

# “BRAZILIAN MEAT AND THE EU-MERCOSUR AGREEMENT”



REPÓRTER  
BRASIL



# “BRAZILIAN MEAT AND THE EU-MERCOSUR AGREEMENT”

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## EDITOR

Marcel Gomes

## RESEARCH AND TEXT

André Campos (Coordinator)  
Carlos Juliano Barros

## GRAPHIC DESIGN AND LAYOUT

Elaine Almeida

## COVER PHOTO

Christiano Antonucci/Secom-MT e Marcio Isensee e Sá/Repórter Brasil

*This publication was commissioned by Friends of the Earth Europe*

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## REPÓRTER BRASIL

### ORGANIZATION OF COMMUNICATION AND SOCIAL PROJECTS

#### GENERAL COORDINATOR

Leonardo Sakamoto

#### EXECUTIVE SECRETARY

Marcel Gomes

#### FINANCIAL COORDINATOR

Marta Santana

#### ASSISTANT COORDINATOR

Marília Ramos

#### ADDRESS

Rua Bruxelas, 169.  
São Paulo - SP – Brasil  
CEP 01259-020

#### CONTACTS

 [biobr@reporterbrasil.org.br](mailto:biobr@reporterbrasil.org.br)

 [ONGReporterBrasil](https://www.facebook.com/ONGReporterBrasil)

 [@reporterb](https://twitter.com/reporterb)

(55 11) 2506-6570



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# ECONOMIC OVERVIEW

## LIVESTOCK, OCCUPIED AREA, AND JOBS

Brazil is home to a large part of the world's population of animals raised for human consumption. It has the second largest number of bovines – after India<sup>1</sup>. It also holds the second position among major poultry producers – behind the United States – in addition to having 3 percent of the planet's swine population within its territory<sup>2</sup>.

More oxen and cows live in Brazil (213 million head – a conservative estimate)<sup>3</sup> than people (212 million)<sup>4</sup>. The number of birds – chickens, roosters, chicks – is even higher, estimated at 1.5 billion animals<sup>5</sup>.

No productive activity covers such a large portion of Brazil's territory as bovine cattle farming. In the last Agricultural Census, the pasture area was estimated at 159 million hectares<sup>6</sup> - or 19 percent of the country's territory.

Therefore, it comes as no surprise that the sector is one of the most important employers in Brazil's economy. In 2017, Brazil had 6.8 million people working on farms dedicated to livestock. The bovine cattle sector employed most of that labor (4.8 million people), followed by poultry (1.3 million) and swine (332,000)<sup>7</sup>.

In the animal protein industry, in turn, approximately 500,000 workers are employed directly in slaughter and meat processing<sup>8</sup>.

## GLOBAL MARKET SHARE

While Brazil produces fewer chickens than the United States, it has for some time been the strongest player in the product's global trade. Of every 12 kilograms exported worldwide, approximately four come from Brazil. That leadership is repeated in the beef sector, where Brazilian exports are 24 percent of the global trade in 2020<sup>9</sup>.

In the pork market, Brazil's share is more modest. The country now ranks as the 4<sup>th</sup> largest exporter, with 10 percent of the total volume traded – behind the US, the EU and Canada<sup>10</sup>.

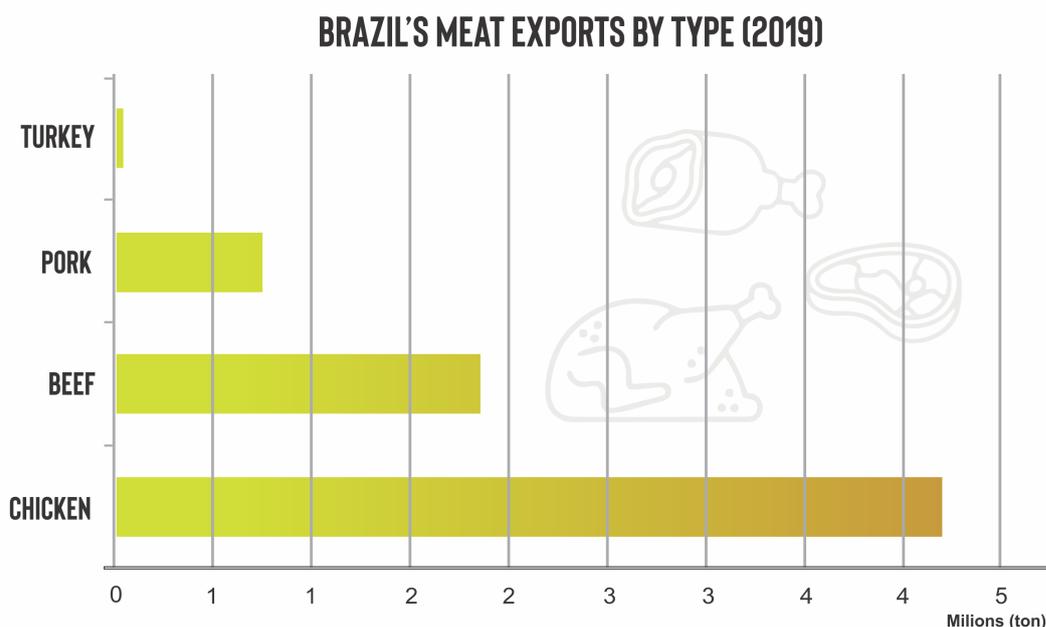


Figure 1 – Source: ABIEC (Brazilian Beef Exporters Association) and ABPA (Brazilian Association of Animal Protein)

Despite the growing importance of exports to Brazil's animal protein trade, the domestic market continues to absorb most of the production – 75 percent of beef, 74 percent of pork, and 71 percent of poultry<sup>11</sup>.

## DESTINATION OF EXPORTS

Brazilian meat is now consumed in more than a hundred countries and can be found on all continents. Asia, the Middle East and Africa are the main import hubs.

China is currently the main destination for the product. In 2019, it absorbed 26.7 percent of the total volume of beef exported by Brazil<sup>12</sup>, 13.9 percent of chicken,<sup>13</sup> and 33.2 percent of pork<sup>14</sup>.

The European Union currently accounts for a smaller share of beef (5.7 percent) and chicken (6.1 percent) imports; it does not import Brazilian pork, and buys low amounts of other types of poultry such as turkey and ducks.

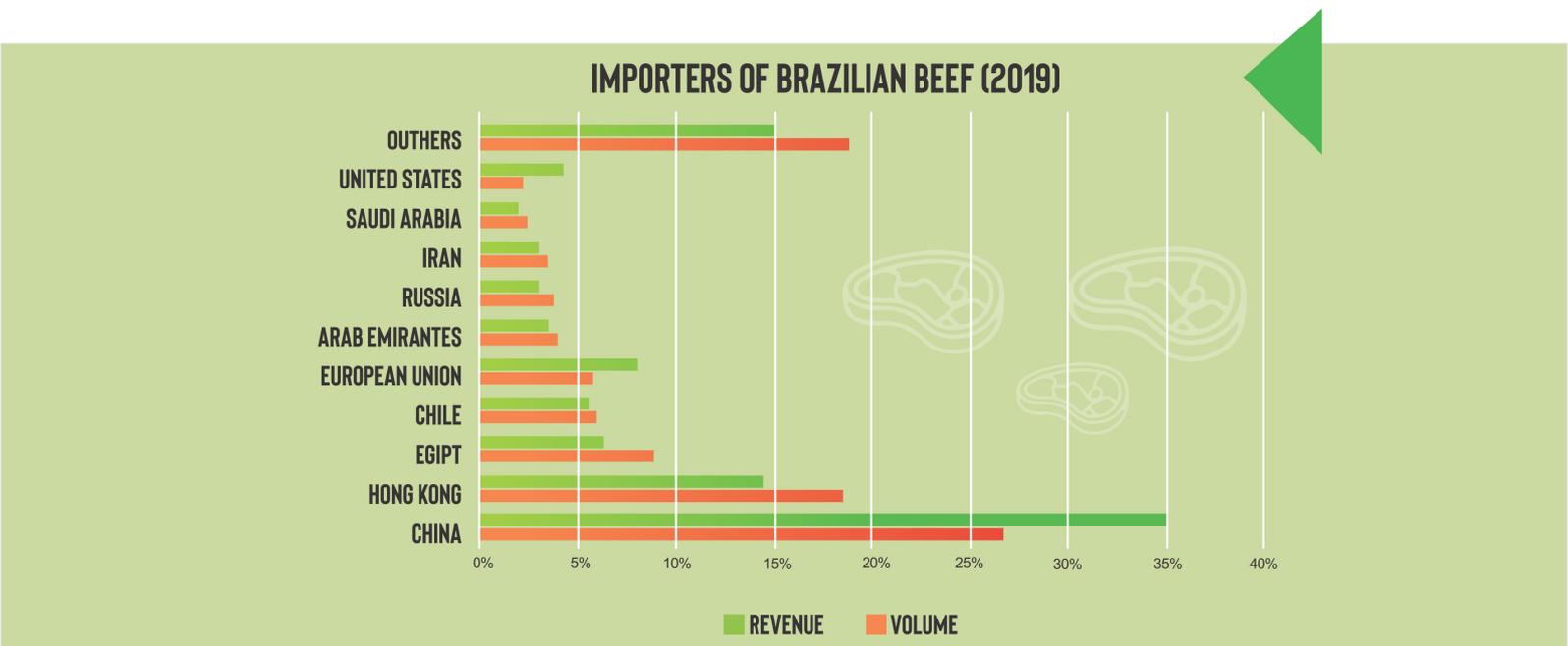


Figure 2 – Source: Abiec (Brazilian Beef Exporters Association)

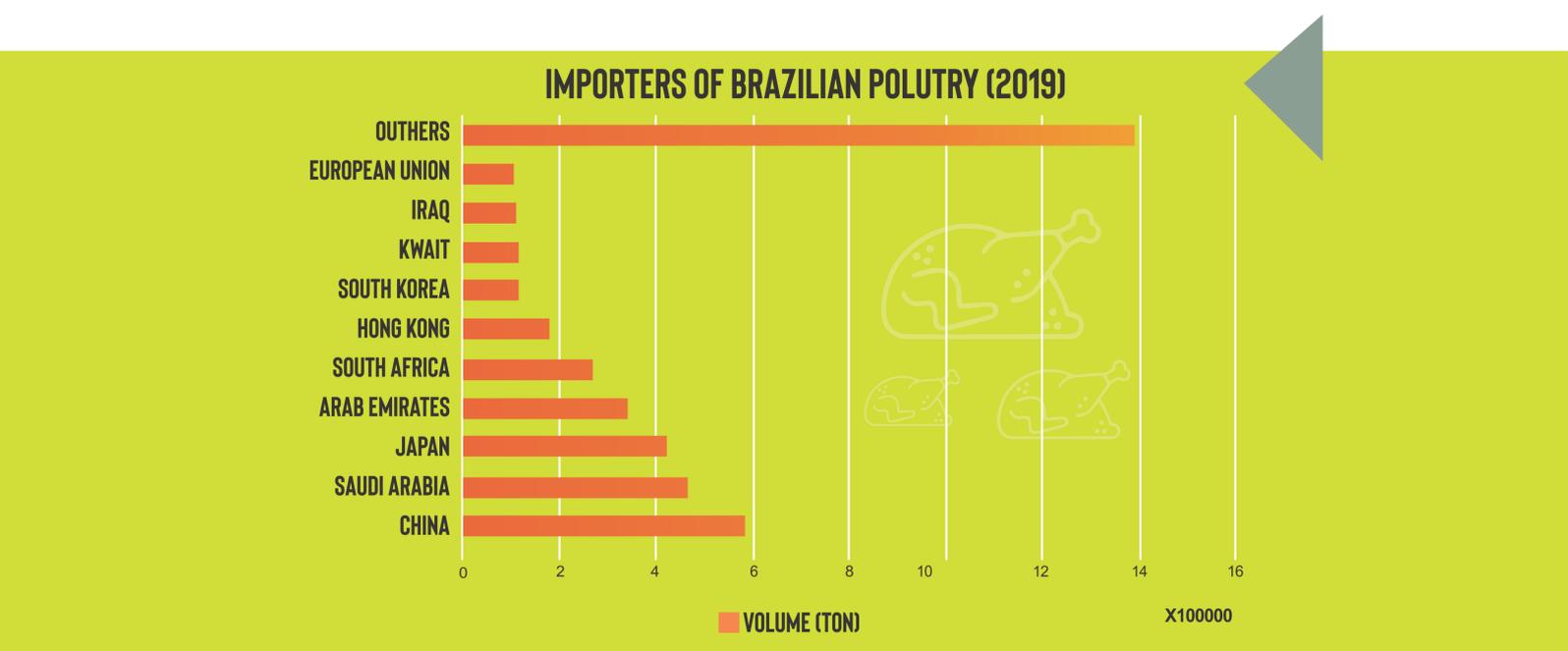


Figure 3 – Source: ABPA (Brazilian Association of Animal Protein)

While the EU holds a secondary position in the fresh meat segment, it plays a prominent role in another specific area: processed meats, which have higher added value.

