# BEEF ON TRACK

## ANALYSIS OF LEATHER CERTIFICATION SYSTEMS AND RECOMMENDATIONS

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# 1. OBJECTIVE

The aim of this report is to present our final analyses and recommendations concerning Leather Certification Systems as proposed in the fourth stage of the BEEF ON TRACK PROGRAM – ALIGNING THE LEATHER VALUE CHAIN.

The overall objective of this line of action is to increase the use of Leather Platforms to include criteria regarding Monitoring and Verification of the Accountability Framework Initiative (AFi) in their certification processes.

Stage 4 of the Program includes "providing written recommendations for the inclusion of criteria and indexes regarding a supply chain free of deforestation or conversion of native vegetation as defined in existing certification procedures in Collaboration with Forests and Agriculture (CFA) and AFi."

This document will start by presenting a review of the three preceding stages, with details of the path followed until now. Then the main points of analysis and results to date will be presented.

Lastly, a few general recommendations that apply to all Systems will be made taking into consideration the specifics of the area to which each Certification System pertains.

# 2. BUILDING BRIDGES

This chapter will offer an overview of how the study of Leather Certification Systems was conducted, the methodologies applied and the results obtained for each stage. Further details can be found in the specific reports, and are listed in the REFERENCES section on page 15.

## 2.1 Evaluating the Certification Systems

The starting point of the project was to assess the structures and technical requirements of each of the 3 Certification Systems:

- **CSCB** - Brazilian Leather Sustainability Certification of the Centre for the Brazilian Tanning Industry (CICB).
- **LWG** - Leather Working Group, and its Environmental Audit Protocol as applied to tanneries.
- **ICEC** - Istituto di Certificazione della Qualità per l'Area Pelle (Institute of Quality Certification for the Leather Sector) and its certifications concerning leather traceability.

Each system was assessed from the standpoint of the scope of its application in terms of range, the requirements – focusing on required or critical issues – and certification level. The requirements included analysing tracking in great detail, seeing as how the issues of deforestation and conversion are directly related to the ability of tanneries to track their raw materials from the source (rural production facilities). The procedures for monitoring and verifying each system were also studied, especially those related to how audits are handled and what is needed to maintain a certificate up-to-date.

The requirements included in each of the System were also cross-referenced as were the criteria for Deforestation Free Chains (DCF) in the Accountability Framework Initiative (AFi) and the Collaboration with Forests and Agriculture (CFA). In this case, we looked at matching criteria, more specifically those regarding deforestation and conversion, human rights, and monitoring and verification.

We also included considerations for each system regarding its integration with other links in the production chain. The Strengths and Weaknesses of each system were detailed at the end.

All of this is described in the report "Analysis of Leather Production Certification Systems" (References 1 to 3).  The "Comparison Between the CSCB, LWG and ICEC Systems" (Reference 4) was compiled after this stage.

Public information and documents for each system were used as references in the assessment of this stage.

## 2.2 What the tanneries had to say

This stage involved identifying and qualifying the needs of tanneries and the challenges involved in raw material tracking, as well as acceptance of the concept of supply chains free from deforestation and conversion within CFA and AFi.

The first step was to analyse the structure of the tannery industry in Brazil in order to better understand the complexity of the sector and the main intra and inter-sectoral relationships.  It then became very clear that this sector is heterogeneous, both in productive processes and access to raw materials.

As such, representatives from selected companies that perform different stages of the leather production chain were interviewed in depth.  Three main groups of tanneries were defined with basis on their raw material access structure:
- **Group A:** Vertically-integrated meatpackers that have direct access to the cattle-breeding units and process hides in their own facilities or through third-parties.
- **Group B:** Tanneries that work with raw materials obtained from meatpacking plants or mediators but have no direct access to the cattle-breeders.
- **Group C:** Tanneries that purchase cured leather, acquired from either of the above groups or mediators.

The companies were chosen by convenience based on our prior knowledge of the companies/interviewees and their familiarity with the specific topic of traceability.  The interviewees were contacted remotely and every interview was scheduled and held online. The interviews followed a script that included the items below:
- **Item 1** – How does the tannery deal with the issue of raw material tracking,  and which procedures are in place.
- **Item 2** – Identify the difficulties faced by the tannery.
- **Item 3** – How the issues of deforestation and conversion are handled.
- **Item 4** – Interaction with the certification systems (CSCB, LWG, ICEC).
- **Final comments** of the interviewee.

