

UNOFFICIAL ENGLISH TRANSLATION

**To Norges Bank**

30 September 2021

**Recommendation to place Marfrig Global Foods SA under observation**

## Summary

The Council on Ethics recommends that Marfrig Global Foods SA be placed under observation due to a risk that the company is contributing to severe environmental damage. The Council's recommendation relates to the deforestation associated with Marfrig's purchases of beef cattle for its slaughterhouses in Brazil. Cattle ranching is one of the most important reasons for the loss of forest cover and biodiversity in the Amazon.

At the close of 2020, the Norwegian Government Pension Fund Global (GPF) owned 0.2 per cent of the company's shares, which are listed on the São Paulo Stock Exchange.

Marfrig is one of Brazil's largest producers of beef. The company purchases beef cattle, which it slaughters and processes for sale in the national and international market. Many of the ranches that supply direct to the slaughterhouses purchase calves from other farms, which may in turn have bought the calves from other farms, so-called indirect suppliers. The risk of deforestation is linked to the conversion of forest to pastureland for cattle grazing.

Marfrig buys cattle in several regions, the most important of which are the Amazon and the Cerrado. In 2009, Marfrig pledged to establish a system to monitor its direct suppliers in the Amazon. Since 2009, however, numerous reports have been published concerning deforestation and illegal practices in Marfrig's supply chain, particularly relating to its indirect suppliers. The Council's own investigations indicate the same. The Council has analysed purchases of beef cattle from ranches with properties that have been embargoed by the Brazilian authorities due to illegal deforestation. The investigations revealed that up to 3 per cent of Marfrig's purchases between 2016 and 2019 could be traced back to ranches with embargoed properties, and that embargoed properties could be found in all phases of the supply chain, from direct suppliers down, and in almost all regions – not simply the Amazon.

Marfrig contests accusations that the company has purchased cattle from embargoed properties, and maintains that this is ensured through monitoring of its purchases. The Council's investigations include purchases from ranches where all or part of the property is embargoed, while Marfrig only checks that the actual property they buy from is not embargoed. So-called 'cattle laundering', where an owner moves cattle between embargoed and 'clean' properties, is a major problem in the industry. In light of this, the Council considers that it is not enough to restrict checks to the individual property. This is particularly apparent when very few of the properties clear forest illegally are actually embargoed. The Council also considers that even though the Cerrado is Marfrig's most important supply base, the company's supplier monitoring has so far targeted the Amazon. This means that a large proportion of Marfrig's direct cattle purchases come from other regions with a high rate of deforestation, but where suppliers are hardly monitored.

The Council attaches importance to the fact that the company has taken an extremely long time to react. Twelve years after its 2009 pledge to have zero deforestation in its supply chain, the company is still only starting to implement a system to control and monitor the *entire* supply chain in all regions in which it operates.

In 2020, Marfrig announced that the company would eliminate deforestation throughout its *entire* supply chain, and published plans to implement a system to control and monitor the entire supply chain in all regions in which it operates. This is good. However, the Council considers that the timeframe for when this will be achieved – 2025 in the Amazon and 2030 in the Cerrado – is too long. Furthermore, the Council finds it unclear how Marfrig's system will work in practice and how Marfrig will verify that the measures are working.

Nevertheless, the Council considers that the initiatives that Marfrig has now planned and is starting to implement have the potential to reduce the risk of it contributing to deforestation going forward. It appears to the Council that Marfrig is now working more seriously to prevent deforestation along its entire value chain. Since it is too early to evaluate the impact of these efforts, the Council is recommending that the company be placed under observation.

# Contents

- 1 Introduction 1**
  - 1.1 Matters considered by the Council 1
  - 1.2 Sources 2
- 2 Background 2**
  - 2.1 Deforestation by the cattle industry 2
  - 2.2 The beef supply chain and industry commitments to prevent deforestation 3
- 3 The Council on Ethics' findings 5**
- 4 Information from the company 9**
  - 4.1 The Council's contacts with the company 9
  - 4.2 What the company is doing to prevent deforestation 9
- 5 The Council on Ethics' assessment 10**
- 6 Recommendation 12**

# 1 Introduction

The Council on Ethics has assessed the GPFG's investments in Marfrig Global Foods SA (Marfrig)<sup>1</sup> against the Guidelines for Observation and Exclusion from the Government Pension Fund Global (ethical guidelines).<sup>2</sup>

Marfrig is one of the largest beef producers in Brazil. Marfrig buys cattle from cattle ranchers, slaughters them and then processes and sells the resulting meat. Marfrig's main country of production is Brazil, where it has the capacity to slaughter 13,200 animals per day.

The company has operations in the USA, Brazil, Uruguay, Argentina and Chile. Key export markets include China, Hong Kong and the EU. Exports accounted for 65 per cent of the revenues from the company's operations in South America,<sup>3</sup> 60 per cent of which derive from exports to China and Hong Kong.<sup>4</sup> Marfrig has more than 32,000 employees and is headquartered in São Paulo.<sup>5</sup>

At the close of 2020, the GPFG owned 0.2 per cent of Marfrig's shares, worth approximately USD 4.4 million. Marfrig is listed on the São Paulo Stock Exchange.