Processed meats are those that undergo industrial processing to enhance flavor or extend their storage time. Brazil exports such products as canned meats – corned beef, for example – beef jerky, and nuggets. In 2019, the EU absorbed 34.2 percent of Brazilian exports of processed beef<sup>15</sup> and most of industrialized poultry (72.8 percent)<sup>16</sup>.

# SOCIO-ENVIRONMENTAL IMPACTS

## FARMING AND CLIMATE CHANGE

Farming (agriculture and livestock) is the largest driver of climate change in Brazil, having accounted for 80 percent of greenhouse gas emissions between 1990 and 2018<sup>17</sup>. – including both direct and indirect emissions.



*Cattle ranching advances on a recently burned Amazon forest area (Photo: Daniel Beltra/Greenpeace)*

Livestock farming is the main source of direct emissions due to the high amounts of methane (CH<sub>4</sub>) produced by fermentation in the animals' rumen. But it is deforestation's indirect impact that accounts for most of the ecological footprint in Brazilian farming.

In 2018 alone, forest clearing in the Brazilian Amazon emitted 499 million gross tons of CO<sub>2</sub> equivalent (MtCO<sub>2</sub>e) – 25.7 percent of the country's total emissions. Emissions in the Cerrado – the second Brazilian biome most affected by deforestation – were 168 MtCO<sub>2</sub>e that year, or 8.7 percent of total emissions. No less than 44 percent of emissions in Brazilian territory came from native forests converted into production areas – mainly farms. Other Brazilian biomes – like the Pantanal and the Caatinga – are also affected<sup>18</sup>.

Between 2004 and 2012, annual deforestation rates saw significant decline in Brazil, and the country even cut its total emissions by half. From 2013 on, however, those trends reversed. Emissions increased again – largely due to the resumption of deforestation in the Amazon<sup>19</sup>.

The pattern of emissions in Brazil is quite different from that seen in large global economies such as the US, China and the European Union, where the energy industry accounts for most emissions. Due to the economic and mobility crisis caused by the Covid-19 pandemic, the world's largest economies have seen an unprecedented drop in emissions throughout 2020.

But Brazil continues to go against this trend, since the crisis caused by Covid-19 did not slow the dynamics of clearing native forests. The Climate Observatory<sup>20</sup> estimates that local emissions in 2020 may grow by 10-20 percent over 2018, depending on what happens to Amazon deforestation and the pace of economic recovery<sup>21</sup>.

In fact, preliminary data point to an increase in fires and deforestation in 2020 over the previous year<sup>22</sup>.

## MEAT AND DEFORESTATION

Today, bovine cattle farming is the main driver of deforestation in the Amazon. Around 65 percent of the area deforested in the biome is occupied by pastures, according to the most recent official data on changes in land use mapped by the Brazilian government<sup>23</sup>.

The situation reflects the major expansion of livestock in the area during the last 40 years, when the number of oxen and cows grazing in the states of the so-called Legal Amazon has increased tenfold. They went from 8.4 million in 1978 – then the equivalent of 8 percent of the country's total – to 87 million in 2018 or 41 percent of all bovines in Brazil<sup>24</sup>.

The Legal Amazon is an official geopolitical subdivision of the Brazilian government that covers the states of Acre, Amapá, Amazonas, Mato Grosso, Pará, Rondônia, Roraima and Tocantins and a portion of Maranhão, located to the west of the 44<sup>th</sup> meridian west. In addition to all Amazon forest areas, it also includes approximately 20 percent of the country's Cerrado (savanna) areas as well as portions of the Pantanal.

In mid-2019, the fires recorded in the Legal Amazon drew international attention. Once again, a strong correlation was found between that phenomenon and the opening of new pasture areas. A Greenpeace survey conducted in August of that year found that approximately 90 percent of the fires were connected to livestock<sup>25</sup>. In 2020, the scenario continued to worsen, with fire outbreaks larger than last year's being recorded both in the Amazon and in the Pantanal<sup>26</sup>.

Although indirectly, the production of poultry, pork and fish also contributes to deforestation, since the soybeans and corn planted in the country are mainly intended for animal feed. It is true that direct conversion of newly deforested areas into grain-producing farms is less important, but the expansion of agriculture in the Cerrado and the Amazon, especially in old degraded pastures, is part of a complex land dynamics that contributes to shift the growth of cattle to agricultural frontier areas.

The Cerrado region hosts most of the soy planted in Brazil. The area occupied by the grain in that biome has more than doubled in the 21st century. It went from 7.5 million hectares in the 2000-2001 cropping season to 18.2 million hectares in the 2018-2019 cropping season. The soy expansion was linked to deforestation in 14% of the Cerrado areas harvested between 2014 and 2019, while the conversion of former pasture lands contributed to 56% of the grain expansion in that same period<sup>27</sup>.

## LAND CONFLICTS

It is precisely in these new agricultural frontiers that livestock plays a prominent role in land conflicts involving traditional populations. The problem is found especially where cattle farming expands over native forest. Indigenous populations in the Amazon are severely affected by this reality. In several of their traditional territories, illegal establishment of pastures is the main driver of the loss of forest cover. This problem has been growing during the administration of Jair Bolsonaro, elected president in 2018. Between August of that year and July 2019, deforestation in the region's Indigenous Lands reached 42,600 hectares a 174 percent increase over the average seen between 2008 and 2018<sup>28</sup>.

Published in November 2019, a report by Amnesty International showed how this reality affects not only Indigenous Lands, but also environmental conservation units and extractive reserves where livestock is banned by law. Focusing only on five protected areas in Rondônia and Mato Grosso, the organization mapped approximately 100,000 head of cattle and hundreds of farms established with impunity in these places<sup>29</sup>.

“[I]llegal land seizures were accompanied by threats and acts of intimidation against those opposed to the illegal land seizures, including Indigenous peoples, residents of Reserves, and government officials in charge of protecting the environment and Indigenous territories,” the report says<sup>30</sup>.

## SLAVE LABOR

In addition to deforestation and land conflicts, meat production is also linked to other relevant impacts, including on its labor force. By far, bovine farming traditionally employs the largest number of people freed from contemporary slavery in Brazil.



*Typical example of precarious accommodation housing workers rescued from slave labor (Photo: Divulgaç o/MPT)*

Since 1995, federal government inspectors have rescued 17,500 people subjected to the slave labor in pasture areas. The figure represents approximately 32 percent of the 55,000 workers freed in the period, across the country and in all activities. In addition to the largest number of people rescued, livestock also leads in the total number of cases. Approximately 1,800 cattle farms were caught using this type of labor<sup>31</sup>.

Most of the workers affected are internal migrants. They leave their homes in search of work in areas of agricultural expansion or they are deceitfully recruited still in their hometowns by labor recruiters known as "gatos" (coyotes)<sup>32</sup>.

But when they arrive at the farms, they are faced with terrible conditions, totally different from those they were promised at hiring. Common situations include very precarious accommodation – such as canvas shacks without walls, located in the middle of the forest – where they sleep while exposed to all kinds of venomous animals. Insufficient food and no drinking water are other common problems, as well as the lack of protective equipment or medical assistance, and exhaustive working hours.

In more serious cases, illegal debts, intimidation, armed surveillance and geographic isolation are used as mechanisms to restrict workers' freedom of movement, thus keeping them tied to the jobs.

Clear-felling of native forest and cleaning the land to renew pastures are the activities in which the crime of slave labor is most common in Brazil<sup>33</sup>. With no money to go back home and geographically isolated in places far from any town, these workers are forced to remain in a life of exploitation by their employers.

Sometimes their bosses even charge for the food, transportation and work equipment they provide, resulting in illegal "debt," which ties workers to the job as their pay often does not cover these costs - this is known as the truck system.

On a much smaller scale, isolated cases of slave labor have also been found in poultry farming. The problem affects the so-called 'chicken catchers' – an outsourced labor force that is the most fragile link in the poultry supply chain<sup>34</sup>.

Every day, millions of chickens are transported from farms in Brazil to be slaughtered at meatpacking plants. They go in hundreds of boxes piled-up on trucks, each containing between seven and ten fowl. Putting the chickens in the boxes – and then loading the boxes on the trucks – is a strenuous task carried out by teams that travel highways and dirt roads in small vans. In a single day of toil, each group of about ten workers visit several properties and easily catch more than 50,000 animals.

The many common problems include long and often chaotic workdays – sometimes overnight. In extreme cases, these workers "only sleep on weekends," as a catcher told Repórter Brasil<sup>35</sup>.

## **CONTRACT POULTRY FARMERS**

While large, medium and small producers coexist in bovine cattle farming, Brazilian poultry farmers are mostly family-based. Their relationship with the main industries is governed by the so-called "integration system," or contract farming, which places most of them in highly vulnerable conditions<sup>36</sup>.

The integration system is widely used in many continents – including in Europe. It began to be implemented in Brazil in the 1960s, inspired by similar practices existing in the United States, where complaints and tensions also involve integrated farmers and slaughter companies<sup>37</sup>.

Under the contract farming system, meatpacking companies provide chicks, feed and medicines for producers, who must sell their grown chickens exclusively to the companies that supplied them with the raw material. After discounting production costs, the farmer is finally paid by the company.

In this unequal marriage, industrial conglomerates have enormous bargaining power to impose prices and quality criteria – aviary size, animals' final weight, management techniques, etc. – that often require high investments from "partner farmers" in their properties.

On the other hand, payment is a constant source of dissatisfaction. Chickens' weight, the amount of feed

consumed, mortality rates and medicines used are some of the factors in the complex formula to calculate how much farmers will be paid. There is also some competition among contract farmers themselves since their relative productivity is also taken into account in the calculations.

Such math is considered obscure by family farmers and their organizations. In practice, the vast majority do not really understand the criteria that govern their payment. The result is a high level of indebtedness faced by many contract farmers, who report situations in which their pay does not even cover their operational costs, often resulting in protests against companies<sup>38</sup>.

## WORK AT MEATPACKING PLANTS

At industries, the routine of workers in charge of slaughtering fowl, swine and bovines involves numerous risks since they have to handle cutting instruments under pressure for extremely high productivity and often work exhausting hours in cold and unhealthy environments.



*Meatpacking plants have some of the worst records of accidents and work-related diseases in Brazil (Photo: MPT/RS)*

The sector is an important employer in Brazil's economy, providing hundreds of thousands of jobs, but it is also a worker illness champion. Between 2012 and 2018, 114,000 accidents were officially recorded in the sector, most of them related to cuts, fractures and crushing accidents<sup>39</sup>.

In addition to these accidents, repetitive strain injuries also affect a large number of employees. To debone a chicken thigh, for example, some workers perform up to 120 movements in just 60 seconds. In the long run, many develop musculoskeletal injuries such as tendonitis and bursitis, which can even progress to permanent disability<sup>40</sup>.

More recently, as happened in other countries, meatpacking plants have also become a focus of Covid-19 dissemination in Brazil. Union representatives estimate that, by August 2020, about 25 percent of the sector's 500,000 workers had been contaminated<sup>41</sup>. The data even suggest that the slaughter sector played an important role in the initial spread of the disease. In the state of Rio Grande do Sul, for example, the Labor Prosecutor's Office (MPT) pointed out that, up to May, one third of the cases confirmed across the state affected employees of slaughtering and meat processing plants<sup>42</sup>.

