



Amazon: Food Territories

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About Amazon 2030

The Amazon 2030 project is a Brazilian research initiative with the purpose of developing an action plan for the Brazilian Amazon. Our objective is to achieve conditions for a higher standard of economical and human development in the region, and to achieve a sustainable use of natural resources by 2030.

Contact

Media Contact

O Mundo que Queremos

amazonia2030@omundoquequeremos.com.br

Amazon 2030 Contact

contato@amazonia2030.org.br

Research Contact

Salo Coslovsky

salo.coslovsky@nyu.edu



Authors

Salo V. Coslovsky

Associated Professor at New York University (NYU)

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Keywords

Amazon, Food, Food System, Nutriments, Occupation, Informal Labor, Food Chains, Employment

Executive Summary

Companies in the Brazilian Amazon already export 64 forest-compatible products, with an average annual revenue of nearly US\$300 million.¹ This figure seems impressive but represents only 0.17% of the corresponding global markets. In the more specific case of products linked to food chains, the participation of companies in the Amazon is also modest, including at the domestic level, as can be seen from the scarce presence of Amazonian products and producers on platforms such as *Mercado Livre - Produtos da Amazônia*, *Amazônia Ativa/Americanas* and *Caras do Brasil/Pão de Açúcar*.

The aim of the *Amazon: Food Territories* study is to assess how value chains linked to food can serve as leverage to promote regional development. And what conditions are necessary for the assets of the extraordinary Amazonian biodiversity – with its vast application potential in these chains – can be transformed into competitive advantages that strengthen the regional economy.

The study was carried out based on interviews with 45 representatives from 38 enterprises and institutions that operate in food chains in the Amazon. The selection of interviewees prioritized companies with some degree of success and some experience in the area of sustainability or social entrepreneurship, as determined by the authors.

The interviews reveal two big results. On the one hand, there is a relatively positive picture with many new businesses (start-ups) being implemented to operate in the food system and existing businesses with expansion plans.² This climate of optimism contrasts with the authors' perception of the historical experience of these activities in the region, as until recently this type of company was mostly concerned about not going bankrupt. On the other hand, despite their optimism, many of these companies have found it difficult to gain scale, as their operating costs are high and tend to increase as companies expand their operations.

The high and rising costs create an important risk: competitors may start to produce typical products or native to the Amazon, with more economic efficiency, in other regions. This has already happened in the past with rubber (Malaysia), cocoa (Bahia, Ivory Coast, Ghana), cassava (Thailand), cupuassu and guaraná (Bahia) and many other products.

¹ Coslovsky, Salo. *Oportunidades Para Exportação de Produtos Compatíveis Com a Floresta Na Amazônia Brasileira*. Rio de Janeiro: Amazônia 2030, 2021a. bit.ly/2YdorSR.

² Smeraldi, Roberto. "Conhecendo o Sistema Comida na Amazônia". Rio de Janeiro: Amazônia 2030, 2021. bit.ly/3k4VKix.

The challenge, therefore, is to understand why the costs are high and look for ways to reduce them. Many observers assume that costs are high because of structural problems such as deficient infrastructure or logistics, land tenure insecurity, delay in granting environmental licenses, as well as a lack of public services such as health care, public safety, and education. This is still true, but most of the companies interviewed adopted a series of mitigating measures to overcome these obstacles. For example, many of them choose to buy raw material from small-scale producers (including settlers, *quilombolas*, indigenous communities, riverside dwellers) instead of becoming landowners. In transport, they outsource river vessels instead of using their own fleet of boats or trucks. And they sell their products in local or national markets because they are less demanding and less competitive. They rarely seek a foreign market, especially in the case of perishable or regulated products.

Such mitigating actions allow companies to establish themselves and think about expanding their operations. However, these choices cause two problems. First, they end up keeping the cost high. Second, they lead companies to face *diseconomies* of scale, i.e., their unit cost tends to increase, rather than decrease, as the company expands its production. Perhaps for this reason, many of the companies interviewed seek to increase their profitability through vertical integration, instead of specializing and gaining scale in an activity.

Another important conclusion of this research is to draw attention to the fact that the high production costs are not only due to structural problems in the Amazon, but also to cyclical obstacles. The latter are associated with the scarcity of a type of resource that was identified during this research and called *shared sector resources* (SSRs).

SSRs are goods and services that benefit all companies in one sector but have little value to companies in other sectors. Common examples include a workforce trained in techniques unique to the industry, as well as specific technical knowledge of processing, storage and transport methods adapted to product conditions. SSRs also include the recruitment of quality and standard suppliers, commercial promotion, certifications, standardization protocols, and sanitary control.

SSRs are generated by market forces in economically dynamic environments, but may remain scarce in environments such as the Brazilian Amazon due to two factors. On the one hand, individual companies are unwilling or unable to provide SSRs with adequate quality and quantity, as their investment would end up being used by competing *free riders*. On the other hand, many governments and public agencies prefer to provide goods with a broader scope and that benefit as many people as possible, as this is how they ensure their legitimacy. The problem is that generic goods and resources do not solve sectoral problems.

To gain access to SSRs, many of the companies interviewed end up playing a dual role. In addition to investing in their own business, they dedicate time and financial resources to solving

bottlenecks in their sector. Some large companies are able to accomplish this double shift and grow, but small companies usually do not have enough energy to successfully fulfill both objectives.

An alternative would be to provide SSRs through *pre-competitive arrangements* (PCAs), which are agreements whereby companies in the same sector join forces to pursue common goals, but without diminishing their impetus to compete. PCAs can help companies reduce costs and also increase the quality of their production, even when they operate in harsh environments and face multiple structural problems. Thanks to PCAs, companies can gain access to markets that are larger, more distant, more demanding, and potentially more rewarding. The interviews revealed that such arrangements are rare in the Amazon.

Finally, the research revealed the expressive potential for fostering technical exchange and entrepreneurship. We found that many successful businesses were born through meetings between entrepreneurs in the Amazon and external collaborators or partners. This characterized the background of many interviewees, and in some cases, partnerships with external subjects were actively sought, while for most cases they occurred spontaneously.

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