



grand theft chaco

The luxury cars made with leather from the stolen lands of an uncontacted tribe

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EarthSight

EarthSight is a non-profit organisation committed to harnessing the power of primary investigative research and reporting to bring attention to pressing issues of human rights and environmental justice. We aim to get to the core of an issue, using a range of investigative research methods to obtain first-hand, documented evidence of crimes against both people and the planet which is irrefutable and impossible to ignore. By following the money and tracing supply chains, our research also aims to expose the complicity of consumers and financiers in abetting these abuses.

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GRAND THEFT CHACO



KEY MESSAGES

- > A new Earthsight investigation has linked the illegal clearance of South American forest inhabited by one of the world's last uncontacted tribes with some of Europe's biggest car manufacturers. The clearances occurred in the Gran Chaco, a precious bioregion home to jaguars and giant anteaters whose forests are being destroyed faster than any others on earth. This destruction is being driven by cattle ranching firms to meet international demand for beef and leather.
- > Earthsight identified cattle ranches that have illegally cleared forest inhabited by the Ayoreo Totobiegosode - the only indigenous peoples living in voluntary isolation anywhere in the Americas outside the Amazon rainforest. Earthsight investigators discovered the slaughterhouses buying cattle from these ranches in Paraguay and traced the supply chain carrying cattle hides onward to some of Europe's largest tanneries in Italy, the main destination for Paraguayan leather.
- > During undercover visits, the Paraguayan tanneries concerned bragged of supplying a number of famous cars, including BMW models and the Range Rover Evoque. BMW is using hides sourced from two slaughterhouses processing cows from ranches responsible for illegal clearances in the Ayoreo Totobiegosode's forests. Jaguar Land Rover didn't dispute sourcing from a Paraguayan tannery that processes hides from another slaughterhouse doing the same. Several other auto giants source leather from the Italian tanneries we linked to the scandal.
- > The illegal clearances identified of Totobiegosode land are only the most egregious example of widespread environmental abuses in Paraguay. The majority of the country's beef and leather exports are from recently deforested land, up to a fifth of which was cleared illegally. Studies indicate these exports are responsible for more deforestation per unit of weight than any other commodity on earth. Interviewing government whistleblowers and going undercover with land dealers, Earthsight's investigation revealed the corruption and influence-peddling enabling this destruction.
- > The report details how the leather industry lags way behind steps being taken by other sectors handling commodities driving deforestation, such as palm oil and cocoa. The leather used in cars each year could blanket Manhattan three times over, and the auto industry is among the largest consumers of hides from Brazil as well, where cattle are the largest deforestation driver. Yet Earthsight's survey found not a single car firm was able to trace all of its leather back to ranch, which is essential if links to human rights and environmental abuses are to be avoided.
- > Our investigation highlights the urgent need for EU and UK legislation mandating car companies and other industries to conduct proper due diligence to ensure that their purchases of forest risk commodities do not contribute to deforestation and other abuses. However, the report reveals that trade groups linked to the automotive industry have lobbied the EU and German governments to water down or halt altogether proposed new laws that would require companies to clean up their supply chains.

EXECUTIVE SUMMARY



Bulldozer clearing Chaco forest in Paraguay, December 2019

© Earthsight

The forests of the Gran Chaco are disappearing faster than any others on earth

The vanishing home of the jaguar

Though the Amazon gets all the attention, other precious forests in Latin America are arguably under even greater threat. A thousand kilometres to the south, the dry forests of the Gran Chaco are disappearing faster than any other forests on earth. Home to jaguars, giant anteaters and dozens of endemic species, this unique eco-region was described by David Attenborough as "one of the last great wilderness areas in the world".

The Chaco is vanishing fastest in Paraguay. By 2016, this relatively small South American country had lost an area of forest larger than Switzerland. Most of it had been cleared in the previous 10 years. Conversion accelerated again in 2019, when a football pitch was bulldozed every two minutes.

The destruction is being driven by industrial cattle-ranching to supply overseas demand. Studies have shown that no commodity in the world is responsible for more deforestation than Paraguayan beef and leather. More than a fifth of the clearance isn't even legal.

This destruction has calamitous impacts for both local biodiversity and global

climate change. It is also a disaster for Paraguay's indigenous peoples, many of whom rely on forests for their livelihoods.

The vast majority of their traditional lands have been stolen. In Paraguay, decades of corrupt rule have created one of the most unequal countries on earth, with 90 per cent of the land held by a few thousand rich agribusinessmen, from whose ranks its leading politicians are drawn. But the country's indigenous groups have not given up. Central to that fight have been the Ayoreo Totobiegosode, whose numbers include the last 'uncontacted' peoples in Latin America outside the Amazon.

The invasion of indigenous lands for cattle ranching

Since the early 1990s, Totobiegosode activists have fought to defend the remnants of their ancestral territory. Their efforts forced the creation of a 5500 square kilometre tract of protected forest, home to Totobiegosode groups still living in voluntary isolation. Known by its Spanish acronym PNCAT, the area was recognised by the Paraguayan authorities in 2001.



The Ayoreo Totobiegosode have been fighting for their land for decades

© Survival International/GAT

A few years later, Paraguay's booming beef industry began aggressively expanding into the Chaco. Despite protections applied by Paraguay's indigenous institute, politically connected ranchers acquired leases to swathes of PNCAT. The results were catastrophic. Since 2005, 53,000 hectares (ha) of Totobiegosode forest have been bulldozed and converted to cattle pasture.

The most egregious clearances were carried out by a Brazilian firm, Yaguarete Pora. Yaguarete first cut roads deep into the heart of PNCAT, slicing through historic Totobiegosode sites. It then used its political influence to acquire a license to clear the surrounding forest. This license was later ruled to have been issued illegally, and Yaguarete was fined for concealing information on the presence of uncontacted groups. In 2013, however, in flagrant disregard of this ruling, Paraguay's environment ministry reissued the same license - and Yaguarete destroyed thousands of ha more forest.

Other firms were invading too. Having lost any faith in the Paraguayan authorities, the Totobiegosode turned to the international community for help.

Damning reports from the UN and regional human rights body the IACHR followed. In February 2018, the Paraguayan government finally responded, and its forestry institute (Infona) suspended all land management plans for properties within PNCAT, rendering any clearance unequivocally illegal.

But while the new rules bought a brief respite, Earthsight has discovered the bulldozers were not silent for long.

The bulldozers are back

Just two months after the Infona ruling, Earthsight found fresh deforestation inside PNCAT. Satellite images showed that bulldozers had begun systematically stripping forest on either side of an important water course. Over the space of a few months, 2100ha of precious forest were lost. Then, the following year, a further 520ha were cleared at another site on PNCAT's opposite flank.

To identify who was responsible for this illegal clearing, Earthsight travelled to the Totobiegosode land in late 2019. We met with indigenous communities fighting the clearances, who gave us rare permission to document illegal

Earthsight discovered continued illegal clearance by cattle ranchers inside a protected indigenous reserve during 2019

EarthSight has connected these illegal clearances to leather used by BMW and Jaguar Land Rover

deforestation on their territory. We found that the largest area of recent clearance had been carried out by another Brazilian firm, Caucasian SA, which had previously clashed with Totobiegosode activists in the courts. Delving further, we uncovered that the second site belonged to an agricultural cooperative named Chortitzer, one of Paraguay's biggest beef exporters.

To understand how landowners in Paraguay enjoy such apparent impunity, EarthSight met with government whistleblowers. One official who denounced dozens of cases of illegal clearances elsewhere in the Chaco to her superiors described in detail how she was silenced. When she resisted demands from her bosses to desist, they sent her to meet with representatives of the landowners concerned, who tried to bribe her. Eventually she was forced out of her job entirely. Probing further, we went undercover with Paraguayan land dealers, who offered to sell us two different plots inside PNCAT, and assured us we wouldn't need to wait for permission to begin clearing forest on the land, because of their personal contacts within the environment ministry.

Following the money

The real responsibility for the destruction we documented lies much farther afield, however. The disappearance of the world's tropical forests is being driven by accelerating global demand for cheap commodities. By far the worst culprit is cattle ranching. Every year, Paraguay exports over a billion dollars' worth of beef and leather. While most of the beef is destined for Chile and Russia, sixty per cent of the leather goes to just one country: Italy.

By following the trucks that take cattle to slaughter, EarthSight traced cows from the Caucasian and Chortitzer ranches to three of Paraguay's largest meatpacking firms. Further research found that these firms supply tanneries responsible for 98 per cent of Italy's Paraguayan leather imports.

Next, by going undercover with these tanneries and trawling through thousands of shipment records, we established that most of these exports are destined for the automotive sector. Globally, the leather used in cars each year could blanket Manhattan three times over. More than a third comes from South America. We discovered that the largest automotive leather firm in



© EarthSight



The UK-manufactured Range Rover Evoque is its parent company's best-selling vehicle

© Volha-Hanna Kanashyts / Shutterstock.com

Europe, Italian tannery Pasubio, is also the world's biggest consumer of Paraguayan leather, purchasing an estimated two-fifths of all Paraguay's leather exports.

Pasubio supplies leather to fit out the luxury cars of the most famous names in motoring. Our investigation proves that this includes hides from tanneries and slaughterhouses sourcing material from illegal ranching in the heart of PNCAT.

The link to luxury cars

Executives at one Paraguayan tannery boasted of supplying BMW, including for its X5 SUV. The German marque confirmed to Earthsight that it uses hides which trace back to the slaughterhouses of two of Paraguay's largest beef producers. Both these firms source cattle from ranches inside PNCAT: one, Paraguayan meatpacker Frigorifico Concepcion, takes cattle from Yaguarete Pora; the other, a subsidiary of Brazilian multinational Minerva, receives cattle from Caucasian.

Elsewhere in PNCAT, cattle from Chortitzer's ranch are trucked to the firm's own slaughterhouse, Frigochorti, which supplies the Paraguayan leather firm Cencoprod. Cencoprod's director claimed to have supplied leather used in

a number of major brands, including seating for the UK-manufactured Range Rover Evoque and steering wheels for Ferrari. Asked later by Earthsight, Jaguar Land Rover – historically Pasubio's largest customer – did not deny using leather from Cencoprod. Ferrari claimed Cencoprod isn't a current supplier, though it is unclear how it can be sure, since it was unable to demonstrate a sufficient level of traceability.

Many other car giants source leather from the Italian tanneries involved in this scandal, and while some deny this includes Paraguayan hides, if so this appears to be more by chance than design. Not a single major car manufacturer surveyed by Earthsight in June 2020 had a policy covering impacts of its leather sourcing on forests or indigenous peoples. Neither were any able to trace all of their leather to the ranch where the cattle were reared.

This matters, because the leather coming from deforestation within the Totobiegosode's lands is only the dirty tip of a much larger iceberg. The majority of Paraguay's beef and leather comes from land stripped of forest within the last two decades. Meanwhile, the world's luxury cars absorb five times as much leather from Brazil, where cattle ranching is the primary cause of the ongoing razing of the Amazon.

The majority of Paraguay's beef and leather comes from land stripped of forest within the last two decades

The car giants battling government efforts to clean up their supply chains

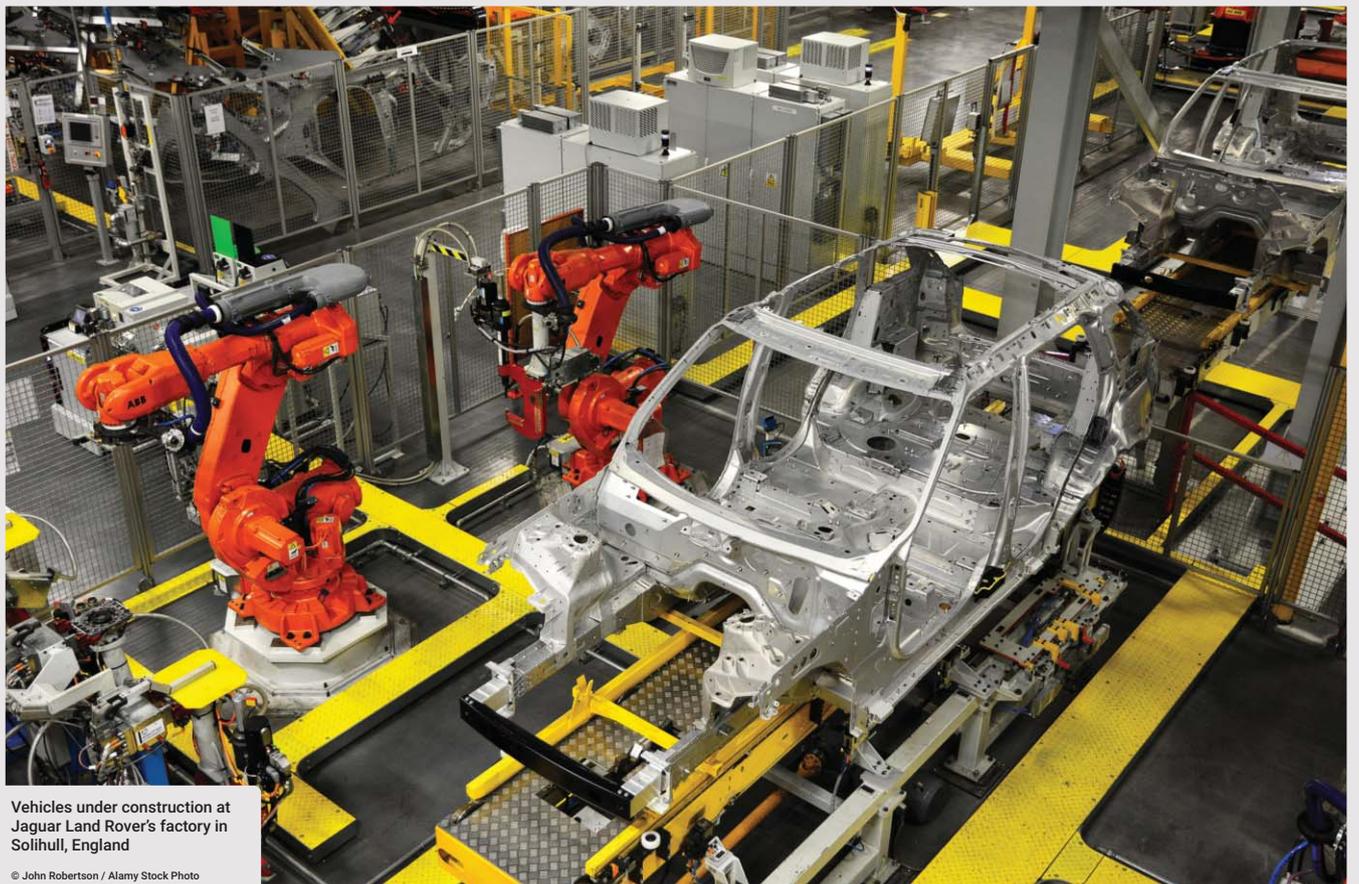
Despite cattle being responsible for more tropical deforestation than any other 'forest risk commodity', the beef and leather industries are lagging far behind others such as palm oil and cocoa in addressing their role. But those other industries are failing too. A decade ago, a raft of giant companies involved in producing, trading and retailing relevant products – including Nestle & Unilever – committed to halting all use of products from deforestation by 2020. None has even come close to achieving this goal.

