Incentivising deforestation for livestock products:

How support for the livestock sector in the EU and Mercosur countries is subsidising forest destruction

Eduardo Amorim/Flickr

Aichi Target 3 of the Convention on Biological Diversity (CBD) states that subsidies and incentives that are harmful to biodiversity must be phased out or reformed by 2020. With discussions on the elimination of these perverse incentives being highly relevant to the current CBD and United Nations Framework Convention on Climate Change Conference (UNFCCC) negotiations, this briefing looks at subsidies and support for the livestock sector in key producer countries, and how forests and other biodiverse ecosystems are being harmed because of them. [1]

Today, the vast majority of deforestation takes place for a few commodities that end up in consumer products. Four commodities in particular are the key drivers of deforestation: beef, soybeans, palm oil, and wood pulp. This paper will focus on the top two drivers, beef and soybeans, in the context of three of the four South American countries that make up the Mercosur trading bloc—Argentina, Brazil and Paraguay. It will also look at the role of the European Union (EU) as a top importer of beef and soy from Mercosur countries, and the prospect of a new EU-Mercosur Free Trade Agreement, that is currently being negotiated behind closed doors.

Whilst livestock rearing and in particular cattle grazing have the largest role in forest loss, feed crops (mainly soybeans) are an essential part of the global livestock trade. The bulk of the world's soy production is used for livestock feed, mostly for pigs and chickens, but also for farmed fish and cattle. An estimated 70-75% [2] of soy is converted to animal feed, with only about 6% [3] used in products for direct human consumption.

Thus, soy production favors external markets, where it is exported to feed livestock or is turned in to biodiesel, which is where much of the remainder goes, and displaces food crops that would otherwise be contributing to local food security.

According to a study by the European Commission, between 1990-2008 the EU imported more than one quarter of the global embodied deforestation in ruminant livestock products. [4]

More recent figures show that the EU still imports massive amounts of these products. While the EU's Common Agricultural Policy (CAP) doesn't regulate trade, it has a direct impact on trade flows and forests. In 2016, the EU28 imported 27.8 million tons of soy from Latin America, with top exporters Bunge and Cargill sourcing mostly from the Paraguayan Chaco and Brazilian Cerrado regions. [5] Incentives and subsidies stemming from the CAP

Lopsided burden

Rising global demand for cheap meat and dairy products has been and is a leading driver of deforestation, as well as a number of other social, environmental, and health problems. At the same time, the economic model of ever-increasing industrial production creates conflict by depriving small farmers of their livelihoods, polluting land and water courses with massive applications of herbicide, and displacing Indigenous Peoples, local communities and in particular women (since most small-scale farmers are women), [6] and other groups that lack political power. 85% of the world's farms occupy less than two hectares [7] and feed most of the world's population. [8] But the number of multinational players controlling industrial-scale farms is tiny in comparison. This highlights a clear imbalance of power in the food system, where responsibility for deforestation and other environmental degradation from agricultural practices lies with the few. This imbalance is exacerbated by the current political panorama in the region favoring a neoliberal model that leaves most people behind.

contribute directly to the number of animals that EU farmers rear, since larger farms with greater purchasing power are prioritised. Policies under the CAP concentrate land, water, and financial resources into the hands of producers that are increasingly reliant on foreign feed imports.

Many global biodiversity and sustainability agreements heavily focus on the importance of protecting forests, and provide specific targets, such as Sustainable Development Goal (SDG) 15.2, which aims to halt deforestation by 2020. [9] But at the same time, the key drivers of deforestation are still receiving numerous perverse subsidies and incentives, which totally contradicts the aims of the SDGs and other globally-agreed targets. The following case studies highlight this, and show that in reality, despite the recognised urgency for achieving 'zero deforestation', political and market forces are moving Mercosur countries in the opposite direction.

Argentina

Argentina is the fourth largest producer of soybeans in the world, and the largest exporter of soybean meal and oil. [10] Such high output is reliant on vast monoculture production, and the expansion of the industry is promoted by the entrenched neoliberalism of the region. Large-scale commodity producers in Argentina enjoy special privileges, even as the country experiences an acute economic crisis.

