COLLABORATIVE APPROACHES TO ADVANCE SUPPLY CHAIN RESILIENCE

MIRIAM GARCIA
Senior Policy Manager
CDP
Moderator/Presenter

RAONI RAJÃO
Associate Professor
Federal University of Minas Gerais (UFMG)

MAURÍCIO BAUER
Corporate Sustainability Director
JBS

SUSY YOSHIMURA
Sustainability Director
GPA Holding
A collaborative initiative to advance supply chain resilience

CDP Latin America &
UK Pact NBS Brasil
ABOUT CDP

CDP is a global environmental impact non-profit working to secure a thriving economy that works for people and planet in the long term.

CDP runs the global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts.

With the world’s most comprehensive collection of self-reported data, the world’s economy looks to CDP as the gold standard of environmental reporting.

Our network of capital markets, purchasers and policymakers around the globe use our data and insights to make better-informed decisions.
Agenda

Miriam Garcia – Senior Policy Manager at CDP Latin America
- About CDP;
- Context introduction.

Raoni Rajão - Associate Professor at UFMG and Environmental Policy Analyst, at UFMG
- Importance of governmental due diligence support systems to tackle deforestation in supply chains;
- Selo Verde: advancement and lessons learned from the implementation in Pará and other states in Brazil;
- Opportunities and requirements for expansion.

Maurício Bauer – Sustainability Director at JBS
- Traceability mechanisms and the advancements in Corporate commitments to improve net positive in own operations and supply chain;
- Challenges for meat exporters and how traceability is addressed in the sector.

Susy Yoshimura – Sustainability Director at GPA Holding
- Requirements for producers and traceability challenges in markets;
- Market demands and perspectives from civil society.
IMPORTANCE OF GOVERNMENTAL DUE DILIGENCE SUPPORT SYSTEMS TO TACKLE DEFORESTATION IN SUPPLY CHAINS

Raoni Rajão
Exports’ Traceability (eg. Meat)

- Breeding farm
- Fattening farm
- Meat packer
- Exporter

- Final consumer
- Retailers
- Wholesalers
- Importer

Law Enforcement
Market Accountability

- Media
- Buyers
- Biz Lobby
- NGOs
<table>
<thead>
<tr>
<th>Regulation</th>
<th>EU Due Diligence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Products covered</strong></td>
<td>Timber + soya, chilled and fresh beef, cocoa, palm oil, coffee</td>
</tr>
<tr>
<td><strong>Controlled entities</strong></td>
<td>Operators and Traders (SMEs) first placing products in the EU market</td>
</tr>
<tr>
<td><strong>Territorial scope</strong></td>
<td>Countries with forests (FAO: 10% tree cover and min 5m height)</td>
</tr>
</tbody>
</table>
| **Prohibition**        | - **Zero deforestation**: Products produced in plots (i.e. farms) with deforestation after 31st of December 2020  
                        |   - **Zero illegalities**: Products not compliant with environmental, human rights and land tenure legislation of country of origin |
| **Penalties**          | - Suspension of imports, seizure or destruction of products by competent authorities  
                        |   - Fines of up to 4% of operator’s annual turnover                                
                        |   - Confiscation of revenues gained from commodities linked to deforestation      
                        |   - Exclusion of operator from public procurement processes                        |
Proposed EU Due Diligence

- EU member Competent Authority
- “Register” Information System (EU)
- Substantiated concerns (ex. NGOs)
- Private Auditor
- Due Diligence System (internal)

- Operators
- Trader (SMEs)

- Publicize anonymized geo-location of all transactions
- Record detailed transactions (in/out) and checks for 5 years
- Pay for inspections IF found irregularities

Audit Volume/Number
- Standard risk: 5%
- High risk: 15%

Have to check ALL substantiated concerns

Have to check ALL substantiated concerns

Publicize anonymized geo-location of all transactions
# Other due diligence legislation