This failure proves that multinationals cannot be relied on to clean up their supply chains voluntarily. It demonstrates the urgent need for legislation which demands such companies conduct proper due diligence to ensure that their purchases do not contribute to deforestation and other abuses. Europe has a crucial role to play. The EU and UK are together responsible for 10 per cent of global deforestation embodied in commodities. They import an estimated €6billion of soy, beef,

leather and palm oil which were grown or reared on land illegally cleared of forest. Italy and Germany are the top two consumers.

Legislation which would force companies to clean up their supply chains is under consideration by governments in Germany, the EU and the UK. Yet we found that trade bodies claiming to represent the interests of European industry (including its powerful car firms) are lobbying to block these laws or have them watered down. They are even using the global pandemic as an excuse. As the current EU President, Germany has a crucial role to play in moving such legislation forward. The government has stated its intention to do so. But four-fifths of the world's premium cars have German badges, and the auto industry is enormously powerful there. Faced with wider industry complaints, Germany's supply chain law is in real danger of becoming little more than a vapid figleaf. If they are to avoid being branded hypocrites, the car giants must come out in public support of meaningful regulations. If they don't, it is essential lawmakers stand firm against lobbying to the contrary.

Trade bodies linked to Europe's biggest car firms are trying to block or water down the laws which would force them to clean up their supply chains



Vehicles under construction at Jaguar Land Rover's factory in Solihull, England

© John Robertson / Alamy Stock Photo

1. CARVING UP THE CHACO



Jaguar photographed in the Gran Chaco forest

© Hugo Santa Cruz & Fundación Yaguareté

Twice the size of California, the Gran Chaco is home to jaguars, giant anteaters and tapirs

One of the last great wilderness areas in the world

The Gran Chaco is a tapestry of lowland eco-systems spread across the heart of South America. More than twice the size of California, it knits together palm-studded savannah with cactus shrublands and the continent's second-largest expanse of forest.

Covering 800,000 square kilometres across Argentina, Bolivia and Paraguay, the Chaco's forests are home to 3400 plant and 900 animal species, including 500 species of bird.¹ Rare giant anteaters share the space with jaguars and hairy armadillos, while tapirs snuffle through the thorny undergrowth and toucans swoop overhead. The Chaco is one of the last refuges of the threatened rhea, the biggest bird in South America, alongside dozens of endemic species, including the Chaco Peccary, a wild pig whose range is so remote that it wasn't recorded by western science until 1975.²

The vegetation is equally diverse, much of it uniquely adapted to the region's arid conditions. There's the bottle-shaped samu'u tree, its bulbous trunk studded with thick thorns to protect the water within. And there are the famous trio of hardwood species collectively known as the quebracho, named for their capacity to break axes ("quebrar hachas"), and long prized for their timber and tannins.³ Acknowledging its great value, British naturalist David Attenborough has described the Chaco as "one of the last great wilderness areas in the world."⁴

As well as its abundantly biodiverse natural wonders, the Chaco is home to around 250,000 indigenous people, roughly divided between 20 ethnicities or six linguistic groups.⁵ In the forests of the Paraguayan Chaco, members of one such group are the last 'uncontacted' indigenous people anywhere in the Americas outside the Amazon.⁶

Paraguay has lost an area of forest larger than Switzerland since 1985. In 2019, a football pitch was being cleared every two minutes

The world's highest deforestation rate

This unique wilderness, however, is facing a mortal threat. By some estimates, the forests of the region are disappearing more rapidly than any other natural forests on earth. Analysis by Nasa found that between 1985 and 2016 roughly a fifth of the Gran Chaco's forests were converted into farmland or cattle pasture. Paraguay was particularly hard hit, losing nearly 44,000 square kilometres - meaning that, in three decades, this small South American nation lost an area of forest larger than Switzerland.⁷

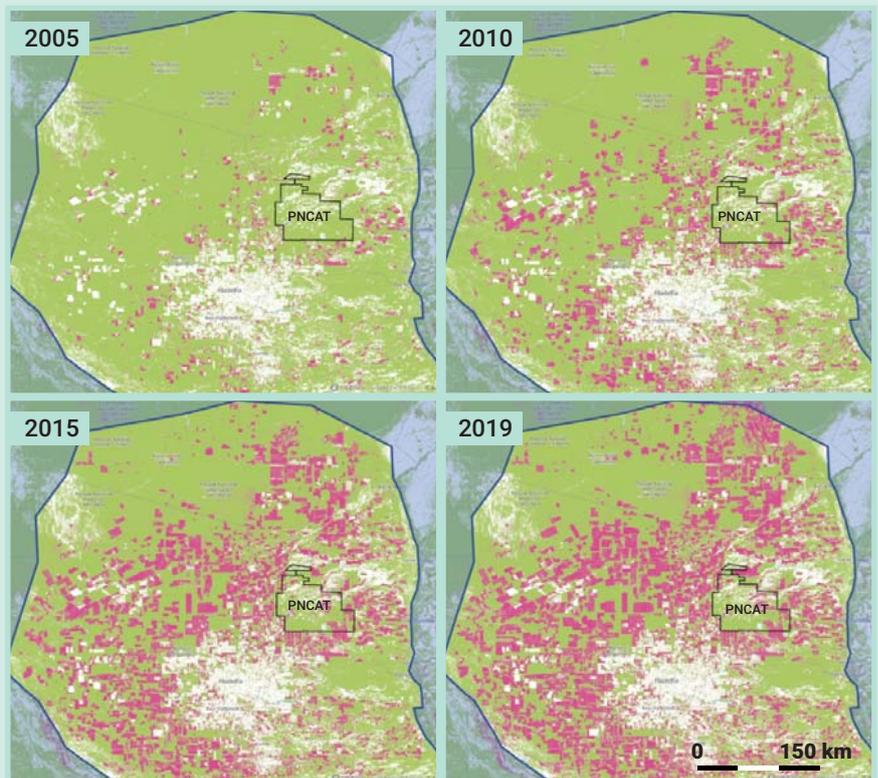
A pioneering 2013 study from the University of Maryland provides a comparative perspective.⁸ Researchers used Nasa satellite imagery to map the disappearance of forests across the globe during the 12 years after 2000.⁹ "The tropical domain experienced the greatest total forest loss," they concluded, and "the tropical dry forests of South America had the highest rate of tropical forest loss, due to deforestation

dynamics in the Chaco woodlands of Argentina, Paraguay and Bolivia."

These clearances were wreaking the greatest havoc in Paraguay. Nationally, only Malaysia had a higher deforestation rate. But this is a measurement of area of forest loss divided by a country's total land area. The east of Paraguay had been under a deforestation moratorium since 2004, meaning that virtually all Paraguay's forest loss was occurring in the western Chaco region alone - implying that the forests of the Paraguayan Chaco were disappearing more rapidly than any other forests on earth.

This deforestation has maintained the same pace since. In 2012 the Paraguayan NGO Guyra Paraguay began a satellite monitoring programme, reporting monthly on forest loss in the Gran Chaco. Guyra found that more than 2.9 million hectares, or 29,000 square kilometres, were cleared between 2012 and mid-2018 - an average of 446,000ha a year.¹⁰ The majority of this clearance happened in Paraguay.

FIGURE 1
Deforestation for cattle ranching in the Paraguayan Chaco, 2001-2019
 (shown in pink)



Source: WRI/Global Forest Watch

“In Paraguay, in recent years we have been experiencing deforestation rates of between 200,000 and 300,000ha per year, and in all the Gran Chaco we are looking at 500,000 to 600,000 hectares of forest in total,” Alberto Yanosky, conservationist and former director of Guyra told Earthsight. Shortly after it began drawing attention to Chaco deforestation, Guyra’s office was bombed, and Yanosky and his daughter received death threats.¹¹

Earthsight’s own analysis of the latest satellite data from WRI’s Global Forest Watch shows the destruction of the Gran Chaco accelerating again. In 2019 it increased by 78 per cent.¹² In Paraguay, a football pitch of forest succumbed to the bulldozers every two minutes.¹³

The role of export-driven agribusiness

Across the Gran Chaco, agribusiness is driving the deforestation. In Argentina, clearances first accelerated in the mid-1990s, when the government authorised the introduction of genetically modified soya beans.¹⁴ In Paraguay, where the Chaco is too dry to sustain traditional soy cultivation, cattle ranching for beef and leather lies behind the destruction.

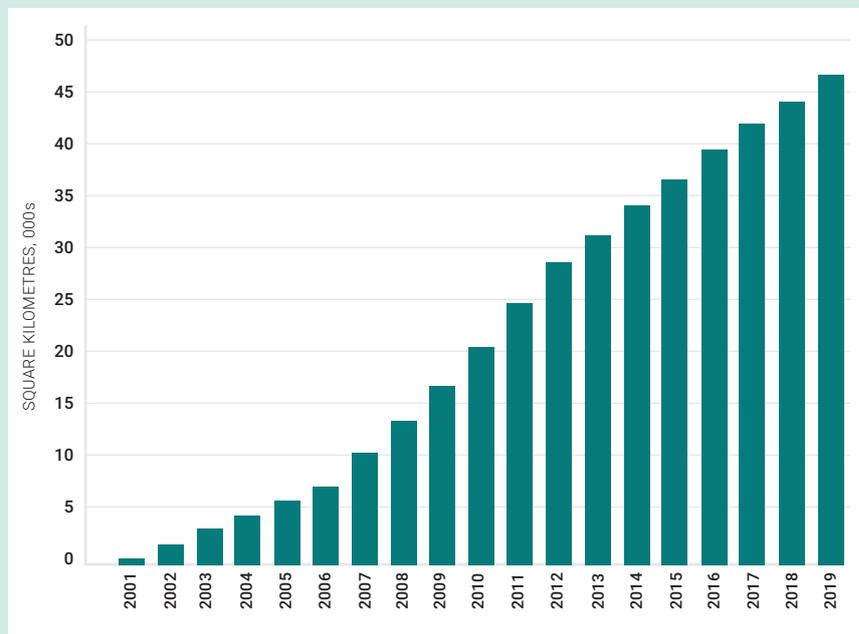
Forest loss in the Paraguayan Chaco first jumped to world-beating levels in the mid-2000s. Before then, agricultural expansion had been concentrated in Paraguay’s eastern half: the lush, rain-soaked land separated from the arid Chaco by the Paraguay river. As recently as the seventies, this fertile land was covered by the great Atlantic Forest, which spilled into Paraguay from Brazil’s Atlantic coast.

Today, less than seven per cent of Paraguay’s Atlantic Forest remains, replaced by a sea of soy plantations. In 2004, to prevent this ancient forest disappearing completely, a moratorium was placed on deforestation in eastern Paraguay. Fought for by local NGOs in partnership with the WWF, from one perspective it was a great success: deforestation in eastern Paraguay fell by 65 per cent within two years, and by 95 per cent within five.¹⁵

But the moratorium had unintended consequences. At the same time that it came into force, Paraguay’s beef industry was booming, with beef exports

FIGURE 2

Area of forest cleared for cattle in the Paraguayan Chaco (cumulative), 2001-2019



Source: WRI/Global Forest Watch

soaring fivefold from 36,000 tonnes in 2003 to 170,000 tonnes in 2006.¹⁶ With the moratorium inhibiting expansion, many cattle ranchers sold their eastern landholdings to soy farmers and bought up cheaper, larger tracts of land in the Chaco.

“50 per cent of the soya in the east of Paraguay is grown on land originally deforested by rancheros, which was then replaced by soya,” Yanosky explains. “Cattle ranchers moved into the Chaco, where land was cheap.”

Agribusiness had discovered a new frontier, and it marched straight into it. Between 2006 and 2007, deforestation in the Paraguayan Chaco tripled, reaching 320,000ha a year - an area bigger than Luxembourg, and more than 50 times the size of Manhattan. It has stayed at much the same level ever since.¹⁷

The extinction debt

Rapid deforestation poses a terminal threat to the Chaco’s unique biodiversity. A 2018 study by the Humboldt Institute in Berlin predicted that a wave of extermination will sweep through the Chaco in the coming decades.¹⁸ Researchers forecast that more than half of the birds and a third of the mammals found in the Chaco today will

Between 2006 and 2007, deforestation in the Paraguayan Chaco tripled. It has stayed at the same level ever since



Illegal deforestation at a ranch inside PNCAT, 2019

© Earthsight

“A minimum of 20 per cent of the deforestation in the Paraguayan Chaco is illegal”

Ezequiel Santagada, Paraguay Environmental Law Institute (IDEA), 2019

be extinct in the region within 10 to 25 years if conservation measures are not urgently implemented.

The study demonstrated that it is easy to underestimate the impact of deforestation on biodiversity because of a lag in its effect, known as the “extinction debt.” As deforestation leaves fragments of forest, at first it may appear that there is a spike in biodiversity, as these fragments become the only refuge for the region’s wildlife. Additionally, the introduction of cattle pasture and water resources for the cows can attract entirely new species.

However, the unconnected remnants of forest are incapable of sustaining a fraction of the population found within expanses of intact forest. After a short grace period, the axe comes down, triggering mass extinctions.

