

Questions on project 47498 / RSE FC Engro¹
Email sent on August 2nd, 2023

Dear Sharmila,

Thanks for your response to my email.

We welcome the fact that the IFC takes sustainability aspects into consideration for the approval of a loan. However, it is not clear to us how this specific project contributes to mitigating climate change, biodiversity loss and to promoting overall animal welfare.

Climate change

Considering that milk and cheese are among the food ingredients with the highest GHG footprint,² per kilo of product, we are concerned that producing more of it will actually exacerbate climate change, rather than mitigate it. A report by Milieudefensie estimates that Friesland Campina emitted 17,4 Mton CO₂-eq in 2019. The report also highlights that the company aims to keep growing 1.5% a year, and that this will lead to emissions of 18.5 Mton CO₂-eq by 2030.³ This is naturally not aligned with the Paris Climate goals.

Biodiversity

Likewise, the cattle sector is one of the largest drivers of deforestation worldwide, either because cattle need large pastures to feed, or because the production of feed for cattle housed indoors requires large areas of land, with the feed often being grown in monocultures involving the use of large amounts of chemical pesticides and fertilizers.

Animal Welfare

We welcome any improvements on animal welfare, but the IFC disclosure page does not provide any details on this. Will the company be required to comply with an animal welfare certification scheme, by a certain date? And if so, which and when? And how will this scheme actually improve the lives of animals, considering that under more industrialized circumstances, animal welfare does not necessarily improve and in fact often deteriorates? We note that the EU does not have any proper standards on the welfare of dairy cows i.e. it does not have a Directive on the welfare of dairy cows. There is no information in the IFC disclosures on how the farms will tackle the problems often found in dairy production such as high levels of lameness and mastitis and poorly designed and/or maintained housing leading to sores, wounds and injuries. Also, the disclosures do not indicate whether the cows will be tethered for long periods (which is damaging for welfare) or whether high yielding Holstein-Friesian cows will be used; these cows are unable to cope properly with high temperatures. Also, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct have recently incorporated Animal

¹ <https://disclosures.ifc.org/project-detail/SII/47498/rse-fc-engro>

² Our world in data, <https://ourworldindata.org/grapher/ghg-per-kg-poore>

³ Milieudefensie 2021, De onzichtbare vervuilers van de vlees- en zuivelindustrie.
<https://milieudefensie.nl/actueel/zuivelindustrie>

Welfare in their guidelines, stating that:

“An animal experiences good welfare if the animal is healthy, comfortable, well nourished, safe, is not suffering from unpleasant states such as pain, fear and distress, and is able to express behaviours that are important for its physical and mental state. Good animal welfare requires disease prevention and appropriate veterinary care, shelter, management and nutrition, a stimulating and safe environment, humane handling and humane slaughter or killing”.

In a recent letter to the MDBs,⁴ we argue that MDBs should no longer provide funding for intensive livestock production as such systems cannot meet the standards set out by the OECD.

Corporate concentration

Furthermore, we would also like to understand the rationale for providing finance to a multinational corporate conglomerate, which last year was ranked as the world's 8th largest dairy producer.⁵ Friesland Campina, the holding company of Engro Foods, had a net profit of EUR 292 million in 2022, and therefore does not seem to be in need of development funds to do its business.⁶ In addition, Engro Corporation, which owns 40% of Engro Foods⁷, is Pakistan largest diversified conglomerate,⁸ so this company also seems to be doing very well, and it's unclear why it would merit IFC support.

Instead, small scale farmers could potentially benefit from development aid, especially after last year's dramatic floods. As a report by the FAO on dairy in Pakistan notes, “the sale of milk from rural areas to urban centers allows the transfer of funds from wealthier urban centers to poorer agriculturally based communities.”⁹ By financing Friesland Campina, the IFC is in fact supporting the transfer of funds from Pakistan to the company's headquarters in the Netherlands.

Emissions

In light of the ongoing nitrogen crisis in the Netherlands, it's also worth noting that Friesland Campina is a large contributor to historic emissions, and that it has not taken the necessary steps to drastically reduce its emissions. On the contrary, it has explored opportunities to increase production and thus emissions.^{10 11} We are concerned it will export its polluting

⁴ 21 July 2023. Join CSO letter on the inclusion of animal welfare in the new OECD Guidelines.