Based on the experiences cited by these representatives, working with an integrated tracking system that includes the certification programs presents both opportunities and challenges. Further details are available in the report "Tracking Needs and Challenges for Brazilian Tanneries" (Reference 5).

## 2.3 What the Certification Systems had to say

This stage was aimed at interaction with the Systems and involved assessing initiatives and prospects regarding the issue of traceability and the concept of producing deforestation-free and conversion-free leather.

Meetings were held with the representatives of each Certification System to discuss the following items:

- **Item 1** – How the Certification System views the evolution of current procedures (standards and protocols) regarding the tracking of raw materials. Explain any upcoming changes to the System.
- **Item 2** – Identify any perceived setbacks in following through.
- **Item 3** – How can the matter of deforestation and conversion be handled within the scope of traceability?
- **Item 4** – Assess the specific weaknesses of each System (CSCB, LWG, ICEC).
- **Item 5** – Their opinions concerning integration of the certification systems from the standpoint of traceability.

All of this information, which was collated throughout these three stages, was analysed and consolidated into this report. This data is the basis for the recommendations of the Certification Systems, aiming to improve their regulations, standards and protocols.

# 3. ANALYSIS OF RESULTS

This section includes the main points of our analysis of the leather industry and the productive chain as a whole, as well as an evaluation of the Certification Systems regarding traceability and integration of the issues concerning deforestation and conversion.

## 3.1 Importance of traceability in the tanning industry

Traceability has become a daily issue for tanneries. More and more clients are requesting information concerning the origin of raw materials, mainly buyers from within the fashion industry and most often footwear manufacturers. Therefore, implementing a system of traceability is almost a sine qua non condition for the tanneries to maintain or expand their client base, not only in export markets (which are well-developed and more demanding), but also in local markets (which are gradually coming around to the idea).

Certification Systems, in turn, require traceability in their regulations, standards or protocols. The tanneries, therefore, view certification as an overall plus when it comes to fulfilling their needs. However, the different way that each System deals with traceability sometimes forces the tanneries to multiply their efforts in order to meet requirements.

It has become clear that some tanneries are able to trace leather produced and delivered to clients all the way back to their direct supplier: tanneries that provide partially processed products (wet blue) or a meat processing plant that supplies the *in natura* hides.

However, the exact source of the animals themselves can only be provided by tanneries that are linked to the meatpacking industry (identified in this study as Group A).

All others (the tanneries in Group B and Group C) regularly accept "Statements" or "Terms of Commitment" from suppliers, which also have tracking systems and do not purchase from farms that have had problems regarding deforestation, use of child labour or slave-like labour or from embargoed areas. However, there is not, as a rule, a systematic monitoring system or audit. Usually when a client requests specific information about the source of the leather, a request is sent to the supplier and this process is carried out "manually".

These tanneries have to weigh the importance of traceability in obtaining new customers and maintaining current clients against the cost involved in implementing and operating

a tracking system. Any additional costs are absorbed by the tannery, since the client does not pay more for tracking. Additional requirements that increase the cost of tracking systems is seen as a factor that may adversely affect the leather sector in Brazil.

## 3.2. Dependence on Previous Links in the Supply Chain

The leather industry is an extension of the meat industry. Tanneries transform the by-product "hide" into leather and other products that supply a great number of industrial sectors. Leather is used in the fashion industry to produce footwear, clothing, purses and other articles, in the furniture and auto industry, to produce upholstery, and in the safety equipment industry, and more. Leather scraps and shavings are a source of protein, which is used in the food and pharmaceutical industries, as well as for pet-related items. The fat is used in the production of hygiene products, cleaning supplies and biodiesel and other by-products and the residue is used to produce fertilizers or applied directly in agriculture. In short, the leather industry is highly pulverized and involved in the production of a great many end consumer products.

However, to obtain a supply of raw materials, the tanneries are wholly dependent upon meatpacking plants. This dependence for a single strategic product (the raw material itself), gives the meat processing plant great "bargaining power" in comparison to the tanneries. Furthermore, hides account for only 1.0% to 1.5% of the income from animal and beef sales. This causes the business relationship between meatpackers and tanneries to often lean strongly towards the meatpackers, resulting in little or no effort to provide high quality hides, billing the tanneries before supplying the product, and a price war between tanneries to acquire the raw materials. As a result, any potential requirements by the tanneries regarding the supply of information, such as the source of the slaughtered animals and consequently their hides, are simply not of any concern to the meat processing plants.