“The question we must ask ourselves is how long is the delay before the impact of this isolation unleashes an extinction

of species,” says Alberto Yanosky. “Normally, in 15 or 20 years, there comes what we call a mass extinction inside these fragments.”

Twenty per cent illegal – but no one in jail

Paraguay has a clear legal framework intended to safeguard both its natural biodiversity and indigenous peoples. Introduced in 1973, Paraguay’s Forestry Law requires landowners to maintain 25 per cent of the natural forest on their land as a “forest reserve”. Fifteen per cent more must be retained as protective strips between 100-hectare bands of deforestation. If water sources are present, a further five per cent must be conserved to protect them.¹⁹ To ensure these rules are followed, property owners must acquire licenses from both the country’s environment ministry and its national forestry institute before clearing forest.

Similar protections exist for indigenous land. Paraguay’s constitution states that

indigenous peoples are entitled to land areas “sufficient both in terms of size and quality for them to preserve and develop their own lifestyles,” and asserts that they cannot be displaced without their explicit consent.²⁰ These constitutional rights are also embodied in common law. For example, Law 43/89 of Paraguay’s penal code prohibits deforestation on land claimed by indigenous communities.²¹

These laws, however, are regularly bypassed. NGOs document frequent cases of officials turning a blind eye to unauthorised deforestation.²² Ezequiel Santagada, an Argentine lawyer and head of Paraguay’s independent Environmental Law Institute (IDEA), recently led a year-long investigation into deforestation in the Paraguayan Chaco.

“What we have detected, with all our analysis, is that a minimum of 20 per cent of the deforestation in the Paraguayan Chaco is illegal. That’s at least 36,000 or 37,000ha of illegal deforestation every year,” Santagada told Earthsight. “And there’s not a single person in prison for this.”

This may well be an underestimate. Paraguay’s own environment enforcement agency Infona found that of 255,000ha cleared in the Chaco between August 2017 and August 2018, only 194,000ha were authorised by land-use change permits. This suggested that the remaining 61,000ha, or 24 per cent of the total, were cleared illegally.²³

The rich agribusinessmen who run Paraguay

This impunity is sustained by the close ties that bind political power, land ownership and agribusiness in Paraguay.

Paraguay has the most unequal land distribution of any country in the world. Ninety per cent of Paraguayan land is in the hands of just 12,000 large property-owners. The remaining 10 per cent is split between more than 280,000 small- and medium-sized producers.²⁴

Much of this is a legacy of its 35 years of dictatorship under General Alfredo Stroessner, who took power at the height of the Cold War. As part of the clientelist networks through which he maintained control, Stroessner distributed seven

million hectares of public land among his military and political allies.²⁵ After Stroessner was forced out in 1989, these land parcels came to be known as ‘las tierras malhabidas’ - the ill-gotten lands. Human rights groups urged they be redistributed to Paraguay’s rural poor.²⁶ But even with Stroessner’s regime replaced by a fledgling democracy, his political party, the Colorados - have held onto power for all but four of the subsequent thirty years.

The only break began in 2008, when a former Bishop named Fernando Lugo won a shock election victory at the head of a left-wing coalition vowing to redistribute land to Paraguay’s landless poor. This project ended abruptly in 2012, when six police officers and 11 poor farmers were shot dead during a dispute over land registered to a former Colorado Party President. Despite highly suspicious circumstances around how shooting began,²⁷ evidence of extrajudicial executions,²⁸ vanishing police helicopter recordings,²⁹ and the subsequent assassination of a key witness,³⁰ the clash was seized on as a pretext to impeach President Lugo.³¹ The impeachment was condemned as a coup by Paraguay’s neighbours, who expelled the country from regional trade body Mercosur.³²

Less than a year later, the Colorado Party was back in power. At the helm was Horacio Cartes, one of the country’s richest businessmen who, inevitably, owns vast landholdings in the Chaco, obtained in part from corrupt Colorado officials.³³ His administration’s priorities were clearly delineated in a 2014 speech in which he urged Brazilian business leaders to “use and abuse” Paraguay.³⁴ They were etched even more clearly a couple of years later, when he passed a decree³⁵ enabling Chaco landowners to sidestep longstanding regulations requiring them to maintain forty per cent of the forest on their properties.³⁶ The move sparked international outrage and was struck down shortly after Cartes left office - but not before he’d used it to clear all the forest on his own ranch.³⁷

Cartes’s successor, the current President Mario Abdo Benitez, stems from the same soil. His father was General Stroessner’s private secretary and one of the biggest beneficiaries from the dictator’s generosity with public lands.

Paraguay has the most unequal land distribution of any country in the world



2. “JUST LIKE THAT”: HOW CATTLE RANCHERS INVADED INDIGENOUS LANDS



Despite a large swathe of their land being under formal protection, forest clearances within it continue to pose an existential threat to the ‘uncontacted’ Ayoreo Totobiegosode

The ‘uncontacted’ Ayoreo tribe

The influence of powerful vested interests has corroded not only the Paraguayan state’s capacity to safeguard forests, but also to uphold indigenous rights. Among those suffering the consequences are the last ‘uncontacted’ indigenous people living anywhere in the Americas outside the Amazon rainforest: the Ayoreo Totobiegosode.

For many centuries, the Ayoreo have roamed the forests, wetlands and salt flats of the northern Chaco. Historically, there were several Ayoreo sub-groups, each nomadizing a specific territorial range. Today there is thought to be just one still living, by choice, in what is more appropriately termed voluntary isolation. These are the Ayoreo Totobiegosode, or ‘people from the place of the wild pig’.

Forest clearances pose an existential threat to the Totobiegosode. Through decades of fighting in the courts and on the ground, Totobiegosode activists have won extensive protections for a huge swathe of forest in the Paraguayan Chaco - forest that is inhabited by their uncontacted relatives. But in spite of these victories, this land has continued to be invaded by ranching companies, with the silent complicity of their friends in government.

Unwanted contact

Thanks to the Chaco’s remoteness, intensive settlement of Ayoreo land didn’t occur until the twentieth century. Following the upheavals of the first world war, Mennonite farmers - members of a conservative Anabaptist sect originating in Friesland - migrated to the region from Canada and Russia.

The Mennonites brought with them two forces that would transform the Paraguayan Chaco: industrial agriculture, and evangelical religion.

Through the ensuing decades, Mennonites, Catholics and other evangelists competed to contact and convert the Chaco’s indigenous people. One Florida-based organisation, the New Tribes Mission, targeted the Ayoreo in particular. First making contact in 1966, they told them that the end of the world was close, that the forest would soon be destroyed, and that they could survive only by moving to their missionary settlements.³⁸

At this time, there were several Ayoreo sub-groups living in the Paraguayan Chaco.³⁹ The Totobiegosode were the southernmost group and became known for their fierce resistance to the missionary message.⁴⁰

But the evangelists refused to be deterred, using small planes to track the location of Totobiegosode groups in the

forest.⁴¹ By the early 1990s, many Totobiegosode were living alongside other Ayoreo in stark missionary settlements outside their traditional land. From there, they provided a convenient source of cheap labour for the rapidly multiplying cattle ranches dotting the Paraguayan Chaco.

“It was as if the missionaries used their evangelization to clear the territory that belonged to the Ayoreo people,” Mateo Sobode Chiquenoi, President of the Native Ayoreo Union of Paraguay, observed in 2010. “That made it easy for the cattle ranchers to buy up almost all of our land, and a few powerful white men took over our territory just like that”.⁴²

Defending the last refuge

Despite the twin assault on their land and culture by ranchers and missionaries, the Totobiegosode soon grew restive on the mission stations. Then, in September 1991, a news item in the back pages of the Paraguayan press sparked a rebellion.

A Mennonite farmer extending his cattle pasture had driven his bulldozer through an uncontacted Totobiegosode encampment, forcing the families to flee. The news - proving not just that their ancestral land still existed, but that their relatives continued to live there - inspired the Totobiegosode to fight for control over their traditional territory.⁴³

In 1993, a delegation of Totobiegosode representatives travelled to Asuncion to lodge their land claim. Noting their traditional territory was split in two by a road, they decided to fight for land titles to 550,000ha on the eastern side of the highway.⁴⁴

In 1997, the process began to yield results. That year, Paraguay's state land institute transferred the first property title within the area to the Totobiegosode. In 1998, Paraguay's culture ministry issued a resolution affirming the cultural significance of the Totobiegosode's traditional land.⁴⁵ Three years later, it formally recognised the 550,000-hectare territory, establishing it as the Natural and Cultural Patrimony of the Ayoreo Totobiegosode, or PNCAT by its Spanish acronym (Patrimonio Natural y Cultural Ayoreo Totobiegosode).⁴⁶

Shortly afterwards, two further properties were transferred to the Totobiegosode, extending their freehold to 69,000ha.

But the Ayoreo were racing against time. Ranching firms were also chasing titles to the same land. In 2002, despite the protections granted to the area by the 1998 and 2001 resolutions, the Brazilian-owned cattle firm Yaguarete Porá acquired a title to 78,000ha within PNCAT.⁴⁷ Immediately, the firm brought in bulldozers, which in preparation for clearing, pushed new roads through the pristine forest 60 kilometres long,

“They left the forest because their capacity to survive was diminishing every day: the forest, the Eami as the Ayoreo say, was shrinking, and when it's shrinking it's harder to find water or food, to find the fruit and animals which Ayoreo eat”

Taguide Picanerai, Ayoreo activist, 2019



Fresh deforestation at Chortitzer ranch inside PNCAT, 2019

© Earthsight



'Uncontacted' Ayoreo Totobiegosode forced off their land inside PNCAT in 2004 by cattle ranching

© Survival International/GAT

“There are many signs that have a comparable age which, considering the distance between the signs, and the simultaneity of their creation, indicates the presence of not one but of various groups”

Miguel Lovera of Ayoreo rights group Iniciativa Amotocodie, 2019

right into the heart of the indigenous reserve.⁴⁸

The Ayoreo denounced the clearances to the environmental prosecutor Bernarda Alvarez. Alvarez conducted a survey and confirmed the illegality of the repeated incursions of bulldozers and other heavy machinery. “Without an environmental impact study, these companies are measuring the land, with the aggravating circumstance of taking no account of the existence of uncontacted peoples in the area,” Alvarez reported at the time. He also noted that the new road driven through the property crossed historic sites of fundamental importance for the Totobiegosode, including old meeting places for different groups and areas of fertile soil for growing crops during the summer months.⁴⁹

Further development at Yaguarete Pora paused, but the Ayoreo were engaged in a game of ‘whack-a-mole’. While fighting one incursion, another would start elsewhere on their land. Thirteen different ranches had obtained titles, covering most of it. Further roads were drilled into PNCAT by other firms. It was saved from large-scale clearance for a couple of years while investors, having marked out their territory, focused on land closer to home. But by 2004-2005,

the tide of deforestation sweeping the Chaco was lapping at its shores, and conversion began in earnest.

Starved out of their forest

The apocalyptic impact of deforestation for the Totobiegosode was vividly demonstrated in 2004, when an uncontacted group emerged from the forest.

A US anthropologist, Lucas Bessire, visited the group through the weeks following first contact, listening to their account of their last months in the forest. “They were often forced to camp in the fifteen-meter wide strips of brush left as windbreaks around vast cattle pastures,” he reported. “They went long periods communicating only with whistled sounds; even the children were whisper quiet. If they saw a boot print or heard a chainsaw, they would flee far and fast, leaving everything behind”.⁵⁰

Speaking of the group’s decision, Taguide Picanerai, head of a Totobiegosode rights organisation and resident of the village where they settled, told Earthsight: “They left the forest because their capacity to survive was diminishing every day: the forest, the Eami as the Ayoreo say, was shrinking, and when it’s shrinking it’s harder to find water or food, to find the fruit and animals which Ayoreo eat”.

A few months after they emerged, one of the group’s leaders, Esoi Chiquenoi, issued a call to the Paraguayan authorities. “When we heard the bulldozers, we were very afraid,” he said. “We ran and changed our camping grounds to escape them. We ask the authorities not to touch the forest, to allow the forest to remain, and to stop the bulldozers, because the forest is what gives us life”.⁵¹

Deforestation unleashed

Chiquenoi’s plea, however, was ignored. The following year, the first large-scale conversion for cattle pasture began on a ranch in the south-east corner of PNCAT. And in 2007, the floodgates opened, and deforestation was unleashed on a wide front. One key moment was a shock decision by Paraguay’s environment ministry to grant Yaguarete Porá – the same firm which had been the first to invade - a license to deforest 1500ha.

At the time that it issued the license, the ministry was participating in a forum on the Totobiegosode land claim titled “an interinstitutional roundtable for the consolidation of PNCAT”. Led by the UN Development Programme, the forum brought together more than a dozen private and public organisations with representatives of the Totobiegosode. The environment ministry granted Yaguarete a license within PNCAT while these discussions were ongoing - without consulting any of the participants.

The ministry’s decision to grant the license had little legal basis. As well as being subject to an indigenous land claim,⁵² PNCAT was under protective measures granted by the Paraguayan Indigenous Institute.⁵³

Accordingly, various official bodies called for the license to be cancelled. The Comptroller General’s Office conducted a forensic audit, concluded it had been issued illegally, and lodged a criminal complaint with the state attorney general.⁵⁴ The National Environment Council also reviewed the license, twice, concluding both times that it should be revoked.

Eventually, in November 2008, the environment ministry did revoke it - by which point Yaguarete had cleared more than 2000ha of PNCAT forest.⁵⁵ An investigation into the issuing of the license followed, and, in 2010, an Administrative Court fined Yaguarete \$16,000 for concealing information on the presence of uncontacted groups in its environmental impact assessment.⁵⁶ The court ruled that Yaguarete would have to submit a new assessment before being reissued a license - with the implication that, due to the presence of uncontacted groups, it wasn’t going to be granted.

But in late 2013, in flagrant disregard of the court’s ruling, the environment ministry reissued the license without Yaguarete having submitted any new documentation.⁵⁷ This fresh license unleashed another wave of catastrophic clearances.⁵⁸ The Brazilian ranchers destroyed 5500ha of forest through 2014 and 2015.⁵⁹

Somewhat incredibly, at the same time, Yaguarete (whose name in English means ‘for jaguars’) was advertising itself as being at the forefront of environmental responsibility. It had even

signed up to the UN’s Global Compact, a group of companies claiming to be leaders in respecting the environment and human rights. Its progress reports made no mention of the illegalities it had been found to be engaged in or the protests against its activities by indigenous groups.⁶⁰

Despite a series of strongly stated resolutions and commitments, the Paraguayan state had comprehensively failed to protect the Totobiegosode territory.