<table>
<thead>
<tr>
<th></th>
<th>France</th>
<th>UK</th>
<th>USA</th>
<th>China Meat Association</th>
<th>China-EUA joint declaration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Status of proposal</strong></td>
<td>Passed (2017), implemented in 2019</td>
<td>Passed (2021), implementation in Jan 2022</td>
<td>Proposed Bipartisan (2020)</td>
<td>Signed, cutoff date TBD</td>
<td>&quot;intend to engage collaboratively&quot;</td>
</tr>
<tr>
<td><strong>Controlled entities</strong></td>
<td>Companies with +50k employees in France or +100k worldwide</td>
<td>Importers</td>
<td>Importers</td>
<td>64 largest meat importers</td>
<td>Importers</td>
</tr>
<tr>
<td><strong>Deforestation</strong></td>
<td>Not specified</td>
<td>Illegal</td>
<td>Illegal</td>
<td>Illegal and all deforestation from cutoff date (TBD)</td>
<td>Illegal</td>
</tr>
<tr>
<td><strong>Biomes</strong></td>
<td>All biomes</td>
<td>FAO (exc. tree height): tree canopy cover of at least 10%</td>
<td>Forests and wooded lands (FAO definition)</td>
<td>Forests (FAO) plus natural ecosystems</td>
<td>Forests and other terrestrial ecosystems</td>
</tr>
<tr>
<td><strong>Commodities and products</strong></td>
<td>All activities of the company</td>
<td>To be defined later soya, palm oil?</td>
<td>palm oil, rubber, cattle, leather, cocoa, wood pulp, and soya</td>
<td>Beef</td>
<td>All</td>
</tr>
</tbody>
</table>

Other due diligence legislation
Due diligence challenges

- Transparency to enable accountability
- Big Spatial Geospatial Analysis
- Analysis of Indirect Cattle Suppliers
- Avoid risk of adverse selection bias
- Easy to interpret results for buyers
- Legitimacy and knowledge to assess legality

=> Governmental Due Diligence Support Systems
Gov. Due Diligence Support Systems

Private Certifications

Corporate DD systems

NGOs independent checks

Gov. Agri-Enviro DD Support System

Transparent

Universal

Official

Governmental datasets (eg. official food safety systems)
Importance of transparency

- Private certifications and corporate reports often are “black boxes”
- Need to regain trust of markets and consumers in relation to deforestation-free claims
- Technical controversies (e.g., definition of deforestation) need to be solved rather than avoided
- Sufficient transparency (enable accountability) vs Total Transparency (may hurt data protection laws)
Importance of Universality

Private certifications enable farmers/ranchers to hide bad farms and only show good farms.

Mass balance approaches create niche markets vs real impact.

EU buys 5% and 15% of Brazil’s meat and soy exports, respectively.
Importance of Officiality

- DD legislation requires proof of:
  - Zero deforestation (some cases)
  - Zero illegalities (all cases) => complex and role of governments

- Only governments have all data required for proper DD:
  - Farms/Ranches’ geolocation and legal status
  - Invoices and animal health data showing indirect providers
  - Producer’s names in order to check for cases of slave labor

- Examples:
  - Côte d'Ivoire’s Coffee and Cocoa Council National Traceability System: under development since 2014
  - Uruguay’s Sistema Nacional de Información Agropecuaria (SNIA) & Sistema Nacional de Información Ganadera (SNIG)
  - Brazil’s Selo Verde platform: beta implemented in Pará and under development for Minas Gerais
Selo Verde / Green Label

- Integrates 59 datasets from 6 institutions
- Protects personal/sensitive data under strict access protocols
- Provides legal compliance information of both direct and indirect providers (cattle)
- Includes ALL farmers in the official Rural Environmental Registry (CAR)
- Monitors cattle indirect providers up to level 5
Selo Verde / Green Label

Aprox. 20% of Brazil’s cattle heard already signed up to Selo Verde (MG PA)
Private sector essential but cannot replace alone governmental functions

Gov. DD Support Systems are essential to clean supply chains

Emphasis on private solutions without the support of gov. DD systems could be counter-productive

Gov. DD support systems are not enough:
  - Integration with corporate system and private certifications
  - Necessary transition rules
  - Support countries/jurisdictions/farmers to adapt and obtain environmental regularization
Thank you for your time

rajao@ufmg.br