## 1.1 Matters considered by the Council

The Council on Ethics' assessment concentrates on Marfrig's procurement of cattle for its slaughterhouses in Brazil. The Council has assessed whether there is an unacceptable risk that the company is thereby contributing to or responsible for severe environmental damage pursuant to section 4(5) of the GPFG's ethical guidelines.

In previous assessments of severe environmental damage, the Council has attached importance to the scale of the environmental damage, whether the damage is irreversible or long lasting, whether national laws or international conventions have been breached, what the company is doing to prevent or reduce its harmful impacts, and if it is probable that the company's practice will continue.

The Council's point of departure is that the Brazilian cattle industry is a major cause of deforestation, biodiversity loss and carbon emissions, and that this trend is accelerating due to a growing global demand for beef. It is estimated that 260,000–580,000 hectares of forest are lost to the expansion of cattle ranching each year.<sup>6</sup> Against this backdrop, the Council has assessed the risk of Marfrig contributing to deforestation through its purchases of cattle from suppliers.

---

<sup>1</sup> Issuer ID:11234321

<sup>2</sup> Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global. Adopted by the Ministry of Finance on 18 December 2014: <http://etikkradet.no/mandat/>.

<sup>3</sup> Marfrig, Earnings Presentation 2<sup>nd</sup> Quarter 2021: <https://api.mziq.com/mzfilemanager/v2/d/b8180300-b881-4e6c-b970-12ad72a86ec8/6b9337d0-f0fa-b469-cd5e-ff42d6b88d20?origin=1>

<sup>4</sup> Marfrig, Destaques do 4<sup>o</sup> Trimestre, [b6d90bf8-158b-6418-2e97-a36b3e69e64a](https://api.mziq.com/mzfilemanager/v2/d/b6d90bf8-158b-6418-2e97-a36b3e69e64a) (mziq.com)

<sup>5</sup> Marfrig, Sustainability Report 2019, <https://api.mziq.com/mzfilemanager/v2/d/b8180300-b881-4e6c-b970-12ad72a86ec8/d8479595-2abf-2723-21cf-d3274c79bec7?origin=2>

<sup>6</sup> zu Ermgassen, E.K.H.J., J. Godar, M.J. Lathuilière, P. Löfgren, T. Gardner, A. Vasconcelos, P. Meyfroidt: The origin, supply chain, and deforestation risk of Brazil's beef exports, *Proceedings of the National Academy of Sciences Dec 2020*, 117 (50) 31770-31779; DOI: 10.1073/pnas.2003270117, [The origin, supply chain, and deforestation risk of Brazil's beef exports | PNAS](https://doi.org/10.1073/pnas.2003270117)

## 1.2 Sources

With the help of consultants, the Council has assessed the risk that Marfrig is buying cattle from ranches with properties that have been embargoed by the authorities partly due to illegal deforestation. The Council is also aware of reports from civil society organisations and research groups, which have for many years been mapping and analysing deforestation in the supply chains of Brazilian meat producers.

Marfrig has provided information on its policies and measures to mitigate environmental impacts, including how it will implement its commitment to eliminate deforestation in its supply chain.

## 2 Background

### 2.1 Deforestation by the cattle industry

It has been estimated that cattle ranching accounts for approx. 80 per cent of the deforestation in the Amazon,<sup>7</sup> and is also the most important cause of forest loss in this biome.<sup>8</sup> The Amazon rainforest is home to a third of all known terrestrial, animal, plant and insect species. Since 2013, deforestation rates have been increasing, and in 2020 reached their highest levels since 2008. From August 2019 to July 2020, more than 11,000 km<sup>2</sup> of rainforest were destroyed, which is an increase of 9.5 per cent from the previous year.<sup>9</sup> Large areas burned in the Amazon in 2019 overlap with areas that have been deforested or cleared prior to burning, which indicates that fire is used to improve the soil.<sup>10</sup> It has been reported that almost 80,000 fire alerts occurred in the buying zones of Marfrig's slaughterhouses. Deforestation and climate change are leading to changes in precipitation patterns that affect the entire ecosystem. Studies have estimated that almost half of the Amazon rainforest may have reached a point where it can no longer be preserved and will develop into savannah land with irreparable consequences for nature and humans alike.<sup>11</sup>

In the Cerrado, the rate of conversion of native vegetation is twice the conversion rate observed in the Amazon in the past five years.<sup>12</sup> The Cerrado, which is located in the highlands of central Brazil, is a tropical savannah renowned for its unique flora and fauna, and with a patchwork of habitats including savannahs, grasslands and riverine forests. More than 50 per cent of the natural vegetation has now disappeared to be replaced by pastureland and

---

<sup>7</sup> [New report examines drivers of rising Amazon deforestation on country-by-country basis \(mongabay.com\)](#), 23 May 2019.

<sup>8</sup> In Brazil, the Ministry of the Environment works with six biomes: the Amazon, the Cerrado, the Caatinga, the Pantanal, the Atlantic Forest and the Pampa.