The human right to voluntary isolation

Such clearances pose an existential threat to the Totobiegosode groups who continue to live in voluntary isolation in the forests of the Paraguayan Chaco. Since 2004, signs of their presence have been documented by Iniciativa Amotocodie, an NGO advocating for Ayoreo rights. In the wilderness of the Chaco, these signs are unmistakable: abandoned huts, hunting lances, holes carved in quebracho trees to extract honey, clan markings etched into bark. They are still there.

As indigenous people living in voluntary isolation, the rights of the Totobiegosode are afforded extensive protections in international human rights law. Fundamental to this is the right to self-determination, which in the case of uncontacted peoples extends to their right to live in isolation. A 2013 report by the Inter-American Commission on Human Rights (IACHR, part of the Organisation of American States or OAS, a regional intergovernmental grouping) emphasised that this right is consciously exercised: “Peoples in voluntary isolation cannot be considered ‘uncontacted,’ strictly speaking, since many of them, or their ancestors, have had contact with persons from outside their peoples,” the report notes.⁶¹ It adds that “most of these contacts have been violent and have had serious consequences” for the indigenous peoples, leading them to “reject contact and return to a situation of isolation”.

Furthermore, the United Nations (UN) has established that the act of withdrawing from contact should be interpreted as a withholding of consent for any activities on an indigenous people’s territory. In 2012, the UN

“One of the signs you can note of the presence of our brothers in the forest is cuts in the trees: they cut holes in the trees to take out the honey. You can also see the signs of small fires, that’s another way to note their presence. Every few months we see signs of the presence of our brothers in the forest”

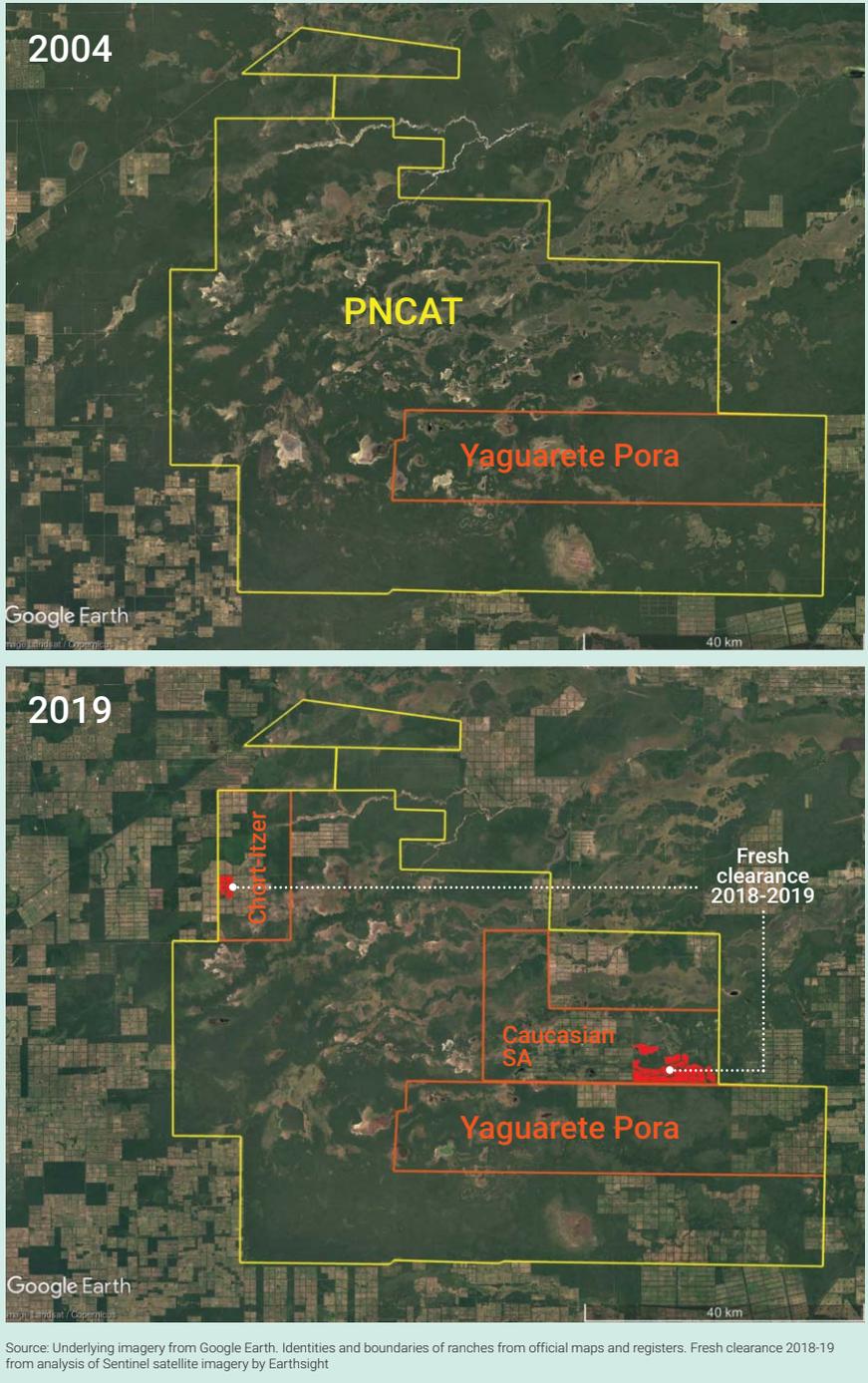
Taguide Picanerai, Ayoreo activist



Uncontacted Indians in Brazil show they don’t want contact with outsiders

© G. Miranda/FUNAI/Survival, 2008

FIGURE 3
How cattle ranches have invaded PNCAT



International condemnation

Facing the incapacity of the Paraguayan state to uphold its commitment to protect their territory, the Totobiegosode reached out to alternative authorities: the UN and OAS.

In November 2014, the UN Special Rapporteur on Indigenous Peoples visited Paraguay to assess the situation. Her report noted “a widespread lack of legal protection for indigenous peoples’ rights over their lands, territories and resources, which are vital to ensure their survival and uphold their dignity,” giving rise to “numerous conflicts and human rights violations”. She called on the government to view the situation as an “emergency” and adopt immediate measures to eliminate the risk of unwanted contact with Ayoreo living in isolation.⁶³

Her report, however, failed to deter the ranching firms. Many continued to clear forest, including Yaguarete, which bulldozed a further 2000ha during 2015.

Then, in February 2016, the IACHR granted PNCAT protected status, stating that “the communities in voluntary isolation of the Ayoreo Totobiegosode People are in a serious and urgent situation, given that their rights to life and personal integrity are allegedly at risk.” Via precautionary measure 54-13, it ordered the Paraguayan government to ensure the immediate cessation of deforestation on Totobiegosode land.⁶⁴

The IACHR ruling slowed the pace of deforestation within PNCAT but failed to stop it. Yaguarete cleared 900ha in 2017, while further clearance also took place on ranches in the centre and north-west of the territory.⁶⁵

In response, in a bid to enforce the IACHR’s precautionary measures, Paraguay’s National Forestry Institute (Infona) issued a series of resolutions in February 2018 suspending all land use change plans granted to properties within PNCAT.⁶⁶ This eliminated any remaining ambiguity over the legality of deforestation in the territory: without a valid plan from Infona, clearing forest is unquestionably illegal.

But this wouldn’t serve to return the land already cleared, where thousands of cattle were now being fattened for slaughter by Yaguarete and others. And while the new rules bought a brief respite, the bulldozers were not silent for long.

“I think that when we mistreat our forests, we mistreat ourselves”.

Taguide Picnerai,
Ayoreo activist, 2019

Office of the High Commissioner for Human Rights issued specific guidelines on the rights of isolated peoples in the Amazon and Gran Chaco, recommending that: “the areas that states have delimited for peoples in voluntary isolation or initial stages of contact must be untouchable no rights to exploit natural resources should be granted”.⁶²

3. LEATHER AND ILLEGAL DEFORESTATION IN THE LAND OF AN UNCONTACTED TRIBE

Continued illegal deforestation in PNCAT

PNCAT is very remote. Not so long ago, it might have been possible to bulldoze forest there without anyone realising. But in the era of freely available high-quality satellite imagery, it has become impossible for the illegal deforesters to hide their activities.

In 2017, Earthsight published a damning report on how charcoal sold in European supermarkets was being made from cleared forest in the Paraguayan Chaco.⁶⁷ Since then, we have been monitoring the satellite images of the area closely. After the illegality of clearing forest within the land of the uncontacted Totobiegosode tribe in Paraguay was underlined by Infona's ruling in February 2018, these showed no further clearing within the Yaguarete Pora ranch. But just two months after the Infona ruling, fresh strips of yellow began appearing in another area of PNCAT to the north of it.

As new imagery became available as often as once every few days, we watched in horror as bulldozers began systematically stripping forest on either side of an important water course, across an area five kilometres deep and eight kilometres wide. The efficient, uniform and rapid nature of the activity left no doubt that this was industrial clearance for cattle ranching. Twenty football pitches were succumbing to the machines every day. Eventually, over the space of a few months, 2100ha of precious forest was lost.

Then in the summer of the following year, more alarm bells began ringing, as satellite images revealed fresh clearance at a ranch on the other side of PNCAT, 60 kilometres away. In just 6 weeks, 520ha vanished before our eyes, an area almost four times the size of London's sprawling Hyde Park (see Figure 4).

Spotting illegal deforestation is now fairly easy for those who know how, but you can't pin the blame from 500 miles above the earth. To stop it, you need to know who is doing it, and where the money is coming from. Earthsight set out to establish who was responsible for these fresh clearances, where cattle from these ranches and others inside PNCAT were going, and where the products from those cattle were ending up. At the same time, we began to explore the corruption and influence-

FIGURE 4

During the summer of 2019, 520 ha was cleared in this ranch inside PNCAT



Source: Sentinel satellite imagery obtained from WRI Global Forest Watch

FIGURE 5

In October and November 2019, a further 663ha were cleared inside PNCAT by Brazilian cattle ranching firm Caucasian SA



Source: Sentinel satellite imagery obtained from WRI Global Forest Watch

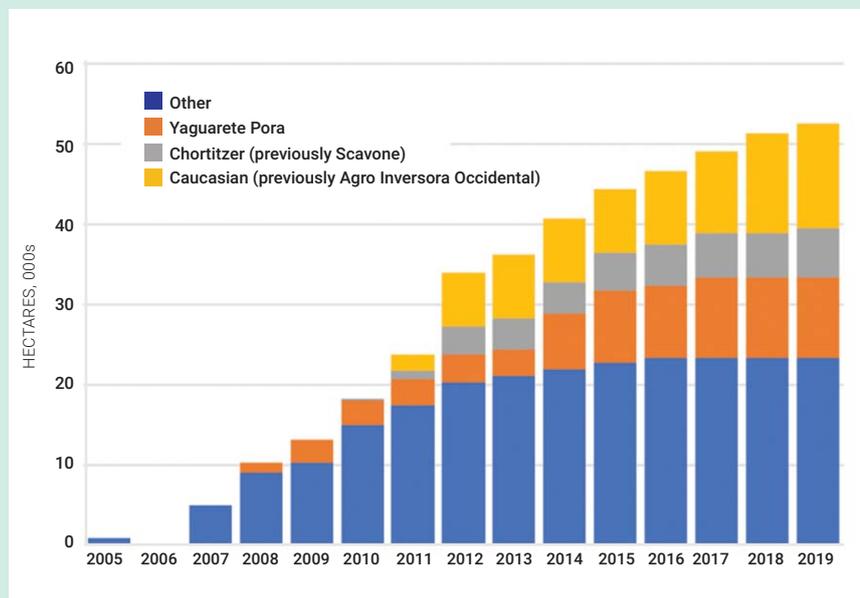
peddling which were enabling these ranchers to get away with it.

In late 2019, Earthsight travelled to the Totobiegosode land in the remote reaches of the Paraguayan Chaco. We met with indigenous communities fighting the clearances, who gave us rare permission to document illegal deforestation on their territory. Though tens of thousands of kilometres of roads built by ranchers now criss-cross the Chaco, there are no maps. Navigating using GPS devices and satellite imagery, we were able to film the destruction, and by speaking to labourers and cattle truck drivers, obtain fresh intelligence on those responsible.

We discovered that the clearance which occurred to the north of Yaguarete Pora in 2018 was being carried out by a Brazilian firm, Caucasian SA, which sought to justify it on the basis of an environmental license granted to the

Earthsight discovered fresh clearances inside protected Ayoreo land

FIGURE 6
Forest cleared for cattle ranching inside PNCAT, 2005-2019 (cumulative), by ranch.



Source: Earthsight analysis using WRI/Global Forest Watch tree cover loss data (canopy cover >30%).

TABLE 1
Clearance for cattle ranching detected by Earthsight inside PNCAT indigenous land after February 2018, when all relevant permits for such clearance were suspended by the authorities.

| Name of Ranching Firm or owner | Ranch Size (has) | Total illegal deforestation 2018-2019 (has) | Timeframe of illegal clearance |
|--------------------------------|------------------|---|---|
| Caucasian SA | 9995 | 2763 | 29 September-30 November 2019: 663ha 22 April-9 October 2018: 2100ha |
| Chortitzer | 22,508 | 520 | 30 July-17 September 2019: 520ha |

Source: Direct analysis by Earthsight of available satellite images.

ranch’s previous owner, Agro Inversora Occidental SA. Lawyers acting on behalf of Totobiegosode activists told us how in late 2018, they had brought legal proceedings against Caucasian, resulting in an out-of-court settlement whereby the ranching firm agreeing to cease clearing forest and pay compensation. Less than a year later, however, Caucasian restarted its bulldozers. Satellite images showed a further 663ha cleared in the space of just two months in October and November 2019.