Although Argentina has been one of the most important grain producers in the world for more than two centuries, production is increasingly expanding and shifting towards soy, where large multinational corporations such as U.S.-based Cargill, Bunge, and Archer Daniels Midland (ADM), as well as Dutch agribusiness Louis Dreyfus Company, have been allowed to dominate the market. These four companies comprised 35% of the total volume of soybeans exported from Argentina in 2016. [11]

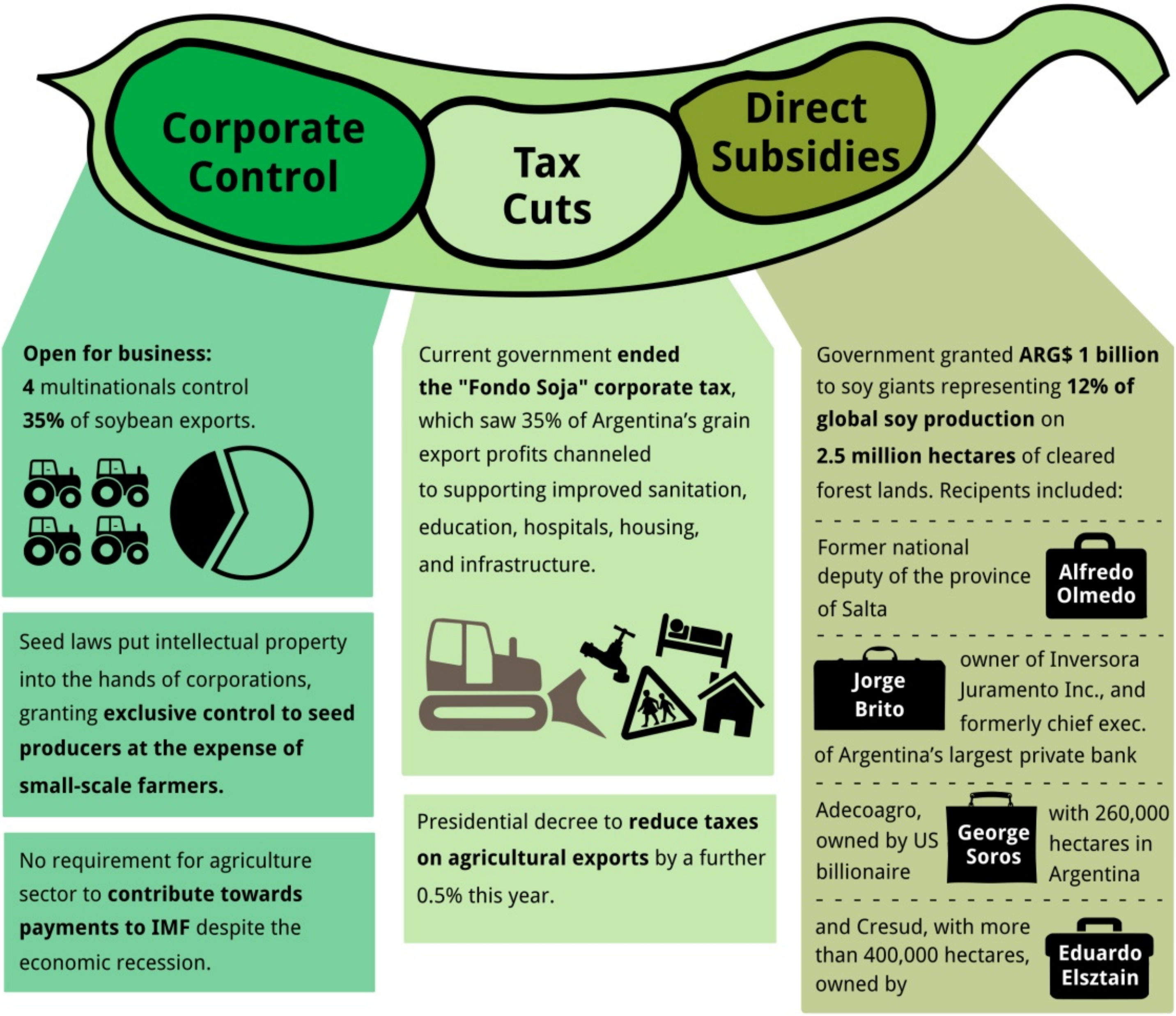
Argentina's political leadership has consistently demonstrated its intention to favor the soy export industry at the expense of public welfare. President Mauricio Macri, in his successful campaign in 2015, promised to reduce taxes on agricultural exports, thereby indirectly subsidising unsustainable, monoculture soy production, destined mostly for European meat production. Presidential decree 1126 was instated earlier this year, resulting in a 0.5% decrease in the monthly tax burden for all soy producers in Argentina. [12]

In the midst of a recession, President Macri is currently contemplating budget cuts to all public entities and seeking to close a credit agreement with the International Monetary Fund (IMF). But Macri's government has no plans to make the agriculture sector contribute towards payments to the IMF, which is another indirect subsidy, given that the payments will come from public funds. [13]

Since 2009, 35% of Argentina's grain export profits have been channeled to the "Fondo Solidario Federal" or "Fondo Soja" and distributed to all provinces and municipalities to support improved sanitation, education, health care, housing, and infrastructure. This corporate tax on soy exports was redistributed at the federal level to better the living conditions of the general public, but this year, Macri announced the termination of this programme.