The escalation of cases has resulted in court-ordered interdictions of many industrial facilities spread across several states<sup>43</sup>, but most were reopened with the pandemic still at its height. Union leaders continued to denounce the lack of effective policies to minimize the risks of spreading the disease, such as mass testing of workers, provision of proper masks, and reduction in the number of workers within the units<sup>44</sup>.

# MULTINATIONAL MEAT COMPANIES

## INDUSTRY LEADERS

Four companies hold leading positions in Brazil's meat industry: JBS – the country's second largest company according to revenue, behind state oil company Petrobras, BRF (18th largest), Marfrig (19th); and Minerva Foods (42nd)<sup>45</sup>.



*Environmental authorities leaving a JBS slaughtering plant in the Amazon (Photo: Piero Locatelli/Repórter Brasil)*

All of them are originally from Brazil, publicly traded, and controlled by national shareholders. In the poultry sector, JBS and BRF are the largest players. Between 2015 and 2018, the two groups accounted for 64 percent of the country's total chicken exports, according to data compiled by the Trase platform, as well as a similar proportion (63 percent) of the product sent specifically to the European Union<sup>46</sup>.

In addition to operating in the poultry sector, JBS is also Brazil's largest beef producer, followed by Marfrig and Minerva. Together, the three companies accounted for 71 percent of beef exports between 2015 and 2017. As for sales to the EU, the concentration is even higher: JBS, Marfrig and Minerva provided 92 percent of the Brazilian beef consumed by the bloc<sup>47</sup>.

## THE 'NATIONAL CHAMPIONS' POLICY"

The prevalence of these companies in meat processing and trade is the result of a process of economic concentration started in the last 20 years in which the Brazilian State played a prominent role.

In 2009, Sadia – then the largest poultry processor in Brazil – faced serious financial difficulties as a result of operations with foreign exchange derivatives affected by the subprime crisis. It announced its merger with its main historical competitor, Perdigão. The deal gave rise to BRF, in a transaction sponsored by pension funds of state-owned companies and by the National Bank for Economic and Social Development (BNDES), also state-owned, which acquired shares in the new company.

JBS was another company that received major stock investments and loans from BNDES, largely used to acquire competitors. Currently, the bank holds approximately 20 percent of the shares of JBS, whose sales jumped from BRL 3.5 billion in 2004 – when it still focused exclusively on the beef segment – to BRL 204.5 billion in 2019, the year of highest sales revenue in JBS history<sup>48</sup>. Other companies and meatpackers acquired by JBS in Brazil include Frangosul – owned by French company Doux – and the Brazilian subsidiary of US-based group Tyson.

Marfrig has also received money from the federal government. BNDES used to be its second largest shareholder until the end of 2019, when the bank sold its stake in the company. To a lesser extent, Minerva has also benefited from loans given by the bank and other state financial institutions such as Banco da Amazônia.

These meatpacking companies are some of the main examples of the “national champions” policy implemented by the Brazilian government during the second Luiz Inácio Lula da Silva's administration and the first term of President Dilma Rousseff. The alleged intention was to strengthen Brazilian multinationals to take on global leadership positions in their respective segments. However, corruption charges associated with BNDES loans have become routine<sup>49</sup>.

## PRESENCE IN EUROPE

In recent years, JBS, BRF, Marfrig and Minerva have strongly expanded their industrial operations in other countries, including the EU.

JBS operates in the European poultry market through Moy Park, acquired in 2015. Moy Park is the largest poultry processor in Northern Ireland, in addition to having plants in England, France and the Netherlands. In 2019, JBS also acquired British pork processor Tulip Company, through its US subsidiary Pilgrim's Pride. In Italy, JBS owns meat processor Rigamonti, sausage maker Brianza Salumi and leather producer Conceria Priante<sup>50</sup>.

For more than a decade, BRF has also controlled poultry processing plants in the UK and the Netherlands, mainly focused on supplying the food service sector. They traditionally used Brazilian poultry as raw material. The group's European operations, however, were sold to the US multinational Tyson Foods in 2019. According to BRF, the sale was influenced by a decision of sanitary authorities that removed 12 of BRF's Brazilian plants from the list of exporters qualified to supply EU countries<sup>51</sup>.

Marfrig is also present on the European continent through Weston Importers, a meat trading company that distributes the group's products on the continent<sup>52</sup>. Minerva, in turn, has two commercial offices in Europe, located in Italy and the UK<sup>53</sup>.

## CASE STUDIES

Investigations conducted not only by Repórter Brasil but also by civil society organizations and the media revealed that the country's main animal protein companies remain linked, directly or indirectly, to suppliers involved in social, environmental and labor crimes and violations.



*Brazil lacks full cattle traceability from birth to slaughter (Photo: Marcio Isensee e Sá/Repórter Brasil)*

Over the past decade, companies – mainly in the bovine slaughter sector – have developed their own computerized systems to try to stop purchasing inputs produced in rural properties with irregularities.

These systems are usually fed with official data provided by environmental and labor agencies. Two examples are IBAMA's<sup>54</sup> list of areas interdicted for illegal deforestation and environmental violations and the "Dirty List" of slave labor – released by the Ministry of Economy's Labor Inspection Department (SIT/ME).

Meatpackers operating in the Amazon biome created their supplier control policies mostly in 2009, after they signed a Conduct Adjustment Commitment (TAC) with the Federal Prosecutor's Office (MPF) in the state of Pará. Known as "Beef Moratorium," the initiative is considered one of the main instruments for forest preservation in the face of agricultural frontier expansion. However, specialists – and the very prosecutors who conceived the

initiative – agree that the commitment has hit a brick wall and needs new tools to keep working<sup>55</sup>.

Generally speaking, the Beef Moratorium prohibits the purchase of animals from producers and/or rural properties involved in illegal deforestation, modern slave labor, and cattle farming in Indigenous Lands and Conservation Units.

Besides being signatories of the Beef Moratorium, the three major Brazilian beef companies – JBS, Marfrig and Minerva – are also committed to the so-called “Minimum Criteria for Industrial Scale Cattle Operations in the Brazilian Amazon Biome”, also known as the Greenpeace Cattle Agreement. Unlike the Beef Moratorium, this set of criteria does not only focus on illegal deforestation. It states that supplying farms located in the Amazon should not have any register of land clearance – legal or illegal – after October 2009<sup>56</sup>.

However, evidence points to recurrent failures in companies’ control and traceability systems. The main bottleneck, admittedly, is mapping of the so-called “indirect suppliers.”

In other words, companies still face difficulties to prevent ranchers and rural properties fined for socio-environmental violations from transferring cattle to farms in regular situations and free from restrictions, which can then sell those animals to meatpackers.

The practice of circumventing the conditions set by meatpackers to purchase animals is known as cattle “laundering.”

Since July 2020, meatpacking companies that signed the Beef Moratorium have been following a protocol developed by certifier IMAFLORA, at the request of the Federal Prosecutors’ Office, to standardize the criteria for purchasing animals.

The goal is to ensure that companies’ own systems operate under the same standards, avoiding different views that allow producers blocked by one company to sell cattle to another. However, there is still a long way to definitively curb the practice of “cattle laundering”.

One of the main bottlenecks for tracking cattle in the Amazon is the lack of transparency in Animal Transit Guides (GTAs). Issued by state sanitary defense agencies, these documents basically inform the origin and destination of any livestock transport – between rural properties or between farms and meatpackers.

Although an animal might go through two or three farms during its life cycle, today only the last rural property is able to be monitored by the companies that signed the Beef Moratorium.

Besides that, information contained on GTAs is not fully accessible. The state agencies that provide this sort of data only do it in an aggregated way. As a result, the consultation system makes it impossible to monitor transactions in real time.

The current GTA system is even criticized by some meatpacking companies for making it difficult to monitor suppliers. JBS, for instance, states that it has been discussing with the Ministry of Agriculture (MAPA) about reforming the procedure for issuing these documents. The company proposes the adoption of a new program that automatically crosses several data on properties requesting GTAs<sup>57</sup>.

Another challenge is to enforce the Beef Moratorium’s rules for preservation of the Amazon also in the Cerrado biome. Some states – especially Mato Grosso – that are part of the administrative region called “Legal Amazon” have typical vegetation in both biomes. However, the public commitment signed by animal protein companies does not yet effectively cover the Cerrado<sup>58</sup>.

## ILLEGAL DEFORESTATION

In recent years, several case studies published by Repórter Brasil and partner organizations have shown the weakness of control systems used by suppliers of Brazilian meatpacking companies operating in sensitive ecosystems such as the Amazon and the Cerrado<sup>59</sup>.

An example is that of Agropecuária Santa Bárbara Xinguara (Agro SB), a major JBS supplier in the Amazon. The company is linked to the business group founded by banker Daniel Dantas, known for his involvement in major corruption and money laundering scandals. Over the past 15 years, Agro SB has acquired a number of rural properties in southeastern Pará. The company controls an estimated 500,000 hectares of land and approximately 200,000 head of cattle<sup>60</sup>.

An investigation published by Repórter Brasil in October 2019 revealed that Agro SB transferred cattle from the Lagoa do Triunfo farm – with an area interdicted by IBAMA and a BRL 70-million debt in fines – to another property of the group, which has no environmental issues. Later, the property supplied cattle to several JBS units in Pará<sup>61</sup>.

Another example of “triangulation” is mentioned in a Greenpeace investigation, conducted in collaboration with Repórter Brasil. It involved open pastures in the Serra Ricardo Franco State Park, a conservation unit located in Mato Grosso, near the Bolivian border. In the Paredão I and II farms, more than 2,000 hectares have been illegally deforested. According to the state’s Federal Prosecutor's Office, the two properties were established after the official creation of the environmental reserve.

The areas are owned by Eliseu Padilha, former Chief of Staff under President Michel Temer. One of his former aids also appeared as a partner in the property. Between April 2018 and June 2019, more than 4,000 head of cattle were sent to a farm located outside the park, registered to a partner and former aid of Padilha’s. The same farm supplied animals to JBS, Marfrig and Minerva meatpacking plants<sup>62</sup>.

Another scheme used to circumvent meatpackers’ control systems is fractioning the titles of properties fined for environmental violations in the Rural Environmental Register (CAR).

Created by Brazil’s federal government, the CAR is an important tool for managing the country’s land structure. It is a database with georeferenced coordinates that identifies the location of the properties as well as the delimitation of legal reserves for preserving the environment.

It is important to note that the practice of dividing one property into lots with different CAR registrations is expressly prohibited by normative instructions from the Ministry of the Environment (MMA). It is, therefore, fraud.



## CIRCUMVENTING MONITORING POLICIES: THE CASE OF THE LEÃO FARM

Repórter Brasil investigated a specific case involving a potential fraud in the Rural Environmental Register of Leão Farm, located in Jauru, MT.

Satellite monitoring by the Prodes system, carried out by INPE (Brazil's National Institute for Space Research), shows that 36.5 hectares of vegetation were cut down on the property in 2016. The consultation system of Sema-MT (The Mato Grosso State Environment Agency) shows no license for deforestation.

In the case of the Leão Farm, its CAR registration was split into two different areas, even though they were contiguous. Irregular deforestation occurred in the larger portion. It means that the smaller one could keep on trading cattle with companies that signed the Beef Moratorium.

Split registration of land on the CAR goes against the rules established by the Ministry of the Environment (MMA). According to a normative instruction that regulates the matter, "owners or possessors of rural properties who have more than one property or possession in a continuous area must register them as a single property."

"There are frauds of all kinds in the CAR and one is [split registration]," explains federal prosecutor Daniel Avelino, without specifically analyzing the case of the Leão Farm. The CAR is self-declaratory; no information is checked. At first, the federal government was in charge of the register. Then it was transferred to local agencies, which didn't check it either. Since there is no validation, it is very easy to commit fraud," he adds.

The Leão Farm is registered to Vanilda Ferreira Dutra. She was found by Repórter Brasil and asked about deforestation on rural property but did not respond to requests for clarification.

In February 2019, the Leão Farm sent animals to JBS's slaughterhouse in Araputanga, MT. On a statement, JBS said that "the Company's cattle purchases and the entire supplier monitoring system are audited annually, independently." According to the text, the results of the audits – published on the company's website – "show that more than 99.9% of JBS's cattle purchases from farms located in the Amazon region comply with the company's socio-environmental criteria"<sup>63</sup>.

