

Princeton Case Study of SAN in Brazil – Key Points

In 2009, after environmental action group Greenpeace labeled cattle ranching in Brazil as the biggest cause of deforestation worldwide, the country's giant beef industry got on the defensive. For many years, ranchers and land speculators had illegally cleared the Amazon rain forest and other important ecosystems to satisfy demand for beef. Amid calls for change, the Sustainable Agriculture Network, a global alliance of environmental organizations, created a certification system designed to encourage the adoption of sustainable ranching practices and foster a market for forest-friendly beef and leather products. After some early success—getting certified beef onto the shelves of a major supermarket chain—the initiative stalled. Few consumers and corporations cared about where the beef they bought came from, and ranchers were reluctant to change their ways in the absence of significant financial incentives. By late 2016, only a handful of ranchers, whose combined holdings represented a tiny fraction of 1% of Brazil's pastureland, had received certification. However, the program succeeded in developing niche markets for certified beef, and proponents expressed hopes for more gains as consumers became more interested in the sustainability of food production.

The following are a number of quotations from in the Princeton study of SAN's beef standard initiative; it will be helpful to take them into consideration as we move forward on addressing leather.

Difficult supply chains

"But few of the companies knew exactly where in Brazil the beef or leather they bought came from—let alone how it was produced."

"Beef producers are very **fragmented**," Saviani said. "When you have this big a number . . . it makes it very hard for certification programs because they have to reach a huge number of producers."

Tracking

"Because cattle born on a newly deforested ranch on the agricultural frontier in the Amazon could end up being raised or fattened on a ranch that was owned by someone else many miles away, meat processors had no way to track the animals' deforestation footprint. In addition, the cattle agreement was limited geographically: **The meat processors used the government's satellite data to detect deforestation, and no such data was collected outside the Amazon.**"

"It is impossible to avoid **cattle laundering**," said Almeida. "If the rancher is taking animals from other farms that have deforested and is bringing them to sell through his own name, it is impossible to trace."

Ranch-level adoption

An even higher hurdle involved persuading ranchers to adopt sustainable practices, which meant getting them to change deeply entrenched ways of doing things. Most of Brazil's cattle ranches **were low-cost, low-productivity operations**, and herds grazed on pastures that were much larger than necessary.

Galuchi said one commonality among the early adopters was that they had a **"technical person** who can make decisions, understands the standard, and is willing to implement it."

Costs and prices for ranchers

Improving productivity had never been a major concern for many ranchers. Often, returns on land appreciation were greater than what ranchers made selling cattle

Peres Neto said his father "would put cattle on the land, but **the main goal was land appreciation.**"

In addition to a **product price premium, certification had to offer other financial benefits**, such as increased productivity, to ranchers who implemented the standard's requirements. "If you have to invest or incur higher costs to be certified ... you have to have a very strong business case.

Because their financial management was typically lax, ranchers were sometimes unable to determine the bottom-line impact of a decision to implement certification. Without hard evidence of the advantages, they preferred to stay with the status quo. "The majority of ranchers—especially the smaller ones—**don't make such calculations; they don't even understand their costs,**" said Pedro Burnier from NGO Amigos da Terra.

The uncertain economic benefits of certification made it more difficult for Imaflora to persuade more ranchers to become certified. "The question from the industry and the farmers was always the same," said Guedes Pinto. **"Are we going to have incentives? Are we going to be rewarded? Is anybody going to pay more? Is the market going to recognize and give value to those who are certified?"**

"Certification has a very clear economic cost [in terms of audit fees]. It's not that expensive, but it has to create a clear cash inflow to offset the costs,"

Demand

Brazilian meat processors exported only a small amount of their beef to Europe—and none to the United States. Nearly 80% of beef was consumed domestically, and consumers in Brazil—where incomes generally allowed less leeway for discretionary spending were unlikely to pay a significant premium for sustainable products.

Marfrig would not pay any premium on our meat for the certification,” he said. “They were open to it, but they said they could not consistently sell the meat for a premium on the Brazilian or export market.

“In coffee, cocoa, and tea, everything changed when Kraft, Mars, Nestlé, and Unilever decided to ask their suppliers to become certified. It came from the top.

Setting the level of the standard

Certification systems always faced a trade-off between (1) setting a high bar that aimed to achieve a significant end result but was difficult for farmers to meet and (2) setting a lower standard with a less ambitious goal but that made it easier to get more farmers on board.

Federally inspected plants “have a federal agent on the ground while they are in operation,” said Fernando Sampaio, head of the Brazilian Beef Exporters Association. “At all times, you have someone there who is responsible for checking the quality of the product you’re selling for public health issues.” Sampaio said that, because they supplied national retailers and international markets, federally inspected slaughterhouses were under more pressure to control potential labor or environmental issues. “Local slaughterhouses don’t have that pressure, and can barely assure quality control,” he said.

Tying in with government programs

Two government tracing mechanisms that were in place to reduce the spread of mad cow, hoof-and-mouth, and other diseases offered the possibility of help for the tracking effort. The first, called SISBOV (Brazilian System of Identification and Certification of Cattle and Buffalo), tracked individual animals and recorded the information in a national database.

SISBOV was limited in scope and used by few ranchers. The reporting system was compulsory only for cattle destined for the European market, and it tracked animals only during their last 90 days before slaughter. Ranchers had to pay for tracking devices, and ranchers that did not export meat to Europe had no incentive to use the system.

The GTA system, which was compulsory for all transported cattle, seemed to be a better solution to the traceability issue. “If we had access to the GTA database, then we would be able to see where all the animals come from,” Burnier said. But despite pressure from NGOs for more transparency in the cattle supply chain, the state agencies responsible for GTA documents did not usually allow public access to the information.

Most ranchers preferred that the documents remained private.

CAR, for Cadastro Ambiental Rural) had the potential to make the GTA an even more powerful tool. The CAR, a requirement in Brazil’s forest code, obligated all farmers to document the boundaries of their properties and the *reserva legal*—the forested area

they were required to conserve in accordance with the forest code. In combination with CAR data, the GTA system could help trace cattle that originated on deforested ranches; but in late 2016, the idea remained only a concept because ranchers had until 2017 to register their properties in the CAR system, and most state government agencies kept CAR information private, as they did with GTA documents.

Until the tracing of cattle became easier and more widespread, expanding SAN certification in the cattle industry remained a significant challenge.

As of late 2016, the initiative had made little progress toward improving the cattle supply chains it had hoped to transform. Just five ranches, constituting about 16,000 hectares of Brazil's nearly 200 million hectares of pastureland, had achieved certification

Reflections and assessments

A **guaranteed premium price** would encourage more ranchers to join the program, but ranchers also might be swayed if SAN could prove greater profitability as a result of implementing the standard's criteria.

Successful models helped make the case for adopting the standards. Most ranchers "don't want to be the first ones, but if they see a good example, they will follow that,"

The **missing link in the chain was consumer demand**, and opinions differed on whether consumers would buy more-sustainable beef in the near future.

Part of the reason that the Sustainable Agriculture Network (SAN) **cattle standard failed to capture more of the beef market quickly was the organization's decision to adopt a stringent standard.**

"The SAN standard is comprehensive . . . and that's why [uptake] is small: because it deals with all of these issues at once," he said. SAN cattle certification was achievable only for well-managed ranches, and the organization relied on other initiatives for working with lower-capacity ranchers.