Other measures to stimulate mass production of soy and other grains include a new Seed Law and Stimulus Plan. The Seed Law reform intends to assign

Soybeans are dried with toxic chemicals before harvest. **Javier/Flickr**



intellectual property rights for seeds purchased, including products obtained from their use and/or built-in biotechnology. [14] This reform would grant exclusive control to seed producers, creating additional hurdles and barriers for small-scale farmers and usurping their food sovereignty. Because of this, peasant organisations have rejected this proposal.

In the 2017 "Agricultural Stimulus Plan Belgrano", the government granted ARG $1 billion (approximately US $27.1 million) to soy producers. The recipients included some of the largest landholders, with almost 80% of the soy produced by these recipients coming from less than 50 companies. Among the beneficiaries were Alfredo Olmedo, a former national deputy of the province of Salta; Inversora Juramento Inc., owned by the Brito family (Jorge Brito was formerly the chief executive officer of Argentina's largest private bank, Banco Macro); Adecoagro, which has 260,000 hectares in Argentina and is owned by U.S. billionaire George Soros; and Cresud, which has more than 400,000 hectares, and is owned by Eduardo Elsztain. [15]

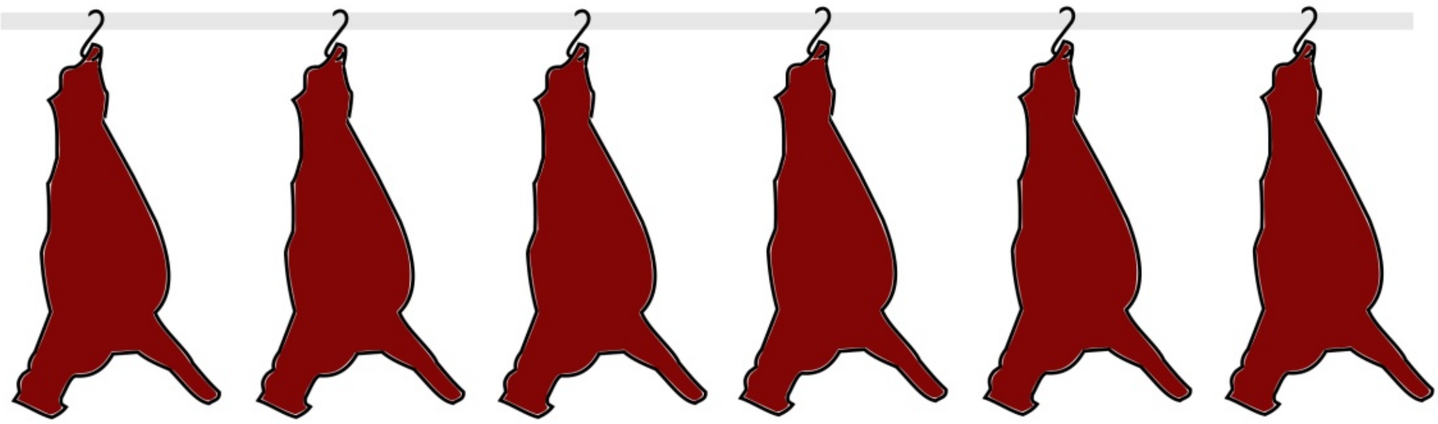
The economic giants receiving “Plan Belgrano” funds contribute about 12% of the global production of soy, achieved at the expense of 2.5 million hectares of forest cleared in the Argentine Northwest, and are referred to as “producers of regional economies” by the government. [16] "Plan Belgrano" proposes additional stimulus plans financed with public resources, meaning that Argentinians are subsidising monoculture soy in territories traditionally dedicated to small-scale farming, which is now all but disappearing in the Northwest region.

Brazil

In recent decades, Brazil has significantly reduced a number of societal inequalities, with notably fewer people living below the poverty line. [17] However, the concentration of income at the top has remained stable: the richest 5% hold the same wealth as the remaining 95% combined. It should be noted that women suffer even more income inequality than men.

