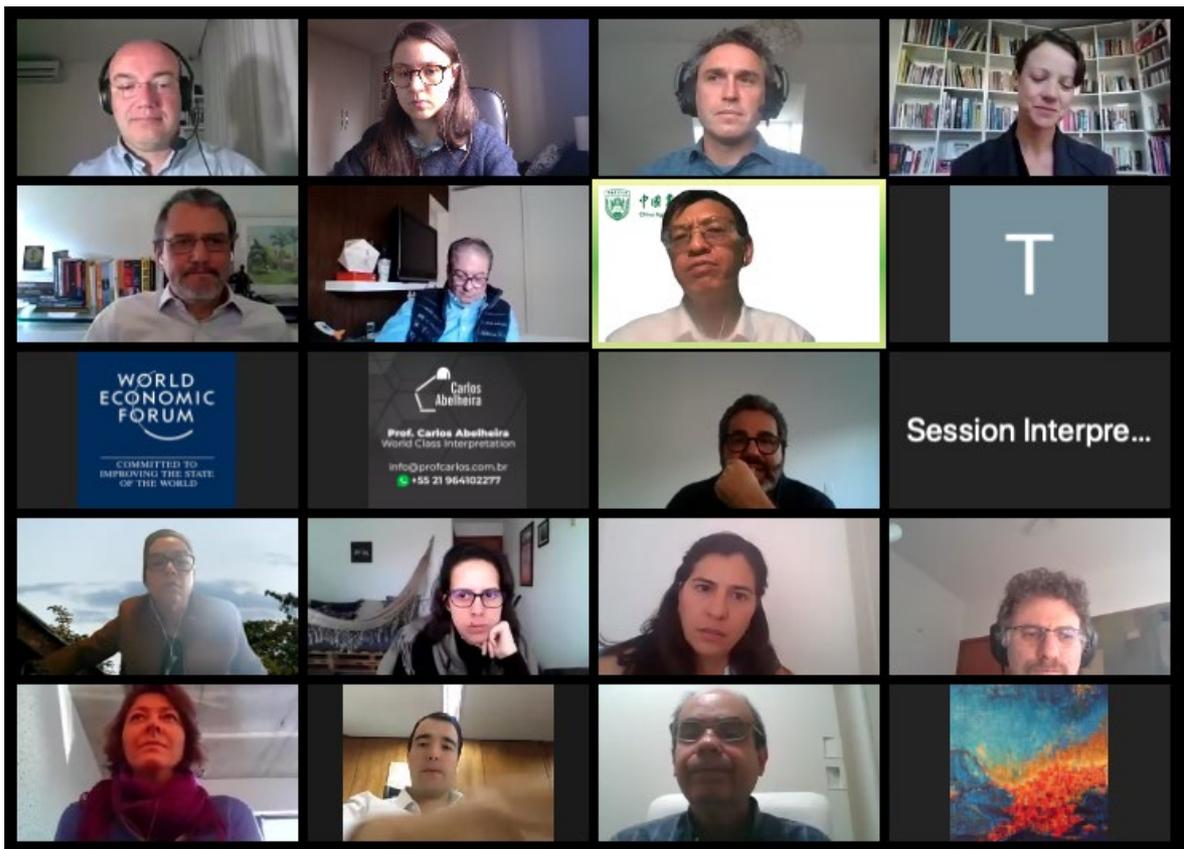


A Brazil-China Dialogue (2): Opportunities for Brazil-China collaboration for a more sustainable, safe and productive beef value chain

Videoconference
27 August 2020



Summary

This is a brief account of the virtual meeting held by TFA on August 27, 2020, involving approximately 80 representatives of organizations in the beef chain, from Brazilian and Chinese organizations in private and public sectors.

The dialogue is the second of four dialogues till the end of the year and addressed concerns of China's consumption market and importers of Brazilian meat as well as opportunities and obstacles to foster the development of a more sustainable, safe and productive beef value chain in Brazil.

Among key issues addressed from the perspective of public policies was the need to apply the Brazilian Forest Code to fight illegal deforestation as well as regularize land tenure. These are crucial aspects without which payments for environmental services and restoration of degraded pastures are unlikely to happen.

From the perspective of private sector engagement, some initiatives are already being taken by leading meatpacking industries to commit to deforestation-free supply chains and to adapt their production to attend the demands of Chinese markets. It has required as well as offered an opportunity to intensify the modernization of beef production in Brazil.

Throughout beef dialogues TFA intends to build a roadmap with actions to reach a shared vision of the transitions required to go from the current state to a more sustainable, safe and productive beef value chain.

Context: Brazil – China relations regarding meat supply

Meat production in Brazil over the past years and priorities for Chinese consumers

Brazil is the primary supplier of beef in China and Brazilian exports to China and other Asian countries accounts for more than 50% of Brazilian exports. Even though there has been a big increase in crop livestock in recent years, Brazilian yields aren't considered productive. Too much land is being used but not as much beef is being produced: Brazilian government estimates that 21% of the territory are pastures and has an average of 15kg of beef per hectare.