An exception to this rule is any tannery belonging to a meatpacker group. We estimate that between 55% to 60% of all slaughters carried out with a Brazilian sanitary inspection seal (SIF) are performed by three major groups that own leather processing facilities (owned outright or third-party).

As such, the entire issue surrounding traceability needs to begin at the farm level and then must as a rule reach the meatpacking industry level. Any tanneries, which are not integrated with farms, are totally dependent upon the meatpackers. The tracking difficulty is even greater for tanneries that process leather that has already been treated (especially wet blue) because other tanneries are the source of the product. It is precisely these tanneries, that supply the leather-working industry, that require the traceability of the raw material and request guarantees to prove the supply chain is free from

deforestation, conversion, the use of child labour or forced or slave-like labour and other demands.

## 3.3 Challenges to consider

Based upon the experience with the leather industry and the interviews held with tanneries and CICB representatives, it becomes evident that the main challenge to consider is the need to increase the availability and transparency of information throughout the productive chain. Currently, this situation can be described based upon each tannery Group evaluated.

- **Group A:** obtain reliable and transparent data from indirect suppliers of the meatpackers (farms).
- **Group B:** obtain reliable information regarding the source of the hides.
- **Group C:** create a system of information that allows tracking up to the source (dependant on the above Groups).

To improve this aspect, two critical points need to be addressed. The first, dependant entirely on the livestock and meat processing industries, is to implement the basic technology necessary to ensure the identification of the origin of an animal from birth and then to be able to cross-reference the information with a focus on the areas of deforestation, embargoes and other legal conditions. The second involves changing the business model: from transactional (price-based) to more relationship-based in trading processes within the productive chain, where details such as an exchange of information regarding traceability is regarded as valuable. This may also lead to a fairer assessment of the raw material based on the knowledge of its origin and may contribute to higher quality hides. This is essential for the information to be traded transparently and so that integrated systems can be developed to guarantee that the accuracy of the data.

From then on, Certifications can play a vital role as a tangible instrument that guarantees the traceability of leather and will, therefore, drive the entire industry to find solutions to implementing a supply chain that is free from deforestation and conversion of native vegetation. Including traceability as a requirement for certification systems will be the end result of dealing with the challenges mentioned above.

Another important issue to consider and simultaneously deal with is to show clients/markets the value of this information and how any added costs can be absorbed by all those involved in the supply chain. In addition, it is important to increase the understanding of the biomes within the context of legal cattle-breeding activities, in particular in the Amazon region.

## 3.4 Deforestation and conversion of native vegetation

Traceability plays a fundamental role in the discussion and creation of solutions regarding the occurrence of deforestation and conversion. The only way to guarantee that any leather acquired is free from deforestation and conversion is to have a robust system in place, based both on technology for georeferencing as well as a means of distributing and managing this information throughout the productive chain.

The hope today is that a combined effort by livestock farms, meatpackers and tanneries will lead to consistent information regarding the direct supplier (the farm that provides livestock to the meatpacking plant). As such, certification may help to create a greater awareness of the necessary requirements to meet this demand, and the leather industry can become a leader in the implementation of commitments and policies regarding supply chains that are free from deforestation and conversion.

## 3.5 Aligning Certification Systems

It was noted that every Certification System shows an increasing concern regarding traceability and, as a consequence, deforestation and conversion. All three address the issue but each in its own way.

It is understand that aligning certification system criteria is extremely important. In other words, the manner in which this requirement is met must be similar throughout the process, especially as a way to demonstrate and document this status during an audit.

This alignment is essential in keeping costs down so the tanneries do not have to perform multiple audits (with different criteria depending upon the certification needed), and to also guarantee the transparency of results. A single traceability proposal adopted by the three systems would be a huge win for the tannery industry, not only in Brazil, but in other countries as well.

# 4. RECOMMENDATIONS

The overall recommendations to be considered by the three Certification Systems are shown below.

The different systems were taken into consideration for each of the recommendations.