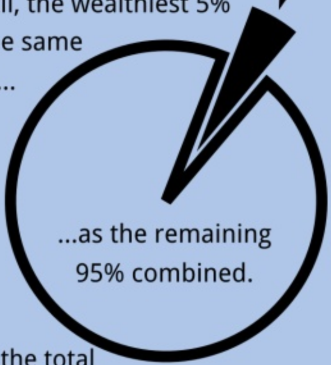
Some of the key aspects of income disparity are in "non-financial" assets: 68% of the total average wealth of the population is rooted in non-financial assets such as land and buildings. [18] Agricultural lands are powerful non-financial assets, and the inequality in their distribution is getting more extreme, with fewer, more concentrated landholders.

Official subsidies for the expansion of agribusiness in Brazil play an important role in aggravating income and land-access disparity. The Agricultural



Wealth inequality amplified by livestock policy

In Brazil, the wealthiest 5% hold the same wealth...



...as the remaining 95% combined.

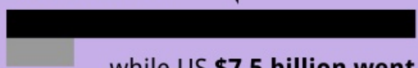
68% of the total average wealth is **rooted in non-financial assets such as agricultural land**. The inequality in its distribution is getting more extreme, with fewer landholders.

Heavy investment in the livestock industry

Between 2005 and 2015, the Brazillian government invested **US $3.18 billion** in the livestock industry. Just **three companies received 90% of the support.**

JBS received **more than half.**

In 2017 the Agricultural & Livestock Plan directed **US $48 billion to agribusiness...**



...while US **$7.5 billion went to "family farming"** (although some of this also supported large-scale livestock & soybean production).

Agribusiness at the expense of forest protection

In 2017...

US $84.3 billion in rural credit agreements were awarded for livestock & soy

US $31.9 billion of this was subsidised by government

Compared to government funding to counteract deforestation and forest degradation: **$115.6 million** and Livestock Plan (PAP) implements the policies of the Ministry of Agriculture, Livestock, and Food Supply. The interest rates and other conditions of these credits are more favorable than those offered by commercial banks, varying according to the type of credit and the size of the producer. The PAP (also known as the “Safra Plan”), for the agricultural year 2016/2017, allocated about US $48 billion to finance agribusiness, as opposed to US $7.5 billion for Family Farmers. [19] Although in concept devoted to promoting agroecology and food sovereignty, part of the loans for family farmers are also directed to supporting large-scale livestock and soybean production.

The Brazilian government has made heavy investments in the livestock industry, mainly through the Brazilian Development Bank (BNDES). Between 2005 and 2015, the amount reached US $3.18 billion, as the credit policy of the bank favored large companies that were expanding activities in order to consolidate their position in the international market. [20] Notably, just three companies received 90% of the support, with one company, JBS, receiving more than half of the support. By 2016, however, inequitable lending provoked a scandal, for which the beneficiaries and BNDES alike continue to face scrutiny. [21]

Despite this, preferential financial flows continue to move towards agribusiness. In 2017, US $84.3 billion in rural credit agreements focused on investment in the livestock supply chain, including cattle pastures and soybeans. Of this total, US $31.9 billion was contracted through official credit subsidised by the federal government. [22] These figures are gargantuan compared to, for example, the amount of funding raised by the government in 2017 to implement REDD+ initiatives to counteract deforestation and forest degradation: US $115.6 million. [23]

Vast areas have been cleared for cattle ranching in Brazil. **Eduardo Amorim/Flickr**

Paraguay

There are multiple incentive systems for capital investment in Paraguay: the Fiscal Incentives Act, promoting domestic and foreign capital investments; the Investment Law, establishing equality between national and foreign investments; and the Law of Guarantees for Investments, establishing a fixed income tax rate for 10 years. Since 2014, Paraguay remains the only Mercosur member country with preferential access for exports to the European Union. [24] Additionally, there are many aspects of the Paraguayan economy including official policies and loopholes that enable large exports of beef, soy, and other livestock products.

