

PRESS RELEASE

Financial institutions warned of risks in financing controversial railroad project to export soybeans from the Brazilian Amazon

São Paulo and Brasília, July 12, 2021 - A coalition of civil society organizations delivered today a warning letter to public and private financial institutions regarding a series of risks - social, environmental, legal, financial and reputational – related to their potential involvement in **Ferrogrão**, a proposed '*greenfield*' railroad project aimed at promoting exports of mechanized soybeans and other large-scale agribusiness commodities in the heart of the Brazilian Amazon.

Considered a priority within the Brazilian government's Investment Partnership Program (PPI), the Ferrogrão project (**EF-170**) would involve the opening of a 933 km long railway line that would traverse a volatile and sensitive frontier area of the central Amazon, with enormous potential risks for accelerating deforestation and land conflicts that especially threaten indigenous peoples and legally- protected areas.

The letter argues that the project design and licensing process of Ferrogrão have been undermined by “critical weaknesses and flaws” characterized by gross underestimation of socio-environmental risks and excessive optimism about the project’s economic viability. The letter cites studies showing the federal government did not consider alternatives to Ferrogrão that would involve reduced social, environmental and economic risks, and greater benefits to Brazilian society. The documents analyzes critical shortcomings of the proposed railway project in relation to nine key areas:

- Insufficient attention to international sustainability criteria;
- Underestimation of deforestation risks;
- Incentives for land conflicts, including land-grabbing (*grilagem*) on public lands
- Increasing pressure to reduce conservation units;
- Violations of indigenous peoples’ rights, including their right to free, prior and informed consent (FPIC);
- Contradictions regarding zero deforestation commitments made by agribusiness companies;
- Underestimation of construction costs and excessive optimism in projections of economic returns;
- Flawed evaluation of competition from other transportation routes;
- Lack of consideration of alternative investments.

The warning letter is an initiative of **GT Infra**, a Brazilian civil society coalition composed of over 40 environmental and human rights organizations, together with independent researchers and scientists from throughout the country. The coalition

seeks to strengthen governance and the effectiveness of public policies related to energy and transportation infrastructure, especially in the Amazon region.

According to Sérgio Guimarães, Executive Secretary of GT Infra, potential investors need to carefully analyze the risks of the Ferrogrão project in light of Brazilian legislation and international standards on environmental protection and human rights, prior to making any decisions. "In addition to posing a threat to the forest, traditional populations and climate crisis mitigation commitments, the project has serious flaws in its analysis of economic feasibility. Such flaws represent major economic, legal reputational risks for financial institutions potentially interested in investing in the project", Guimarães said.

According to the letter, such analysis of project risks will lead responsible investors to the logical conclusion that they should refrain from participation in this project. "A failure to conduct such due diligence would not only expose investors to noncompliance with their own policies of social and environmental responsibility (ESG), but also to risks of co-liability for socio-environmental damages associated with Ferrogrão, should the project proceed" argues Guimarães.

The letter is co-signed by a series of Brazilian civil society organizations and networks, including the Brazilian Forum of NGOs and Social Movements – FBOMS, Brazilian Forum on Climate Change and Socio-Environmental Justice – FMCJS, Socioenvironmental Institute – ISA, Greenpeace, International Rivers, Tapajós Vivo Movement – MTV, Terra Azul, and Vitória Amazônica Foundation – FVA, among others.

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Additional information

Studies carried out by researchers from the Climate Policy Initiative (CPI) and the Pontifical Catholic University of Rio de Janeiro (PUC-Rio), cited in the letter, showed that the construction of *Ferrogrão* could directly contribute to the deforestation of more than 2,000 km² of native forest, an area greater than that of the city of São Paulo. By lowering the cost of grain transportation, the studies conclude that the railroad operation would encourage the advance of the mechanized agribusiness frontier, as well as the displacement of cattle ranching in remote areas, in a region of the Amazon characterized by a lack of enforcement and other "appropriate governance instruments" that has worsened during the Bolsonaro administration.