There are also cases in which companies' control systems take time to include information on inspections carried out by enforcement agencies. One example is that of rancher Adriano José de Mattos, charged in January 2019 by IBAMA with raising cattle in a 106-hectare area illegally opened within the Triunfo do Xingu Environmental Protection Area, in the state of Pará. IBAMA had already banned any agricultural activity in the area in 2016<sup>64</sup>.

In the following month, February, Mattos sent animals to Marfrig's slaughterhouse in Tucumã, allegedly from a farm located three kilometers away from the farmland within the Triunfo do Xingu Environmental Protection Area interdicted by IBAMA<sup>65</sup>. Marfrig argued that information about the area interdicted was not available on IBAMA's website when it purchased animals from the producer<sup>66</sup>.

Also in Triunfo do Xingu, rural producer José Ronan Martins da Cunha was fined in April 2019 for destroying 50 hectares of that conservation unit in Pará. In July of the same year, Cunha sold cattle to the JBS slaughter plant in Tucumã, Pará. According to documents analyzed by Repórter Brasil, the animals were sent from another property belonging to Cunha, located outside the protection area – in a typical case of “triangulation”<sup>67</sup>. Cunha has also appeared on the “Dirty List” after a 2016 inspection found workers in modern slavery conditions on a farm he owned in São Félix do Xingu, Pará. However, it is important to note that he traded cattle with JBS when his name was no longer on the federal government’s official list<sup>68</sup>.

## CERRADO

As previously mentioned, in the specific case of the Cerrado, meatpackers’ control systems have even more gaps when compared to the platforms developed by companies to monitor their purchases of cattle in the Amazon biome.

This is due to the lack of a clear and effective public commitment capable of holding meat companies responsible, such as the Beef Moratorium, and also to their low assimilation of publicly available data.

At this point, it is important to note that tools have emerged in recent years that enable tracking devastation through INPE’s satellite images. Since 2018, the agency has extended its Amazon mapping system to the Cerrado, with alerts on fire outbreaks and an image archive with a history of vegetation clearing. But that information has not been properly integrated into the databases of bovine slaughtering companies<sup>69</sup>.

For this reason, there are cases in which environmental violations have gone completely unnoticed by companies’ control systems.

This is the case of a rural property that supplies cattle to a JBS’s plant in Diamantino, State of Mato Grosso: the Lua Clara farm.

In 2015, an operation conducted by the Mato Grosso State Environment Agency fined the farm’s owner Eric Von Wagner US\$ 70 thousand for cutting down forest without a license. Three years later, he was fined once again by the agency, this time for irregular deforestation near a road that crosses the farm.

INPE’s monitoring system reveals that 835 hectares were deforested between 2015 and 2016 at the Lua Clara Farm, located in a Cerrado area in the municipality of Campos de Júlio, MT. No license can be found on Sema-MT’s system.

Repórter Brasil tried to speak with Eric Von Wagner but he refused to answer questions about deforested areas. Sema-MT was also contacted but had not responded. JBS, in turn, issued a statement saying that “in order to promote transparency in its actions, the Company’s cattle purchase operations and its entire supplier monitoring system are audited annually, independently.”<sup>70</sup>

## DEFORESTATION IN THE CERRADO: THE CASE OF RLA AGROPECUÁRIA

When it comes to Cerrado deforestation, one of the examples examined by Repórter Brasil is the Prata Farm in Paranatinga, MT. The property, which belongs to the company RLA Gonçalves Agropecuária, has more than 41 thousand hectares.

According to a technical report published in May 2017, commissioned by the Mato Grosso State Prosecutor's Office (MP-MT), the property is located in an "important ecological zone with high biodiversity in a transition area between Cerrado and Amazon." The report also highlights the "proximity to indigenous lands and the presence of 260 water sources that drain into the Upper Xingu River".

The same report points out that, between 2011 and 2016, about 616 hectares of native vegetation were removed from the farm without environmental licenses. The company responsible for the Prata Farm even signed a Conduct Adjustment Agreement (TAC) to recover the environmental liability. However, satellite monitoring by INPE's Prodes/Cerrado system shows new unlicensed deforestation after this period.

From 2018 to 2019, the Prata Farm supplied animals to the JBS unit in Diamantino, MT, and to Marfrig's slaughterhouse in Paranatinga. RLA Gonçalves Agropecuária also transferred animals from the Prata Farm for fattening at another property of the group - the Diamante Farm, located in Poxoréu, MT. In its turn, Diamante supplied cattle to two Marfrig meatpacking plants in Mato Grosso.

The two companies confirmed trade relations with RLA Gonçalves Agropecuária. Marfrig released a statement saying that its Paranatinga unit was closed in December 2019. It says that the company is "starting negotiations to expand geospatial monitoring to the Cerrado". The company adds that "we have been collecting maps of our suppliers in the Cerrado since 2019 so that we'll soon have enough elements to carry out the monitoring".

JBS, in turn, made no specific comments on the case and stated that "tracking the entire meat chain is a complex task, but it can be achieved in the medium term".

Repórter Brasil questioned RLA Gonçalves Agropecuária as well. According to a statement released by the company, "the [Prata] farm remains one of the most preserved areas in the entire region". Regarding deforested areas, the company claims that they were cleared decades ago and fall under the concept of 'consolidated use'.

Regarding the agreement signed with the Mato Grosso State Prosecution Service, it says that "legally, the TACs must be adjusted to the current legislation and, according to the new Forest Code, we are totally legal"<sup>71</sup>.

## IMPACTS ON TRADITIONAL COMMUNITIES AND INDIGENOUS PEOPLES

Some examples illustrate how cattle ranchers involved in violations of traditional communities' and indigenous peoples' fundamental rights used expedients to circumvent the restrictions imposed by meatpackers. The cases reported here happened not only in Brazil, but also in Paraguay.



Repórter Brasil investigated two cases of cattle ranchers that used subterfuges to bring illegally raised cattle to two Amazon Indigenous Lands in Pará: Apyterewa and Ituna-Itatá.

A Marfrig meatpacking unit in the municipality of Tucumã received animals from the JR farm, which has 8 percent of its perimeter within Apyterewa, according to the property's CAR georeferenced coordinates.

Regarding this specific case, Marfrig stated that the coordinates of the JR farm placed the property within the 10-percent margin of error provided for in a rule issued in 2010 to account for cartographic inaccuracies that are common in property registration in the Amazon<sup>72</sup>.

Marfrig – as well as its main competitor, JBS – is also linked to cattle ranchers illegally established in another Amazon Indigenous land in the state of Pará: Ituna-Itatá. According to a joint investigation published by Greenpeace and conducted in collaboration with Repórter Brasil<sup>73</sup>, the Ituna-Itatá Indigenous Land saw the largest illegal deforestation throughout 2019 in areas occupied by indigenous peoples: 120 square kilometers. Rural producer and lawyer Lazir Soares de Castro owns two farms within Ituna-Itatá. Again, the investigation showed evidence of “triangulation”: Castro may have used a property outside the Indigenous Land, which belongs to one of his partners in an animal feed factory, to trade cattle raised on the Indigenous Land with JBS and Marfrig.

Two other cases investigated by Repórter Brasil illustrate how the country's largest meatpackers are linked to

companies and rural producers involved in violent land conflicts in the Amazon.

The first of them involves Valdelir João de Souza, who is accused of ordering the so-called Colniza Massacre, in Mato Grosso, in 2017. Souza was a fugitive from justice for more than two years. According to the police investigation, the murders in Colniza were caused by disputes over land to boost cattle farming and illegal logging. In addition to being a cattle rancher, Souza also owned sawmills in the region<sup>74</sup>.

CAR data also indicate that Souza raises cattle on a farm illegally established within an agrarian reform settlement in the state of Rondônia, in a town located near Colniza, where the April 2017 massacre took place<sup>75</sup>. In May of the following year, when he was on the run, evidence points out that Souza also used cattle “laundering” to sell animals raised in interdicted areas. He sold animals to two ranchers who used to regularly supply JBS’s and Marfrig’s slaughter units<sup>76</sup>.

In the case involving JBS, for example, Souza sold 143 animals to a producer who, just eleven minutes later, sold the same number of cattle to the meatpacker. The operation is a strong indication that the origin of the cattle illegally raised by Souza in the settlement had been “laundered”<sup>77</sup>.

Another important JBS supplier – Agro SB – is also at the core of serious land conflicts in Pará. For years, the property titles of some of these farms have been challenged by social movements struggling for agrarian reform. For this reason, landless rural workers’ organizations occupied several properties managed by Agro SB<sup>78</sup>. In the Paraguayan Chaco region, a 2018 Repórter Brasil investigation revealed that Minerva received US\$ 85 million in investments from IFC (the International Finance Corporation, an arm of the World Bank), to increase its operations in the area<sup>79</sup>.

Comprising more than half of Paraguay’s territory, the Chaco biome includes arid forests and rich biodiversity that has been rapidly devastated to expand pastures and the beef industry<sup>80</sup>.

According to satellite monitoring carried out by Paraguayan environmental organization Guyra, deforestation reached an average of 2,000 hectares per day in November 2017<sup>81</sup>.

There have also been reports of slave labor in the Chaco for decades, whose victims are indigenous communities. However, Paraguay’s policies to combat slave labor and curb illegal deforestation in the Chaco are weak and unable to tackle the problems<sup>82</sup>.

The first and only inspection of labor conditions by the Paraguayan State in the region took place as late as 2016. Headed by the Public Prosecutor's Office, the operation found 35 workers, including children and adolescents, in inhuman conditions on a farm in the north of the country, near the Bolivian border. There is no evidence linking this specific case to Minerva’s operations in the country<sup>83</sup>.

## CATTLE OF SUSPICIOUS ORIGIN: THE CASE OF ANTÔNIO BORGES BELFORT

At Apyterewa Indigenous Land, there is a typical example of “triangulation” by rancher Antônio Borges Belfort. In 2016, he ran for city councillor in São Félix do Xingu, in the state of Pará, but was not elected.

Belfort owns Sol Nascente, one of the largest deforested farms in the Apyterewa, with almost 2,000 hectares. Between February 2018 and July 2019, dozens of animals were transported from that farm to another property belonging to him and located outside the indigenous land – the Serra de Pedra farm. Both properties are included in the declaration he submitted to Brazil’s Higher Electoral Court (TSE) as a candidate. The value of the farm located within Apyterewa is estimated at BRL 1.1 million - the equivalent of US\$ 220 thousand.

However, Serra de Pedra’s productivity raises suspicions. According to a protocol developed by NGO IMAFLORA in partnership with the Federal Prosecutor’s Office and ratified by the main meatpackers in order to curb fraud in the industry, the maximum productivity of a rural property in the Amazon hardly goes beyond three animals per hectare per annum.

This means that Serra de Pedra, with only 20 hectares of pasture according to the Rural Environmental Registry (CAR), would be able to supply 60 animals per year. However, in 2019, Marfrig’s plant in Tucumã alone slaughtered 135 animals from that farm.

The data indicate that Serra de Pedra would not be able to supply such a large number of cattle heads to slaughterhouses. The math reinforces the suspicion that they were originally bred on Antônio Borges Belfort’s farm located within the indigenous land.

Marfrig recognizes that the Serra de Pedra farm has ‘6.61 cattle heads per hectare’ – more than twice the figure set by IMAFLORA’s protocol. The company’s statement also says that its criteria for cattle sourcing has been updated since July 2020.

Cattle rancher Antônio Borges Belfort was contacted by the president of a rural producers’ association at the request of Repórter Brasil, but he said he would not comment<sup>84</sup>.

## SLAVE LABOR CASES

In Brazil, some examples connect slave labor in livestock farming to suppliers of large meatpacking companies. In 2017, documents obtained by Repórter Brasil and The Guardian showed that JBS bought cattle from a farm that was under federal investigation for using workers as contemporary slaves. The case occurred in an Amazonian pasture, in the state of Pará<sup>85</sup>.

For more than ten years, the three largest Brazilian beef meatpackers signed formal commitments to combat slave labor in their supply chains, and the main guideline adopted was a ban on suppliers included in the so-called “Dirty List” of slave labor.

The “Dirty List” is a federal government register that lists employers caught by federal labor inspections while practicing this type of crime. Their names remain on the list for a period of two years, during which working conditions are monitored. In case of recurrence, the name remains on the list.

