Deforestation accelerates despite Cop26 pledges

Although banks continue to finance oil and gas activities in the Amazon, companies are realising the financial risks are too high.

By Adrian Murdoch

A game of two halves. 4.1m hectares of tropical primary forest were lost in 2022 – the equivalent of 11 football fields of forest per minute. (Photo by Rich Carey via Shutterstock)

- **Despite Cop26 commitments, 4.1m hectares of tropical primary forest were lost last year.**
- **Eight international banks have facilitated more than $11bn funding to Amazon oil and**

- **Eight international banks have facilitated more than $11bn funding to Amazon oil and gas activities over the past 15 years.**
- **The approach from asset managers has been improving and AXA IM has invested $49m in reforestation projects in Brazil to restore degraded pastureland.**

Despite the vows of 145 countries at Cop26 in Glasgow to "halt and reverse" forest loss by the end of the decade, the rate of global deforestation is accelerating, according to the World Resource Institute.

Last year, 4.1m hectares of tropical primary forest were lost – the equivalent of losing 11 football fields of forest per minute, the global research non-profit organisation reports. To put it into sharp perspective, this destruction produced 2.7 gigatonnes of carbon dioxide emissions, equivalent to India's annual fossil fuel emissions.

The message is at least starting to get through to companies. At the beginning of July, global non-profit CDP's annual *Global Forests Report* found that more than 60% of companies disclosed some sort of risk caused by continued deforestation, such as shifts in consumer preference or increased severity of extreme weather. This is an increase of 300% since 2017.

"Companies are becoming ever more aware of the risks and opportunities addressing deforestation represents, but we continue to see a gap between commitments and tangible actions," says Thomas Maddox, global director of forests and land use at CDP.

The problem is that it is not happening quickly enough. In its survey of more than 1,000 global companies, less than 10% have a robust public commitment to end deforestation by 2025, and the amount required by firms to mitigate forest-related risks is, as CDP says, massively underestimated.

In the survey, companies estimate that the total potential financial impact from forest-related risks is more than $78.6bn, but they reckon that the cost of responding to all identified forest-related risks is only $5.9bn.

Banks in the Amazon

Looking at the Amazon specifically, the deforestation message is not getting through and certainly not for banks. In Brazil, the rate of primary forest loss increased by 15% in the year to 2022, with the vast majority of primary forest loss happening in the Amazon, according to the World Resource Institute.

A report published on 25 July from Canadian environmental organisation Stand.Earth showed that eight international banks have facilitated more than $11bn funding to Amazon oil and gas activities over the past 15 years [see chart]. This represents 55% of the $20bn investment that can be traced directly to the region.

"The banks, finance companies and other companies that invest in the region and whose profits are derived from oil exploitation are accomplices in the death of our leaders, of our cultures and ways of life," says Fany Kuiru, general coordinator of Lima-based organisation Coordinator of Indigenous Organizations of the Amazon Basin (COICA).

The most significant bank for funding Amazon oil and gas activities is JP Morgan Chase with $1.9bn financed between 2009 and 2023, according to Stand.Earth calculations. It is also the leading bank for indirect financing with more than $18.8bn in loans and bond underwriting to oil and gas companies with operations in the Amazon.

Stand.Earth names the bank as the top backer of state-run oil companies across the region including Peru's Petroperu, Brazil's PetroBras and Columbia's Ecopetrol. It is also the second largest backer of oil and gas project financing, including projects like Petroperu's Talara Refinery Modernization Project, which will use oil from wells in the Peruvian Amazon.

As just one example, the environmental organisation highlights the $314m acquisition of controversial oil driller Amerisur Resources and its 11 oilfields across the biodiverse

Putumayo basin by NYSE-listed Latin American oil and gas explorer Geopark in January 2020.

