

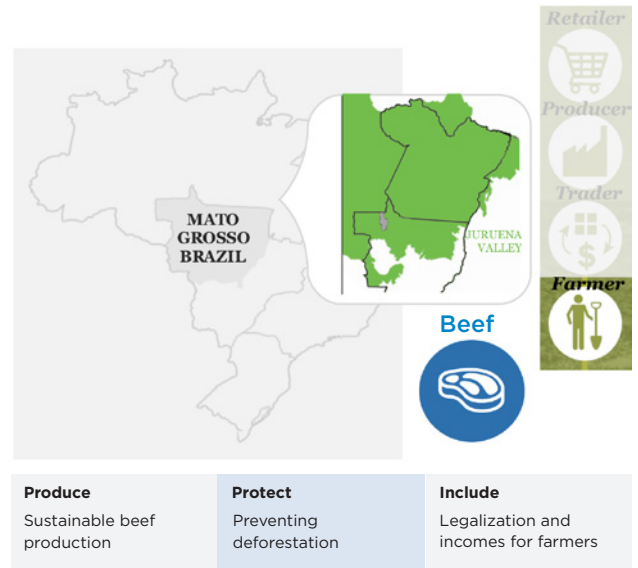
SÃO MARCELO:

The business case for a landscape approach to sustainable beef production in Brazil

Landscape: Juruena Valley, Mato Grosso, Brazil
Company Sector: Cattle ranching
Net Revenue: USD \$20 million

“I need to buy 100% from legal growers, it’s been the same for 24 years. It has been difficult for us to increase our supply base because typically in the region, what happens is that you can only check the direct seller, not the previous people they have bought from. It is a problem, because other farms don’t have traceability like we do. It is better for us for all the region to be approved, so anything from the region can be assured.”

Daniel Eijsink,
General Manager, São Marcelo



Summary

After over thirty years of strong supplier engagement, cattle ranch and family business São Marcelo is seeking to support the increase in production of sustainable, zero-deforestation, traceable beef in order to meet customer demand for such products. It does so by engaging in a landscape approach via the Produce, Conserve, Include (PCI) Regional Compact convened by IDH in the Juruena Valley, Mato Grosso, Brazil. The Compact seeks to transform the region into a verified sourcing area for cattle and family agriculture products, through public and private partnership and engagement, generating income for the local population while conserving forests.

Key Business Motivations:

Increase market share, increase profitability, increase certified sales

Landscape Maturity Level:

Advanced collaborative planning



Glossary

Biome - a region of the earth's surface with a particular combination of climate, flora and fauna.

CAR (Cadastro Ambiental Rural) -Brazilian Federal Government registry system for all rural properties under the forest code¹.

Ecotone - a region of transition between two biological communities.

Feedlot - area where cattle are fed or fattened up.

Forest Code - Brazilian federal legislation requiring landowners in the Brazilian Amazon to maintain 35-80% of their property as native vegetation, to restore Areas of Permanent Protection and to reinstate legal reserves².

Green Growth Plan/Produce Conserve Include (PCI) Strategy - Produce, Conserve, Include (PCI) strategy established in December 2015 by the Governor of Mato Grosso. State-level development strategy aiming to double Mato Grosso state's economic output by 2030 while conserving 60% of the state's native forest.

PCI coalition - the signatories to the Mato Grosso PCI strategy/Green Growth Plan; key stakeholders from government, civil society and the private sector in Mato Grosso engaged in strategizing and implementing the state level Green Growth plan.

PCI Regional Compact - an agreement between public, private (including both companies and farmers) and civil society (including both NGOs and local communities) stakeholders to enhance the sustainability and productivity of land and secure community livelihoods in exchange for forest protection. Used to operationalize PCI targets at the regional level.

Meatpacker - slaughterhouse involved in preparing and packing meat for transportation and sale.

Municipality - administrative divisions of the Brazilian states with their own governing bodies.

Regularization - the legalization process of farmers once categorized as 'illegal' under Brazilian law and the Forest Code.