<sup>9</sup> Silva Junior, C.H.L., Pessôa, A.C.M., Carvalho, N.S. *et al.* The Brazilian Amazon deforestation rate in 2020 is the greatest of the decade. *Nat Ecol Evol* **5**, 144–145 (2021). <https://doi.org/10.1038/s41559-020-01368-x>

<sup>10</sup> [MAAP #109: Fires and Deforestation in the Brazilian Amazon, 2019 | MAAP \(maaproject.org\)](#)

<sup>11</sup> Staal, A., Fetzer, I., Wang-Erlandsson, L. *et al.* Hysteresis of tropical forests in the 21st century. *Nat Commun* **11**, 4978 (2020). <https://doi.org/10.1038/s41467-020-18728-7>

<sup>12</sup> Alencar A, Z. Shimbo J, Lenti F, Balzani Marques C, Zimbres B, Rosa M, Arruda V, Castro I, Fernandes Márcico Ribeiro JP, Varela V, Alencar I, Piontekowski V, Ribeiro V, M. C. Bustamante M, Eyji Sano E, Barroso M. Mapping Three Decades of Changes in the Brazilian Savanna Native Vegetation Using Landsat Data Processed in the Google Earth Engine Platform. *Remote Sensing*. 2020; 12(6):924. <https://doi.org/10.3390/rs12060924>

soya plantations. The Cerrado is considered to be a global ‘biodiversity hotspot’ because it is home to many endemic species and is severely threatened by agricultural expansion.<sup>13</sup>

Other biomes, such as the Pantanal, the world's largest tropical wetland, are also affected by the cattle industry. In 2020, wildfires burned through roughly a quarter of the wetland in Brazil, with devastating impacts on wildlife, indigenous communities and the entire biome.<sup>14</sup> It has been alleged that fires started on farms that were clearing land to expand pasture.<sup>15</sup>

## **2.2 The beef supply chain and industry commitments to prevent deforestation**

### *Direct and indirect suppliers*

Beef cattle farming in Brazil goes through three main production stages: breeding, rearing and fattening. These stages can be carried out on the same farm or on different farms.

Slaughterhouses buy cattle from ranches (‘direct suppliers’) who in turn buy cattle from other farms. These farms (‘indirect suppliers’) may engage in cattle breeding, rearing or fattening. Cattle can therefore have passed through many different farms between birth and purchase by a slaughterhouse.

It is estimated that 80 per cent of direct suppliers in the Amazon bought cattle from other farmers before selling to a slaughterhouse, and that a transaction with a direct supplier involved, on average, animals sourced from 15 indirect suppliers.<sup>16</sup> Deforestation risks are linked to farmers who convert land for grazing. Deforestation and illegal practices can occur at all levels in the supply chain. Considering that cattle can spend as much as 75 per cent of their lives on the farms of indirect suppliers, there is a considerable risk of illegal practices in the supply chain.<sup>17</sup>

### *Marfrig's suppliers*

According to Marfrig, the Cerrado is its most important supply base, accounting for 43 per cent of its purchases. About 39 per cent are sourced from the Amazon biome, and 1 per cent from Pantanal (Figure 1).

In 2019, Marfrig procured its cattle from approximately 5,525 direct suppliers in the Amazon biome, including the states of Mato Grosso, Para and Rondônia. The company estimates that it has 25,000 indirect suppliers in the Amazon biome. The company has not published numbers of suppliers in other biomes.<sup>18</sup> Marfrig has reported that, in 2019, 53 per cent of the cattle sourced from the Amazon came from indirect suppliers.<sup>19</sup>

---

<sup>13</sup> Colli, G.R., Vieira, C.R. & Dianese, J.C. Biodiversity and conservation of the Cerrado: recent advances and old challenges. *Biodivers Conserv* 29, 1465–1475 (2020). <https://doi.org/10.1007/s10531-020-01967-x>

<sup>14</sup> [The World's Largest Tropical Wetland Has Become an Inferno - The New York Times \(nytimes.com\)](https://www.nytimes.com/2020/10/13/world/americas/brazil-pantanal-wetland-fires.html), 13 Oct 2020.

<sup>15</sup> [Brazil Pantanal Scorched by Fires - The New York Times \(nytimes.com\)](https://www.nytimes.com/2020/09/04/world/americas/brazil-pantanal-fires.html); [Making Mincemeat of the Pantanal - Greenpeace International](https://www.greenpeace.org/international/en/news/food/2020/09/04/making-mincemeat-of-the-pantanal/), 4 Sept 2020.

<sup>16</sup> [Meat company faces heat over ‘cattle laundering’ in Amazon supply chain | Meat industry | The Guardian](https://www.theguardian.com/food/2020/feb/20/meat-company-faces-heat-over-cattle-laundering-in-amazon-supply-chain), 20 Feb 2020.

<sup>17</sup> Marfrig, Landscape Protection Plan of Marfrig, 11 September 2020, [https://www.andgreen.fund/wp-content/uploads/2021/02/Marfrig\\_LPP\\_Final-Version\\_Sept2020.pdf](https://www.andgreen.fund/wp-content/uploads/2021/02/Marfrig_LPP_Final-Version_Sept2020.pdf)

<sup>18</sup> See footnote 17.

<sup>19</sup> See footnote 16.