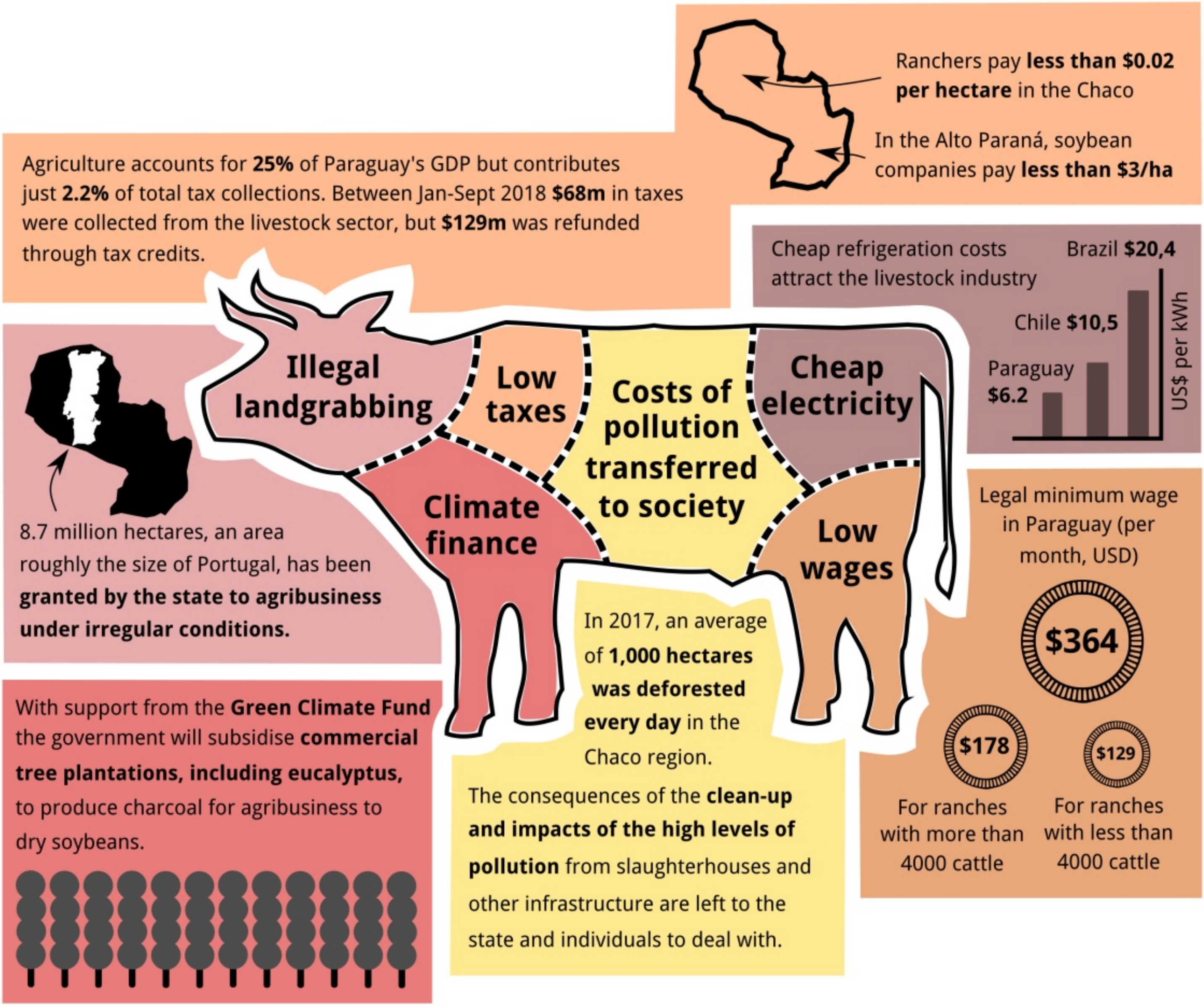
According to the government Investment and Exports Network (REDIEX), [25] Paraguay has some of the lowest labor costs in South America for employers, both in terms of wages and social security costs. A recent resolution allows cattle ranching operations to pay workers even lower than the federal minimum wage. [26]

Slaughterhouses benefit from Paraguay's electricity production surplus, providing energy at the lowest price in South America, particularly to the industrial sector, according to REDIEX. Such operations use a tremendous amount of energy for refrigeration of meat products, which are prone to spoiling.

Paraguay also has the lowest tax burden in the region. In 2004, an advantageous tax system for national and international capital was implemented called "triple 10", establishing maximum 10% tax rates for value-added tax (VAT), personal income, and corporate income. Agricultural producers are ensured low rates and contributions through the Agricultural Income Tax (IRAGRO), and the Agricultural VAT is set even lower than normal VAT, at 5%. Since 2014, VAT returns have exponentially increased for agricultural producers. [27]

Many livestock and soybean farms in Paraguay were established through fraud and land-grabbing, at the expense of the rights of

Land-grabbing is common in Paraguay, where Indigenous Peoples and peasant farmers are displaced for agribusiness. **Ronnie Hall/GFC**



peasant communities and Indigenous Peoples. Included in this are the so-called "poorly-inhabited lands", where 8.7 million hectares were granted to agribusiness by the state in the second half of the 20th century for the presumed intention of agrarian reform. [28]
Cattle ranching and soy monocultures have resulted in devastating deforestation throughout the country. Currently, the Paraguayan Chaco experiences the highest rate of deforestation in the world: in 2017, an average of 1,000 hectares per day were deforested in this region. [29]

Further strain is placed on forests due to the fact that forest biomass is also used as an energy source in infrastructure such as silos, cold stores, and slaughterhouses. These in turn generate significant amounts of pollution, which enters water sources and is released into the atmosphere. Similarly damaging are the large amounts of pesticides sprayed onto soy fields. These activities all transfer high environmental costs to society, but given that authorities are unwilling to monitor and enforce environmental laws, this “free pass” to pollute constitutes a concealed subsidy to the livestock and feedstock industries.

