



In search of sustainability in the beef chain in the Legal Amazon: what is the role of the financial sector?

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Key messages

1 The position of the financial sector is a key point in the search for sustainability in the beef chain in the Legal Amazon. It should be aligned with the targets and commitments of governments and companies and should follow the global trend for commodity supply chains free of deforestation and threats to human rights.

2 A combined effort by the productive sector, industry, financial sector, government and civil society is needed to transform the chain operation, implement traceability and monitoring and meet the required criteria.

3 Progress must also be made in the monitoring and verification of compliance with socio-environmental criteria by the clients of financial institutions, in the creation and availability of incentives to regulate and encourage those that are already compliant, based upon a shared responsibility to achieve the desired goals.



Amazon and agriculture in numbers: a closer look at the sector and its impacts

The Amazon is the biome with the largest amount of pastures in Brazil and has registered an increase of around 200% in cattle-ranching activities from 1985 to 2021. This rise reveals important economic growth, such as the sector's 6.8% share in Brazilian GDP in 2022 and its position as the largest beef exporter in the same year (27.7% of world exports). This growth, however, comes with some concerning data: deforestation records in the biome are recurrent, with over 90% occurring illegally². Pastures occupied 75% of the deforested area in public forests in 2020, and from 2016 to 2020, 93% of the total deforested area overlapped with the purchase zones of the meatpackers^{2,3}.

Furthermore, the Climate Observatory's SEEG 2023 Report shows that 74% of GHG emissions in Brazil come from changes in land use (50%) and agricultural activities (24%). In the Amazon, the municipalities that deforest the most and emit the most GHG emissions coincide with

those with the most cattle⁴, as shown in Figure 1.

This information shows how cattle ranching is a game changer and a crucial agent in turning around this scenario.

As a result of the climate urgency, the deforestation of the Amazon lies at the centre of global discussions, as was witnessed at COP 26 and 27. This scenario has led the Brazilian government to commit to zero deforestation and to reduce carbon emissions by 50% by 2030, as well as publish international laws and requirements, such as the European Union Deforestation Regulation (EUDR). The commitments of the agribusiness transformation sector itself have also become public, such as those included in the Agriculture Sector Roadmap to 1.5°C entered into by the world's top agricultural commodity traders and processors.