Marfrig Brazil: Brazil total slaughter per biome in number of heads and %		
Amazon Biome	1,037,930	39%
Cerrado Biome	1,145,656	43%
Mata Atlantica	228,845	8%
Pampa	234,832	9%
Pantanal	43,921	1%
<b>Total</b>	<b>2,691,184</b>	<b>100%</b>
Marfrig Amazon Biome supply base by state, in number of heads		
Mato Grosso	518,786	50%
Rondônia	421,826	40,7%
Pará	97,318	9,3%
<b>Total</b>	<b>1,037,930</b>	<b>100%</b>

Figure 1 Marfrig's slaughter capacity and supply base by biome and state.<sup>20</sup>

### Zero deforestation commitments and supply chain monitoring

Following NGO reports and campaigns that disclosed the cattle industry's practices and their effects on deforestation and labour conditions, Marfrig was one of the companies which signed the so-called G4 Cattle Agreement with Greenpeace in 2009. Under the agreement, the companies committed to setting up monitoring systems to prevent the purchase of cattle from ranches that have caused deforestation in the Amazon biome. The companies also agreed to end the purchase of cattle from indigenous and protected areas, and from farms that use forced labour. The monitoring systems were supposed to cover indirect suppliers within two years.<sup>21</sup>

Also in 2009, the Federal Public Prosecutor's Office (*Ministério Público Federal*, or MPF) started legal proceedings against beef companies for sourcing from farmers who had cleared forest illegally in the Amazon. A number of meat processing companies, including Marfrig, signed settlement agreements (Conduct Adjustment Terms – TAC) with the MPF. The TAC is a legally binding agreement with similar criteria to the G4 Cattle agreement. As part of the TAC settlement, the companies undertook to stop buying cattle from farms embargoed by the Brazilian environmental agency (IBAMA) after 22 July 2008.<sup>22</sup>

IBAMA embargoes properties for a range of environmental crimes – illegal deforestation, illegal hunting, polluting, and operating without permission in protected areas. The 'embargo list' published by IBAMA is public and is updated regularly. It is illegal to purchase products (such as cattle) from embargoed properties. The 2009 agreement covers the Amazon states.<sup>23</sup> The companies' sustainability commitments did not extend to the Cerrado or other biomes.

As a response to these agreements, Marfrig and other meat processors set up systems to monitor and control their supply chains in the Amazon biome. The system is based on a combination of traceability tools to locate the farms that supply cattle to the slaughterhouses and check that ranches have not been embargoed or violate any other requirements. In addition, the companies, including Marfrig, are required by the MPF to carry out third-party

<sup>20</sup> The figure is from Marfrig, Landscape Protection Plan of Marfrig, 11 September 2020.

<sup>21</sup> Greenpeace International: The G4 Cattle Agreement – commitments a decade overdue, [https://issuu.com/greenpeaceinternational/docs/greenpeace\\_stillslaughtering\\_pages\\_1\\_/s/10831843](https://issuu.com/greenpeaceinternational/docs/greenpeace_stillslaughtering_pages_1_/s/10831843)

<sup>22</sup> Press release by MPF, 2 June 2010: [MPF/MT: Marfrig assume compromisso pela pecuária sustentável — Procuradoria-Geral da República](#)

<sup>23</sup> Imazon, 2018: Will Meat-packing plants help halt deforestation in the Amazon, <https://imazon.org.br/en/will-meat-packing-plants-help-halt-deforestation-in-the-amazon/>

audits of purchasing practices, to verify that they are not buying from suppliers involved in illegal practices. The intention is to block illegitimate suppliers.<sup>24</sup>

In June 2017, Greenpeace withdrew from the G4 Cattle Agreement, as the companies could not guarantee that their purchase of cattle was not linked to deforestation.<sup>25</sup>

The systems set up by Marfrig and other meat processors only cover farms that sell directly to the slaughterhouses, which means that the deforestation carried out by indirect suppliers, estimated to 85-90 per cent of the deforestation caused by the industry, is not monitored.<sup>26</sup>

Furthermore, the system does not pick up on fraud in the indirect chain of supply to the slaughterhouse.<sup>27</sup> Cases of so-called ‘cattle laundering’ have been widely reported. Cattle laundering is where cattle raised on recently deforested land or embargoed properties have been moved to a ‘clean’ property without liabilities before it is sold to the slaughterhouse.<sup>28</sup> Farmers are thereby able to avoid being blocked by the current monitoring systems.

### 3 The Council on Ethics’ findings

After Marfrig signed the G4 and TAC agreements, a number of reports published by NGOs and research groups have described the risk that Marfrig and other meat producers are contributing to deforestation and illegal practices in the supply chain, particularly among their indirect suppliers.

This includes reports by Chain Reaction Research,<sup>29</sup> Global Witness,<sup>30</sup> the Bureau of Investigative Journalists,<sup>31</sup> Reporter Brazil,<sup>32</sup> Greenpeace,<sup>33</sup> Trase<sup>34</sup> and researchers at the University of Wisconsin.<sup>35</sup> With regard to Marfrig, the reports connect its slaughterhouses’ purchases of cattle to specific properties embargoed by IBAMA or involved in illegal deforestation, to operations within protected areas or the abuse of indigenous and landless

---

<sup>24</sup> Marfrig, Landscape Protection Plan of Marfrig, 11 September 2020.