Verified Sourcing Areas (VSA) - defined areas or jurisdictions (e.g. municipalities, or regions with clear geographical boundaries) with a clear governance linked directly to market demand and sustainability criteria for relevant commodities. This makes it possible to verify, at landscape level rather than individual production unit level, sustainability targets related to good agricultural practices, forest and peat protection, and governance itself.

1. <http://www.mma.gov.br/mma-em-numeros/cadastro-ambiental-rural>

2. http://assets.wwf.org.uk/downloads/wwf_brazils_new_forest_code_guide_1.pdf

Background

São Marcelo Farms

São Marcelo Farms (Fazendas São Marcelo) is part of a group of family owned enterprises belonging to Brazilian company Grupo JD whose main business lines are the sale of livestock and the packaging and sale of fruit. The company operates three cattle farms in the state of Mato Grosso. Its largest ranch in Juruena which has been established for over thirty years spans an area of 79,000 acres. From here the company sells approximately 28,000 animals per year to the federal meatpackers of Brazil. Beef and leather products are then sold on to end buyers. Eighty percent of São Marcelo's production is sold domestically in Brazil, with 20% being sold for export. The exported products are sold on to many leading producers and retailers in Europe.

São Marcelo Farms oversee the cattle's entire life cycle – breeding and rearing calves, before sending them to Marfrig slaughterhouse for fattening and eventually slaughtering. São Marcelo also buys calves from other farmers before selling them on to Marfrig. The company has a long term vision for its business focused on the delivery of ever higher quality beef products. It promotes quality through a model of accepting genetically superior calves, including the prized Nelore breed, from its 300 suppliers in the region at a high price. The company has worked closely with its suppliers on quality requirements for many years. It sells the sperm of high quality, fertile, healthy bulls, to other farms for breeding, ensuring the supply of high quality cattle for the future.

As well as distinguishing itself in terms of quality, the company, under the auspices of its parent company Grupo JD, markets itself as a leader in sustainable production, and is the world's first cattle farm to be Rainforest Alliance certified for the sustainable production of cattle. The ranches include multiple protected areas, including a 32,000-acre (13,000-hectare) reserve in the Amazon that shelters rare primates like the Brazilian bare-faced tamarin.

Mato Grosso: Beef powerhouse of Brazil

It is estimated that Brazil contains 209 million heads of cattle, grazing a combined area of 167 million hectares (ha) of grassland. In 2015, beef exports accounted for 3% of all Brazilian export revenues and in the same year, Brazil's beef sector accounted for 14% of global beef output, second only to the USA. Total meat exports from Brazil were just short of EUR 12 billion in 2016, with its greatest import markets in China, Saudi Arabia and Russia³.

Brazil's cattle industry is primarily based in the central and western part of the country, with the Mato Grosso

state leading production with a herd of 28 million heads. The state is made up of thousands of cattle ranchers and three main federal level meatpackers: JBS, Minerva and Marfrig. These slaughterhouses export beef products to end retailers around the world. It is predicted that slaughterhouses in the state operate at approximately 50% of their capacity, indicating the very likely possibility of the sector continuing to grow.



Beef as a key driver of deforestation in Mato Grosso

The state of Mato Grosso is the largest agricultural producer in Brazil. It produces 9% of the global supply of soy, 60% of Brazil's cotton and is the top producer of the country's beef, supplying to both domestic and international markets. Today, Mato Grosso is characterized by the clearance of forest areas for timber extraction, which is followed by cattle ranching on the cleared areas. Grazing pastures occupy 62% of the entire area cleared in the Amazon after 2009⁴. The sector's association with forest clearance has led to a number of high profile pressure campaigns from civil society groups, perhaps most notably in 2009 when environmental campaigners Greenpeace released an article entitled 'Slaughtering the Amazon' that cited cattle ranching as the biggest driver of deforestation in Brazil. In a recent study, 128 slaughterhouses are said to be linked to illegal deforestation connected to the beef sector in the Amazon⁵. In response to this public pressure 51 buyers have now established 'no-deforestation' beef sourcing commitments⁶. One of the sector's main challenges is to respond to this two pronged demand of the market: to improve meat quality whilst reconciling production with protecting forests and biodiversity.