However, as with illegal deforestation, cattle ranchers employing slave labor also find ways to sell their product as “indirect suppliers” or through fraudulent practices of cattle “laundering.”

A report published by Repórter Brasil in 2018 shows how ranchers involved with slave labor have used these mechanisms in recent years to remain in the supply chains of JBS, Marfrig and Minerva.

This is the case of Ana Thaíra Farm, in Dois Irmãos, state of Tocantins (TO). In July 2015, federal labor auditors rescued three workers who were weeding the local pasture. They were subjected to very poor health and safety conditions. Housed in an improvised canvas tent, they had no access to toilets. They had to drink a visibly yellow and standing water which came from a nearby stream. The food included basically rice, beans and rarely beef. Workers were not provided with protective equipment - so they needed to purchase them. They also did not have formal contracts and had no day off.

In 2017, the owner of Ana Thaíra Farm - Delfino Pereira Martins - provided cattle for fattening to the Céu Azul Farm, in the municipality of Divinópolis, Tocantins. The property belongs to a rancher called Thelma Taveira Faria Miranda. In its turn, she supplied a Minerva's meatpacking through another property - União Farm - which is also located in the town of Divinópolis<sup>86</sup>.



*"Workers rescued from modern slavery"  
(Photo: federal labour inspection)*

## EXAMPLES OF OTHER LABOR IMPACTS

As already mentioned, in the chicken slaughter industry, working conditions are especially precarious for those who work as “catchers” in the aviaries. That is a strenuous activity for workers, and meatpackers outsourced it to other companies.



*Bird “catchers” are often subjected to exhaustive and excessive working hours  
(Photo: André Campos/Repórter Brasil)*

In February 2015, JBS was held responsible for subjecting nine workers to modern slavery in Forquilha, Santa Catarina. Having migrated from the state of Paraná, the catchers had been hired by a third-party company and were housed in precarious accommodation in a deactivated mine in neighboring Criciúma<sup>87</sup>.

According to information from a federal audit operation, they had no formal work contracts. In addition, they and their families slept on rotten mattresses on the floor of the houses, which did not even have proper bathrooms. The group included children and pregnant women<sup>88</sup>.

JBS signed an agreement with the Labor Prosecutor's Office and gave each worker BRL 5,000 as compensation, in addition to paying for their return to their hometowns. It also stated that the outsourced company was disqualified as a supplier<sup>89</sup>.

A similar case has also been found in BRF's supply chain. In July 2012, 12 chicken catchers who supplied a BRF meatpacking plant in Lajeado, Rio Grande do Sul, were rescued from slave labor. The operation occurred in neighboring Nova Brescia, Rio Grande do Sul, as a result of a complaint from the municipal government<sup>90</sup>. According to the State Labor and Employment Superintendence of Rio Grande do Sul (SRTE/RS), in addition to living in precarious housing, these workers also had their wages retained by the employer – an outsourced company that provided services to BRF exclusively, according to the inspection report<sup>91</sup>.

The inspectors found that virtually all of their wages were used to pay for housing provided by the employer – that charged for rent, water and electricity – and food, which, according to the workers, could only be purchased at a specific local supermarket. There they bought items on credit and the amount was deducted from their wages. Some workers would be in debt to their employer and receive nothing at the end of the month<sup>92</sup>.

# EUROPEAN IMPORTS

Brazilian meat is sold in several countries of the European market. Direct buyers are mostly trading companies and food industries, including European subsidiaries belonging to the largest animal protein corporations in Brazil<sup>92</sup>.



*Tesco decided to stop selling Brazilian beef, but the product is still sold by several EU retailers (Photo: Repórter Brasil)*

Through them, meat reaches European consumers through various distribution channels. In addition to large retailers and fast-food chains, the product supplies government procurement and the food service segment – restaurants, bars, hotels, etc.

Below, we list some examples linking Brazilian meat to retail leaders in the European Union. Repórter Brasil contacted these companies and asked clarifications about their Brazilian meat purchasing policies, as well as their views on the EU-Mercosur trade agreement – a subject that will be addressed in the two final chapters of this report. Details about their answers are also highlighted below. See the full answers at: <https://reporter-brasil.org.br/2021/02/answers-from-retailers/>

## SCHWARZ GROUP

Controlling Lidl and Kaufland, Europe's largest retailer group<sup>94</sup> supplies supermarket stores of both chains with Brazilian animal protein. An example is canned meat manufactured by JBS, that has been sold by Lidl under its private labels Manor House and Newgate<sup>95</sup>.

"We want to emphasize that we take this topic very seriously and are in close exchange with our suppliers such as JBS about social and environmental aspects such as deforestation", the Schwarz group said in an email to Repórter Brasil. "Beef from Brazil is sourced exclusively from producers which are signatories of the Greenpeace Cattle Agreement or which hold a similar sustainability or environmental certificate, such as from the Rainforest Alliance."

The group also stated that more than 90 % of Lidl's beef is of European origin, and that "Manor House" is no longer in the company's assortment.

## ALDI

The German corporation, with units in several European countries, also sells Brazilian beef. The product could be recently found, for example, at its stores in the UK<sup>96</sup> and Germany<sup>97</sup>.

Contacted by Repórter Brasil, the Audi South Group said that the retailer focus on beef that is grown close to its national marketplaces. Therefore, less than 1% would come from Brazil. "If beef at ALDI is sourced from Brazil, we emphasise that it should be in compliance with the Terms of Adjustment of Conduct (TCA)<sup>98</sup> and the Brazil Cattle Agreement (BAC)<sup>99</sup>. We are aware that these systems offer opportunities for improvement and we welcome robust certification mechanisms and/or the introduction of traceability schemes, e.g. via ear tags as in Uruguay".

## CARREFOUR

In 2019, an Earthlight investigation found JBS's beef products being sold at Carrefour stores in Belgium<sup>100</sup>. Additionally, the group sells in Europe beef jerky made in Brazil<sup>101</sup>, and processed products that use Brazilian poultry<sup>102</sup>.

In addition to operating in Europe, Carrefour is present in other continents where it also sells Brazilian meat<sup>103</sup>. It is the second largest retail group operating in Brazil. Several investigations published by Repórter Brasil over the past two years show cases of slave labor and illegal deforestation involving slaughterhouses that supply their local supermarkets<sup>104</sup>.

The retailer headquarters in France were contacted via email, but Repórter Brasil received no answer. In previous investigations published by the organization, Carrefour's Brazilian subsidiary spoke out about social and environmental issues related to their beef supply chain. For example, in 2019 the company announced the suspension of a slaughterhouse that was supplied by cattle ranchers who used slave labor<sup>105</sup>. Carrefour Brazil also is also publicly committed to zero deforestation<sup>106</sup>. The company claims to have a geolocation tool that aims to supply meat that does not come from areas of deforestation, environmental protection, or indigenous lands<sup>107</sup>.

## TESCO

Headquartered in the United Kingdom (UK), the retail group has a history of marketing canned meat produced by Marfrig under its private label<sup>108</sup>. One of Marfrig's industrial units allegedly was built specifically for supplying UK Tesco stores<sup>109</sup>. The UK-based retailer also used to sell beef jerky made by the JBS group in Brazil<sup>110</sup>. Contacted by Reporter Brasil, the company stated that in 2018 Tesco became the first UK supermarket to stop selling Brazilian beef due to concerns over deforestation, and does not buy anymore Brazilian beef or any other Brazilian meat, whether from Marfrig, JBS or any other producer.

Nevertheless, the company is also an important customer of JBS subsidiaries in the UK – Moy Park and Tulip. With a strong presence in the regional market, they operate in the pork and poultry segments<sup>111</sup>. Both companies focus on processing animals raised in Europe.

## REWE

Rewe sells beef from Brazilian origin such as canned meat manufactured in Europe using raw material from Brazil<sup>112</sup>. Sales also include beef jerky made in Brazil by the JBS group<sup>113</sup>. Finally, the company also has a history of selling Brazilian poultry<sup>114</sup>.

About non-processed meat, the company mentioned in an email to Repórter Brasil that already carries neither private label nor branded fresh meat from Brazil in its product ranges. “By the end of 2021, the supply chains of REWE Group's own brands in the area of soy animal feed as well as fresh pork and beef meat are to be 100 percent certified deforestation-free.”

## EDEKA

This is another German retailer that has a history of distributing Brazilian poultry<sup>115</sup> in Europe. In the food service market, the company has sold several Brazilian beef cuts in the past years<sup>116</sup>. They come from German food companies that have imported Brazilian meat from JBS, Marfrig or Minerva over the past two years<sup>117</sup>. Repórter Brasil did not receive any response from his questions sent to Edeka.

## SAINSBURY'S

This is another British corporation that sells Brazilian beef, including canned meat<sup>118</sup> and beef jerky<sup>119</sup> manufactured by companies of the JBS group. The product is present even in the retailer's private label items<sup>120</sup>. Sainsbury's stores also sell products containing poultry from Brazil <sup>121</sup>.

“Sainsbury's is committed to sourcing sustainably and working together with the wider industry to tackle deforestation and preserve the essential ecosystems in the Amazon and Cerrado”, a company's spokesperson said. He adds that, if suppliers which are either unwilling to recognise issues with their production or work together to remedy them are identified, they will review commercial relationship with them and sever ties if necessary.

## CASINO

One of the strongest names in the French supermarket industry, the company is another retailer selling beef jerky of Brazilian origin<sup>122</sup>. The French group also manages the franchise of the Spar chain in France, another company that sells products containing Brazilian raw materials – poultry, in this case<sup>123</sup>.

As does Carrefour, the Casino group has a strong presence in Brazil, with hundreds of stores across the country. The company was also mentioned in investigations published by Repórter Brasil over the past two years. They show cases of slave labor and illegal deforestation involving slaughterhouses that supply its local supermarket stores – controlled by its subsidiary GPA<sup>124</sup>.

“Casino group, through its branches in Latin America, has been actively fighting against deforestation for many years. Our Brazilian branch GPA implements a consistent and rigorous policy for the control of the origin of beef delivered by its providers”, said Casino's External Communication Department. The company also mentions to be involved in an experimental project to reinforce the monitoring process of indirect cattle suppliers.

## TÖNNIES

German group Tönnies is one of the largest meat manufacturers in Europe. It's an example of local food industry that processes Brazilian raw material. The company purchases Brazilian beef from JBS, Marfrig and Minerva slaughterhouses<sup>123</sup>. Aldi, Lidl, Rewe and Edeka are among the retailers selling the group's products<sup>126</sup>. Contacted by Repórter Brasil, Tönnies stated that South American meat represents a relatively small part of the company's activity. Even so, says the company, it is very important that the meat meets Tönnies quality requirements, not being raised in cleared rainforest areas. "We expect that the promises of our suppliers will be kept - e.g. the cattle agreement between JBS and Greenpeace and the related obligations of the company".

## INVESTORS

To fund the expansion of their activities, the largest Brazilian animal protein companies have been accessing resources in the financial market, both in the country and abroad, by selling shares, issuing private bonds and obtaining loans.

The list of Brazilian meatpacking companies' funders includes a wide range comprising traditional banks, investment funds and conglomerates that are not necessarily "native" to the financial market. Most are based in the United States and in European countries that are not necessarily members of the European Union.

For some years, and especially since the beginning of Jair Bolsonaro's government in January 2019, environmental and human rights organizations have systematically demanded accountability over the meat industry's impacts from funders of Brazil's meat industry in different parts of the world.

In June, a group of 29 major international institutions with total assets estimated at US\$ 4 trillion published a letter they sent to Brazilian embassies requesting a meeting to discuss deforestation in the Amazon<sup>127</sup>.

In the manifesto, they also expressed their concern about bills under discussion in Congress – with federal government support – that intend to open indigenous territories to agricultural projects and regularize public areas suspected of fraudulent private appropriation.

The document also warned that not only Brazilian meatpackers may face barriers in international markets due to socio-environmental problems but also that Brazil's public bonds may be contaminated by the poor image of government policies in the area<sup>128</sup>.

This articulation of financial institutions took place a few days after a group of European lawmakers officially expressed their concerns to the president of Brazil's Chamber of Deputies about the country's environmental performance. In April, 40 multinationals in the fast-food and retail industries had also taken similar stances<sup>129</sup>. Some financial institutions have even taken concrete steps. In July, Scandinavian asset manager Nordea excluded investments in JBS from all its funds, precisely for lack of detailed information about the company's plans to control its supply chain<sup>130</sup>.

