



DIALOGUE ON SUSTAINABILITY AND TRACEABILITY OF THE BEEF AND LEATHER CHAIN

First Technical Dialogue:

The Role of Due Diligence in the Regularization of the Meat and Leather Value Chain in Brazil

March 09, 2022

EXECUTIVE SUMMARY

The European Commission recently launched a proposal for a regulation that aims to minimize the import of deforestation and forest degradation products into the European Union. This proposal establishes rules for mandatory due diligence for importers who place certain products associated with deforestation and forest degradation on the European Union market, such as soy, beef, palm oil, timber, cocoa, and coffee, and some derived products such as leather chocolate and furniture. The aim is to ensure that only products not associated with deforestation and that meet the legality requirements according to the legislation of the country of origin are allowed on the European Union market.

The Organization for Economic Cooperation and Development (OECD) Guidelines recommend that importing companies conduct risk-based due diligence to avoid and address adverse impacts associated with their operations, supply chains, and other business relationships. The due diligence analysis should address actual or potential negative consequences (risks) related to human rights, including labour rights and labour relations, the environment, bribery and corruption, transparency, and consumer interests. The OECD argues that pre-compliance analysis helps companies anticipate, prevent or mitigate these impacts, thereby assisting the company in maximizing positive contributions to society, improving stakeholder relations, and protecting its reputation.

One of Brazil's significant challenges in meeting the criteria established in these different multilateral international relationship arrangements is deforestation, increasing since 2012. In that year, the rate was 4,571 km², and in 2021 it reached more than 13,000 km² (INPE, 2022). In the last three years, the accumulated deforestation in the Amazon biome was 56.6%, which corresponds to an area of 32,740 km² (Alencar et al., 2022). Agriculture and cattle ranching is the leading economic sector with deforestation associated to their production chain. Between 1985 and 2020, the net loss of vegetation cover was 44.5 million hectares, of which 99% was used for agriculture and cattle ranching, where 83.6% of the forest area was converted to pasture and 13.6% to crops (MapBiomas, 2021).

However, scientific studies indicate that most of Brazil's agricultural production is deforestation-free since few producers are responsible for most deforestation. In fact, 2% of the Amazon and Brazilian savannah (*Cerrado*) private properties are responsible for 62% of illegal deforestation, where 20% of soybean exports and 17% of meat exports to the European Union must be contaminated by deforestation (Rajão, et al., 2020).

Recently a phenomenon has been intensifying and causing deforestation in the Amazon region: land grabbing in Undesignated Public Forests (FPND), which is the land category with the highest deforestation (28%),



followed by rural properties (26%) and settlements (23%) (Alencar et al., 2021). Despite growing concern from international actors regarding deforestation for production purposes in private areas, protected areas, and indigenous lands, little attention is paid to FPNDs. FPNDs are especially problematic because of geospatial and cartographic information's almost non-existent enforcement and difficulty. Considering that the EU may unknowingly import products from FNDP, specific traceability efforts for this land classification are paramount.

In addition to environmental impacts from deforestation, labour and human rights violations can be audited in the process, following international conventions. In this context, it is necessary to dialogue to understand the challenges and opportunities in meeting the criteria and implementing due diligence in the meat and leather value chain, particularly to turn it into a tool that contributes to the sustainability of these chains and the reduction of deforestation.

In the technical dialogue held between actors linked to the meat and leather value chains in Brazil and the European Union in March 2022, it was discussed the importance and impact of the due diligence process in these value chains to comply with the rules established in the new European Union regulation on deforestation issues.

The dialogue was structured in 3 blocks: the first block provided the relevance and impact that due diligence in meat and leather value chains can have. The second block discussed the challenges linked to the due diligence process as a tool to promote sustainability in meat and leather value chains. The third block underlined opportunities, future actions, and possibilities of cooperation linked to implementing the due diligence process as a tool to promote sustainability in meat and leather value chains.

MAIN CONCLUSIONS OF THE DIALOGUE

The following are the main discussions from the dialogue:

Relevance and the impact of the due diligence process

- Due diligence serves to identify the risks by order of severity and the impacts related to a certain company activity and should also be used for planning practical actions to overcome challenges.
- This tool might help to assess environmental and social risks related to a specific activity. This enables companies to assure the products' quality creating an advantage in the commercialization process. However, implementing a due diligence system brings costs for companies subject to this regulation. Therefore, it is necessary to identify solutions for companies to be able to implement due diligence process without reducing its profitability.
- Some participants identified the need to address the legal frameworks of commodity-exporting countries and the regulations of consuming countries. In the context of Brazil, it is necessary to consider the fight against illegal deforestation, the issue of legal deforestation, and the standardization of requirements that do not consider the specificities of the chains.