<sup>25</sup> Após escândalos, Greenpeace suspende participação no Compromisso da Pecuária, 6 June 2017, <https://www.greenpeace.org/brasil/blog/apos-escandalos-greenpeace-suspende-participacao-no-compromisso-da-pecuaria/>

<sup>26</sup> [Of chainsaws and supply chains - How big beef and soya firms can stop deforestation | The Americas | The Economist](#), 13 June 2020.

<sup>27</sup> See, for example, [JBS, Marfrig, and Minerva: Material Risk from Deforestation in Beef Supply Chains \(chainreactionresearch.com\)](#), 3 Dec 2020, which gives a summary of reports published in 2020 that document non-compliance and cattle laundering.

<sup>28</sup> [Brazilian Beef Supply Chain Under Pressure Amid Worsening ESG Impacts | Chain Reaction Research | Sustainability Risk Analysis](#), 27 Aug 2020 og [Amazônia: como criadores de gado driblam acordo com MPF e incentivam desmatamento \(reporterbrasil.org.br\)](#), 12 June 2020.

<sup>29</sup> Chain reaction har publisert en rekke rapporter om kvegindustrien i Brasil, bl.a.: [Cattle-Driven-Deforestation-in-Brazil-1.pdf \(chainreactionresearch.com\)](#) Sept 2018, og [JBS, Marfrig, and Minerva: Material Risk from Deforestation in Beef Supply Chains \(chainreactionresearch.com\)](#), Dec 2020.

<sup>30</sup> [Beef, Banks and the Brazilian Amazon | Global Witness](#), 2 Dec 2020.

<sup>31</sup> [Record number of fires rage around Amazon farms that supply the world's biggest butchers — The Bureau of Investigative Journalism \(thebureauinvestigates.com\)](#), 10 Dec 2019.

<sup>32</sup> [JBS, Marfrig and Frigol buy cattle from deforesters in area highly affected by fires in the Amazon \(reporterbrasil.org.br\)](#), 16 Oct 2019

<sup>33</sup> [Making Mince meat of the Pantanal - Greenpeace International](#), 3 March 2021 og [How deforestation and cattle raising threaten biodiversity in Brazil - Greenpeace International](#), 4 June 2020

<sup>34</sup> [TRAISE Intelligence for Sustainable Trade - homepage](#)

<sup>35</sup> See, for example Gibbs, H.K., Munger, J., L’Roe, J., Barreto, P., Pereira, R., Christie, M., Amaral, T. and Walker, N.F. (2016), Did Ranchers and Slaughterhouses Respond to Zero-Deforestation Agreements in the Brazilian Amazon?. *Conservation Letters*, 9: 32-42. <https://doi.org/10.1111/conl.12175>



people. They also provide an assessment of deforestation risks associated with the company's sourcing of cattle. The company has also been accused of buying cattle from suppliers involved in cattle laundering.

Marfrig contests the reports' conclusions and has also made its views known to the Council.

The Council commissioned its own study to assess the risk of illegal cattle procurement by Marfrig's slaughterhouses. The study is based on publicly available data and analyses the number of embargoed properties in Marfrig's direct and indirect cattle supply chains in Brazil.

## Marfrig's cattle slaughterhouses

Slaughterhouses shown in pink included in analysis



*Figure 2: Marfrig slaughterhouses included in this analysis. For facilities shown in pink, more than 1000 records of cattle purchases (Guia de Trânsito Animal (GTA), explained below) were recorded between 2016 and 2019. Slaughterhouses shown in grey are other federally inspected cattle slaughterhouses owned by Marfrig, but for which animal sourcing data were not available.*

Cattle transport permits (Guia de Trânsito Animal (GTA)) detail the movement of batches of cattle between properties in Brazil, listing the date of each movement, the farms or slaughterhouse sending and receiving cattle, the number of cattle, and their ages and gender. The GTA data were used to identify the network of properties and animal movements which supplied each slaughterhouse.<sup>36</sup> This network included indirect suppliers.

The list of properties in Marfrig's direct and indirect supply chains were then checked against the list of embargoed properties published by IBAMA.<sup>37</sup> This is a highly conservative

---

<sup>36</sup> Altogether, the dataset used in this analysis includes about 1,000 purchases and 33,254,282 records of cattle movements across 23 states in Brazil.

<sup>37</sup> Cattle movements from embargoed properties were identified as cases where: [1] the tax identifier (CPF, Cadastro de Pessoas Físicas) of the property transferring cattle in the GTAs matched a CPF in the embargo list;

approach to measuring deforestation risks, considering that between 2005 and 2018, less than 1 per cent of properties responsible for illegal deforestation in the Amazon were subsequently embargoed by IBAMA according to MapBioma's annual report on deforestation in Brazil.<sup>38</sup>

Using cattle transport permits for 2016-2019, the study identified embargoed properties in the supply chain of *all* Marfrig's slaughterhouses (Figure 3). Among Marfrig's suppliers from 2016–2019, 0–3 per cent of properties were embargoed. These rates are higher in the Amazon and Cerrado than other regions in Brazil.