That same month, Vice President Hamilton Mourão – who heads Brazil's National Council for the Legal Amazon (CNAL) – met with representatives of eight investment funds from Scandinavian countries, the UK and Japan. Again, the meeting was intended to debate how to reduce deforestation and respect the fundamental rights of the country's traditional populations<sup>131</sup>.

In August, it was British bank HSBC's turn to express concern about JBS's systems to monitor suppliers potentially involved in socio-environmental violations. According to the bank's internal report, the Brazilian food giant has no "vision, action plan, timeline, technology or solution" to fully monitor its supply chain<sup>132</sup>.

Next, an analysis of the corporate structure of the four main Brazilian meat corporations and a list of their main investors.

## JBS

In JBS's shareholder structure, the holding company controlled by its founders (J&F Investimentos) and state development bank BNDES holds almost 63 percent of its shares. The rest is divided between minority shareholders<sup>133</sup>.

### Ownership and Corporate

The following table sets forth the principal holders of JBS' outstanding common shares and their respective shareholdings.

<b>SHAREHOLDERS</b>	<b>NUMBER OF SHARES</b>	<b>%</b>
Controlling Group (J&F Investimentos S.A. and Formosa)	1,088,705,287	40.84%
Treasury	42,705,377	1.60%
<b>FREE FLOAT</b>		
– BNDES Participações S.A. – BNDESPAR	581,661,101	21.82%
– Other Minority Stockholders	953,007,258	35.75%
<b>TOTAL FREE FLOAT</b>	1,534,668,359	57.56%
<b>TOTAL</b>	<b>2,666,079,203</b>	<b>100.00%</b>

Figure 4 – Source: JBS (December 2020)

The main current minority shareholders are mostly mutual funds based in the United States. Examples can be seen in the table below:

<b>OWNERSHIP JBS S/A ORD MUTUAL FUNDS THAT OWN JBSS3</b>					
<b>NAME</b>	<b>SHARES HELD</b>	<b>% SHARES OUT</b>	<b>CHANGE IN SHARE</b>	<b>% OF ASSETS</b>	<b>AS OF DATE</b>
Vanguard Total International Stock Index Fund	17047953	0.63%	0	0.02%	04/30/20
Vanguard Emerging Markets Stock Index Fund	13851170	0.51%	-548900	0.08%	04/30/20
iShares MSCI Brazil ETF	20946507	0.77%	0	1.77%	05/29/20
iShares Ibovespa Fundo de Índice	12445600	0.46%	-1403900	2.21%	05/29/20
iShares Core MSCI Emerging Markets ETF	8638861	0.32%	0	0.08%	05/29/20
Fidelity Leveraged Company Stock Fund	10119700	0.37%	0	2.40%	01/31/20
Fidelity Capital & Income Fund	12222900	0.45%	0	1.23%	01/31/20
DFA Emerging Markets Core Equity Portfolio	9741475	0.36%	-664900	0.16%	01/31/20
Causeway Emerging Markets Fund	9421200	0.35%	1271800	1.12%	03/31/20
AMUNDI FUNDS SICAV - Emerging World Equity	7647300	0.28%	3566100	2.47%	04/30/20
Institutions that own JBSS3					
<b>NAME</b>	<b>SHARES HELD</b>	<b>% SHARES OUT</b>	<b>CHANGE IN SHARES</b>	<b>% OF ASSETS</b>	<b>AS OF DATE</b>
Teachers Advisors LLC	405664	0.02%	-62300	0.62%	03/31/19
TIAA-CREF Investment Management LLC	813697	0.03%	813697	0.88%	03/31/19

Source: Wall Street Journal (December 2020)

However, shareholding is not always the main capital investment by a financial institution. In the case of Deutsche Bank, for example, the amount granted to JBS as loans – US\$ 56.7 million – is five times higher than what the bank had once invested in JBS shares<sup>134</sup>.

As for issuing of JBS private securities, financial institutions from EU countries account for the largest transactions. Spanish bank Santander, for example, launched more than half a billion American dollars in JBS bonds on the capital market, as it is possible to see in the table below<sup>135</sup>.

JBS European and North American creditors (2013-2018, US\$ mln)

INVESTOR	COUNTRY	UNDERWRITING (US\$ MLN)
Santander	Spain	589
JPMorgan Chase	U.S.	388
Barclays	UK	202
<b>TOTAL:</b>		<b>1,179</b>

Figure 5 – Source: Amazon Watch

JBS European and North American creditors (2013-2018, US\$ mln)

INVESTOR	COUNTRY	LEASE FINANCING
Volkswagen Financial Services	Germany	18.2
Daimler Financial Services	Germany	0.2
<b>TOTAL:</b>		<b>18.4</b>

Figure 6 – Source: Amazon Watch

## MARFRIG

In 2019, Brazil's state-owned development bank BNDES, which controlled 34 percent of Marfrig, divested its stake in the company. Currently, Marfrig's founding and controlling group – MMS Participações Ltda. – holds 47.6 percent of the company's shares, while the other half is distributed among different investors<sup>136</sup>.

### Ownership Breakdown

The following table sets forth the principal holders of Marfrig outstanding common shares and their respective shareholdings:

SHAREHOLDERS	SHARES	%
(1) Controlling Shareholders	338.595.548	47.60%
(1) Board of Directors	100.153	0.01%
(1) Fiscal Council	840.927	0.12%
(1) Statutory Board	53.661	0.01%
Treasury Shares	15.207.463	2.14%
Others	356.572.162	50.12%
<b>TOTAL</b>	<b>711.369.913</b>	<b>100.00%</b>

Figure 7 – Source: Marfrig (December 2020)

Between 2013 and 2018, Marfrig also carried out major operations issuing private securities in the capital market. Santander alone accounted for US\$ 960 million – the same amount offered through British bank HSBC<sup>137</sup>.

Marfrig European and North American creditors (2013-2018, US\$ mln)

INVESTOR	COUNTRY	UNDERWRITING (US\$ MLN)
HSBC	UK	960
Santander	Spain	960
Morgan Stanley	U.S	510
<b>TOTAL:</b>		<b>2,430</b>

Figure 8 – Source: Amazon Watch

Some of the most important Marfrig's minority shareholders are listed below:

<b>OWNERSHIP MARFRIG GLOBAL FOODS S/A MUTUAL FUNDS THAT OWN MRFG3</b>					
<b>NAME</b>	<b>SHARES HELD</b>	<b>% SHARES OUT</b>	<b>CHANGE IN SHARE</b>	<b>% OF ASSETS</b>	<b>AS OF DATE</b>
Robeco Capital Gr. Fds. - Emerging Stars Equities	8206800	1.15%	1180000	1.32%	03/31/20
Vanguard Total International Stock Index Fund	8177084	1.15%	0	0.01%	04/30/20
Vanguard Emerging Markets Stock Index Fund	20946507	0.92%	-183665	0.02%	04/30/20
Government Pension Fund - Global (The)	12445600	0.57%	2185948	0.00%	12/31/19
iShares Core MSCI Emerging Markets ETF	8638861	0.52%	0	0.02%	05/29/20
iShares Ibovespa Fundo de Índice	10119700	0.46%	-369300	0.34%	05/29/20
Robeco Capital Gr. Fds. - Emerging Markets Equities	12222900	0.42%	1000000	0.61%	03/31/20
Robeco Institutional Emerging Markets Fund	9741475	0.40%	0	0.41%	03/31/20
iShares BM&FBovespa Small Cap Fundo de Índice	9421200	0.32%	-855500	2.16%	05/29/20
DFA Emerging Markets Small Cap Series	7647300	0.32%	1789675	0.11%	01/31/20
<b>INSTITUTIONS THAT OWN MRFG3</b>	<b>SHARES HELD</b>	<b>% SHARES OUT</b>	<b>CHANGE IN SHARES</b>	<b>% OF ASSETS</b>	<b>AS OF DATE</b>
Brandes Investment Partners LP	30689498	4.31%	0	100.00%	05/22/19
Morgan Stanley Administradora de Carteiras SA	24186577	3.40%	24186577	100.00%	03/27/20

Source: Wall Street Journal (December 2020)

## MINERVA

Today, this Brazilian meatpacker's main shareholder is Saudi investment fund Salic UK Limited, with almost 34 percent of the shares – almost twice that of VDQ, the holding company of Minerva's founding family<sup>138</sup>.

### Ownership Breakdown

The following table sets forth the principal holders of Minerva outstanding common shares and their respective shareholdings.

SHAREHOLDERS	SHARES	%
Salic (uk) limited	185.536.600	33,83%
Vdq holding s.a.	96.482.228	17,59%
Minerva s.a.	23.053.200	4,20%
Others (free float)	243.354.471	44,37%
<b>Total</b>	<b>548.426.499</b>	<b>100,00%</b>

Figure 9 - Source: Minerva

Minerva has undergone important changes in its shareholder structure over the past few years. BRF – another Brazilian food giant – used to hold almost 10 percent of its shares but sold its quota throughout 2019. Among its minority shareholders, Minerva has investors from different EU nations that also hold competitors’ shares.

<b>OWNERSHIP MINERVA S/A ORD MUTUAL FUNDS THAT OWN BEEF3</b>					
<b>NAME</b>	<b>SHARES HELD</b>	<b>% SHARES OUT</b>	<b>CHANGE IN SHARE</b>	<b>% OF ASSETS</b>	<b>AS OF DATE</b>
Vanguard Total International Stock Index Fund	5873643	1.21%	0	0.00%	04/30/20
Vanguard Emerging Markets Stock Index Fund	3536326	0.73%	-123847	0.01%	04/30/20
Sanford C Bernstein Fund - Emerging Markets Portfolio	4342200	0.89%	786100	0.97%	04/30/20
Russell Emerging Markets Fund	1538200	0.32%	416000	0.29%	04/30/20
Ninety One Glb. Strat. Fd. - Latin American Equity Fund	22385426	4.61%	14418421	4.71%	02/29/20
iShares Ibovespa Fundo de Índice	1986000	0.41%	1986000	0.22%	05/29/20
Rcauseway Emerging Markets Fund	3235317	0.67%	538617	0.24%	03/31/20
BTG Pactual SICAV - Latin American Equity Fund	1423291	0.29%	0	2.55%	02/28/20
BNY Mellon Emerging Markets Fund	2960100	0.61%	-88000	0.97%	04/30/20
AB FCP II - Emerging Market Value Portfolio	2032200	0.42%	394500	2.08%	04/30/20
<b>INSTITUTIONS THAT OWN BEEF3</b>	<b>SHARES HELD</b>	<b>% SHARES OUT</b>	<b>CHANGE IN SHARES</b>	<b>% OF ASSETS</b>	<b>AS OF DATE</b>
Morgan Stanley Administradora de Carteiras SA	23982304	4.94%	23982304	59.16%	02/10/20
BNP Paribas Asset Management Brasil Ltda	12907194	2.66%	-4856974	100.00%	12/28/18

Source: Wall Street Journal (December 2020)

Significant capital injections between 2013 and 2018 have come from private securities issued by banks like HSBC, Bank of America and Credit Suisse.

Minerva European and North American creditors (2013-2018, US\$ mln)

INVESTOR	COUNTRY	LOAN	UNDERWRITING	TOTAL
HSBC	UK		782	782
Bank of America	U.S.		498	498
Credit Suisse	Switzerland		283	283
JPMorgan Chase	U.S.		200	200
IFC Global	Global	138		138
Santander	Spain		40	40
<b>TOTAL</b>		<b>138</b>	<b>1,803</b>	<b>1,941</b>

Figure 10 – Source: Amazon Watch

Another important Minerva creditor is the IFC, the World Bank's private investment arm. In 2013, the institution acquired a minority stake of almost 3 percent of the company's shares, and also granted a loan to the company. At the time, the total value of the two operations reached US\$ 80 millions<sup>139</sup>.

## BRF

Today, BRF is worth only US\$ 3,4 billion – a devaluation of 37% in 2020. At its peak, the owner of well-known brands such as Sadia and Perdigão was worth more than US\$ 12 billion<sup>140</sup>.