Challenges to production in the region

Of the total herd in Mato Grosso, approximately 31%

3 <http://www.agriland.ie/farming-news/the-brazilian-beef-industry-just-how-big-is-it/>

4 <https://globalforestatlas.yale.edu/amazon/land-use>

5 <https://news.mongabay.com/2017/07/study-links-most-amazon-deforestation-to-128-slaughterhouses/>

6 <http://supply-change.org/commodity/cattle>

comes from indirect suppliers (ranches that sell to other ranches and do not supply directly to the slaughterhouse). Buyers of beef increasingly want to know the origins of suppliers, but the complexity of supply chains means that tracing origins is very challenging. This is made more pertinent due to the fact that 17% of deforestation in the region is predicted to be the result of these untraceable, indirect suppliers⁷.

More than half of the cattle ranches in Mato Grosso are highly unproductive with an average of 0,5 animal/ha. Beef farmers in the state are often stuck in a cycle of low productivity due to pasture degradation. This has been attributed to poor knowledge at the farm level on best practices for herd and pasture management and a lack of access to technical assistance to improve this, poor access to high productivity genetics, and a general lack of access to finance and knowledge of livestock production cash flow. Farmers often turn to pasture expansion, usually in the form of forest clearance in an effort to improve production.



Supplier legality is also a challenge. The national government's Forest Code established in 1965 and revised in 2012, requires landowners in the Brazilian Amazon to maintain 35-80% of their property as native vegetation, to restore Areas of Permanent Protection and to reinstate legal reserves. In order to monitor this, in 2010 the Brazilian government made it mandatory for all rural properties to be mapped and registered through a government system known as CAR (Cadastro Ambiental Rural). Large numbers of farmers in the region have subsequently been categorized as having conducted 'illegal' deforestation in the face of the Forest Code and are blacklisted by buyers until they can become regularized (recognized as legal under the Forest Code). São Marcelo can only buy animals from suppliers that are in compliance with the Brazilian law, this is checked at every farm before they make a purchase. However,

this limits the potential supply base of the company and leads to smallholder exclusion, fuelling the low productivity cycle further.

Mato Grosso's Green Growth solution: The Produce, Conserve, Include (PCI) strategy

In response to the challenges to production in the region, the government of Mato Grosso has established an ambitious 'Green Growth plan', with plans to double the state's economic output by 2030 while conserving 60% of the state's native forest. The Green Growth plan is implemented via the Produce, Conserve, Include (PCI) strategy established in December 2015 and led by the Governor of Mato Grosso. The PCI framework is a shift in the state's economic development model to one of sustainable production. The PCI targets the elimination of 'illegal deforestation' by 2020, the protection of 60% of native vegetation, the land title regularization of 70% of the land area, and the recovery of 2.5m ha of degraded pasture and double the kilograms produced per hectare. The policy also hopes to extend credit and training to farmers. The multi-stakeholder PCI coalition is made up of leading producer companies, NGOs and the state government engaging in activities to prevent deforestation, restore forests, improve livelihoods and increase economic output in Mato Grosso. São Marcelo attends the PCI coalition as a private sector attendee and their main buyer Marfrig is a founding member.

Operationalizing state plans: The Juruena Valley PCI Regional Compact

In order to operationalize some of the targets under the Green Growth plan in Mato Grosso and to facilitate the delivery of the PCI strategy at the regional level, IDH is implementing PCI Regional Compacts in 'hotspot' areas in the state where there is the potential for high impact against the three pillars of production, conservation/protection, and inclusion.

The Juruena Valley, inclusive of both Juruena and Cotriguaçu municipalities, is located in the Northwest of Mato Grosso state. Both municipalities are located inside the "deforestation arc", a term created to define a 500,000-km² area that stretches from Mato Grosso to Acre state with intense land-use and land-cover change and considered the main frontier for recent deforestation in the Amazon. At the same time, the region is an ecotone - a transition area between two biomes - the Cerrado (Savannah) and Amazon, and is highly valuable in regards to conservation.