For most slaughterhouses, the percentage of embargoed suppliers was higher (on average, more than double) among their indirect than direct suppliers. In some cases, such as Marfrig's slaughterhouses in Promissão, São Paulo, and Várzea Grande, Mato Grosso, the entire exposure to purchases from embargoed properties occurred through Marfrig's indirect suppliers.

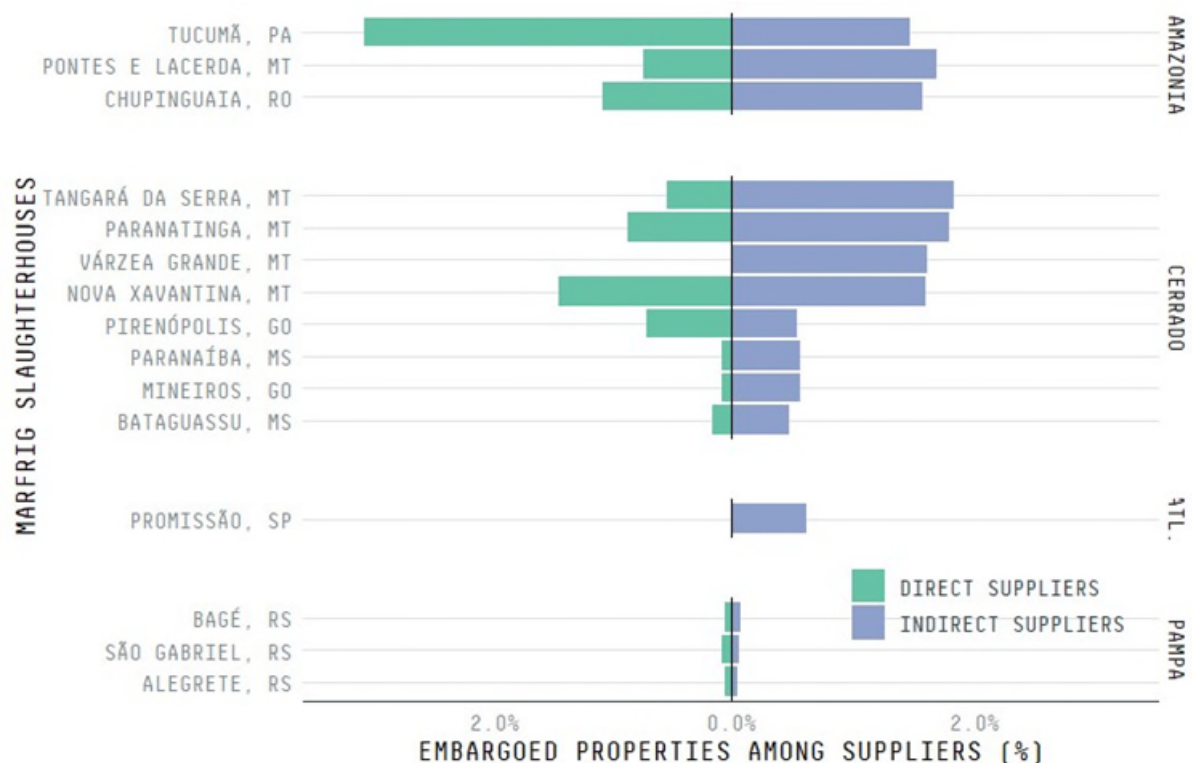


Figure 3: Embargoed properties were more commonly found among Marfrig's indirect suppliers (right) than direct suppliers (left). Marfrig's slaughterhouses are listed by location and grouped by the biome within which they are located. Data from 2016 to 2019. The facility at Tucumã in Pará, which had the opposite pattern (a higher percentage of embargoes among direct suppliers), closed in March 2020. ATL. = Atlantic Forest. PA = Pará, MT = Mato Grosso, RO = Rondônia, GO= Goiás, MS = Mato Grosso do Sul, SP = São Paulo, RS = Rio Grande do Sul.

[2] the property was listed in the same municipality as the embargo, and [3] the transport date in the GTAs came after the date that the property was placed on the embargo list (The 'Data de Inserção na Lista').

<sup>38</sup> MapBiomas 2019: Annual Deforestation Report of Brazil,

<https://s3.amazonaws.com/alerta.mapbiomas.org/relatrios/MBI-deforestation-report-2019-en-final5.pdf>

In Figure 4, sourcing from embargoed suppliers is detailed for different levels of the supply chain: direct suppliers, first-level indirect supplier, second-level and third-level indirect suppliers.

The study confirms that the risk of Marfrig purchasing cattle from embargoed properties is not limited to the Amazon, and that the risk is concentrated among, but not limited to, indirect suppliers. The study also shows that embargoed properties are found at all levels in the supply chain, including direct suppliers, first-level indirect suppliers and subsequent links in the cattle supply chain.

The slaughterhouse in Tucumã, Pará, stands out for having a higher proportion of embargoed properties among its direct suppliers than indirect suppliers. Purchases of cattle from properties responsible for illegal deforestation have also been reported by other sources for the Marfrig facility at Tucumã and in other regions<sup>39</sup>. These cases are disputed by Marfrig.<sup>40</sup> Marfrig reports that it closed the facility at Tucumã in March 2020.