A couple factors are responsible for a higher demand of beef in China. To name a few, since the swine flu Chinese consumption of pork has decreased, even though it continues to be their primary choice of meat. There has also been an "westernization" of diet patterns in big Chinese cities, increasing the consumption

of chicken, poultry and beef. A sensitive remark of this diet pattern is the fact that it used to be unusual for consumers to cook beef in their households or even have it delivered. Other key factors include higher income, rapid urbanization and the recent US-China trade war.

These factors have created an opportunity to increase Brazilian beef exports to China as well as to modernize Brazilian beef production to satisfy consumer's demands both in quantity and quality. Priorities for Chinese consumers and China's expectations for the long term and regarding Brazilian beef involves a reliable, safe (including hygiene protocols), secure, sustainable and more environmental cattle production and supplier as well as a higher quality product.

Opportunities for strengthening Brazil-China collaboration

With large proportions of the territory as pastures, the Brazilian government sees an opportunity to implement partnerships for **policy** and **technological solutions** on scale and commit to zero illegal deforestation. The Ministry of Agriculture states that deforestation is a land governance issue and not a technological one.

Regarding policy, Brazilian government highlights the existing low carbon agriculture policy, the credit for farmers and the 32 million hectares that could be used to intensify production. Brazil has been producing younger cattle: approximately 17% is under 2 years old, decreasing the carbon emissions and improving taste and quality in general.

Policy measures also demand a **better commercial relationship between Brazil and China**: according to producers, it takes about 4 years to implement measures to offer the product that China demands. This requires wide credit lines specifically to this production, but more than anything, it requires **stability in trade relations**. If producers are certain of exports, they can commit to producing by attending the Chinese standards.

Brazilian government along with Marfrig and Embrapa is launching the **low carbon stamp** and neutral carbon meat that can be offered to international markets. Brazilian government sees the international market as a very important partner to incentivize sustainable practices and investments in low carbon technologies. From studies presented by Prof. Shenggen Fan, many companies aren't acquainted with accepted practices and certifications required by Chinese market.

The industry states that Brazil has a singular dynamic: aside from the fact that there are more cattle than people, solutions are not verticalized and not all properties have the same cycles. Therefore, **there are technological solutions coming from the private sector**, for instance the Plano Marfrig Verde+. It is an initiative that seeks to include producers that might be at the margins of technological innovation and take part in sustainable cattle production. JBS and Minerva are working to improve their own traceability systems as well. The Brazilian Coalition for Forests, Climate and Agriculture is currently undertaking a study on the costs of the transition for producers and possible collaborations between China and Brazil.

WWF is promoting a series of encounters between companies that have taken action towards a more sustainable production of other commodities and Chinese companies to better understand demands of consumer markets and find solutions for beef based on previous experiences. The goal is also to design better agreements between China and Brazil. TNC and the Chinese Institute of Finance and Sustainability are working on the development of a business case for expanding Chinese investment in DCF soy and meat production in Brazil.

There is still room and need for developing technological solutions regarding the recovery of degraded pastures to avoid opening areas, new financial models and mechanisms, as well as for technical assistance, monitoring, traceability¹, and preferably solutions that allow to integrate these demands. It is important to keep in mind that the presented solutions so far still have to improve on taking perspective in a bigger picture: they need to be integrated and also considering the change on protein intake and nutritional patterns

Finally, it has been pointed out that Brazilian exports account for approximately 20% of Brazilian beef production and the general concern of civil society is if sustainable practices will be applied only for exports or internal, Brazilian markets will benefit from these initiatives.

Considering China's concerns on sustainable production, the will to mitigate risks of deforestation and the guidelines for accountability in a jointly sustainable production; the Brazilian government is committed to zero illegal deforestation and civil society is willing to find solutions for zero deforestation.

¹ The "[Beef On Track](#)" is an example and Brazilian Coalition has recently finished a study on traceability that will be presented during the Climate Week in New York.

Opportunities for investment

There is increasing interest for investments in sustainable beef production from all sorts of investors (governments, insurance companies, international banks, commercial banks, institutional investors, family offices and informal finance networks) and there's a lot of products being developed. Why are these investments being held back? For China, investors would consider investing in sustainable beef in Brazil under the following conditions:

- It must serve national interest and investment strategies of China. On a general review, the projects do meet these conditions considering that they assure food safety for China providing the long-term meat supply
- The investments need to be bankable
- Embedded risks need to be managed well, for instance policy uncertainties and operational/legal risks

The Institute of Finance and Sustainability is designing blended financial mechanisms between development banks and global philanthropic funds – reckon to be essential in risk mitigation, reducing the cost of capital for private investors.

Public resources from the UK may be available to help mitigate risks and accelerate business that might have positive impacts on land use for sustainable beef. The beef sector is considered one of the most promising sectors to attract investments due to productivity gap and available techniques to improve its productivity. There are also existing public funds in Brazil such as ABC program and the increasing national and international demand for sustainable beef, mainly China's.