The Juruena Valley region is known as a leading producer of calves sold into the complex beef supply chain, going through rearing and fattening before ending up at different meatpackers in the region. Both areas are

⁷ https://www.icv.org.br/wp-content/uploads/2016/03/Desmatamento_Amazonia_pt.pdf

known for their low productivity cattle ranching activities and conflicting land claims; land regularization is the most significant challenge in the region. These challenges have meant that the area is currently unable to meet market demands for sustainable beef, making it a commercially suitable location for the work.

The Juruena compact is one of three key compacts that IDH is operationalizing in Mato Grosso in its efforts to facilitate the delivery of the Mato Grosso state PCI strategy on the ground at a regional level. A PCI Regional Compact is an agreement between public, private (including both companies and farmers) and civil society (including both NGOs and local communities) stakeholders to enhance the sustainability and productivity of land and secure community livelihoods in exchange for forest protection. Developing a compact involves four key stages:

1. Scoping phase - collecting baseline information of the landscape and identifying the compact's main stakeholders, possible sources of funding, and potential interventions.
2. Coalition building phase - engaging key stakeholders in the landscape from government, the private sector and civil society.
3. Building blocks for the compacts are established - these include land-use maps, a financial needs analysis, targets, and a monitoring and evaluation program.
4. The PCI compact is signed by its coalition.

IDH's seed funding for the Juruena Compact is being used to support the compact building process. IDH began scoping for the Juruena Valley PCI Regional Compact in September 2017 and the scoping phase has recently been completed. Once a governance structure is in place and the sub targets defined, external investment will be sought. São Marcelo is one of the key private sector actors being engaged. The company is a key influence and opinion leader, with a wide network particularly in the region's private sector. The involvement of São Marcelo rests on the business case for them to be involved and the opportunities the compact will provide them that traditional farm level and certification initiatives could not. The completion of the scoping phase and the signing of a letter of intent in February 2018 signals the intent of the key stakeholders (including São Marcelo) to be engaged and work towards the implementation of the PCI Regional Compact. Interested stakeholders currently include São Marcelo, Carrefour, IDH, a number of local financial institutions, civil society organizations, local government departments - including the local municipality mayor, and state level representatives. This multi-stakeholder coalition will work towards a set of targets to be signed by key stakeholders, and that will focus on the following pillars:

Production:

- Increase cattle production while reducing deforestation.
- Increase volumes and sales for family agriculture products while increasing income.

Conservation/Protection:

- Avoid new illegal deforestation in Cotriguaçu and Juruena municipalities.
- CAR validation and meeting forest code demands.

Inclusion:

- Promote solutions on land tenure issues in the region.
- Support family agriculture value chains in the region through market access and infrastructure investments.

Differentiating the region in a global market through creation of a VSA

After the PCI regional compact is signed, the objective will be to ensure the region can be identified as a Verified Sourcing Area (VSA). Under a VSA, a buyer will know exactly whether the product it is procuring is produced based on a set of sustainability criteria. If a region, such as the Juruena Valley, can guarantee low-risk sourcing, or can demonstrate progress in the way it addresses certain risks (such as deforestation) this will attract buyers who are increasingly demanding sustainable products. For São Marcelo, the Compact is seen as a means to partner and gain support to protect 172,000 ha of forest and upgrade the production of small-scale calf suppliers on 100,000 ha of farm land. One of the key objectives is to ensure that sustainability does not stop at the farm gate or at a sub-landscape-level, but is implemented throughout the whole landscape. Working at the landscape level will enable São Marcelo to attract buyers on a preferential sourcing basis and to meet verified calf demand.

