At COFCO, Agroideal supports integration between sustainability and business strategy

The Brazilian market plays a fundamental role in the growth strategy of COFCO International, the worldwide arm of the largest food and agriculture company in China. Ever since the company set the goal of becoming a “global leader in the grain supply chain,” the sustainable consolidation of the operation in Brazil has gained strategic importance. Currently, Brazil vies with United States for leadership in soy production. In 2017, the company’s worldwide earnings totaled $34 billion and the Brazilian subsidiary contributed to the expansion of COFCO’s global operations by exporting more than 7 million tons of soy in that year. Purchasing volumes in Brazil are already significant, and the trading company is hoping to expand them even further.

With such an ambitious goal, the company cannot afford to miss out on business opportunities. At the same time, it cannot risk its credibility by purchasing grain from illegally deforested areas or by building silos that indirectly encourage unplanned expansion of soy.

“We know that investments are only approved after we have ensured that they are socially and environmentally compliant. The mechanisms for verifying the product’s source need to be on point to minimize risks,” said Julia Moretti, the company’s Sustainability Manager for Latin America.

Agroideal makes it possible to keep up the pace and minimize risks

COFCO’s strategy to navigate this complex scenario, which is also playing out in other countries, was to strengthen its global sustainability policy. Any investment in infrastructure or credit extended by the company must first go through a social and environmental risk analysis. In Brazil, this assessment includes criteria such as whether the region of proposed expansion has recent cases of labor analogous to slavery. And, when considering building a potential new silo, COFCO checks to see if there are many rural properties included in the Soy Moratorium’s list of embargoed properties. The Moratorium is an agreement to which COFCO is a signatory. The commitment stipulates that trading companies cannot purchase soy from areas of the Amazon that were deforested after July 2008.

Another important function of the social and environmental analysis performed by COFCO in Brazil is to detect whether a region it wants to invest in has the capacity to increase soy production in already cleared areas, such as degraded pasture. The company cross-references data concerning the expected increase in the harvest with data on the stock of areas suitable for sustainable expansion of soy. When the figures are compatible, the trading company tends to consider the region being analyzed as an area with an acceptable level of social and environmental risk. Ultimately, the data obtained allows COFCO to identify the impact it might have on the environment and development of a region. It thus implements actions to mitigate the negative effects or may choose to cancel projects that are unfeasible from a social and environmental point of view.

It takes work to comply with global requirements, but COFCO’s Brazilian team has found an important ally in Agroideal. The company has been using the territorial intelligence system since it was launched in September 2017 to help integrate the social and environmental analyses that are part of its Sustainable Supply Policy with its business planning.
Strategic analyses have become more complete

Before Agroideal, the process of identifying investment opportunities was developed separately from social and environmental risk assessments. When Agroideal arrived on the scene, it became easier to assess both aspects simultaneously. The system provided previously unavailable data, such as an updated scenario of soy-crop areas throughout the Cerrado and the Amazon, and integrated information from several sources. It became possible to combine different data layers on a single map, which made social and environmental analyses more efficient and prompted stronger consideration in the process of defining the company’s course.

“Agroideal helped centralize different analyses from different departments, facilitating a more integrated decision-making process,” Julia Moretti explains.

Marcelandia, a municipality in northeastern Mato Grosso state is among the areas in Brazil where soy production has expanded most and provides a good example of the usefulness of Agroideal. In 2017, the company built a silo in the region with capacity to store 70,000 tons of grain. The inauguration of the structure marked the company’s arrival in a competitive business arena, but which also posed major environmental risks due to the historically high level of deforestation. This scenario influenced the company to prioritize the attention it pays to environmental analysis and decision-making.

Technology was the path to finding a satisfactory solution. Since 2016, Julia Moretti had been taking part in meetings with trading companies, NGOs, banks, and research institutions to discuss improvements to Agroideal during the tool’s development stage. Even when it was still in the testing stage, Agroideal seemed promising for the type of analysis COFCO needed to perform—b ut it was not quite there yet. So, the company decided to begin the social and environmental risk study of the Marcelandia region by hiring specialized consultants that compared the estimated increase in production that a COFCO silo would generate with the stock of areas suitable for soy. The lands included parts of properties that were already growing soy and those that were degraded and could be converted into cropland. The consultants concluded that despite social and environmental risks in the area where the silo would be, the region could provide the expected soy volume without encroaching on the forest or not complying with COFCO’s social and environmental policy. That was the first green light.

The second and final green light came from Agroideal. After the system was launched in September 2017, Julia and her team conducted the same analysis and obtained a very similar result. Besides reinforcing the previous conclusion, the online system built by the sector brought depth and efficiency to the analysis by allowing COFCO to cross-reference maps that were important to the Business department with those essential to the Sustainability team. The detailed survey confirmed that the investment in Marcelandia was feasible. The storage facility was built and contributed to creating businesses and jobs in the municipality.

As in other regions in which it operates, COFCO carried out a social and environmental analysis on Marcelandia property owners to verify whether the producers with whom it was working were in line with its Sustainable Supply Policy.

Financial and environmental gains

From the point of view of environmental conservation, cases such as COFCO’s show that the private sector can only gain by incorporating technological tools that allow them to take their social and environmental analyses beyond what is required by legislation. The expansion of the agribusiness in the center-western and northern regions of Brazil has been one of the driving forces behind the country’s economic growth in recent decades but it was also one of the main causes of deforestation in areas where development was not planned. By putting territorial planning at the core of their investment strategies, trading companies can direct the market to a higher level of corporate responsibility and contribute to the conservation of critical biomes such as the Amazon and the Cerrado in Brazil, and the Chaco in Argentina. These vast systems of natural resources contain astounding biodiversity and help regulate climate on a global scale. They are also home to millions of families, including a rich diversity of indigenous peoples.

COFCO’s assessment of its experience with Agroideal in Marcelandia was so positive that the company is already using the system for prior assessment of other investments in infrastructure and strategic planning for soy-purchasing decisions. The company has also studied ways of integrating Agroideal with other spatial analysis tools and the company’s management system.

How COFCO is using Agroideal

The company integrated its Business and Sustainability analyses and has already used the system to make informed decisions about investments such as construction of a silo in Marcelandia.

Strategy

It assessed degraded pasture in regions of interest to find out whether already cleared areas could accommodate growth.

Reliability

It reinforced the reliability of its social and environmental analysis by repeating surveys conducted previously using other geospatial tools.

View from the field

The construction of COFCO’s silo in Marcelandia encouraged producers such as Ronaldo Laitano Nogueira to expand their soy production. He says that storage was a long-standing problem in the region, so the improved infrastructure and definition of a clear business policy encouraged new investment and boosted the local economy.

“We have noted significant growth even in local commerce, such as machinery dealers” he said.

Laitano emphasizes that the increase in crop volume came from putting pasture under crop production, and not from new deforestation. For producers, sustainable supply policies are becoming stricter, which is making farmers work harder; but he sees control procedures as necessary to mitigate social and environmental risks in the area.

“The market is demanding that,” Laitano concluded. “There is no room for error.”