Investors realize that environmental impacts of sustainable beef are clear but there is also the potential for social impacts in terms of land use and income generation. Unfortunately, such opportunities are not translated into bankable opportunities so far.

Rabobank has developed for the UN environment the Agri3 Funds. It is an initiative to unlock US\$ 1bi for forest conservation and sustainable agriculture. The use of degraded land for cattle and sustainable intensification as well as inviting producers who have legal deforestation rights to abstain from them, helping with sustainable intensification are preferred paths and interests of Agri3. They offer longer finance periods and different investment sizes (US\$ 10 to 30 million) making it possible to group smaller farmers.

Summary of current hurdles

Hurdles:

- Land regulation in Brazil
- Implementation of Brazilian Forest Code to incentivize PESs and the restoration of degraded pastures
- Coherent alignment between GTA (Guia de Transporte de Animais) and CAR to bring uniformity between the sanitarian and the environmental traceability public systems

Challenges:

- Innovative technological solutions and assistance
- Innovative financial mechanisms to help producers transitions to sustainable beef
- Mechanisms to mitigate investment risks
- Attend food safety protocols and food security of China
- Commercial stability and security for Brazilian producers

List of Attendees

The meeting was attended by nearly 80 representatives from China and Brazil, including from civil society, consumer facing organizations, the government and academia, as well as many international actors. The facilitation team was composed of James Allen and Cristiana Martin from Olab.

	Participant	Organization
1	Alberto Bicca	Apex
2	Ana Paula Ayama Gutierrez	UK Embassy - Brazil
3	Anna Lucia Horta	TNC
4	Ben Valk	Rabobank
5	Caio Penido	GTPS, IMAC (Mato Grosso Meat Institute)
6	Carlos Libera	Bain & Company
7	Chunquan Zhu	TFA China
8	Cristiana Martin	Olab
9	Dancy Zhang	WEF
10	Daniel Coronel	TFA Peru
11	Daniela Mariuzzo	IDH
12	Daniela Teston	WWF
13	David Cleary	TNC
14	Dylan-Anderson Barens	CIAT
15	Eduardo Caldas	TFA Brasil
16	Emma Gollub	GCP
17	Enilice Garbellini	ABCZ
18	Fabiola Zerbini	TFA Brasil
19	Fan	MAPA
20	Felipe Carazo	TFA
21	Fernando Sampaio	PCI / MT
22	Fernando Veiga Neto	TNC
23	Francisco Beduschi	NWF
24	Francisco Fonseca	TNC
25	German Serrano	Secretário Geral MGS-Col
26	Greg Fishbein	TNC
27	Luiza Bruscato	GTPS Pecuária Sustentável
29	Guilherme Souza	TFA Brazil
29	Gustavo Carneiro	ACTION (consultancy)
30	Hugo Peres	Ministry of International Affairs, Brazil
31	Ice Garbellini	ABCZ
32	Isabel Napstad	GCP
33	James Allen	Olab
34	Javier Ortiz	TFA Colombia
35	Jieyi Liu	IFS
36	João Adrien	Ministério da Agricultura
37	Jianping Zhang	China Council for the Promotion of International Trade
38	João Hummel	Action
39	Josefina Eisele	GRSB
40	Julien Walker-Palin	CFA

41	Justin Adams	TFA
42	Karla Canavan	WWFUS
43	Larissa Wachholz	Ministry of Agriculture - Brazil
44	Laura Lamônica	Brazilian Coalition
45	Leonel Almeida	Marfrig
46	Lisa Sweet	WEF
47	Marcello Brito	ABAG and Brazilian Coalition
48	Marcelo Furtado	Sustainability Board member at Marfrig
49	Marcio Gaspar	R&F
50	Marcio Nappo	JBS
51	Marcio Sztutman	P4F Palladium
52	Marcos Jank	INSPER Senior Professor; CEO Asia-Brazil Agro Alliance
53	Mariana Pitta	TNC
54	Marina Piatto	Imaflora
55	Mauro Armellin	Amigos da Terra
56	Nancy Wang	McKinsey & Company
57	Natalia Suescun Pozas	WEF
58	Nelson Ananias Filho	CNA
59	Oscar Diaz	GGGI
60	Pedro Hummel	Action
61	Pedro Burnier	ADT
62	Peng Ren	GEI
63	Pengyu Li	TFA
64	Pierre Gerber	World Bank
65	Rafael Volochen	Norwegian Embassy Brazil
66	Raj Kudra	WWF US
67	Raquel Borges	Brazilian ZEBU Breeders Association
68	Santiago Gowland	TNC
69	Scarlette Elizee	Carrefour
70	Shenggen Fan	CAU
71	Simone Gonçalves	ABIEC
72	Stefan Michaelberger	FMO
73	Teresa Moreira	TNC
74	Vedis Vik	NICFI
75	Xin Yu	WWF China
76	Ying Wang	WWF China
77	Yuan Zhang	TFA China