Attracting investment

Building a verified sourcing landscape also has the potential to attract potential investors from funds such as the &Green fund⁸ and the Amazon Fund⁹. The &Green fund has strict investment criteria, only investing in regions that meet its Jurisdictional Eligibility Criteria (JEC), where local authorities are committed to the reduction of deforestation and are actively taking steps to work with the private sector, communities and civil society to protect forest and peatlands. São Marcelo is currently undergoing the review process to become an investee of the &Green Fund so that it can start accessing this funding.

8 <http://www.andgreen.fund/>

9 <http://www.amazonfund.gov.br>

Convening and Governance

State-level convening

The Mato Grosso PCI coalition includes Brazilian owned Amaggi - the largest soybean company in the world, and Marfrig Global Foods - the second largest beef seller in the world. As well as these private sector actors, the coalition includes the Mato Grosso Agriculture and Livestock Federation (Famato), civil society groups: the Earth Innovation Institute, Instituto de Pesquisas Ambientais da Amazonia (IPMA), Environmental Defence Fund, Instituto Socioambiental and Instituto Centro de Vida. Data specialists, Agroicone are also involved to lend their expertise in world agribusiness analysis, as well as the Mato Grosso Timber Production and Export Industries Center (CIPEM), and the Mato Grosso Federation of Agricultural Workers (FETAGRI-MT).

São Marcelo's narrative to its global buyers about the production of its beef depends very much on alignment with activities and legislation around deforestation at the state level. For example, if São Marcelo markets all beef produced from the state as being 'deforestation-free' it is important that the state government supports this, in order to ensure the company's integrity in the eyes of global buyers. Via its membership of the PCI coalition, the company can engage directly with the state government and other influential actors on these topics.

Building on a strong legacy of supplier engagement

Over the last 30 years of conducting business in the Juruena Valley, São Marcelo has built strong relationships with its suppliers. Seventy-per-cent of the beef produced by the company comes from small farmers (small farmers in Brazil are landowners with areas smaller than four fiscal modules. The size of a fiscal module varies by region, but the maximum size of a small property is approximately 400 ha¹⁰). Through regular engagement with farmers to improve the quality of beef and the genetics of bulls, strong buyer-seller relationships have been established, with farmers receiving up to 5% above market rate for high quality calves. When São Marcelo began to hear calls from the market for sustainable, 'deforestation-free' as well as high quality beef, the company decided to leverage the strong supplier network it had cultivated. São Marcelo approached IDH in August 2016 to propose a partnership to help it better structure and scale its supply chain to respond to these changing demands. IDH, São Marcelo and Carrefour are currently working to establish a co-funded small farmer outreach project targeting 157 farmers. The work leverages the relationships São Marcelo has already built with its farmer networks and the second phase will expand it to include other farmers, outside of the supply chain. The scope of engagement has also expanded, going beyond quality to also cover the intensification of calf production at farms (at least 20% of the production area or 26,300 ha) whilst also conserving forest resources and promoting inclusion through regularization and compliance with environmental and land laws in force in Brazil.

In doing so São Marcelo will be able to expand its supply base to meet increasing customer demand. It will also meet these demands by promoting its verified calves which originate from a minimum risk area under a program of socio-environmental control. This work will also facilitate the achievement of the Juruena Valley Compact public commitments and will assure the environmental return for the Green Fund once São Marcelo is approved for investment. It should also create the basis for the next level of investments that could come to the region via Amazon Fund.



Coming together at the municipality level

In order to unlock these new business opportunities at scale, the farmer outreach project cannot exist in isolation and is dependent on the engagement of other stakeholders in the region. Only by engaging with the government bodies responsible for land titles and environmental regularization, for example, can São Marcelo expedite its plans to help regularize farmers in the region. Therefore, São Marcelo is now engaging with IDH around participating in the PCI Regional Compact in Juruena.

NatCap, a consultant, has been contracted to lead the development of the Compact, and is bringing together a landscape level coalition, which will work on the Compact development and implementation. Organizations involved in the coalition will include São Marcelo, Carrefour, representatives from the local municipalities, distributor of agrochemicals - AgroAmazonia, Mato Grosso's Ranchers Association, and Acrimat, which represents the cattle industry's interests to the federal government. The local rural unions will also be involved as well as cooperative financial institution - Sicredi which has a history of providing finance to ranchers to help with productivity improvements. The state level Sustainable Municipalities Program and the public ministry will also be part of the coalition.