The identity of those behind the clearances on the other side of PNCAT was harder to pin down. Old maps of land licenses showed the ranch

concerned had once been registered in the name of Angela Beatriz Oddone Scavone, who had cleared much of the forest in the early 2010s. But it had changed hands several times since. Workers at the ranch told us it was now owned by a Mennonite farmer called Felix Krahn, an associate of the Mennonite agricultural cooperative and meatpacking giant Chortitzer. Subsequent research in Paraguay’s land registry confirmed that Chortitzer had acquired the ranch in April 2019, shortly before the fresh clearances began.⁶⁸ Workers told us that the clearing was for a cattle corral, which may be the excuse Felix has been peddling but seems an odd reason to need to flatten an area big enough to corral almost three million cows⁶⁹ – a fifth of Paraguay’s entire herd.⁷⁰

By the end of 2019, some 530 square kilometres of land within the uncontacted tribe’s lands had been cleared and stocked with cattle by ranching firms to produce beef and leather for export.⁷¹ In the last five years, almost all such clearance has been in Yaguarete Pora or the ranches now owned by Caucasian and Chortitzer (see Figure 6). Despite the best efforts of Ayoreo activists, and despite a steady increase in the level of legal protection afforded to their land, the tide of cattle continues to rise.

Earthsight sought to provide Yaguarete Pora, Caucasian and Chortitzer an opportunity to comment on our findings prior to publication. Despite extensive efforts, no contact details could be found for Caucasian. No responses were obtained from the other two firms.

Getting away with it - how agribusiness uses corruption and intimidation to undermine environmental controls

To understand more about how ranchers can still be getting away with clearing forest illegally on an industrial scale across Paraguay, including within the precious lands of the uncontacted Totobiegosode, Earthsight travelled to the capital Asuncion. There we met with government whistle-blowers and went undercover with land dealers. Though we have no evidence to suggest that any of the companies we name in this report have used such methods, the information we garnered from these sources provides a stark picture of how agribusiness in general in Paraguay is

able to ride rough-shod over environmental controls.

Earthsight spoke with past and present employees at Paraguay's environment ministry. All described an institutional culture which puts the interests of Paraguay's landowning class above its environmental law, with senior figures working to whitewash cases of illegal deforestation.

One former civil servant, Karen Colman, identified and denounced dozens of cases of illegal clearance, first to her superiors in the ministry, and then to Paraguay's public prosecutor. In both instances, she said, she was met with silence. When she tried to pursue the issue, she was told to shut up and allow licenses regularising the unauthorised clearances to be granted. When she still resisted, senior ministry officials sent her to meet with representatives of the landowners whose illegal clearances she was refusing to whitewash. Speaking with Earthsight, Karen broke down as she recalled the representatives trying to bribe her and, when that didn't work, to intimidate her. Eventually, stripped of her usual functions and given a series of increasingly tedious and dangerous tasks, she felt forced to quit the ministry.⁷²

A current environment ministry employee also described senior officials ordering junior staff members to approve licenses despite clear irregularities. They recalled colleagues

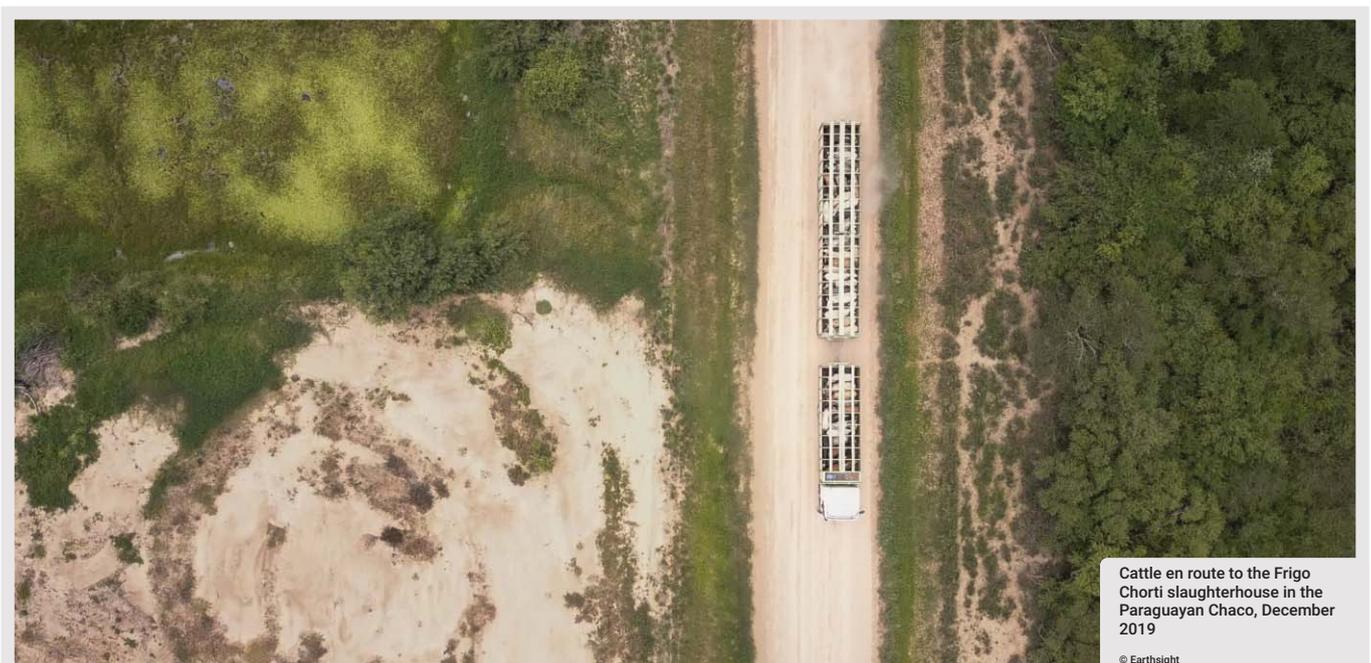
being told: "This is a request from the Minister. You have to grant this license."

Paraguayan law restricts the sale of land that is either titled to indigenous people or subject to an indigenous land claim.⁷³ But as with the granting of environmental licenses, such safeguards are frequently bypassed. To probe the shadowy reality of how land is acquired in the Paraguayan Chaco, Earthsight went undercover posing as investors interested in cattle ranching.

We met with a land broker named GD Agronegocios, headquartered in the southern city of Encarnacion. In the space of a short meeting, the firm offered us not one, but two properties lying within the Totobiegosode land claim. One of these properties is officially titled to the Totobiegosode and was previously the subject of a fierce dispute between them and an Argentine ranching firm called Itapoti S.A.⁷⁴ The second is a functioning cattle ranch named AgroRendá, covering 32,000ha in the north of the territory.

In both cases, Earthsight inquired whether it would be possible to clear forest on these ranches - an act that is unequivocally illegal under Infona's suspension of land use change plans. GD's representatives assured us we could easily acquire the necessary documents. "Everything can be obtained here: if you look for it, you will get it," one told us, indicating that doing so had more to do with personal connections

One official who denounced dozens of cases of illegal clearances to her superiors described in detail how she was silenced



Cattle en route to the Frigo Chorti slaughterhouse in the Paraguayan Chaco, December 2019

© Earthsight

We traced the cattle to three of Paraguay's largest meatpacking firms, which together slaughter one cow every seven seconds

than the validity of our application: "I have a friend that's in the environment ministry, an engineer, and if the moment comes that you can't acquire something, he'll help you".⁷⁵ The company's owner, German Drachenberg, later went a step further, telling Earthsight that as long as we submitted the necessary documentation, we could begin clearing forest before receiving any authorisation from the environment ministry.

As responsible investors, Earthsight repeatedly checked if there might be any issues with indigenous groups or other local communities who could oppose our plans to expand pasture. GD's representative was adamant: "There are zero problems in this area, it is the future of Paraguay," he said. "Full stop: there is no risk."⁷⁶

Supplied with our draft findings just prior to publication, Agronegocios claimed that the properties it offered had legal titles, current use plans and approved environmental impact studies; it said that if prior owners of the properties had acted illegally "it is not a matter for our company".

To follow the money, follow the cows

PNCAT forest is cleared to create pasture for rearing cattle, which are then sold to slaughterhouses at a profit. To follow the money, therefore, we needed to follow the cows. Using information garnered from multiple sources within the region's cattle industry, we connected sales of cattle from ranches inside PNCAT to Paraguay's small number of giant meatpacking firms. Together, their factories slaughter six thousand cows every day⁷⁷ - or roughly one every seven seconds, with nearly all

the products produced from them destined for export.

Cattle from Caucasian, we were told, are transported by truck to the town of Belen, some 250km to the south-east of PNCAT. There they are sold to FrigoAthena, a subsidiary of Brazilian beef giant Minerva, one of the world's largest meatpacking firms. One truck driver we spoke with confirmed that he had delivered cattle from Caucasian to Minerva's facility just a few months before. When it opened in 2017, the giant slaughterhouse and cattle processing facility at Belen was described as the most modern such facility in South America.⁷⁸ The largest slaughterhouse in the country, it kills and processes 1200 cattle a day⁷⁹, around of fifth of the national total.⁸⁰ In the first five months of 2020, it supplied more than a quarter of Paraguay's total beef exports.⁸¹ In the last month for which records are available (May 2020) the facility hit a new national record, slaughtering more cows in a single month than anyone had ever managed before.⁸²

The Chortitzer ranch sends its cattle to the Mennonite cooperative's own slaughterhouse, FrigoChorti, which is the closest slaughterhouse to PNCAT and the largest in the Paraguayan Chaco. Earthsight visited and filmed its large facility on the outskirts of the town of Loma Plata, the Mennonite settlement whose economy it dominates, and watched as truckload after truckload of live cattle came crashing down the dirt road leading northwest towards PNCAT before passing through its gates. More than fourteen thousand cows met their end there the month we visited.⁸³

Our sources told us that cattle from Yaguarete Pora, on the other hand, are sold to Frigorifico Concepcion, the country's second largest meatpacker after Minerva. Cattle from Yaguarete and another neighbouring ranch in PNCAT where clearing occurred during 2005-11 are trucked to Concepcion's main slaughterhouse in the city of the same name, close to Belen. We were told that Yaguarete has a longstanding exclusive arrangement with the firm.

We had followed the trail to the slaughterhouses by following the cows. But to follow the money further, we needed to look at who these firms were selling their products to.



Tanning drums in operation at Lecom's facility in Limpio, near Asuncion, February 2020.

© Earthsight

The Italian connection

The accelerating deforestation of the Paraguayan Chaco has been fuelled by overseas demand for beef and leather. Paraguayan beef exports have increased sevenfold since 2000 and are now worth over \$1 billion per year.⁸⁴ Unlike in Brazil, where most beef is consumed domestically, in Paraguay it is mostly for export.

For now at least (see Box on page 34), very little of the beef ends up in Europe. Most went to Chile and Russia. But the opposite is true when it comes to the leather from these cattle. Cattle hides from ranches in the Chaco are processed in Paraguayan tanneries, which treat the raw hides with chromium salts, turning them into 'wet-blue' leather. This wet-blue is then shipped to tanneries abroad, where it is crafted into a range of products, including furniture, shoes, handbags, and car interiors.

Paraguay exports around 50,000 tonnes of wet-blue leather each year. Almost two-thirds of these leather exports are shipped into the EU, and nearly all such shipments are destined for one country: Italy. Italy is by far the biggest buyer of Paraguayan leather in the world; in 2018 it was the destination for 61 per cent of the country's exports.⁸⁵

Italy's imports have also been rising in lockstep with the destruction of the Chaco's forests for cattle. Firms there imported nearly five times as much leather from Paraguay in 2019 (24,000 tonnes) as in 2009 (5,200 tonnes).⁸⁶

Italy is a global leader in luxury leather goods, the second biggest exporter of leather products in the world and the biggest in the premium sector.⁸⁷ Two-thirds of all the tanned leather produced in the EU is made there.⁸⁸ Its tanneries are divided into three main clusters dotted across the country, with each cluster specialising in particular sectors. Tanneries in Tuscany focus on high fashion; those in Campania on general clothing and leather goods; and those in Veneto, the biggest tanning district in Europe, specialise in furniture and the automotive sector.

To find out whether leather from the cattle shipped from inside PNCAT was heading to Italy, and if so where it was ending up, Earthsight went undercover with the biggest tanneries in Paraguay.



The tannery near Asuncion of Cencoprod, Paraguay's largest leather exporter. Over 80 per cent of its sales are to Italy

© Earthsight

There are just five tanneries in the landlocked South American nation, and four of these are responsible for 98 per cent of the country's exports to the EU.⁸⁹ We were able to confirm that all four were using hides from slaughterhouses we had discovered taking cattle from PNCAT. All the hides from Chortitzer, for example, are sold to Cencoprod, a company established by Chortitzer and two other Mennonite slaughterhouses to process their hides. Lecom, Paraguay's third largest leather exporter, told our undercover investigators that it sources hides from both FrigoAthena and Concepcion. The latter also tans some of its own hides for export under its own name.

The undercover visits also gave us a window into where the leather was going. Posing as potential buyers, we toured their factories in Asuncion, and while workers fed dripping cow hides through a series of machines, the owners told us they ship the bulk of their wet-blue to the Veneto region of Italy. Most of their leather is destined for the automotive industry, they added. Then, as we fought hard to disguise our rising interest, they went on to list some of the cars in which their leather is being used. They mentioned some very famous names.

Italy is by far the biggest buyer of Paraguayan leather, and imports have been rising in lockstep with the destruction of the Chaco's forests for cattle

4. GRAND THEFT CHACO – THE LUXURY CAR CONNECTION



A fifth of the world's leather is used in cars.