In 2015, the Brazilian meatpacking company issued € 500 millions in the European stock market in so-called "green bonds" to finance sustainability-related projects. The operation was coordinated at the time by several banks, such as BNP Paribas, Bank of America Merrill Lynch (BofA), Citi, Deutsche Bank, Morgan Stanley and Santander<sup>141</sup>.

In September 2020, BRF issued another US\$ 500 millions in bonds. Financial institutions such as JP Morgan, Morgan Stanley and Santander took part in the operation<sup>142</sup>.

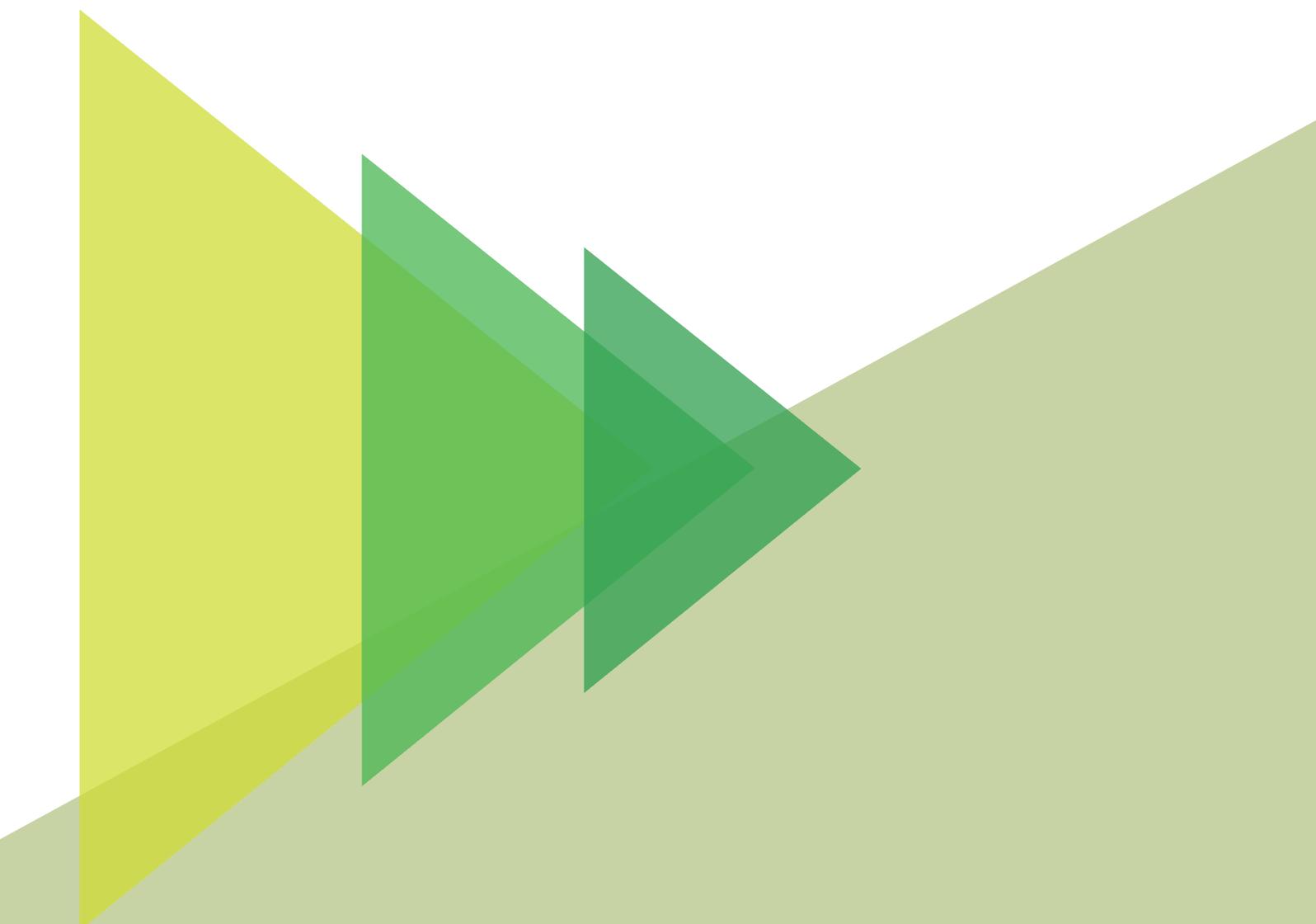
Among the four largest animal protein companies in Brazil, BRF has the most diversified and distributed shareholder structure.

BRF's main shareholders are pension funds from Brazilian state-owned companies Petrobras and Banco do Brasil, but they account for only 20 percent. Another important shareholder is Brazilian asset manager Kapitalo. US-based ADR holders have around 14 percent of BRF's shares.

## Shareholder Composition

<b>30/09/2020</b>	<b>QUANTITY</b>	<b>%</b>
<b>BIGGEST SHAREHOLDERS</b>		
Fundação Petrobrás de Seguridade Social – Petros	92.716.266	11,41
Caixa de Previd. dos Func. Do Branco do Brasil	75.048.452	9,24
Kapitalo Investimentos Ltda.	40.760.522	5,02
<b>Administrators</b>		
Board of Directors	6.857.067	0,84
Officers	619.724	0,08
<b>ADR</b>	114.248.518	14,43
<b>Treasury shares</b>	4.766.084	0,59
Others	474.456.613	58,4
	<b>812.473.246</b>	<b>100</b>

Figure 11 – Source: BRF (December 2020)



Nowadays, when it comes to BRF's minority shareholders, they are mostly based in the US:

<b>OWNERSHIP BRF S.A. ORD MUTUAL FUNDS THAT OWN BRFS3</b>					
<b>NAME</b>	<b>SHARES HELD</b>	<b>% SHARES OUT</b>	<b>CHANGE IN SHARE</b>	<b>% OF ASSETS</b>	<b>AS OF DATE</b>
Wells Fargo Emerging Markets Equity Fund	7143392	0.88%	0	0.72%	04/30/20
Delaware Emerging Markets Fund	6850000	0.84%	0	0.60%	02/28/20
Ishares Tr. - Latin America 40 Etf	2027567	0.25%	0	1.03%	05/29/20
iShares Global Agriculture Index ETF	1246632	0.15%	1168	2.87%	05/29/20
Vanguard Total International Stock Index Fund	919974	0.11%	0	0.00%	04/30/20
Delaware VIP Trust - Emerging Markets Series	788900	0.10%	788900	0.59%	03/31/20
Baring Emerging Markets Umbrella Fd. - Latin America	606644	0.08%	606644	1.38%	02/29/20
Wells Fargo (Lux) Ww. Fd. - Emerging Markets Equity	596150	0.07%	0	0.93%	04/30/20
Russell Inv. Co. Plc - Emerging Markets Equity Fund	591794	0.07%	606644	0.12%	09/30/19
Macquarie Emerging Markets Trust	515398	0.06%	0	0.56%	04/30/20
<b>INSTITUTIONS THAT OWN BRFS3</b>	<b>SHARES HELD</b>	<b>% SHARES OUT</b>	<b>CHANGE IN SHARES</b>	<b>% OF ASSETS</b>	<b>AS OF DATE</b>
Wells Capital Management, Inc.	14171197	1.74%	1009700	0.17%	12/31/19
BW Gestão de Investimentos Ltda.	10139244	1.25%	1009700	40.43%	06/30/18
Macquarie Investment Management Business Trust	10069162	1.24%	-19112	0.13%	12/31/19
1832 Asset Management LP	7160000	0.88%	4808370	0.08%	12/31/19
INCA Investments LLC	6217500	0.77%	526500	9.86%	12/31/19
Oaktree Capital Management LP	5653531	0.70%	208957	1.00%	12/31/19
Russell Investment Management LLC	4188069	0.52%	-244906	0.07%	12/31/19
Merrill Lynch International (Investment Management)	3746217	0.46%	1051188	0.51%	12/31/19
Morgan Stanley & Co. LLC	3368574	0.42%	2744788	0.04%	12/31/19
Coatue Management LLC	2643071	0.33%	2643071	13.77%	06/30/19

Source: Wall Street Journal (December 2020)

# THE EU-MERCOSUR AGREEMENT

## INTRODUCTION

In July 2019, the European Union and Mercosur announced the conclusion of an “Agreement in Principle” on a broad Association Treaty that has been under negotiation for more than a decade.



*Brazilian president Jair Bolsonaro among European leaders  
(Foto: Alan Santos/PR)*

The EU is the main investor and the second largest trading partner of Mercosur – which, in turn, appears in eighth place among Europeans’ trading partners.

In 2018, business between the blocs – a 780-million-people market – reached US\$ 90 billion<sup>143</sup> in the specific case of Brazil, the main South American economy, sales to the EU account for 18 percent of the country’s exports<sup>144</sup>.

However, the agreement announced in 2019 goes beyond commercial issues related to opening the market and reducing customs tariffs that regulate the purchase and sale of goods and services. The Treaty also covers political and cooperation issues, addressing topics ranging from migration to human rights.

To come into force, the Treaty needs to be approved not only by the European Parliament but also by national parliament in all 27 EU member states. Any country’s veto is sufficient to block the agreement.

The possibility of “slicing” the agreement has been suggested in an attempt to speed up implementation of the new open-trade rules. This is because, unlike political matters, issues strictly related to trade between the two large blocs can be discussed and approved only by the European Parliament and the Council of the EU, without going through national parliaments<sup>145</sup>.

The terms of the agreement are being legally reviewed by Mercosur and must be examined by member States after this stage is completed.

The government of Brazil, the main exporter of agricultural and mineral commodities in the South American bloc, expected to see the Treaty approved by the end of 2020, when Germany's rotating presidency in the Council of the European Union ends.

The rush was justified by the fact that Germany has high stakes in the agreement, which tends to expand the consumer market for its chemical, automobile, and machinery and equipment industries<sup>146</sup>.

Despite being advocated by some of the main political and economic leaders on both sides of the Atlantic, it is not yet possible to say that the agreement will actually become real, at least in the short term.

In recent months, a series of demonstrations by European officials have raised doubts about the Treaty's ratification. The main questions are precisely related to the ability of Mercosur countries to expand their agricultural and mineral production while respecting environment and human rights.

In August 2020, German Chancellor Angela Merkel – historically, one of the main enthusiasts of the initiative – expressed concern about the Amazon deforestation boom and the potential increase in devastation that the trade agreement could cause to the world's largest rainforest<sup>147</sup>.

The following month, the French government took a stronger stance and declared itself against the ratification of the Treaty<sup>148</sup>. Austrian Prime Minister Sebastian Kurz followed suit and said the document could not be approved, considering the current stage of negotiations<sup>149</sup>.

Stressing environment concerns, the new European Union trade commissioner, Valdis Dombrovskis, announced – also in October – talks on an additional text to the EU-Mercosur association agreement.

The new document aims to establish Mercosur countries' commitment to the Paris Agreement, which provides for the reduction of greenhouse gas emissions, and to establish clear targets to combat the devastation of sensitive biomes such as the Amazon and the Chaco<sup>150</sup>.

## WHAT THE AGREEMENT SAYS

According to the "Agreement in Principle" released in July 2019, about 82 percent of the European Union's agricultural imports will be totally exempt from tariffs<sup>151</sup>.

However, that total tariff exemption does not apply to the meat complex, which will continue to be subject to the current quota system that establishes limits on imports. What the Treaty proposes is the creation of extra quotas, combined with a substantial reduction in tariffs.

Apart from that, the EU-Mercosur Agreement also proposes facilitation measures to speed up trade authorizations related to products of animal origin – a new criteria that might lead to higher exporting volumes.

The EU countries will have a deadline of 40 working days to analyze requests for approval of industrial plants in Mercosur that wish to become meat exporters. Moreover, the approval should be granted without prior inspection from importers "if the exporting Party provides sufficient guarantee that they fulfil the sanitary requirements of the importing Party".

## BEEF

Mercosur exports about 200,000 tons of beef per year to the European Union, including three large groups: fresh, frozen and processed.

In terms of volume, Mercosur products account for 64 percent of all fresh meat, 80 percent of all frozen meat, and 100 percent of all processed meat imported by the European Union.

More than half of the revenue comes from fresh meat, according to the table extracted from the Sustainability Impact Assessment (SIA) conducted by the London School of Economics (LSE) at the request of the European Commission<sup>152</sup>.