¹⁰ http://assets.wwf.org.uk/downloads/wwf_brazils_new_forest_code_guide_1.pdf

The Business Case: Rethinking Sustainability Opportunities

São Marcelo's entry point to the Juruena Compact was spurred by increasing demands from the domestic and international markets for traceable and zero-deforestation beef products. Grupo JD President, Arnaldo Eijsink, clearly identified the financial opportunities of serving this gap in the market. However, he also went further and envisioned the collective benefits possible from working with farmers beyond the company's current supply chain, working with its competitors and with the state government, to scale the potential returns for both the company and the region. Some of the key commercial opportunities identified by the company are described here.



Satisfying unmet customer demand for sustainable beef

São Marcelo explains that customers are requesting three times the volume of high quality, traceable, zero-deforestation beef that the company can currently supply. This demand comes from both the export market and domestic market. Being both legally and Rainforest Alliance compliant, São Marcelo can only buy from checked suppliers who are 'legalized' under Brazilian law. Currently, São Marcelo only buys calves (young cattle) and so has good visibility on the origin of the cattle they buy. Suppliers are both legal themselves (i.e. have not deforested under the Forest Code) and are strongly incentivized not to buy their calves from other non-legal (deforesting) suppliers, because the verification of suppliers is very strict.

This commitment to high traceability and sustainability standards limits the number of farmers that São Marcelo can currently buy from. It is challenging for São Marcelo to quickly increase its options for checked suppliers due to the nature of complex, conventional cattle supply chains in the region. Supply chains are long with many nodes at which calves are bought and sold. Farms typically only have visibility on the legal status of their direct suppliers, and lack the visibility on the legal status of the

farms their suppliers may have bought from prior to selling the calves to them. Complex supply chains can mask potential deforestation taking place at ranches further up the supply chain and are very difficult to verify for legality and to certify.

“I need to buy 100% from legal growers, it's been the same for 24 years. It has been difficult for us to increase our supply base because typically in the region, what happens is that you can only check the direct seller, not the previous people they have bought from. It is a problem, because other farms don't have traceability like we do. It is better for us for all the region to be approved, so anything from the region can be assured.”

Increasing the traceability for indirect suppliers will remain a challenge, particularly due to the fact that carrying out systematic traceability projects is expensive and highly resource intensive given that São Marcelo has over 300 indirect suppliers. By engaging with the PCI Regional Compact, and working with farmers in the state on legalization and sustainable practices indiscriminately, the company aims to assure buyers that any products they purchase from the region are moving towards 'sustainable', even if full traceability cannot be achieved. Working with farmers outside the current supply chain will increase the volumes of beef that can be used to satisfy the unmet customer demand for traceable, deforestation-free beef.

The government of Brazil has its own definitions of deforestation ('legal and 'illegal deforestation' in line with the Forest Code) which may not necessarily align with definitions assumed by São Marcelo's international customers. If the company is to fulfil its ambitions for sales of 'no-deforestation beef' at scale, it is essential that its dialogue with the government is proactive in order to ensure that communication from the region is consistent.

Achieving higher prices and securing new buyers due to market position as verified sourcing region for sustainable beef products

Companies are increasingly recognizing that to really tackle deforestation in their supply chains the certification of individual farm areas is not enough, and may even

shift deforestation to other areas. This has led to a surge in responsible beef sourcing commitments asking for traceable and sustainable no-deforestation beef in recent years (51 international end buyers with public commitments as of December 2017). It has also led to a preference for 'jurisdictional sourcing' whereby companies look preferentially to sourcing regions where governments and the private sector are showing ambition and action on deforestation, for example Unilever's 'Produce and Protect' investment model¹¹.