© ssuaphotos / Shutterstock.com

Cars are a particularly important market for leather from countries of high deforestation risk

The booming demand for leather in luxury cars

Almost a fifth of the world's leather is used in cars, and this proportion has been steadily growing.⁹⁰ As use of leather in footwear declines, automotive has been described as 'the salvation of the global leather industry'.⁹¹ Leather demand for cars is expected to grow at over 5 per cent a year from 2019-2027.⁹²

Skins of 50-60 million cows are used every year to fit out cars for the world's wealthiest,⁹³ in an industry worth \$29 billion.⁹⁴ The leather used in cars each year could blanket Manhattan three times over.⁹⁵ Europe plays a leading role in this industry. Four-fifths of the world's premium cars have German badges.⁹⁶ BMW, Mercedes and VW-owned Audi each make around two million such cars a year.⁹⁷ And while the wider car industry was struggling even before the arrival of COVID-19, the luxury sector has been booming. Mercedes, BMW, Rolls Royce, Lamborghini, Bentley, Ferrari and Lexus all posted record sales in 2019.⁹⁸ And despite remaining a minority of total revenues, sales of premium cars deliver most of the profits in the industry. The giant VW group for example, the world's largest car maker, relies on sales of Audis and Porsches for 65 per cent of its profits.⁹⁹

Around 10 million luxury-brand vehicles were sold in 2019.¹⁰⁰ It is a fair assumption that the vast majority have leather elements. In some this might be limited to the steering wheel, but in most cases it involves a lot more than that. Some Rolls Royce models require 15 entire cow hides for a single vehicle.¹⁰¹

Leather is also found in high-spec versions of many non-luxury brand cars too. Groupe PSA, for example, told Earthsight that around 10 per cent of the cars it makes have leather interiors.¹⁰² Comparing with car production data, this means it must be selling at least four times as many Peugeots, Citroens and Opel/Vauxhalls with such interiors as it does of its luxury 'DS' brand.¹⁰³ In total, as many as a fifth of all cars sold each year included at least some leather parts.¹⁰⁴ This includes perhaps as much as a third of those manufactured in the EU.¹⁰⁵

Cars are a particularly important market for leather from countries of high deforestation risk. Almost half of Brazil's exports, for example, are destined for automotive use.¹⁰⁶ In 2017, more than a third (34.7 per cent) of the car industry's leather raw materials came from South America.¹⁰⁷

The growing importance of the automotive sector for Italian tanneries

Trawling through thousands of shipment records following our undercover visits, Earthsight was able to confirm that the automotive industry is by far the most important destination for Paraguayan leather, including that bound for Italy.

The automotive sector has been growing in importance for the Italian leather industry, and proved critical in driving its recovery from the financial crisis of 2008-9.¹⁰⁸ The share of Italian leather destined for cars has doubled in the last 15 years. The sector also has an outsized influence, because unlike other sectors like footwear, it is highly concentrated, with a small number of very large and influential firms responsible for the majority of production. Two of the top four largest Italian leather firms are automotive specialists.¹⁰⁹ The President of the European leather industry association COTANCE, which represents the interests of the sector Brussels, is from an automotive leather specialist.¹¹⁰ One of its Vice Presidents is from one of Italy's largest automotive leather makers.¹¹¹

The leading importer of Paraguayan leather is Italian firm Pasubio, one of the largest leather producers in Europe. An estimated 39 per cent of Paraguay's leather exports are destined for this one company,¹¹² which relies on the automotive industry for upwards of 90 per cent of its €313 million in annual sales.¹¹³ Other important Italian buyers of Paraguayan leather include Gruppo Mastrotto, Europe's largest tannery with a growing automotive segment.¹¹⁴

Pasubio is a particularly important client for the tanneries to which Earthsight tracked hides originating from cows reared on illegal ranches in the PNCAT reserve. Available data (which only cover small portions of time during 2014-2017) indicate that as much as half of Lecom's exports may be destined for this one firm, as are 45 per cent of Frigomerc and 61 per cent of those from Frigorifico Concepcion.¹¹⁵ Though shipment records identifying consignees have not been available since 2017, both Lecom and Cencoprod confirmed to Earthsight undercover investigators in 2019 that Pasubio continued to be a leading client.

The luxury car brands fuelling deforestation in Paraguay

The executives at the Paraguayan tanneries mentioned a number of world-famous car brands they claimed were using their products. This includes two of the biggest luxury car manufacturers in Germany and the UK – BMW and Jaguar Land Rover.

BMW, which also owns UK-manufactured Mini and Rolls Royce, is the second largest producer of luxury cars in the world and posted record sales of just over 2.5 million vehicles in 2019.¹¹⁶ Most of these vehicles contain leather. In 2007 BMW admitted to consuming 11,000 hides a day.¹¹⁷ It is producing a million more vehicles a year now than it was then.¹¹⁸

Cencoprod executive Ferdinand Kehler claimed that the company's leather was being used by BMW. He said that "for many years" his firm had supplied leather for use in the manufacture of BMW's X5 model in South Africa. Though this supply route had shut down, he said Cencoprod has maintained sales that ultimately flow to BMW via other routes. "We sell to Italy, where it ends in Germany, in a supplier of BMW."

In follow up queries by Earthsight, however, the German car firm said it had been told by Pasubio that none of the hides supplied to BMW had come from Cencoprod. But it did confirm that it was sourcing hides via Pasubio from Concepcion, Frigomerc and Lecom, and that through these suppliers was taking hides from the FrigoAthena and Frigorifico Concepcion slaughterhouses.¹¹⁹ Minerva-owned FrigoAthena takes cattle from the Caucasian SA ranch, while Frigorifico Concepcion processes cows from the Yaguarete Pora ranch – both operating on land illegally cleared within PNCAT.

When presented with our full findings in advance of publication, BMW said that "so far, we have no information that the BMW Group's leather supply chains in Latin America are affected by the problems presented".¹²⁰ The company (which already traces all hides to slaughterhouse) said it was exploring options for extending traceability systems further for leather from South America, but its "medium-term strategy" is to phase out leather from the region altogether.¹²¹

Executives at the Paraguayan tanneries mentioned a number of famous car brands they claimed were using their products



Pasubio is the leading buyer of Paraguayan leather. Jaguar Land Rover is its biggest customer

Kehler also told Earthsight that Cencoprod supplies leather for the Range Rover Evoque model, via Pasubio. "In 2009, Pasubio developed leather for the Range Rover Evoque. For this model, they were looking for leather with fine hair, and thanks to this we were incorporated into the programme. It is not principally us you understand - we are just one part. They use 5000 hides a day, and it could be that 500 or 1000 come from here", he said.¹²²

The Evoque, parent company Jaguar Land Rover's best-selling model, is manufactured at Halewood on Merseyside in the UK. The factory churned out a record 85,000 Evoques in 2018/19, a 25 per cent increase on the previous year.¹²³ All new Evoques come with leather steering wheels and some leather trim as standard, while all but the most basic models also feature full leather seats.¹²⁴

Land Rover is one of Pasubio's most important clients. In 2015, leather from Pasubio worth nearly €60 million went into its cars - 23.8 per cent of the Italian firm's total sales.¹²⁵ Sister firm Jaguar

was responsible for a further 14 per cent.¹²⁶ When surveyed about its leather sourcing by Earthsight in June 2020, Jaguar Land-Rover declined an opportunity to either confirm or deny purchasing Paraguayan leather from the tanneries concerned via Pasubio or otherwise. The company has no deforestation policy and did not answer questions regarding the level of traceability it has for the leather it uses. It did admit to using some leather from South America but said that in Brazil its supplier has a system for ensuring sub-suppliers don't buy animals from farms involved with deforestation.¹²⁷

Provided with a full copy of our findings just prior to publication, Jaguar Land Rover told Earthsight "we take allegations of unlawful or unethical behaviour within our supply chain extremely seriously and have taken immediate action to investigate the points you have raised with the relevant suppliers". It said it "expects suppliers to comply with all applicable laws and regulations, as well as manage the environmental impact of their operations."¹²⁸



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FIGURE 7

How ranches involved in illegal deforestation in indigenous lands are connected to major car firms



Cencoprod told undercover Earthsight investigators that it supplies leather for the Range Rover Evoque

The other car firms in the spotlight

Many other car firms and brands source leather from the Italian tanneries implicated in this scandal. With its unparalleled suite of luxury car brands including Audi, Porsche, Bentley, Bugatti and Lamborghini, the Volkswagen Group is likely the largest consumer of automotive leather in the world, as well as the biggest producer of cars. In 2014, the group consumed some 10 million square metres of leather – enough to blanket Central Park three times over, or Berlin’s Tiergarten five times over.¹³⁴ In 2019 it produced three-quarters of a million more cars than it did then, so its leather consumption today is likely substantially higher.¹³⁵

In 2016, Pasubio – the firm we found is the biggest buyer of hides from the Paraguayan tanneries sourcing raw materials originating on illegally cleared land in PNCAT – told industry reporters that VW brands were responsible for over a quarter of its revenues.¹³⁶ When Pasubio was bought out by a giant private equity firm two years later, the VW Group was described as remaining one of its major clients.¹³⁷ On its website, Pasubio claims to have supplied the group’s eponymous brand as well as Porsche and Skoda badged cars.¹³⁸ Volkswagen is also a client of Gruppo Mastrotto, which both Lecom and Cencoprod confirmed is another important customer for their Paraguayan hides. A promotional video on Gruppo Mastrotto’s website prominently features Audi vehicles (owned by Volkswagen), and in 2015 Gruppo Mastrotto became a “Future Automotive Supply Tracks” supplier in Volkswagen Group’s “strategic supplier” list.¹³⁹ In our undercover

exchanges with them, Paraguayan tannery Lecom also specifically claimed that leather supplied to a sister firm in Italy called Nuti Ivo is used by VW-owned supercar maker Lamborghini.

In response to direct questions from Earthsight, Lamborghini said it had contacted all its leather suppliers, all of whom said they were not supplying leather from Paraguay.¹⁴⁰ Given the opportunity in June 2020, Volkswagen (claiming to be replying on behalf of all group brands including Lamborghini) did not confirm nor deny that its brands use hides from the specific Paraguayan tanneries named. It admitted that it does not have complete traceability for its leather supply chains, and instead of a deforestation policy, just asks suppliers for written confirmation that leather doesn’t come from the Amazon region.¹⁴¹ Aside from being unenforceable, this requirement doesn’t cover the millions of hectares of precious forests elsewhere in Latin America.

When contacted again with our full draft findings just prior to publication, Volkswagen changed its tune. Though it confirmed purchasing from both Pasubio and Mastrotto, it said both firms had now told it this did not include Paraguayan leather. The company also said that it was developing a new leather procurement policy which would exclude material associated with illegal deforestation.¹⁴²

Pasubio’s list of claimed clients also includes Peugeot, Citroen, Hyundai, Kia, and Ford. Asked the same questions about policies and Paraguayan sourcing by Earthsight, PSA – the second largest manufacturer of cars in Europe – (replying on behalf of Peugeot, Citroen



Pasubio is the third largest tannery company in Italy

© Pasubio website

FIGURE 8

Summary of evidence relating to different car firms*

| CAR FIRM | EVIDENCE |
|---|---|
| BMW  | <p>Admitted sourcing hides which trace back to Paraguayan slaughterhouses which we found receive cattle from ranches where illegal clearing has occurred in indigenous lands. Admitted it is unable to trace the leather coming from these slaughterhouses back to the ranches where the cattle originated. When presented with our full findings, nevertheless said that "so far, we have no information that the BMW Group's leather supply chains in Latin America are affected by the problems presented".</p> |
| JAGUAR LAND ROVER  | <p>Largest customer of Pasubio, the Italian firm which is the leading importer of Paraguayan hides and sources them from all of the tanneries found by Earthsight to be connected to illegal deforestation in indigenous land. One of those tanneries specifically bragged of supplying the best-selling Range Rover Evoque. Jaguar Land-Rover refused to either confirm or deny purchasing Paraguayan leather from the tanneries concerned via Pasubio or otherwise. It said it takes our findings seriously and has launched an internal investigation.</p> |
| VOLKSWAGEN GROUP  | <p>Second largest customer of Pasubio, responsible for over a quarter of its revenues in 2015. Skoda, VW and Audi are among the brands Pasubio claims to have supplied. VW Group is also a customer of Gruppo Mastrotto, another Italian firm buying from the implicated tanneries. When initially given the opportunity, VW did not confirm nor deny that its brands use hides from the specific Paraguayan tanneries we exposed. It admitted that it does not have complete traceability for its leather supply chains. Its demands regarding forests only relate to the Amazon. One Paraguayan tannery specifically claimed to be supplying VW-owned Lamborghini, though Lamborghini claims it uses no leather from Paraguay. VW Group later told Earthsight that Pasubio and Mastrotto had told it that none of the leather provided for its cars originated in Paraguay.</p> |
| GROUPE PSA  | <p>Confirmed to Earthsight that they source leather from Pasubio, but say that "to the best of our knowledge" the hides concerned come from North America and Europe. For other leather suppliers, could also say only that "to the best of our knowledge" this does not include Paraguayan hides. Did not answer questions regarding the level of leather traceability they currently have. Said they do 'share your concern about leather supply chain' and are commissioning audits into their own.¹⁵¹</p> |
| HYUNDAI (INC KIA)  | <p>Customers of Pasubio. Did not confirm or deny whether this includes hides sourced by Pasubio from the Paraguayan tanneries implicated in our research. Did not answer questions regarding the level of leather traceability they have.</p> |
| FORD  | <p>Customers of Pasubio. Did not answer questions regarding the level of leather traceability they have. Did not detail any specific policy on deforestation for leather, nor say one was in development. When presented with our full findings just prior to publication, Ford confirmed sourcing from Pasubio but claimed the leather concerned originates in Europe.</p> |
| FERRARI  | <p>One of the tanneries implicated in our research claimed to be supplying leather for Ferrari steering wheels. Ferrari told Earthsight that none of the Paraguayan tanneries named 'provides leather for our vehicles' but did not explain whether this denial included indirect supplies or past supplies. Did not answer questions regarding the level of leather traceability they have.</p> |

* For additional information, see main body text.

and Vauxhall/Opel) would say only that "to the best of their knowledge" they did not have Paraguayan hides in their vehicles, whether from Pasubio or otherwise.¹⁴³ The firm did acknowledge that it 'share[s] your concern about leather supply chain' [sic] and said it was currently commissioning audits into its own.¹⁴⁴

Hyundai (replying on behalf of itself and its Kia and Genesis brands) said it was to publish a new code for suppliers in 2020 to include environment and traceability provisions, suggesting no such provisions currently exist.¹⁴⁵ Ford didn't answer our questions

regarding leather traceability, saying only that it meets its leather supplier regularly to 'influence and hold them accountable for their sustainability plans'.¹⁴⁶ When presented with our full findings just prior to publication, Ford confirmed sourcing from Pasubio but claimed the leather concerned originates in Europe. It also stressed that it "never knowingly procures materials that contribute to... environmental concerns".¹⁴⁷

During our undercover meeting, one of the Paraguayan tanneries to which we traced cattle from illegal ranches in PNCAT bragged of supplying leather

used by perhaps the most famous luxury car of all. Cencoprod's director Kehler claimed its leather is used in Ferrari steering wheels, and showed off an example. That this wasn't just unsubstantiated bragging was supported by the fact that the company's director was happy to clarify to Earthsight investigators that it had not supplied leather to Porsche, despite media coverage suggesting this was the case. Kehler has also made the same claim publicly before.¹⁴⁸

Ferrari however, told Earthsight that none of the Paraguayan tanneries

Rapid growth in leather use in the automotive sector in recent years has attracted the attention of the world’s leading capitalists

named (including Cencoprod) ‘provides leather for our vehicles’, but did not explain whether this denial included indirect supplies or past supplies, or answer questions about whether it has the level of traceability it would need to be sure of this.¹⁴⁹ When asked, the company could not cite any leather procurement policies which address issues relating to deforestation or indigenous rights, stating only that its suppliers are required to abide by its corporate Code of Conduct. This Code makes no mention of forests and includes only the vague statement that Ferrari ‘encourages sustainable practices adoption’ [sic] by its suppliers.¹⁵⁰

Several of the car firms we surveyed, while unable to cite any policies regarding deforestation, did note that

their contracts with leather suppliers demand that they abide by all relevant laws and regulations. But such requirements don’t extend to the firms much farther up the supply chain clearing forest for cattle and are therefore of zero value in preventing hides from illegal deforestation being used.