Figure 4: A breakdown of embargoes at different levels of the supply chain: Marfrig’s direct suppliers, their first-level indirect suppliers (i.e. the direct supplier’s suppliers), and then properties connected to Marfrig’s slaughterhouses through two further cattle movements.

<sup>39</sup> [How Morgan Stanley is linked to deforestation in the Amazon \(reporterbrasil.org.br\)](https://reporterbrasil.org.br) and [Beef, Banks and the Brazilian Amazon | Global Witness](https://www.globalwitness.org/en/campaigns/deforestation/beef-banks-and-the-brazilian-amazon/), 2 Dec 2020.

<sup>40</sup> Referred to in [Beef, Banks and the Brazilian Amazon | Global Witness](https://www.globalwitness.org/en/campaigns/deforestation/beef-banks-and-the-brazilian-amazon/)

## 4 Information from the company

### 4.1 The Council's contacts with the company

The Council contacted Marfrig for the first time in 2019, since when it has communicated with the company on several occasions. A meeting with the company has also been held. The objective has been to obtain more detailed information about the company's plans and measures to prevent deforestation in the supply chain, particularly among indirect suppliers. The company has disclosed this, both in correspondence and in a meeting with the Council. Marfrig has also commented on a draft recommendation from the Council.

### 4.2 What the company is doing to prevent deforestation

Since 2009, when the agreements with Greenpeace and MPF were entered into, Marfrig has had a system to monitor its direct suppliers, in other words the ranch that actually sold the cattle to the slaughterhouse. This system has been audited annually by a consultant. Based on a selection of 11–23 per cent of the slaughterhouses' direct purchases, the 2020 audit concluded that the company had made no purchases from embargoed properties, protected areas or lands belonging to indigenous peoples.<sup>41</sup> This was the same conclusion as for all previous audits. Based on these reports, Marfrig has repeatedly claimed that the company's purchases of cattle are 100 per cent compliant with its commitment regarding deforestation.<sup>42</sup> However, the reports state that indirect suppliers are not systematically checked and that "Marfrig argues that the lack of a nationally implemented public traceability policy makes it difficult to implement such a verification."<sup>43</sup>

Marfrig has confirmed that the company's checks are limited to embargoed properties, and that it does not cover the whole ranch if it comprises several properties.

In 2020, the company launched the so-called Verde+ plan, which also encompasses indirect suppliers and which will ensure that the company is not complicit in deforestation after 2030.<sup>44</sup>

According to Marfrig, the plan has three main pillars:

- A financing arrangement that will give suppliers access to bank credit. Marfrig offers ranchers technical expertise and training for better production and management of pastureland which will obviate the need to convert new areas of forest for grazing. The company is currently carrying out a pilot project in which around 300 ranchers are participating.
- Risk mitigation map, which, by means of mapping the vegetation in areas where Marfrig's indirect suppliers raise cattle, will help to identify areas (at the municipal level) where there is a risk of deforestation. The company has defined five risk categories: extremely high, high, medium, low and extremely low risk. Marfrig will use the risk mitigation maps as the basis for monitoring suppliers in high-risk areas.

---

<sup>41</sup> DNV GL, 20 April 2020: Compliance Assessment of Public Commitment on Amazon Cattle Ranching Marfrig Global Foods S.A. Report NO.: SC095987, [Auditoria2020\\_en.pdf \(marfrig.com.br\)](#)

<sup>42</sup> See, for example, Landscape Protection Plan of Marfrig 11 September 2020, p. 13.

<sup>43</sup> See footnote 41, p. 11.

<sup>44</sup> This chapter is based on Marfrig's letters to the Council on Ethics, dated 3 February 2021, 18 May 2021 and 5 August 2021.

- Control and monitoring of all direct and indirect suppliers, with the help of block-chain technology (Conecta Platform). The system is based on the direct suppliers volunteering information about their own supply chains to Marfrig. In this way, Marfrig will identify its indirect suppliers. The supplier data will be cross-checked partly through the verification systems used by the slaughterhouses. Marfrig is in the process of testing the system. Marfrig will use a productivity index (which is a target for a property's capacity to produce cattle given its area and the technology and farming practices used) to assess whether a ranch is supplying an unusually large amount of cattle, which could be an indication of cattle laundering.

All Marfrig's direct and indirect suppliers from areas in the Amazon with an extremely high or high risk level will be identified by the close of 2022. In the Cerrado region, such suppliers will be identified by the close of 2024. Suppliers from medium risk areas, which constitute the largest category of suppliers in both biomes, will be identified in 2023 and 2026 respectively. In the Amazon, the aim is to achieve a deforestation-free supply chain in 2025, while the Cerrado will follow suit in 2030. However, the company considers that it may be possible to accelerate the timetable and achieve the goal for both biomes in 2025.

According to Marfrig, other biomes in Brazil will also be included in the verification system. "The company's commitment to obtaining a deforestation-free supply chain applies also to the other biomes in which we have operations." The company points to the risk mitigation map which, in addition to the Amazon and the Cerrado, encompasses Pantanal and Pampa. It is also considering the inclusion of the Atlantic rainforest biome (Mata Atlântica), such that all areas in which Marfrig has suppliers are covered.