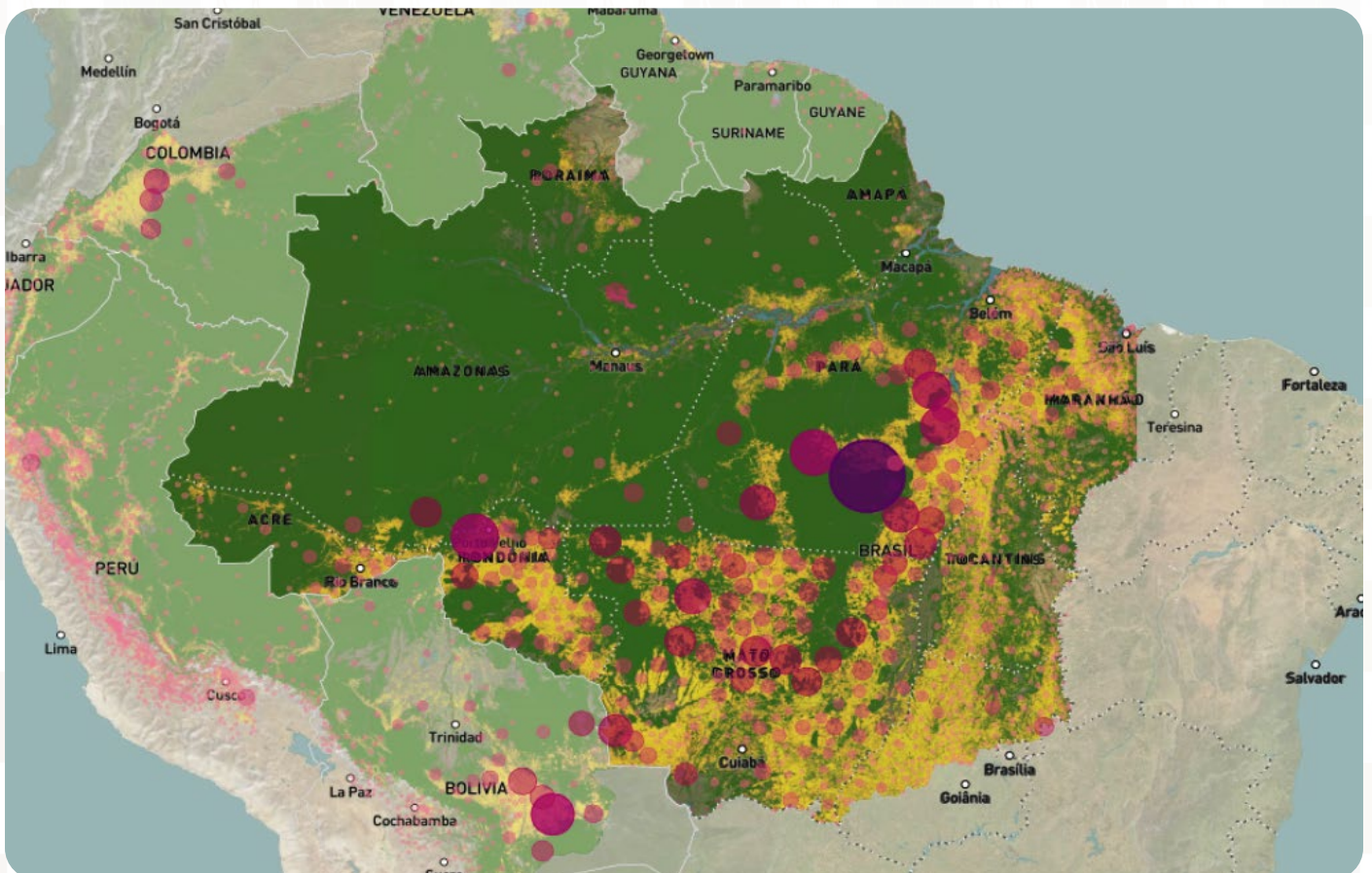


Figure 1: Agricultural and cattle ranching coverage (yellow) and GHG emissions (Mt CO₂) (purple) in the Amazon in 2020. Source: Infoamazônia⁴



What is the role of the financial sector in Brazilian agriculture?

In view of the attention and tension surrounding the supply chains in the Amazon and their connection with deforestation and GHG emissions, the requirement for proof of compliance with social and environmental criteria will become ever more present in trade relations. Financial institutions have started to take a position that is aligned with the Brazilian climate agenda. On the other hand, investors want to avoid potential risks to their image and negotiations should they not be able to ensure compliance with this agenda by their clients.

In its self-regulation procedures, the Brazilian Bank Federation (FEBRABAN) approved in 2014, Regulatory Standard SARB 014/2014 for the creation and implementation of socio-environmental responsibility policies for its members. The Central Bank published in 2021 Resolution 140, which establishes socio-environmental criteria for financial institutions that extend rural loans. The Brazilian Development Bank (BNDES), in partnership with MapBiomas, started in February 2023 to use technology to identify illegal deforestation on properties, before approving rural credit, and has already blocked around BRL 25 million in funding to 58 operations (17 for soybean planting and 15 for beef cattle breeding).

Last May, FEBRABAN approved Regulatory Standard SARB 026/20235 for the management of illegal deforestation risk in the beef chain in the Legal Amazon and Maranhão state and requests

that meatpackers and slaughterhouses, that are clients of the Member Financial Institutions, show proof, by 2025, that they do not acquire cattle associated with illegal deforestation from tier 1 direct and indirect suppliers (see Figure 2). The standard is voluntary and currently twenty-two institutions have agreed to it.