São Marcelo faces opportunities for business with a cohort of potential new customers. The company is seeking increased market share. São Marcelo envisions that if the company supports other ranchers to become legalized and improves their practices pre-competitively, the region at large could be recognized as a sustainable jurisdiction and could benefit from higher prices throughout. São Marcelo would then benefit from the good practices of others indirectly, via increased prices regionally and increased interest from new buyers attracted to the region as a favoured sourcing location.

“The region is very important. If the region is recognized in the future as having higher quality products, the regions will have higher prices, Mato Grosso could have a higher price for the whole state. We want to be known as a region with both high quality beef and sustainable production”.

For the Mato Grosso state to have jurisdictional recognition in the eyes of global buyers, São Marcelo needs to engage with the government at the municipality and state level to ensure the company is aligned with its PCI strategy and the way in which the state plans to promote itself and its exports externally. It is therefore integral that São Marcelo leads engagement with the municipality mayors and brings them to the table of the Jurueña Compact once formed. It will also be important for the company to seek to align with and influence where possible, the state level PCI to help shape strategy in its interest. For the state's production to be recognized globally as 'sustainable', it is essential that all the leading commodity producers typically driving deforestation are bought into the PCI Regional Compact and participate in its implementation. These multi-stakeholder platforms

provide a basis to bring all the key players together and to hold them to account.

“In the last year this partnership has helped us to be more in line with government strategy in the state.”

Increase profitability through differentiation based on quality

By sharing the costs of the landscape level work as part of the PCI Regional Compact with IDH and, in the future, other stakeholders, São Marcelo is aiming to reduce the potential costs required to regularize suppliers and improve their practices in all areas. For example, many ranchers are currently in a negative production cycle but lack the technical assistance and access to finance to lift themselves out of this situation. The short-term solution is clearing more forest to expand production. With the involvement of local financial institutions e.g. Sicredi, in the Compact, this key piece of assistance around farmer access to credit could be provided, complementing the ranch management assistance provided by São Marcelo.

São Marcelo can only purchase animals from suppliers that are compliant with Brazilian law (i.e. don't have illegal deforestation and don't have irregular workers). This is checked by the company using Agrottools software at every farm before a purchase is made. By working with multiple stakeholders to regularize farmers and by working with them to improve sustainable practices, São Marcelo will increase its potential supply base of beef. The company will then be able to use quality as a differentiating factor in its purchasing, and will guarantee its quality premium.

“We predict the same quality premium that we are earning now, but we are going to improve by having lower costs and better yields.”

This increase in quality has a secondary benefit: as São Marcelo increases its opportunities for buying high quality calves, it simultaneously lowers costs at the ranch level due to the fact that higher quality breeds consume less food volume per kilo of beef¹². By increasing the volume of cattle sold at a quality premium and decreasing costs at the farm level, the company's profitability will be increased.

¹¹ <https://chainreactionresearch.com/2017/01/24/the-chain-unilever-makes-produce-protect-commitments-marks-spencer-supports-new-corporate-palm-oil-reporting-guidance/>

¹² http://www.earth-policy.org/books/pb2/pb2ch9_ss4

Increase capacity and in turn increase volume of sales of Rainforest Alliance-certified beef

São Marcelo's ranch in Jurueña is 79,000 acres in size with 60% of the area conserved as forest, unusable for grazing animals. The farm has no possibility for expansion and is operating at capacity. In order to overcome the limiting factor of space, São Marcelo breeds and rears calves, but also buys calves from third party suppliers before selling them to the region's meatpackers. Each small farmer typically owns a plot of land of approximately 560 ha in size. Rainforest Alliance certification for sustainable beef currently requires that calves spend a minimum of 180 days on a certified ranch¹³ during their lifetime. Without other ranches in the region being certified, São Marcelo is limited in its options for buying calves from its neighbours to sell as certified product.

“We can increase our production, but we have limits in terms of space, the idea is to develop other growers and partners to help support the market.”