Marfrig has disclosed that the company will report annually on the plan's implementation and results. The company intends its implementation and results to be verified by a third party.

## **5 The Council on Ethics' assessment**

The Council has assessed the GPF's investment in Marfrig against the ethical guidelines' environmental criterion. Based on available information, the Council on Ethics has assessed the risk of Marfrig contributing to or causing severe environmental damage through its sourcing of cattle in Brazil.

The starting point for the Council's assessment is the fact that the cattle industry in Brazil is a major driver of deforestation, biodiversity loss and carbon emissions in the Amazon, the Cerrado and other biomes where Marfrig has operations. The deforestation of Brazil has a major impact on the health of the global environment, and leads to changes which will not be reversible. This applies both to the climate and biodiversity.

Even though Marfrig is not directly responsible for the deforestation that is taking place on properties in its supply chain, the Council considers that Marfrig is contributing to it. The risk of deforestation in the company's supply chain, particularly among its indirect suppliers, has been reported for many years. Although Marfrig has been aware of this, the company has until now failed to implement measures to reduce the risk of deforestation in that part of the supply chain where the risk has been greatest. Given the fact that Marfrig, which is one of the largest meat producers in Brazil, purchases a substantial volume of cattle, the Council considers that the company has an independent responsibility to avoid deforestation in its supply chain.

The Council notes that deforestation and illegal practices have been reported in Marfrig's supply chain, particularly as regards its indirect suppliers, since as far back as 2009. The

Council's own investigation indicates the same. The study that the Council has commissioned is based on a simple risk indicator – the purchase of cattle from ranches with properties that have been embargoed by the Brazilian authorities. The survey revealed that up to 3 per cent of Marfrig's purchases in the period 2016–2019 could be traced back to ranches with embargoed properties. Given that only 1 per cent of the properties that illegally remove forest cover are actually embargoed by IBAMA, the Council presumes that the risk of deforestation in Marfrig's supply chain is far higher than the survey indicates. Marfrig's indirect suppliers constitute the biggest risk. For the slaughterhouses included in the Council's survey, the proportion of indirect suppliers with embargoed properties was more than twice as high on average as for direct suppliers.

However, the Council notes that some direct suppliers were also ranches with embargoed properties. The slaughterhouse in Tucumã, Pará, which Marfrig has now closed, had a larger proportion of ranches with embargoed properties among its direct suppliers than among its indirect suppliers, though this has not been mentioned in Marfrig's audit reports.

Marfrig contests claims that the company has bought cattle from embargoed properties and maintains that this is ensured by the company's monitoring and checks on its purchases. The Council's investigations include purchases from ranches where all or part of the property is embargoed, while Marfrig only checks that the property they are actually buying from is not embargoed. Cattle laundering, where one owner can move cattle between embargoed and 'clean' properties, is a major problem in the business. In light of this, the Council considers that it is not enough to limit monitoring to the individual property. This applies particularly when so few of the properties that engage in illegal deforestation are actually embargoed. The Council also notes that even though the Cerrado region is the company's most important supplier base, the company's supplier checks have so far targeted the Amazon. This means that a large proportion of Marfrig's direct cattle purchases come from other regions with a high rate of deforestation, but where suppliers are not monitored. In the Council's view, the company has failed to adequately communicate this fact.

The Council attaches importance to the company's extremely slow response to this issue. Twelve years after its 2009 pledge to achieve zero deforestation in its supply chain, and despite the criticism that has been levelled at it throughout this time, the company is still only starting to implement a system to monitor and check the *entire* supply chain in all the regions in which it operates.

At the same time, the Council wishes to commend Marfrig's 2020 pledge to eliminate deforestation throughout its supply chain. However, the Council considers that the timeframe for when this will be accomplished – 2025 in the Amazon and 2030 in the Cerrado – is too long, particularly in light of how deforestation in these and other biomes in Brazil has accelerated in recent years. How Marfrig's system will work in practice remains uncertain. Will, for example, a system based on direct suppliers volunteering information about their sub-suppliers provide a good enough basis to identify all the ranches along the supply chain? Another question is whether the company's efforts to combat cattle laundering will be sufficient to avoid fraud. Nor is it clear to the Council how Marfrig will verify that the plan is producing the desired results.

Nevertheless, the Council considers that the measures that Marfrig has now planned and is currently implementing have the potential to reduce the risk of the company contributing to deforestation going forward. It appears to the Council as though Marfrig is now working seriously to prevent deforestation along the entire supply chain, based on a comprehensive plan. Since it is too early to assess the results of these efforts, the Council is recommending that the company be placed under observation.

## 6 Recommendation

The Council on Ethics recommends that Marfrig Global Foods SA be placed under observation due to an unacceptable risk that the company is contributing to severe environmental damage.

\*\*\*

Johan H. Andresen  
Leder

(Sign.)

Svein Richard  
Brandtzæg

(Sign.)

Cecilie Hellestveit

(Sign.)

Trude Myklebust

(Sign.)

Siv Helen Rygh  
Torstensen

(Sign.)