Traceability and Monitoring systems must be created based on the following socio-environmental criteria:

1. Embargo lists of illegal deforestation by Ibama and state agencies
2. Overlay of the property with polygons from the Prodes system
3. Vegetation Suppression Permits, when deforestation is detected
4. Overlap into Indigenous Land and Protected Areas
5. Black List of Slave Labour
6. CAR (Rural Environmental Registry) Protocol
7. Animal acquisition information
8. Verifiable and auditable data

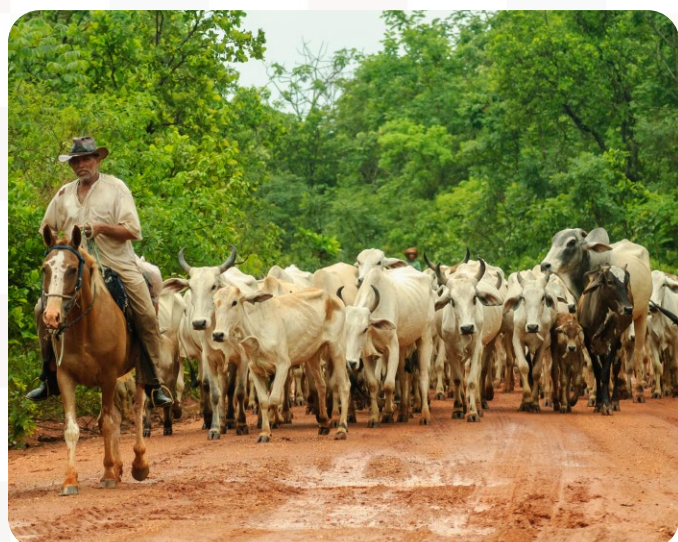


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The position of the Federation is important to pressure and encourage the agricultural sector to undertake measures to control illegal deforestation and to establish and disseminate the message that they will not tolerate illegal practices.

The monitoring and verification protocol of FEBRABAN should also be extended to non-compliant account holders, who are rural producers and borrowers, to ensure environmental regularisation is followed and good practices are adopted. In addition, working towards building a single, integrated system to control agricultural origin is even more relevant considering the demands placed on the whole chain.



How will this impact the sector?



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The announcement published by FEBRABAN regarding the implementation of SARB 026/2023 led to much discussion amongst the players in the cattle-ranching chain in Brazil. The Federation stated in a note that the preparation process was complicated and involved different groups linked to the topic, such as civil society organisations, representatives of the beef sector, public entities and consulting firms. Furthermore, existing commitments and protocols, such as the Beef on Track Program, were used as a reference to ensure greater alignment of the initiative with good practices and regularity tools that are already in place in the sector.⁶

The Brazilian Association of Beef Exporters (Abiec) supports FEBRABAN's decision and upholds initiatives that increase sustainability standards. The Association proposed expanding the application of socio-environmental criteria to bank account holders, since the standard focuses only on meatpackers, and also suggested putting in place actions of financial incentive to regulate non-compliant cattle farmers⁷ so they can be

reintroduced into the chain.

In response, FEBRABAN uses Standard 014/2014 and Central Bank Resolution 140 as the grounds for its argument; however, more information is needed regarding the effectiveness of applying the criteria, monitoring and verification. Also, the criteria established are fragile and not very detailed.

Cattle farmers, on the other hand, received the news with more reservations. The Mato Grosso Breeders' Association (Acrimat) is concerned that the initiative will tighten restrictions on the sector and cause a significant impact, particularly on small and medium-sized producers. The Paraense Beef Alliance claimed that the standard was "opportunistic" since the criteria established is already being monitored by the sector. It also stated that it fears that funds for investments and working capital will not be enough and it upholds incentives for loans in cases of compliance with the rules. Both organisations were expecting more discussions to be had with FEBRABAN and more involvement in the process to create the standard⁸.



BEEF ON TRACK

Launched in 2019 by Imaflora in partnership with the Public Prosecutor's Office (Ministério Público Federal - MPF), Beef on Track strengthens the productive beef chain in the Amazon region by connecting producers, meatpackers, tanneries and retailers. The objective of the program is to ensure the implementation of the socio-environmental commitments assumed by the members of the TAC (Term of Adjustment of Conduct). The online platform provides data, tools, and information about the sector in an open and transparent manner to ensure a chain free of socio-environmental irregularities.

In addition to the partnership with the MPF, the initiative also receives support from the Brazilian Beef Exporters' Association (ABIEC) and funding from the European Union and other organisations: Moore Foundation, NWF, P4F, iCS and Great for Partnerships of the United Kingdom.



Imaflora is a Brazilian non-governmental organisation, created in 1995, to promote the conservation and sustainable use of natural resources for the development of social benefits in the forestry and agricultural sectors.

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