A further form of support for agribusiness is the fact that the Paraguayan government, supported by climate finance from the Green Climate Fund, will subsidise commercial tree plantations, including eucalyptus, to produce charcoal for agribusiness. The charcoal will be used to dry soybeans. [30]

EU-Mercosur FTA: Exchanging sovereignty for beef? [31]

Free trade agreements (FTAs) are not just about commodities. If you look at the different groups of negotiations under the EU-Mercosur FTA, only some of them address market access. Others deal with services, intellectual property, government procurement, sanitary and phytosanitary measures, sustainable development, small and medium-sized enterprises, and other issues. The outcomes of these negotiations will influence the ability of Mercosur country states to regulate, for example: access to and pricing of medicines; who provides key public services; which sectors receive support to develop; who can compete in public sector purchasing; the rules for foreign investments; and so on.

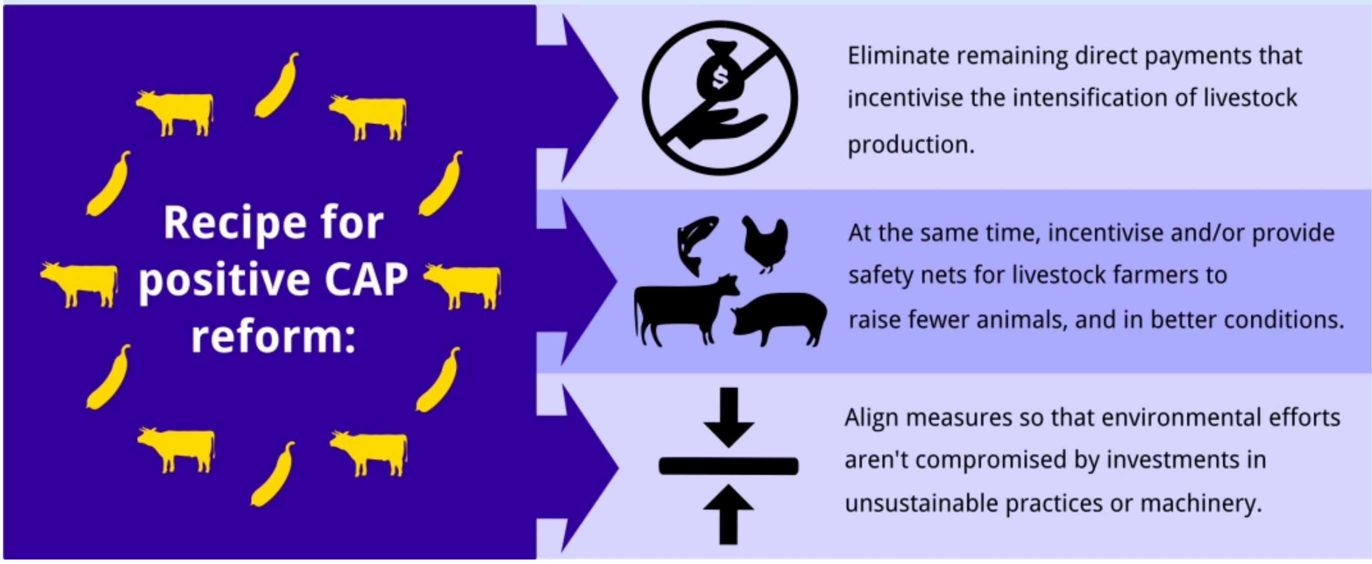
Trade unions, civil society, and environmental groups in Mercosur as well as EU countries have called for a rejection of the deal, citing the unacceptable cost to national economies, people, health, animals, and forests. Such costs are far too steep a price to pay in exchange for premium beef. [32, 33]

While beef is an important export product, and is being used by Mercosur to justify the significance of the deal, it is not the only product exported from the region. In 2017, Mercosur exported goods and services worth US $221 billion across the globe, and the value of all beef exports that year was US $9 billion, about 4% of the total.