By helping other actors in the landscape to become legalized and eventually certified, São Marcelo can reduce the number of days a calf is required to stay on its ranch, and can use the capacity of other ranches in the landscape for its benefit. The company can then sell more volumes of certified sustainable beef, and receive the sustainability premium offered for these products. Rainforest Alliance also makes requirements in regards to yields of beef per hectare of production, and it is a requirement that this must increase each year, further increasing potential certified volumes at both the São Marcelo ranch and those of its suppliers.

In regards to deforestation, the Rainforest Alliance Sustainable Agriculture Standard requires that High Conservation Value (HCV) areas have not been destroyed since November 2005. It also requires that farms have not destroyed forest or other natural ecosystems in the five year period prior to the date of initial application for certification or after January 2014 whichever date is earlier. Government intervention and enforcement on deforestation will be critical for helping the broader spectrum of suppliers to become certified under these standards that are currently more stringent than national rulings on deforestation. São Marcelo's engagement with the government on this critical issue via both the PCI Regional Compact once formed, and through the PCI coalition is essential to them realizing their ambitions for increased sales of certified beef.

¹³ <https://www.rainforest-alliance.org/business/sites/default/files/site-documents/agriculture/documents/san2017-english/SAN-Standard-2017.pdf>

Table 1: São Marcelo’s Business Opportunities for Engaging at the Landscape Level

This table summarizes the key business motivations for Sao Marcelo to engage in the landscape approach in Juruena. It is built around the main commercial opportunities that could be realized by the company by engaging with the program and why a landscape approach in particular was necessary to achieve its objectives.

Opportunities	Specific impact opportunity	Business/financial implications	Why can these opportunities not be realized within company boundaries?
Type of business opportunity	What specific driver offers an opportunity to the business?	What could this impact mean financially for the business?	Reason why the realisation of the opportunity requires a landscape approach
Opportunity: Satisfying unmet customer demand for sustainable beef	São Marcelo is currently only able to meet approximately 1/3 of its customers’ demand for sustainable beef due to challenges around traceability of indirect supplies. Working with all farmers in the state on legalization and sustainable practices means the company can assure buyers that any products they purchase from the region are moving towards ‘sustainable’.	Working with farmers outside the current supply chain will increase the volumes of beef that can be used to satisfy the unmet customer demand.	Carrying out full traceability exercise of suppliers would be too expensive. The company can meet the demand through the PCI Regional Compact approach, working with farmers in the state on legalization and sustainable practices beyond their current supply base, indiscriminately. This assures buyers that any products they purchase from the region are moving towards ‘sustainable’, even if full traceability cannot be achieved.
Opportunity: Achieving higher prices and securing new buyers due to market position as verified sourcing region for sustainable beef products	The landscape work can facilitate the region at large being recognized as a sustainable jurisdiction and could benefit from higher prices at a regional level. The company can secure new international contracts with large buyers in sustainable commodity markets looking for sustainable product sourcing areas.	Increased revenue through increased prices regionally and increased sales volumes from new buyers.	Working beyond the company’s direct supply chain is required to market the entire jurisdiction as ‘sustainable’.
Opportunity: Increase profitability by differentiating based on quality	By working to regularize and improve sustainability practices of farmers beyond their supply chain São Marcelo will increase its potential supply base of beef, allowing for differentiation based on quality.	Guarantee quality premium and lower costs at the ranch level due to the fact that high quality cows consume less food volume per kilo of beef. Profitability increases as a result.	By sharing the costs of this landscape level work other stakeholders, São Marcelo reduces the potential costs of the resource required to regularise suppliers and improve their practices in all areas.
Opportunity: Increase volume of sales of Rainforest Alliance certified beef	The company has limited space to expand its operations. By helping peers to be legally compliant through the work of the PCI Regional Compact, they can eventually become Rainforest Alliance certified. São Marcelo can then use their peers’ ranch space for rearing and fattening cattle to be sold with a certification premium.	The company can sell more volumes of certified sustainable beef, and receive the sustainability premium offered for these products.	By helping other actors in the landscape to become certified, the company can overcome the limitations of space within its company boundaries.

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