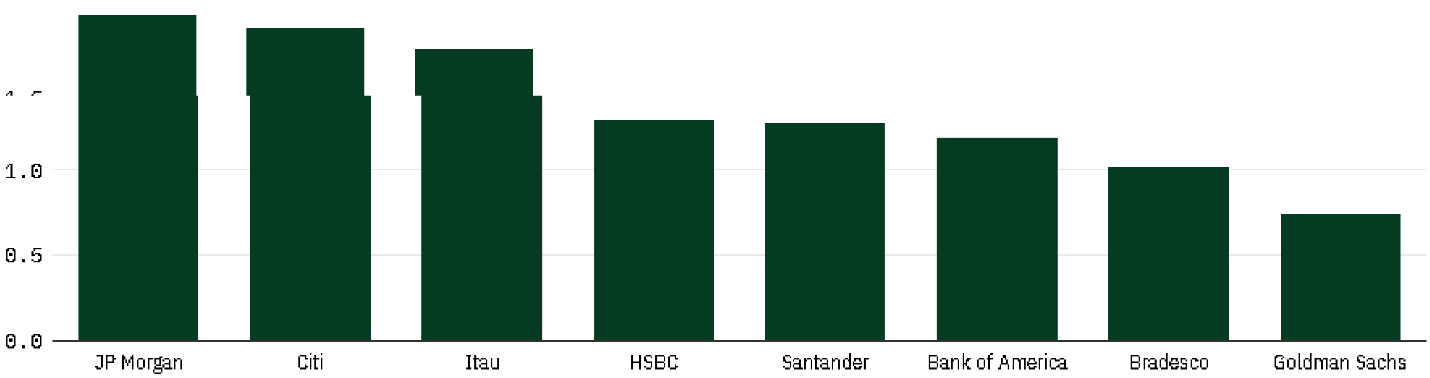
The deal was funded via a $350m 5.625% seven-year bond led by Citi and Itau followed up with a $150m tap of the same bond the following year led by Bank of America, Credit Suisse and JP Morgan.

“Banks have a critical role to play in shifting the energy economics behind the climate crisis,” says Angeline Robertson, lead researcher on the project at Stand Research Group.

“There should be no new oil and gas production if we want to stay under 1.5C, yet we continue to see bank financing for the expansion of oil and gas in the world’s biggest rainforest.”

Financing oil and gas in the Amazon ($bn)

Eight banks make up 55% of financing to Amazon oil and gas activities over the past 15 years



Source: Stand.Earth

CAPITAL MONITOR

Deforestation: out of acorns

The relationship between the asset management industry and deforestation has not traditionally been great either.

At the end of last year, Canadian asset management firm Brookfield ($604bn AUM) where former UN climate envoy and governor of the Bank of England Mark Carney is vice-chairman, became a *cause célèbre* when it emerged that it had deforested 9,000 hectares of forest in Brazil between 2012 and 2021 to make way for soybean production. Carney joined the firm in 2020.

Capital Monitor has kept the spotlight on asset managers that have been slow to react. Last year, almost two-thirds of asset managers most exposed to companies linked to deforestation had no associated investment policies in place, despite pledges to become net zero.

It is improving, if slowly. In June this year, a quarter of asset managers had commitments to deforestation, even if none had commitments to avoid other forms of damage to natural deforestation, even if none had commitments to avoid other forms of damage to natural habitats, such as wetland draining for agricultural use or ocean pollution.

Almost a third of respondents are still yet to assess biodiversity risks at all. But there are signs of change. In mid-July, AXA IM ($204bn AUM) made a $49m investment into reforestation projects on degraded pastures in Brazil and took a minority state in a native species carbon removal start-up Mombak.

The project's overall aim is to reforest more than 10,000 hectares of degraded pastureland, through a combination of native species plantations and assisted natural regeneration.

"The forests Mombak restore will be 100% native species, providing habitat to countless species, restoring local hydrological cycles and providing more jobs per hectare than the cattle pasture they replace," says Adam Gibbon, natural capital lead at AXA IM Alts.

The Brazilian Amazon rainforest is currently experiencing mass deforestation of around 1m hectares per year according to the Brazilian government and the AXA project is clearly only a drop in the ocean, or perhaps more appropriately a sapling in the forest. But it is, at least a start. From small acorns...

[*Read more:* Finance is unprepared for EU's deforestation regulations]

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An award-winning financial markets specialist, Adrian Murdoch is focused on how companies around the world are raising and using sustainable capital.

Analysing the impact of sustainable capital.