Protesters in Germany calling for an end to beef imports from Mercosur. **Campact/Flickr**

The EU's Common Agricultural Policy (CAP)

The EU CAP indirectly benefits South American soy producers by incentivising intensified livestock production in member states, driving harmful production that clears forests elsewhere. In order to have a more equitable and climate-friendly CAP that doesn't further compromise land tenure in South America, reform should include eliminating the remaining direct payments that incentivise the intensification of livestock production; at the same time, incentivising and/or providing safety nets for livestock farmers to raise fewer animals, and in better conditions; and aligning measures such that environmental efforts aren't compromised by investments in unsustainable practices or machinery.



Exports to the EU were around US $42 billion, with beef exports worth around US $1 billion, representing about 2.4% of the total. [34] Reports on the current negotiations suggest that the maximum increase that Mercosur might achieve for beef exports would be around 100,000 tons per year. [35] Considering the value and quantity of their existing beef exports, such an increase is not a significant win. That is, unless the priority is to boost the profits of large cattle farmers and other agribusiness interests in Mercosur, who stand to benefit the most from the deal. However, if this increase in beef exports comes at the expense of services and measures that should benefit many more people in Mercosur countries, then it is clear how many stand to lose from the deal.

The continued drive to increase beef and other meat production by Mercosur governments amplifies the large-scale destruction of forests and biodiversity, harm to communities and public health, and terrible animal welfare standards that industrial livestock and feedstock farming in South America is already responsible for. Negotiating a trade agreement that will almost certainly cause further deforestation and increase greenhouse gas emissions, precisely when efforts should be focusing on halting deforestation and drastically reducing emissions, is simply unacceptable.

Conclusions

The three so-called 'United Soy Republics' [36] analysed in this briefing highlight the dangers of corporate capture of decision-making, when governments cease to prioritise the public good, and are accountable only to the interests of elites. [37] In all three case studies, beef and soy production are aided by pro-agribusiness policies in the form of direct and indirect subsidies and incentives.

Key to these supports and incentives in all three countries are tax regimes, where contributions from the agricultural sector are extremely low. This is true of taxes on exports of meat and animal feed, as well as taxes levied on the vast landholdings of the industry. Argentina exemplifies this trend, having both reduced taxes for soy producers, and at the same time removed an obligation for a proportion of taxes paid by the industry to be invested back into key social services. In Paraguay, agribusiness has benefited from lower taxes since 2004, paying almost negligible amounts compared to what companies receive back in tax credits. These are strong incentives and ensure that transnational corporations and agroexporters will want to continue to invest in these countries.

Also key to these supports are direct subsidies. In Brazil, the significant wealth gap in the country is mirrored by the huge grants issued to a small number of livestock companies, while smaller, peasant-led initiatives that are often in significant need of financing receive comparatively tiny amounts. The support directed to family farming in this instance is skewed further as large-scale producers are also qualifying for this support. And in Argentina, direct government

Small-scale, sustainable livestock-rearing on a family-run farm. **Isis Alvarez**

grants have benefited some of the world's largest soy producers. These direct subsidies are clearly driving deforestation in Mercosur countries.

Finally, it is clear that the EU-Mercosur trade deal, like most FTAs before it, will benefit a select few at the expense of the many. There is an urgent need to halt the secret negotiations on these and other FTAs, and to develop mechanisms of accountability in the livestock and feedstock industries, including a legally binding convention on the accountability of transnational corporations. Parties must remember their commitments to international agreements, in particular the UNFCCC, the Aichi Targets, and the Sustainable Development Goals, among others. While some negotiators will insist that the impacts of the agricultural sector can be mitigated with increasing efficiency, the fact remains that there needs to be major reductions in such inequitable and resource-intensive methods of food production. Ultimately, there must be a major shift away from such extensive and intensive forms of livestock and feedstock farming, with the priority placed on a rapid reduction in meat and dairy consumption and overall dietary change towards primarily plant-based diets, as well as support for small-scale, localised food production. Protection of biodiversity, animal welfare and the rights and practices of peasant farmers, Indigenous Peoples and local communities should form the basis of agricultural policy.