Challenges associated with due diligence

- Small and medium-sized companies may have challenges in financially supporting a due diligence process and will be vulnerable if they are not endorsed by any certification;
- The goal of zero deforestation may generate polarization, lack of dialogue, and may still hurt the sovereignty of countries;
- Mapping illegal deforestation property by property continues to be a challenge;
- Regionalization of the discussion. Brazilian territory is vast and there are differences in its biomes. The new regulation needs to be sensitive to local geographic aspects without resulting in injustices;
- Some companies already use tools and methodologies for risk analysis of the chains they work with, but the process is not complete;
- The cost of conservation should be shared among the countries that benefit from the environmental services provided by native vegetation;
- Concerning livestock specifically, a challenge lies in the individual traceability of animals from birth until the moment of slaughter. The implementation of strategies like traceability would take a long time to cover a large-scale territory such as Brazil;
- The legal insecurity caused by the lack of land regularization weakens producers and hinders the processes of due diligence;
- The leather sector is dependent on the beef sector. The vast majority of slaughterhouses do not have monitoring systems, and tanneries are not capable of monitoring without data;
- Due diligence and traceability can exclude producers/suppliers, and, therefore, it is necessary to create a mechanism for the regularization of producers and suppliers so that they can resupply the European Union;
- If Brazil ceases to be a supplier (due to the "high risk" classification), no other country can supply leather at Brazil's level, directly affecting the leather industry.
- Government certification: some actors stressed the right of sovereign Brazil to certify the good compliance of the rules by the producers; otherwise, the environmental legislation of the country becomes innocuous, and the national regulation is outsourced. It is necessary to recognize the Brazilian legislation for the formulation of an elaborate regulation;
- Question of derived products: it is necessary to delimit to what extent the final product will be subject to this rule - because the initiative brings costs that are very difficult to measure and infinite impacts on the supply chain. The previous analysis of conformity should stay



within the scope of primary products because it is possible to analyse them before they dissolve into other chains and processes;

Opportunities, future actions, and cooperation possibilities related to the implementation of the due diligence process

- Expand the *Sistema Brasileiro de Identificação e Certificação de Bovinos e Bubalinos -SISBOV* (already existing), combining it with environmental monitoring such as CAR (already existing);¹
- Build public-private partnerships to develop due diligence and traceability systems
- Develop an Effectiveness of Payment Programs for Environmental Services²
- Incentivize the production in agroforestry systems for small producers and expand the production system of cattle-farming-forest integration for medium and large producers;
- Incentivize other ways of rural development such as environmental tourism;
- In Brazil, the government disposes of data at the legal level to say whether deforestation is legal or illegal. Therefore, the government has to be directly involved in the implementation of verification mechanisms;
- Improvement and expansion of compliance systems, such as the Selo Verde³, implemented by the state of Pará, but for this to happen, the other states will need technical support;

¹ The Rural Environmental Registry - CAR is a nationwide electronic public registry, mandatory for all rural properties, to integrate environmental information from rural properties and possessions regarding Permanent Preservation Areas - APP, restricted use, Legal Reserve, forest remnants, and other forms of native vegetation, and consolidated areas, making up a database for control, monitoring, environmental and economic planning and combating deforestation. (<https://www.car.gov.br/#/sobre>)

² Payment for Environmental Services (PES) is an economic instrument that, following the "protector-recipient" principle, rewards and encourages those who provide environmental services, improving the profitability of activities for the protection and sustainable use of natural resources. (<https://inea.maps.arcgis.com/apps/MapSeries/index.html?appid=68ed6955a37e4c4a8ebda9f5c3eb4b2f>)

³ The green seal is a voluntary certification that identifies products, companies, and services that enhance sustainably (https://www.researchgate.net/profile/Issa-Berchin/publication/296696198_ESTRATEGIAS_DO_SETOR_AGRICOLA_BRASILEIRO_PARA_O_DESENVOLVIMENTO_DE_UMA_ECONOMIA_VERDE_NO_BRASIL/links/56d8b00308aee1aa5f802d02/ESTRATEGIAS-DO-SETOR-AGRICOLA-BRASILEIRO-PARA-O-DESENVOLVIMENTO-DE-UMA-ECONOMIA-VERDE-NO-BRASIL.pdf)



- Use of databases that are already available in Brazil, such as, for example, cross-referencing the CAR with the GTA⁴ to favour traceability;
- Compensation system for producers who are producing with good practices and going beyond what the legislation asks;
- Economic and financial arrangements capable of expanding the actions of industry, producers, and farmers, thus ensuring that all parties are supported to participate in the regularization process properly;
- Resumption of the Amazon Fund⁵'s activities, since it was created to support measures against deforestation, but the freezing of resources prevents the allocation of financing to address various issues such as combating deforestation, developing traceability and supporting environmental services.

⁴ The Animal Transit Guide (GTA) is the official document for animal transport in Brazil and contains essential information about traceability (origin, destination, purpose, species, vaccinations, among others). (<https://www.gov.br/pt-br/servicos/habilitar-se-para-emissao-da-guia-de-transito-animal>)

⁵ The Amazon Fund is managed by the National Bank for Economic and Social Development - BNDES. Its purpose is to raise donations for non-reimbursable investments in actions to prevent, monitor, and combat deforestation and to promote the conservation and sustainable use of the Legal Amazon. (<http://www.fundoamazonia.gov.br/pt/home/>)