<https://drive.google.com/file/d/1xzIqLMTGUccq22POKrX6PhMP5Fmry572/view?usp=sharing>

⁵ Rabobank, 2022. Global Dairy Top 20.

https://research.rabobank.com/far/en/documents/502210_Rabobank_Global-Dairy-Top-20-2022_Ledman_Aug2022.pdf

⁶ <https://jaarverslag.frieslandcampina.com/nl/2022/>

⁷ <https://www.engro.com/history/>

⁸ <https://www.weforum.org/organizations/engro>

⁹ <https://www.fao.org/dairy-production-products/production/en/>

¹⁰ Pointer, 20 mei 2022. Zuivelfabriek FrieslandCampina Veghel 'kent lange voorgeschiedenis van overtredingen'. Nu overschrijding van sulfaatnorm.

<https://pointer.kro-ncrv.nl/zuivelfabriek-frieslandcampina-veghele-kent-lange-voorgeschiedenis-van-overtredingen>

¹¹ NPO Radio 1, 9 juni 2022. Zuivelfirma FrieslandCampina profiteerde van afschaffen vergunningplicht.

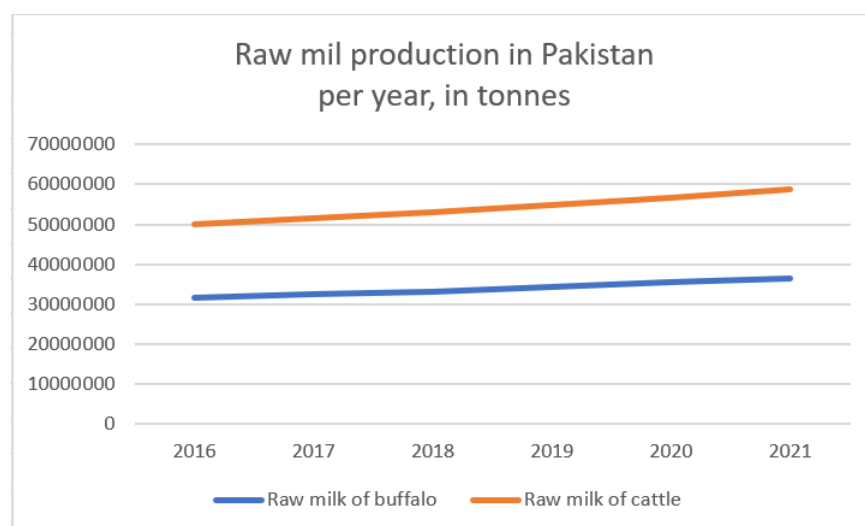
<https://www.nporadio1.nl/nieuws/onderzoek/d76b1e6d-93ac-436c-bf5d-a9a63470586d/zuivelfirma-frieslandcampina-profiteerde-van-afschaffen-vergunningplicht>

business model to Pakistan, now that expansion options in the Netherlands have become limited.

Covid19 response¹²

We would also like to inquire why this loan was granted under the Covid19 relief process. Firstly we note that on May 5th, the WHO declared that COVID 19 was no longer a public health emergency. The contract with Friesland was signed after that.¹³ And even though the loan was presented to the board before the end of the pandemic, it is unclear to us why it was submitted under the emergency relief, as according to FAO data, milk production in Pakistan did not suffer during the pandemic. Instead, it continued to increase at pre-pandemic rates.

Finally, we don't understand why this project was not disclosed on the board date. Instead, it took another 2,5 months before the project was disclosed. This lack of transparency is undesirable and seems hard to justify.



Source: FAOstat

Given these concerns, we ask that the Board puts the transfer of any not yet allocated funds to Friesland Campina on hold, on the basis that:

- a) the loan must be reclassified as Category A and must be consulted on with civil society; and
- b) the company must first present a credible plan to align with the goals of the Paris Climate Agreement and the Global Biodiversity Framework.

¹² WBG, 2020.

<https://documents1.worldbank.org/curated/en/166621584551201643/pdf/Report-to-the-Board-of-Directors-on-a-Proposed-Investment-in-IFC-Fast-Track-Covid-19-Facility-World-Region.pdf>

¹³ UN News, 5 may 2023. WHO chief declares end to COVID-19 as a global health emergency. <https://news.un.org/en/story/2023/05/1136367>

More generally, we would ask you to request that the IFC management provide more time for Board and civil society review before bringing loans with significant social and environmental impacts to the Board.

We are happy to answer any questions and welcome a meeting with your office to further discuss these concerns.

Yours sincerely,