Prior to publication, Earthsight contacted all of the Paraguayan slaughterhouses and tanneries, Italian tanneries and automotive firms named in this report, to give them an opportunity to comment on our findings. By the deadline provided, we had received no response from any of the Paraguayan firms or the Italian tanneries. Pertinent details from those responses obtained from the car firms are summarised above and in Figure 8.



The giant private equity firms bankrolling suspect leather

Rapid growth in leather use, driven particularly by luxury use and the automotive sector, have in recent years attracted the attention of the world’s leading capitalists. Pasubio, the giant Italian tannery which is Paraguay’s leading leather importer, was bought out in 2017 by CVC Capital Partners, Europe’s largest private equity firm. In 2019 Rino Mastrotto - another large Italian leather firm heavily reliant on the car industry¹²⁹, and with its own tannery in Brazil - also became a target, with Italian private equity firm NB Renaissance Partners taking a controlling stake. NB is sponsored and managed by US firm Neuberger Berman, which boasts of \$357 billion of assets under management.¹³⁰ When contacted by Earthsight, Neuberger admitted Rino Mastrotto had purchased small volumes from Paraguay most recently in 2018 but claimed it had not done so since.¹³¹ CVC did not respond to a request for comment.

One of the big advantages for these leather firms in accepting these large injections of cash is reportedly the strengthening of their ability to source raw materials. Such investments arguably fly in the face of sustainability commitments. CVC, for example, claims to be a responsible investor and is signed up to various relevant international finance principles like the Principles for Responsible Investment (PRI) and UN Global Compact. Neuberger is also a PRI signatory. Both firms’ names, however, were notably absent among signatories to PRI-organised statements by investors in the wake of the Amazon fires in 2019¹³² and regarding deforestation in cattle supply chains earlier the same year.¹³³

5. AN INDUSTRY UNCHECKED



An industry unchecked

The automotive firms cannot plausibly use ignorance as an excuse for their failure to clean up their leather supply chains. This isn't the first time the car giants have been exposed for links to deforestation in South America. A decade ago, Greenpeace traced links from cattle from deforested land in the Brazilian Amazon to leather firms supplying numerous major brands, including Ford, Honda, Toyota, BMW, Volkswagen and Mercedes.¹⁵² The example of Paraguay demonstrates that the industry has still yet to get its act together.

To get a broader sense of this, Earthsight contacted all of the other leading automotive manufacturers worldwide, to ask them about their deforestation policy and leather traceability. The results show that the failures we documented run industry-wide, and that if anything BMW, the firm at the centre of our scandal, is ahead of nearly all its competitors in this regard.

Ironically, the fact that we were able to trace leather from PNCAT through to BMW with more confidence than other car firms was because they have shown more concern over the source of their leather than most of their competitors.

As a result, they know where it all comes from – though only as far as the slaughterhouse, not the individual ranch. And while BMW did not have a policy on forests or indigenous rights at the time of our investigation, they did have drafts prepared (both were subsequently rolled out in June 2020).¹⁵³ This is more than can be said for any other firm we surveyed.

Mercedes, the world's largest luxury car maker, also doesn't currently have a policy on deforestation, and does not have full traceability for all of the leather it uses, though it is planning on updating its sustainability policy to include relevant clauses, and is asking its suppliers to trace their products back to individual farms where possible.¹⁵⁴ The company told Earthsight that thus far, feedback from its leather suppliers had not identified Paraguay as a source; the company also said that it is considering banning hides from Brazil.¹⁵⁵

Volvo - the fifth largest producer of luxury cars in the world - is like BMW more engaged with concerns over deforestation and leather than its competitors. They have attended Responsible Leather Roundtable meetings, are aiming to achieve full leather traceability back to farm and have already achieved this back to slaughterhouse. As such they were the

None of the car firms surveyed had a policy on deforestation or indigenous rights or could trace all their leather back to ranch

TABLE 2

None of the top 10 largest retailers of leather-clad cars in Europe have traceability for their leather or a policy on deforestation

| COMPANY | CAR BRANDS | EUROPEAN CAR SALES 2019, MILLION | SALES OF CARS WITH LEATHER SEATS IN EUROPE 2019, MILLION (EST) | DEFORESTATION POLICY | TRACEABILITY |
|---------------|---|----------------------------------|--|----------------------|--------------|
| VOLKSWAGEN | VW, Audi, SEAT, Skoda, Lamborghini, Bentley, Bugatti, Porsche | 3.86 | 1.22 | Yellow | Red |
| DAIMLER | Mercedes-Benz, Smart | 1.01 | 0.82 | Yellow | Red |
| BMW | BMW, Mini, Rolls-Royce | 1.05 | 0.77 | Yellow | Yellow |
| VOLVO (GEELY) | Volvo, (Proton), (Lotus) | 0.34 | 0.31 | Yellow | Yellow |
| PSA | Peugeot, Citroen, Opel/Vauxhall, DS | 2.42 | 0.24 | Red | Red |
| JLR | Jaguar, Land Rover, Range Rover | 0.23 | 0.21 | Red | Red |
| RENAULT | Renault, Dacia | 1.65 | 0.16 | Red | Red |
| TOYOTA | Toyota, Daihatsu, Lexus | 0.80 | 0.12 | Red | Red |
| HYUNDAI | Hyundai, Kia, Genesis | 1.01 | 0.11 | Red | Red |
| FORD | Ford, Lincoln | 0.97 | 0.10 | Red | Red |

Sources: 2019 sales data by brand sourced from Best-selling-cars.com, collated by corporate grouping by Earthsight. Sales of cars with leather parts estimated by Earthsight by brand, assuming 90 per cent for luxury brands like Mercedes, Audi, BMW and Volvo, 20 per cent for Volkswagen and 10 per cent for all other brands. Colour coding for deforestation policy and traceability based on answers by companies to survey by Earthsight in June 2020 (note that Toyota failed to respond and it is therefore assumed to score zero, as all firms were informed would be the case were no clear response provided). Red is shown where a company failed to claim a specific policy or full traceability back to ranch in their answers. For deforestation policy, yellow indicates that such a policy or statement is under development (for BMW, the policy was rolled out between the survey and publication of this report). For traceability, yellow indicates full traceability to slaughterhouse but not yet ranch.

The automotive firms cannot plausibly use ignorance as an excuse for their failure to clean up their leather supply chains

only firm to be able to state with some confidence that they are not using Paraguayan hides. But even they still don't have any written policy or requirements for suppliers on the subject of leather and deforestation or indigenous rights. The company told Earthsight it would look to change this.¹⁵⁶

None of the other major motor manufacturers Earthsight approached was able to cite a policy on deforestation or indigenous rights or claim to be able to trace their leather back to slaughterhouse, let alone ranch (see table 2 above).

Among the world's luxury car makers, only Tesla has committed not to use leather.¹⁵⁷ The only concession made so far by other manufacturers has been to offer more leather-free options, especially for their electric vehicles, buyers of which can be expected to be more environmentally conscious. While other leading global leather users like Timberland and H&M banned the use of hides from Brazil following the devastating Amazon fires which captured global attention in August of 2019,¹⁵⁸ no car firm has followed suit.

Behind the curve

The contrast with comparable commodities is striking. Practically all the palm oil that enters the EU can be traced back to the mill in which it was processed, for example, while progress is being made in extending this to the plantation, with more than a third traceable to this degree.¹⁵⁹

Elsewhere, the Cocoa and Forests Initiative has seen many of the world's biggest chocolate traders and manufacturers map more than a million farms at the root of their supply chains. Giants including Mondelez, Barry Callebaut, Tesco and Cargill have committed to making 100 per cent of their directly sourced cocoa traceable to farm level by 2022.¹⁶⁰

The situation is very different in the leather industry. A UN traceability guide covering ten global commodities highlights the top sustainability issues that leather traceability should address, including "preventing deforestation", "preventing invasion of protected areas for cattle ranching" and tackling "slave labour".¹⁶¹ All are abuses that occur at the level of the ranch.

The UN guide points to the Leather

Working Group (LWG) as the key international body responsible for assessing the traceability of leather supply chains. Established in 2005, the LWG plays a similar role to the Roundtable for Sustainable Palm Oil: developing audit protocols enabling manufacturers to be certified on their environmental performance.

In most cases, however, LWG audits make no attempt to assess capacity to trace hides back to the ranch. The LWG's latest overview of its work on traceability doesn't mention ranches or farms once. It measures a manufacturer's traceability solely as a "direct percentage of material that is traceable back to the slaughterhouse".¹⁶²

In Brazil, slaughterhouses do need to provide LWG with evidence that they have mapped at least some of their supplier farms, and that these farms have not been involved in Amazon deforestation or the "invasion of indigenous lands and protected areas".

In the case of firms from the "rest of world", however, there is no mention of the ranches from which cow hides originate. Firms in this category - which includes Paraguay - need only supply the "name of the slaughterhouse" from which their materials originate.¹⁶³ As a recent Chatham House assessment put it, "operations earlier in the supply chain go unchecked".¹⁶⁴ Consequently, by the UN's definition, the LWG isn't fit for purpose: many of its audits have nothing to say about a product's relation to deforestation, land invasion or slave labour.

This is clear if we consider the LWG's audits of firms related to Earthsight's investigation. Of the four Italian automotive leather manufacturing firms who are members, three had zero traceability to slaughterhouse in their last audit. Among them was Veneto-based Gruppo Mastrotto, which received a zero per cent traceability score but was nevertheless awarded a 'Gold' LWG rating. The best performer, Conceria Errepi, received a traceability rating of just two per cent. Meanwhile, Pasubio - the firm linking Paraguayan tanneries and European auto giants in most of Earthsight's case studies - isn't even an LWG member.¹⁶⁵

Further flaws are apparent in the case of the Paraguayan tanneries examined by Earthsight. Lecom boasts an 86 per cent traceability figure, despite sourcing hides from at least two ranching firms involved in the illegal deforestation of indigenous

land. Cencoprod received a perfect 100 per cent physical traceability score - but this only means that it can trace hides back to the Mennonite slaughterhouses, not to the original ranch. Our case studies clearly demonstrate the incapacity of the LWG's criteria to spotlight the key abuses it should be certifying against.¹⁶⁶

Indeed, the Paraguayan tanneries told Earthsight that their customers' apathy provided little incentive to develop more thorough traceability mechanisms. Cencoprod's general manager, Ferdinand Kehler, told undercover investigators that the firm had begun developing its own system to trace hides back to the ranch (a task made easier by the close ties between Mennonite businesses). But they soon abandoned the project.

"When we started Cencoprod, we invested a lot in the environmental side of things, assuming our clients would be more demanding," Kehler told Earthsight. "But we realised that in the end the client only looks at the price. We have lost sales contracts with significant multinational clients to other tanneries that don't put any effort into environmental issues. The cost of dealing with these issues is high, and I'm frequently disappointed when a client compares prices and buys from someone who is cheaper but isn't fulfilling their environmental responsibilities".¹⁶⁷

Perhaps the reason his clients don't ask is because they don't believe it is their job to care. When accused of harming forests or the climate or complicity in welfare abuses, the leather industry's standard response is that it bears no responsibility, because it is a by-product of the beef industry. Its advocates claim that it uses material which would be produced either way and otherwise go to waste. But close examination of this claim suggest that it holds little water.

Though a cow's hide is reckoned to represent only 10 per cent of the animal's total value at the point of slaughter,¹⁶⁸ it represents a much higher proportion of the ultimate sales value. Global exports of raw hides, wet blue, crust and finished leather at \$28.5billion are on a par with exports of beef (\$29.2billion).¹⁶⁹ And slaughterhouses wouldn't sell the hides if it wasn't more profitable than disposing of them. With tight margins in the cattle industry in a place like Paraguay, the extra revenue ranchers receive from the hides could make the difference in deciding whether clearing further forest is a profitable investment.

"We invested a lot in the environmental side of things. But this has costs, and we soon realised that in the end, the client only looks at the price"

Ferdinand Kehler of Paraguay's leading leather producer Cencoprod, 80 per cent of whose sales are to Italy

The EU contributes to deforestation in Paraguay through its imports of beef as well as leather. And imports of both may be set to increase

The Free Trade deal set to increase the EU's impact on Paraguay's forests and forest peoples

The EU isn't just contributing to deforestation in Paraguay through its imports of leather. It also imports significant quantities of beef. And imports of both may be set to increase soon as a new Free Trade Agreement comes into effect.