European Commission: Imports of beef products from Mercosur (in millions of Euros)

CN	DESCRIPTION	2015	2016	2017	AVERAGE SHARE IN IMPORTS FROM MERCOSUR				AVERAGE SHARE IN EU IMPORTS
					ARGENTINA	BRAZIL	PARAGUAY	URUGUAY	
2013000	Fresh or chilled bovine meat, boneless	810	860.5	860.2	45	26	3	27	64
2023090	Frozen bovine boneless meat (excl. Forequarters, whole or cut into a maximum	351.1	328.6	311.1	3	67	2	29	82
16025031	Corned beef, in airtight containers	120.1	107.8	83.2	0	100	0	0	100
16025095	Meat or offal of bovine animals, prepared or preserved, cooked	84.3	79.8	59.7	1	98		0	94
	OTHER BEEF PRODUCTS IN CHAPTERS 2 AND 16	1.7	1.6	0.7	21	55	0	24	11
	<b>TOTAL</b>	<b>1,367</b>	<b>1,378</b>	<b>1,315</b>					

Figure 12 – Source: SIA/EC/LSE

According to the same study, import tariffs applied to different meat products vary from 26.6 percent to 79.3 percent.

The exception is the so-called “Hilton quota,” which since 1979 has applied a 20 percent tax on high-quality meats produced in several parts of the world, not only in Mercosur countries. Argentina benefits the most from the reduced tax and accounts for three quarters of the South American bloc’s exports<sup>153</sup>.

In addition to the current 200,000-ton quota, the agreement provides an extra 99,000 tons of beef to be exported by Mercosur.

Of that extra quota, 55 percent would go to fresh, high-quality meat while the remaining 45 percent would be reserved for frozen meat.

Imports under this new quota would be subject to a 7.5-percent tariff and the market would be gradually opened over six years<sup>154</sup>. In the specific case of the Hilton quota, the tariff would be eliminated completely<sup>155</sup>. In a conservative scenario, the LSE study estimates a 26-37-percent increase in European Union imports of beef produced in South American countries. In a more radical scenario, that increase may vary from 54 percent to 78 percent<sup>156</sup>.

In a statement dated July 2019, the Brazilian Beef Exporters Association (ABIEC) informed that the portion that each Mercosur member state is entitled to in the extra quota of 99,000 tons will be set as proposed by the Mercosur Meat Forum, as follows<sup>157</sup>:

- Brazil: 42.5 percent
- Argentina: 29.5 percent
- Uruguay: 21 percent
- Paraguay: 9 percent

Thus, ABIEC’s calculations show that, with the approval of the agreement, the Brazilian industry will be able to sell around 52,000 tons of beef to the European Union under special tariffs.

The calculation considers the 42,000 tons under the 7.5-percent rate of the extra quota created by the Treaty. It also takes into account the 10,000 tonnes that Brazil can already export under the Hilton quota – and which, as already mentioned, would be completely exempt from taxes<sup>158</sup>.

## POULTRY AND PORK

The European Union consumes around 14 million tonnes of poultry per year, of which 800,000 are imported – Mercosur accounts for half of the volume supplied by foreign nations.

The agreement signed between the two commercial blocs provides for an extra tariff-free quota of 180,000 tons. Of that, 50 percent would go to bone-in meat and the other half, to boneless meat. As in the case of beef, the process of opening to the extra poultry quota would also be phased in over six years<sup>159</sup>.

According to the Brazilian Association of Animal Protein (ABPA), Brazil accounts for almost the entire volume of poultry exported by Mercosur to the EU. The country is entitled to 345.7,000 tons, subdivided into different groups, the main one being “salted poultry,” which makes a total of 170.8,000 tons<sup>160</sup>.

Brazilian meatpacking companies are especially interested in expanding exports of fresh poultry as proposed by the Treaty, for tax and sanitary reasons.

Today, those exports are exempt from taxation up to a very low volume of just 16,700 tons per year. In practice, the additional fee charged on the excess is an impediment.

For this reason, Brazilian companies end up selling mainly salted poultry – which is not considered fresh by European authorities and is subject to health rules similar to those required for cooked poultry, especially with regard to the presence of salmonella.

ABPA sees these sanitary regulations as a protectionist mechanism practiced by the EU to bar Brazilian exports<sup>161</sup>. For this reason, it welcomes the increase in the fresh poultry quota.

Finally, the agreement will also enable Mercosur countries to export their pork. At least for half a decade, the Brazilian industry had been trying to sell the product<sup>162</sup>. The quota authorized will be 25,000 tons under a tariff of 83 euros per ton<sup>163</sup>.



# THE SOCIO-ENVIRONMENTAL RISKS OF THE EU-MERCOSUR AGREEMENT

## CONTEXT

It is a known fact that, under President Jair Bolsonaro, the Brazilian federal government identifies closely with the so-called ruralist (industrial-scale farming) agenda.



Protest against the EU-Mercosur trade agreement in Sweden

As for indigenous policies, this translates as the government's intention to open native peoples' territories to mineral and agricultural exploitation<sup>164</sup>, stopping processes of demarcation of new Indigenous Lands, and even attempts to reduce areas already demarcated to meet the pressure from rural producers interested in grabbing public land<sup>165</sup>.

In the environmental sphere, on the other hand, the synergy between the government and ruralists resulted in real dismantling of State structures aimed at preventing and curbing environmental crimes.

Bolsonaro himself questioned Brazil's world-renowned remote sensing system, developed by the National Institute for Space Research (INPE) to map illegal fire outbreaks.<sup>166</sup> In addition, his government also undermined environmental inspections<sup>167</sup> and revoked 2009 Sugar Cane Zoning which prohibited crops in areas that could threaten sensitive biomes such as the Amazon and the Pantanal<sup>168</sup>.

These measures were reflected in the significant advance in deforestation rates in 2019 and especially in 2020<sup>169</sup>.

In land policy, the Executive endorsed the ruralist agenda by interrupting the land reform program aimed at landless family farmers<sup>170</sup> and attempting to pass Bill 2633/2020 in Congress.

Known as the “Land Grabbing Bill”, and criticized by environmental and human rights organizations, the measure was intended to speed up the registration of property titles of irregular areas in the Amazon – many of which are suspected of fraudulent private appropriation by rural producers.

Last May, the “Land Grabbing Bill” led some of the most important multinationals in the food industry to threaten severing business ties with Brazilian suppliers<sup>171</sup>.

For all these reasons, it is not an exaggeration to say that the Brazilian government itself has contributed to boost land conflicts, attacks on indigenous peoples’ rights, and illegal deforestation in protected biomes.

In this context, doubts about the potential socio-environmental and labor risks represented by the Association Agreement between the EU and Mercosur are even more relevant.

The report with the Agreement’s Sustainability Impact Assessment conducted by LSE at the request of the EU says that the association with Mercosur does not necessarily pose threats to protected biomes or risks to traditional peoples and vulnerable workers as a result of a possible extension of Brazil’s agricultural frontier. According to the SIA, there is room for the country’s agriculture to gain scale and become more intensive, increasing the potential of newly opened low-productivity pastures. In other words, it would be technically feasible to increase production without clearing new areas.

The analysis is based on data from 2004-2012, when deforestation rates were considerably reduced despite the high increase in international prices of agricultural commodities – mainly beef<sup>172</sup>.

In fact, the SIA expressly recommends the resumption of public environmental policies as well as law enforcement actions developed over those eight years.

However, questions about the socio-environmental impacts of the agreement raise even more concerns when, in addition to Brazil’s current political context, the risk mitigation mechanisms provided for in the Treaty do not seem to address the core challenges resulting from the inevitable expansion of the meat industry – the main driver of illegal deforestation and fraudulent appropriation of public lands in the country.

## IMPACT MITIGATION

The text of the EU-Mercosur Association Agreement includes a series of clauses on international commitments about the environment and human rights.



*Dead ocelot who perished during the 2020 Pantanal fires  
(Photo: João Paulo Guimarães /Repórter Brasil)*

In the chapter on “Trade and Sustainable Development” – one of the most relevant chapters for the regulation of the meat industry business – according to Article 6, signatory countries must pursue the objectives of the Paris Agreement and the United Nations Framework Convention on Climate Change (UNFCCC) to curb global warming<sup>173</sup>.

Article 8, in turn, mentions the need for the parties to the Agreement to make efforts at forest preservation in line with the 2030 Sustainable Development Agenda launched by the United Nations (UN) five years ago. The same article also stresses the importance of consulting local communities and indigenous peoples for “enhancing their livelihoods and of promoting the conservation and sustainable use of forests<sup>174</sup>.”

Article 11, in turn, specifically addresses the control of supply chains, considering the guidelines contained in International Labour Organization (ILO) conventions and in documents such as The United Nations Guiding Principles on Business and Human Rights<sup>175</sup>.

However, there are fundamental gaps that cast doubt on signatory countries’ actual ability to meet these targets. Most of the provision are not legally binding or too vague and mainly aspirational. An effective enforcement and sanction mechanisms is lacking. Ultimately, without clear tools for implementing and controlling socio-environmental public policies and without effective instruments of sanction in case of irregularities, the Treaty will be limited to good intentions.

## **GAP: TRACEABILITY**

In the meat industry, one of the Treaty's main bottlenecks is the absence of livestock traceability and data transparency tools<sup>176</sup>.

Although the agreement recommends the exchange of information between the EU and Mercosur, it does not detail how this exchange should happen in practice.

In the Brazilian case, there is even a database – SISBOV – maintained by the federal government in order to monitor the transit of bovine and bubaline cattle across the country. However, in addition to not providing information in a public and accessible way, the system has mainly sanitary control purposes<sup>177</sup>.

In other words, the SISBOV database does not yet include references to illegal deforestation, exploitation of slave labor or violation of the rights of indigenous peoples. Therefore, it does not meet the sustainability targets set by the EU-Mercosur Association Agreement.

SISBOV is a traceability system mandatory only for the beef exported under the Hilton Quota –see the previous chapter for more information about the Quota. Therefore, it represents a small portion of Brazil's exports to the EU. Imports from the region under the Quota are currently limited to 10,000 tons of Brazilian beef per year. In 2019, for instance, that was equivalent to less than 10% of the volume imported by the EU from Brazil.

In fact, the limit imposed by the Hilton Quota is frequently not even met. In the 2018/2019 cycle, Brazil only used the equivalent to 50% of the quota.

Again, it is important to note that Brazilian meatpacking companies have been building their own systems to control suppliers for over a decade in order to avoid purchasing cattle from ranchers and farms involved in irregularities – as provided for in the Beef Moratorium.

However, as also noted, tracking of indirect suppliers remains especially fragile and all too often own company policies are not followed. In addition, the information from companies' own systems is not publicly accessible, which hampers social control over these supply chains.

## **GAP: DUE DILIGENCE**

Another point to be emphasized is the absence of laws that compel companies – both in European countries and in South America – to promote the so-called “due diligence”, and that holds them liable in case of harm caused by their activities or in their supply chain.

In general, a regulatory corporate accountability framework would oblige companies to act proactively to rid their supply chains of inputs produced in unsustainable ways and would also establish sanctions in case of non-compliance. It would provide victims with legal remedies in case of environmental and human rights violations.

Currently, in the European Union, only France has a law establishing due diligence on the supply chain of companies operating in the country – the so-called “Loi de Vigilance”<sup>178</sup>.

A report prepared by a broad consortium of civil society organizations emphasizes that the EU-Mercosur Treaty does not provide for legally binding obligations for companies and sanctions to be applied to companies involved in possible socio-environmental damages caused by their suppliers. It also points out that the agreement does not hold European companies accountable in their countries of origin<sup>179</sup>.

## **GAP: INCLUSION OF TRADITIONAL COMMUNITIES AND HUMAN RIGHTS**

While international commitments – such as ILO Convention 169 – explicitly propose consulting indigenous peoples before carrying out agricultural, mining and infrastructure projects that may impact their ways of life, the negotiation of the EU-Mercosur agreement, discussed for two decades, has ignored their interests<sup>180</sup>. Article 8 of the chapter on Trade and Sustainable Development mentions the UN concept of free, prior and informed consultation, but it does not contain details on how to actually involve traditional communities in decision-making. And especially, it sets no sanctions and includes no provision for appropriate instances to receive complaints and investigate any irregularities.



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