Increased deforestation can involve a kind of domino effect caused by the association of the railroad with other infrastructure projects that are already underway or are planned for the region. “Despite the requirements of Resolution 01/86 of the National Council for the Environment (CONAMA), the EIA did not consider the cumulative and synergistic impacts of *Ferrogrão* together with other large projects”, states the letter.

Violations of the rights of indigenous peoples - The letter also highlights that the railroad proposal is currently the object of a legal dispute related to disregard for the rights of indigenous peoples. Since October 2020, the project has been the subject of a legal case filed by the Federal Public Ministry (MPF) and indigenous associations to the Federal Auditing Tribunal (TCU). *Ferrogrão's* Technical, Economic and Environmental Feasibility Study (EVTEA) shows that the railroad route will run close to 16 indigenous lands. These populations, however, were not consulted about the project during the planning phase.

Failure to carry out processes of Free, Prior and Informed Consultation and Consent (FPIC) violates international conventions to which Brazil is a signatory, such as Convention 169 of the International Labor Organization (ILO) and the American Declaration on Indigenous Rights. According to these norms, indigenous peoples and traditional populations have the right to be consulted regarding legislative or administrative decisions that affect their territories and their ways of life.

Underestimated implementation costs- The letter further points out that, according to independent analyses, the costs of implementing the railroad, budgeted at R\$8.42 billion (USD 1.7 billion) have been underestimated. If built, *Ferrogrão* will cross through an area of difficult access in the middle of the Amazon rainforest. Similar railroad projects, built on land with no prior infrastructure, tend to project much higher implementation costs. According to an analysis by economist Cláudio Frischtak, one of Brazil's leading experts on infrastructure, in a realistic scenario the cost would be in the order of R\$28.98 billion (USD 5.8 billion).

The document also highlights the relationship between *Ferrogrão* and potential competitors. Another finding from Frischtak's study, is that the Technical, Economic and Environmental Feasibility Study (EVTEA) fails to explain why alternative routes — that either already exist or are planned — do not undermine the new railroad's feasibility. He cites the BR-163 highway as being a curious example. Since the highway was paved, the cost of grain transportation has fallen by 26% on this route. The BR-163 highway is due to be handed over to the private sector. If new improvements are implemented, says Frischtak, the drop in transport costs on this route will cause *Ferrogrão's* projected Internal Rate of Return (IRR) to plummet. Currently, this rate is estimated to be 11.04%. Frischtak states that, according to a more realistic analysis, the IRR return rate will be between 1.69% and 3.13%.

About Ferrogrão - The EF-170 Railroad proposal, known as *Ferrogrão*, was conceived with the aim of reducing the transportation costs of soybean and other produced in

the state of Mato Grosso and destined for export. Budgeted at BRL \$ 21.5 billion (approximately USD 4.3 billion), and initial installation costs estimated at BRL 8.42 billion (USD 1.7 billion) \the project foresees an export corridor that would traverse 933 kilometers into the Amazon forest, connecting centers of agribusiness production in the Brazilian center-west (Mato Grosso state) to port facilities in Miritituba (Pará state), a transshipment hub on the banks of the Tapajós river (a major tributary of the Amazon) transforming it into a major industrial waterway (hidrovia). From Miritituba, the cargo would proceed down the Tapajós and Amazon rivers via large barges to a seaport. The Ferrogrão railroad's planned route would largely follow that of the existing BR-163 (Cuiabá-Santarém) highway.

Ferrogrão was included in the portfolio of the parastatal Planning and Logistics Company (EPL) linked to the Ministry of Transportation, at the request of the Pirara consortium, formed by Estação da Luz Participações (EDLP) and five soy trading companies Amaggi, ADM, Bunge, Cargill and LDC. The project was included in a national logistics plan (PNL 2035) that established long-term priorities for the sector.

The authors of the warning letter argue that in catering to the narrow economic interests of agribusiness groups, there is a serious disconnect between the Ferrogrão project and the reality of the Amazon, especially with regard to urgent challenges related to the climate crisis, biodiversity conservation and the rights of indigenous peoples and other local populations.