The EU imported 4066 tonnes of beef from Paraguay in 2019.¹⁷⁰ This includes fresh or frozen beef supplied by all three of the slaughterhouse firms to which Earthsight traced cattle from illegally deforested farms in PNCAT. Frigomerc was by far the largest supplier, and together the three firms were responsible for almost two-thirds of beef exports to the EU. Beef from these firms was imported into Italy, the Netherlands, Spain, Germany, the UK and Portugal.¹⁷¹ However, the EU was the destination for less than 2 per cent of Paraguay's total beef exports,¹⁷² and its role as an importer of leather was much more important in terms of its contribution to driving deforestation in the Paraguayan Chaco. But this may be set to change.

At present, beef from Paraguay faces a 40-45 per cent duty on arrival in the EU (aside from the first 1000 tonnes, which receives preferential treatment). However, under a new free trade agreement the EU has negotiated with the South American trading block Mercosur - which includes Paraguay, Brazil, Argentina and Uruguay - up to 99,000 tonnes of beef will be allowed to enter the EU market at a much lower 7.5 per cent rate.¹⁷³ Paraguay is seeking 19,000 tonnes of this quota¹⁷⁴, which if agreed would mean a likely quadrupling of its current exports. Export duties on leather from Argentina and Uruguay, meanwhile, are set to be eliminated. It is not yet clear if the same will be true for Paraguay.¹⁷⁵ This could pave the way for a significant expansion of exports. Modelling by the EU predicts that imports of textiles, apparel and leather from Mercosur countries will leap by 32-36 per cent because of the deal.¹⁷⁶

In June 2020, the European Ombudsman and a group of environmental and human rights organisations submitted a formal complaint to the European Commission alleging that it had ignored its legal obligation to ensure that the Mercosur FTA will not lead to environmental degradation and human rights violations. They note that a sustainability impact assessment of the deal was only published four months after it was already agreed, making the purpose meaningless and any participation from civil society impossible.¹⁷⁷ The recently published impact assessment recommends a number of possible mitigation measures, including for Paraguay to extend its zero deforestation law to the Chaco.¹⁷⁸ But the final FTA text includes none of these. While it does include an article regarding forests which requires the Parties to implement measures to combat illegal logging and related trade, and another requiring them to implement the Paris Agreement commitments on climate change, there is no mechanism by which compliance could be measured or enforced.¹⁷⁹



6. CONCLUSION - THE URGENT NEED FOR EUROPEAN REGULATION



Amazon forest being burned, August 2020. The car industry also uses large volumes of hides from Brazil, where cattle-ranching is by far the largest driver of deforestation

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The tip of the iceberg of the car industry's deforestation and human rights problem

EarthSight's investigation has peeled back the skin of the leather and auto industries' dubious claims to fully respect the environment and human rights and revealed the gory truth. Multiple European luxury car brands are using leather supplied by firms processing the hides of cattle reared in ranches illegally deforesting the last refuge of the nomadic Ayoreo Totobiegosode – the last uncontacted indigenous people in the Americas outside of the Amazon. But this specific case study, though especially shocking and egregious, is only part of a much broader problem.

For a start, this case is just the tip of the iceberg of illegal deforestation in Paraguay. If - as is conservatively estimated - 20 per cent of all deforestation there is illegal¹⁸⁰, then 20 per cent of the commodities from that land are arguably the proceeds of crime. Paraguay is exporting an estimated \$200 million of such illegally sourced commodities annually, including around \$12 million to the European Union.¹⁸¹

But it isn't only illegal deforestation which matters. A hectare of forest bulldozed legally has as great an impact on the climate crisis as one razed illegally. And a majority of Paraguay's beef and leather exports can be traced

back to land which was cleared of natural forest within the last 20 years. Though palm oil from Indonesia, soy from Brazil and cocoa from Africa are the focus of far greater attention, a recent study shows that per unit of weight, no commodity in the world is responsible for more deforestation than Paraguayan beef and leather.¹⁸²

There is also the small matter of Brazil, which provides far more leather for the car industry than Paraguay and has its own deep-seated problems with deforestation and rights abuses.¹⁸³ There has been slightly more action by the beef and leather industry with regard to the Brazilian Amazon. But no company still sourcing from Brazil can claim to be clean, since even the companies with the very best systems are still unable to prevent cattle 'laundering' (where cattle spend part of their life on recently deforested land but are then fattened elsewhere).¹⁸⁴ The largest Brazilian meatpackers with the most advanced traceability systems – like JBS - have also been shown to be deeply corrupt, so their promises are arguably of questionable value.¹⁸⁵

So if the chance of leather from the stolen land of the uncontacted Totobiegosode being in your BMW might be small because the volumes are, the chance of your car's seat nevertheless being made from leather linked to recent tropical deforestation is much, much higher.

This story is only the dirtiest tip of a much larger iceberg



Forest cleared for palm oil in Indonesia

© Earthsight

The voluntary approach has failed. If these industries are to do what is right, governments will need to make them

The broader problem of forest risk commodities and the need for regulation

Over 70 per cent of all tropical deforestation is being driven by commercial agriculture. Cattle, soy and palm oil are the largest culprits. Around half of all the products from this deforestation are destined for export. Two-thirds come from land which was cleared of precious forest illegally.¹⁸⁶ Given that deforestation contributes some 12 per cent of all human-induced CO₂ emissions,¹⁸⁷ it is becoming increasingly clear that if humanity is to avoid irreversible climate breakdown, it is going to have to address its addiction to the products of forest destruction.

Under mounting pressure from environmentalists, a decade ago a raft of major corporations involved in producing, trading and consuming these commodities promised to voluntarily end their role in driving deforestation by 2020. While other 'forest risk commodity' industries like chocolate and palm oil have made more progress in this regard than beef and leather, they are still failing dismally.

When Greenpeace set out to systematically examine progress just prior to the deadline, they described their findings as "a total disaster". Their report concluded that during the last ten years, a further 50 million hectares of tropical forest – an area twice the size of the UK – had been razed to produce the

commodities such companies consume.¹⁸⁸

It is now clear beyond argument that a voluntary approach cannot work. If these industries are to do what is right, governments will need to make them.

The European Union has a key role to play, as does the UK now that it has left. Combined, they are estimated to be responsible for driving 10 per cent of global deforestation embodied in these commodities through their consumption.¹⁸⁹ The EU imports an estimated €6billion of soy, beef, leather and palm oil which were grown or reared on land illegally cleared of forest in the tropics - almost a quarter of the total world trade. Italy and Germany were the top two consumers, with a combined consumption of €1.75billion. Paraguay was the fourth largest source, after Brazil, Indonesia and Malaysia.¹⁹⁰

The EU and UK have long recognised the need for urgent action to address their joint role in driving deforestation overseas. A number of large corporations have come out in favour of regulation, as have many trade associations representing the interests of industries like cocoa/chocolate and palm oil. After years of studies, real and meaningful action is now in sight. But it could yet be derailed. And as Earthsight has discovered, trade bodies connected to the traders and users of luxury automotive leather are among those leading the charge to stop it.

A critical moment in the drive for laws to make companies clean up their supply chains

Two different processes are currently under way within the European Union which could potentially address this problem through regulation. A government-commissioned task force in the UK has also recently recommended it regulate in a similar manner following its departure from the EU.¹⁹¹ These initiatives have received broad support from civil society and progressive companies. But they are far from done deals. And there are powerful forces still trying to block them or water them down.

One EU initiative, being led by the European Commission's Environment department (Directorate-General or DG), is considering action specific to agricultural commodities affecting forests. The other, being led by DG Justice, is broader, and aims to place requirements on companies relating to a wide range of risks relating to their procurement and financing, including human rights, the environment and corruption, and encompass a wider range of commodities, such as extractives and pharmaceuticals. Though they cover some of the same ground, the Commission is pushing forward with both regulations, with the intention that they will be aligned and made complementary.¹⁹²

But just passing regulations won't be enough. For them to be effective, they

must be well designed. Human rights and environmental organisations are of one voice that it is essential that such regulations are mandatory, are a requirement of market access, apply to all companies regardless of size, include robust enforcement mechanisms including dissuasive penalties, and include those companies financing relevant activities. Such a strong approach is gaining increasing support within the Commission itself¹⁹³ and the European Parliament.¹⁹⁴

But with the climate emergency upon us, time is running short. The next few months will be crucial. The European Commission is expected to table legislation in 2021. What that legislation will look like is being determined now. How things progress during that time will depend to a large extent on the attitude of the German government, which currently holds the European Presidency.

The initial indications are good. At a key event in April 2020 at which the European Commissioner for Justice confirmed the plan to introduce legislation to make business accountable for its impact on people and the planet, the German Federal Ministry of Labour and Social Affairs confirmed its support for new EU rules and stated that corporate accountability will be a key political priority for its Presidency of the EU from July – December 2020.¹⁹⁵

But the pushback in Berlin and Brussels has already begun, and as Earthsight

Just passing regulations won't be enough. For them to be effective, they must be well designed



German Federal Ministers for Economic Cooperation and Development, Gerd Müller, and Labour and Social Affairs, Hubertus Heil, give a press conference on the Supply Chain Act, July 2020

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Hypocrisy: how industry is fighting regulation

The German government has stated that the approach it takes with EU legislation during its Presidency will be determined by developments with its own national-level law. In its 2018 coalition agreement, the current German government committed to implement a national law on human rights and supply chains – and advocate for the same at EU level – if it found its prior voluntary approach had failed. When surveys of German industry in 2019 and again in 2020 confirmed that failure, the government began developing such a law.¹⁹⁷ A petition calling for a due diligence law has meanwhile garnered over 220,000 signatures from German citizens.¹⁹⁸

Explaining the urgent need for these laws, Germany's Federal Development minister Dr Gerd Muller has said that "The exploitation of humans and nature as well as child labour must not become the basis of a global economy and our prosperity."¹⁹⁹ The German Council for Sustainable Development has recommended that the federal government take on a 'pioneering role' for the country in pushing for European supply chain legislation, and that to do so it is important that it implements a strong law of its own.²⁰⁰ So what Germany does domestically has huge implications for the EU approach. And the most recent indications are worrying.

Business associations in Germany are lobbying hard against laws requiring due diligence on human rights and the environment in supply chains, arguing that these would place excessive demands on them at a time when Covid is already creating the most challenging business environment in 70 years.²⁰¹ German NGO Deutsche Umwelthilfe (DUH), which monitors the German automotive industry and was responsible for exposing 'dieselgate', is in no doubt where this pressure is coming from. "The lobbying is being done by the Association of German Industry (BDI) and other generic business bodies, but these groups are really just a front for the German car firms" Peer Cyriacks, Deputy Head of Nature Conservation at DUH told Earthsight. "Letters and emails we have obtained through Freedom of Information requests clearly show the pressure the BDI and others are placing on the German government to soft-peddle on these initiatives", he added.

Industry associations are lobbying hard against strong laws demanding due diligence on human rights and the environment in supply chains

has discovered, this includes trade bodies representing the interests of the industries we linked to illegal deforestation in indigenous lands in Paraguay.

And it's not just the EU that needs to act effectively in Europe. Similar regulatory approaches have been called for in the UK, now no longer an EU member. In late August the UK government began consulting on a proposed due diligence law on agri-commodities.¹⁹⁶ While the proposal indicates a clear and welcome commitment to regulate, the model proposed could present a worrying precedent. It is proposed to only apply to the biggest companies, is restricted to only illegal deforestation, and may allow firms to import and trade goods linked to illegal deforestation provided they pay a fine. It is not clear, for example, that UK firm Jaguar Land Rover's leather from Paraguay would be liable under such a law, or that it would be prevented from being used and sold to UK and EU consumers. This would not be the well-designed law called for.

The BDI claims to be the 'voice of German industry' – a quarter of which is the car manufacturing sector.²⁰² BDI's members include the German automotive industry association (VDA) which in turn includes all the major car makers in the country, including Volkswagen, Daimler, BMW, FCA and Ford, as well as seat makers like Lear.²⁰³ The German leather industry association – whose largest members are auto industry suppliers – is meanwhile part of BDI's 'working group'.²⁰⁴

It appears the pressure being brought to bear by the BDI may be working. In August 2019, DUH learned that Germany's ministry of the economy (BMWi), which the country's all-powerful auto industry has been lobbying hardest, is now pushing for the supply chain law to be watered down.²⁰⁵ The version it is now seeking to pass has been so comprehensively defanged that it has been described as a 'fig leaf' by leading German media commentators.²⁰⁶

It is possible of course that some individual firms have views on these laws which differ from those of the industry bodies claiming to represent their interests. Conscious of this, prior to publication Earthsight provided all the car firms named in this report an opportunity to comment on our finding that the car industry in Europe (in the form of its industry associations, or federations of associations of which their company is a member) has been lobbying against meaningful regulation of supply chains to address human rights and environmental risks. The only comment on this came from Daimler, which said it supported supply chain laws, though only ones that are 'appropriate and feasible for companies'.²⁰⁷ No other firm took the opportunity to state their disagreement with the stance being taken by the industry bodies.

This should not be too surprising. When supply chain due diligence legislation limited only to conflict minerals was under development in Brussels in 2013, the car firms were dead set against. The European Association of Automotive Manufacturers (ACEA), whose members include BMW, Jaguar-Land Rover, Mercedes and Volkswagen, told the European Commission that it believed that existing OECD voluntary guidelines were sufficient. If a law was to be passed, they demanded that it be as toothless as possible – non-mandatory,

excluding downstream industries such as their own, and applying only to the very largest firms. They claimed that any law would be impossible for them to implement, because European car makers "cannot dictate or control where a sub-tier supplier sources their materials".²⁰⁸

But it simply isn't true that laws such as this would be impossible to implement. As this report shows, not only are the car firms connected through their supply chains to illegal deforestation of jaguar habitat in the lands of an uncontacted tribe, if they really wanted to they could have avoided this risk. They could have worked with Cencoprod to put in place the traceability back to ranch it says is perfectly possible but none of its customers is willing to pay for. They could have avoided purchasing leather sourced from Brazil or Paraguay until meaningful systems were in place to ensure it wasn't driving deforestation. They have failed because they aren't willing to pay the price for being ethical. This report's findings prove that supply chain laws are needed for the car industry as much as any other. If they are to avoid being branded hypocrites, the car giants must now come out in public support of meaningful regulations. If they don't, it is essential European lawmakers stand firm against lobbying to the contrary.

It simply isn't true that such laws would be impossible to implement



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