

# ESG viewpoint: deforestation in Brazil



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The return of President Lula is a boost to efforts to halt deforestation in Brazil, but he faces significant impediments in his efforts to move the needle. We travelled to Brazil to deepen our understanding and encourage reform. During the trip we met with policymakers, soy traders and meatpackers as part of our wider engagement on this topic.

## Rainforest degradation – are we at a turning point?

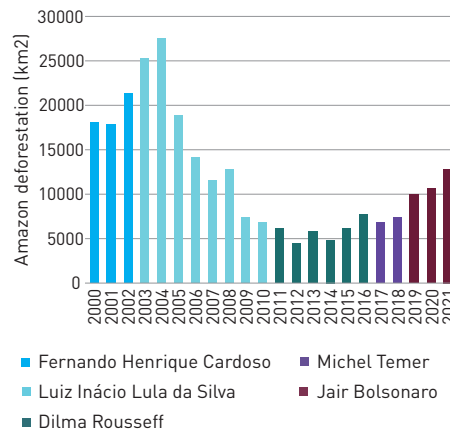
Brazil's natural habitats are incredibly valuable on every metric. The country contains 15-20% of the world's biological diversity, including two biodiversity hotspots (the Cerrado and Atlantic Forest) and 60% of the Amazon rainforest. These habitats are also important socio-economic contributors – the Amazon contributes \$8.2 billion to the Brazilian economy and there are almost 900,000 Indigenous peoples across 305 ethnic groups in Brazil.

However, Brazil's natural habitats are being systematically degraded. There are three primary industries that drive habitat loss and degradation in Brazil: cattle, soy, and illegal gold mining. Cattle production is the proximate cause of more than 70% of Brazilian Amazon deforestation, of which most is illegal. Soy production is the second most significant driver of habitat loss in Brazil. Illegal gold mining has an even more insidious impact, with illegal miners encroaching on Indigenous reserves and protected areas in the Amazon, propagating violence, disease and pollution.

The situation was exacerbated under the presidency of Jair Bolsonaro from 2019 to 2022, who oversaw a systematic weakening of the regulatory framework preventing habitat conversion.

The election victory of Lula da Silva in October 2022 heralded a fragile new dawn for efforts to protect Brazil's forests. Deforestation rates in Brazil dropped by over 70% during Lula's

**Figure 1: Brazilian Amazon deforestation dropped dramatically under Lula and nearly doubled under Bolsonaro**



Source: Program to Calculate Deforestation in the Amazon (PRODES), INPE, graph from Carbon Brief

first stint as president in the early 2000s. On his first day in office of his current term, Lula signed a package of seven executive orders aimed at controlling deforestation, re-building the country's environmental institutions, and returning key powers to the Ministry of Environment.

However, Lula must navigate a host of impediments to drive down deforestation. The Brazilian Congress continues to be conservative-dominated and the agribusiness caucus is its largest organised coalition; it is likely to hinder attempts to curb deforestation. Lula has avoided Congress thus far by passing executive orders but will need its assent to pass wider environmental legislation and to affirm his executive orders.

Deforestation in Brazil poses material financial risks for investors across several different dimensions. The World Bank estimates the value of Brazil's standing Amazon rainforest exceeds US\$317 billion per year—around seven times more than the value linked to extensive agriculture, timber, and mining. We believe this make it our imperative to engage with both the Brazilian government and companies linked to deforestation.

## Engaging on the ground in Brazil

We are active participants in the Investor Policy Dialogue on Deforestation (IPDD) in both the Brazil and consumer countries working groups. As

part of our work within the Brazilian regulatory landscape, we travelled to Brazil in April 2023 as part of an IPDD delegation. We've structured our engagement on deforestation into three pillars:

1. Collaborating with policymakers – we engaged with the Brazilian government on investor priorities for managing deforestation. In Brasília, we met with government ministries and bodies, including the Ministry of Environment, Ministry of Planning, Ministry of Indigenous Peoples, Central Bank, IBAMA and ICMBio.
2. Engagement with soy traders and meatpackers - we have active engagement programmes with many of the soy traders and meatpackers linked to Brazilian habitat loss through direct operations or suppliers. We expect these companies to commit to deforestation-free and conversion-free production, sourcing, and financing by 2025.
3. Engaging with firms in the value chain - we have identified two industries that have the potential to enhance the pressure on Brazilian agribusiness to act. The first is leather, which is key to meatpacker margins and, unlike beef, is largely exported. Half of exported Brazilian leather ends up in automobiles, many of which are produced in Europe where leather is subject to the new EU Deforestation Regulation. We have run a focused engagement programme with five car-seat suppliers and eight automakers to support their efforts to assess and manage their deforestation impact. The second is European financial institutions. These are not currently covered by the new EU Deforestation Regulation, but it seems likely that they could be in the future.

## Conclusion – engaging for positive change

To capitalise on the fragile window of opportunity offered by the re-election of President Lula, we believe responsible investors need to embark on a concerted engagement programme that encompasses agribusiness, policymakers, financiers and customers. We aim to drive change by collaborating with policymakers, engaging with soy traders and meatpackers, and engaging with firms in the value chain.