[1] Aichi Target 3: By 2020, at the latest, incentives, including subsidies, harmful to biodiversity are eliminated, phased out or reformed in order to minimize or avoid negative impacts, and positive incentives for the conservation and sustainable use of biodiversity are developed and applied, consistent and in harmony with the Convention and other relevant international obligations, taking into account national socioeconomic conditions. https://www.cbd.int/sp/targets/rationale/target-3/

[2] https://www.chathamhouse.org/sites/default/files/publications/research/2016-01-28-agricultural-commodities-brack-glover-wellesley.pdf

[3] http://soycoalition.org/wp-content/uploads/2014/04/Soja-Barometer2014_UK_FINAL2.pdf

[4] http://ec.europa.eu/environment/forests/pdf/1.%20Report%20analysis%20of%20impact.pdf

[5] http://www.mightyearth.org/avoidablecrisis/

[6] Women are responsible for some 60% to 80% of food production in developing countries https://www.globalagriculture.org/report-topics/women-in-agriculture.html

[7] http://www.fao.org/3/a-I7658e.pdf

[8] http://www.fao.org/family-farming/detail/en/c/284666/

[9] SDG 15.2: By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests, and increase afforestation and reforestation globally. https://sustainabledevelopment.un.org/sdg15ges/Publicaciones/informativosemanal_noticias.aspx?pIdNoticia=1151

[11] https://www.cronista.com/negocios/Solo-tres-grupos-argentinos-figuran-entre-los-10-mayores-exportadores-agricolas-del-pais-20170216-0007.html

[12] https://www.eltribuno.com/salta/nota/2018-1-23-0-0-0-sojeros-arrancan-el-ano-con-un-aumento-de-impuestos-del-4-5

[13] https://www.cronista.com/economiapolitica/Soja-con-otra-baja-de-retenciones-Macri-recibe-a-entidades-del-campo-20180703-0047.html

[14] http://www.infocampo.com.ar/iquest-que-dice-el-proyecto-de-ley-de-semillas-que-presento-el-ministerio-de-agroindustria/

[15] http://www.iade.org.ar/noticias/la-soja-del-plan-belgrano

[16] ibid

[17] Inequalities in Brazil: the divide that unites us. São Paulo: Oxfam Brasil, 2017.

[18] ibid

[19] http://www.agricultura.gov.br/assuntos/sustentabilidade/plano-agricola-e-pecuario/plano-agricola-e-pecuario-antigo; http://www.mda.gov.br/sitemda/publicacoes/cartilha-plano-safra-2016-2017

[20] https://economia.estadao.com.br/noticias/geral,frigorificos-levaram-80-das-verbasexternas-do-bndes,70001942790

[21] https://www.bndes.gov.br/wps/portal/site/home/transparencia/consulta-operacoes-bndes/perguntas-respostas/respostas-do-bndes-a-revista-epoca

[22] https://dadosabertos.bcb.gov.br/dataset/matrizdadoscreditorural

[23] Calculated based on figures from multiple sources: http://www.fundoamazonia.gov.br/en/donations/; https://www.regjeringen.no/en/aktuelt/okt-avskoging-i-brasils-regnskog-gir-redusert-utbetaling-fra-norge/id2581396; http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-806140853-55; https://www.iadb.org/pt/project/BR-X1028; http://projects.worldbank.org/P143184/?lang=en&tab=financial; http://documents.worldbank.org/curated/en/685971492112692456/pdf/ISR-Disclosable-P143184-04-13-2017-1492112680330.pdf; http://documents.worldbank.org/curated/en/676181506292813753/pdf/Disclosable-Version-of-the-ISR-ProCerrado-Federal-Project-P150892-Sequence-No-03.pdf

[24] http://www.rediex.gov.py/

[25] ibid

[26] http://www.mtess.gov.py/index.php/documentos/resolucion-mtess-n-36818

[27] https://www.ultimahora.com/devolucion-del-iva-agroexportadores-crecio-aceleradamente-cinco-anos-n2773514.html

[28] Comisión Verdad y Justicia, 2008.

[29] http://guyra.org.py/informe-deforestacion-2017/

[30] https://globalforestcoalition.org/green-climate-fund-supports-deforestation-paraguay/

[31] This section is based on the following briefing: "The whole of Mercosur in exchange for a plate of beef" https://globalforestcoalition.org/eu-mercosur-trade-deal/

[32] https://mejorsintlcorg.files.wordpress.com/2018/02/declaration-no-to-fta-with-eu-feb-2018-english.pdf

[33] https://www.bilaterals.org/12-reasons-why-we-say-no-to-the

[34] COMTRADE

[35] https://www.reuters.com/article/us-eu-mercosur-trade/mercosur-sees-more-than-70-percent-chance-of-eu-trade-deal-official-idUSKBN1DZ3AH

[36] Rulli, J. 2007. The refugees of the agroexport model. In: United Soya Republic: the Truth about soy production in South America. ed. J. Rulli. Buenos Aires: Grupo de Reflexión Rural, pp.193-216.

[37] https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-land-power-inequality-latin-america-301116-en.pdf

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