## 4.1 General Recommendations

An outline for a viable system that could be implemented by the tanneries and used as a starting point to meet the traceability requirements that the Certification Systems require can be drawn up with basis on this report. We recommend the following actions; however, none of them are mandatory:

### MEATPACKERS

Document-based:
- Purchase Agreements that describe a commitment to not acquire animals sourced from areas of deforestation, indigenous lands, embargoed areas or that use child, slave or slave-like labour.
- Daily logs to keep track of the number of animals slaughtered daily at each farm of origin (CNPJ/CPF identification numbers).
- Filing of invoices (Nota Fiscal - NF) relating to the purchase and transport of animals (GTA) along with the Rural Environmental Register Protocol (CAR) of the property. This will simplify checks and/or audit by a tannery or a certification system.
- Oversight of the livestock producers in terms of deforestation (PRODES Amazon), environmental embargo (IBAMA) and child or slave-like labour conditions.

Physical:
- Markings on hides to identify the farm of origin, date of slaughter and identification of slaughterhouse (desirable).

### TANNERY (Up to Wet Blue)

Document-based:
- Filing of invoices (NF) and documents provided by the meatpacking plant.
- Description of the in-house tracking system that links the leather to a Service (SO) or Production Order (PO).

Physical:
- Alphanumeric stamp on the hides to identify the tannery, the meatpacking plant of origin, date of purchase and SO or PO number.

Audit: (desirable)
- Perform regular audits at partner meatpacking plants (second stage audit).
- Audit and system assessment reports.

**TANNERY (Up to crust or finished leather)**

Document-based:
- Filing of documents sent by tanneries supplying the wet blue leather.
- Description of in-house tracking system.
- Issue of traceability report of the raw material with details of the place of origin.

Physical:
- Alphanumeric stamp with SO or PO number on each piece of leather.

Audit: (desirable)
- Perform regular audits at tanneries and partner meatpacking plants.
- Audit and system assessment reports.

As a result of the implementation of systems based on these references, it would be possible to determine quantitative indexes based on the percentage of tracked hides or leathers and the scope of traceability (to the meatpacking plant, to direct supplier or even to an indirect supplier). Establishing these indexes would also help determine any necessary improvements.

## 4.2 CSCB Recommendations

Specific recommendations for CSCB - Brazilian Leather Certification of Sustainability:
- Improve traceability criteria to include quantitative indexes of traceable hides up to the meatpacking plant, including the date of slaughter and the percentage of tracking with documentation.
- Add indicators regarding any biome differentiation.
- Add indicators regarding non-conversion, and if the statement of raw material suppliers includes an explicit statement about deforestation or not.
- Include mini-audits at third parties.

Taking into consideration the dynamics to change technical standard NBR 16.296 and/or INMETRO specification 314/2015, these suggestions, along with those of a more general nature, could be included in a separate guide of recommendations during CSCB implementation.

## 4.3 ICEC Recommendations

Specific recommendations for ICEC - Istituto di Certificazione della Qualità per l'Area Pelle:
- Make standards publicly available to increase the transparency of the assessment process.
- Implement a physical tracking system.
- Study the possibility of implementing traceability auditing by Certifying Bodies in Brazil (to be determined by ICEC).

## 4.4 LWG Recommendations

Specific recommendations for LWG - Leather Working Group:
- Add indicators regarding non-conversion, and if the statement of raw material suppliers includes an explicit statement about deforestation or not. (Something along these lines is probably included in Protocol 7.0 but until the completion of this report, we did not have access to it).
- Study the possibility of traceability auditing being performed by a third party.
- Include occupational health and safety regulations as legal requirements for future Protocols

# 5. CLOSING REMARKS

The purpose of this report was to increase knowledge about the leather productive chain, the issues of traceability of raw materials and the increasing importance of deforestation and conversion.

Our in-depth analysis of the Certification Systems also helped in identifying issues regarding the transparency of these items through the certifications.

Discussions with the tanneries and certification organisations have opened the door to understanding current challenges and the steps that need to be taken to establish a deforestation-free supply chain.

This study shows that this is a process that will take a good deal of time because it depends on various players, starting with the farms, going through the meat-packing plants, then the tanneries and ultimately the purchasers of leather and the end consumers. It is also worth noting that governmental agencies (at all levels), courts of law, Non-Governmental Organizations, and other representatives of society are also involved in the process.

The hope is that the details of this report will be of great value in future conversations with the Certification Systems and other players involved, and that this will lend to an increase in transparency for the end consumer.

As the old saying goes "one swallow does not a summer make", and we hope that this path will be forged jointly and steadily, given that the existence of tanneries is essential in giving the waste products of this industry a noble end that causes less of an impact on the environment. A sustainable activity by its very nature!

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