA (25.7 percent); R Trading (3.5 percent); and Sociedad Industrial Yumimaguas SAC, now known as Industrias del Shanusi (1.7 percent). Although only active for two years, Cargill Americas Peru SRL made up 18.6 percent of Peruvian palm oil exports since 2013. As the largest private company in the United States, Cargill Inc. has the ability to quickly mobilize resources to grow new markets, which solidifies the position of subsidiary Cargill Americas Peru SRL as a key player to watch out for in the Peruvian palm oil markets. Figure 8 provides an overview of exports by company over time and exemplifies both the volatility and growth of the industry.

Figure 8: Peruvian palm oil exports over time by company

For a company like Cargill, the Peruvian palm oil market represents both an opportunity to meet growing demand and a risk factor for reputational damage, market access issues, and stranded
assets. As the international community comes together to address climate change and prevent deforestation, Cargill is likely to face significant backlash if linkages emerge that tie the company to deforestation and human rights abuses. Just this year, for example, Cargill subsidiary Cargill Aqua Nutrition was excluded from Norwegian Grieg Seafood sourcing through its Green Bond, due to links to land clearing in the Cerrado biome. The financial risks of reputational damage to a large, international company are much higher than a less known brand, so Cargill Americas Peru SRL will require strong due diligence and monitoring processes to prevent negative ESG impacts in the expanding Peruvian palm oil market.

Conclusion

Cargill Inc. is active across tropical commodity markets and faces elevated ESG risks as a result of operating in forested regions. In order to mitigate these risks, the company has taken action to increase transparency and improve policies over the years, but there are still significant gaps in coverage that could have implications for both ESG and financial performance. Due diligence processes should be comprehensive and include deforestation prior to land title transfer to create a disincentive for clearing and selling. Similarly, monitoring should be followed by swift action if policy violations occur. As the Peruvian palm oil market grows, Cargill has the ability to use lessons from other regions and commodities to promote and guarantee sustainable production, but the large, international company could alternatively increase the scale of deforestation and human rights abuses if it doesn’t adequately mitigate ESG risks.

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24 “The Chain: Pressure on soy traders rises as Norwegian salmon producer cuts off Brazilian market due to deforestation concerns,” Chain Reaction Research.