



RBC BlueBay  
Asset Management

# Why investors are tackling deforestation in Brazil

## An update from the Investor Policy Dialogue on Deforestation

For Professional Investors Only | Marketing Communication

Graham Stock, BlueBay Senior Emerging Markets Sovereign Strategist discusses his travels to Brazil, outlining the serious risks presented by the loss of natural forests; and why engagement as a founder and co-chair of the IPDD is crucial in the goal to enhance the protection of the Brazilian environment and economic development.

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## The Investor Policy Dialogue on Deforestation

The Investor Policy Dialogue on Deforestation (IPDD) is an investor-led engagement initiative established to coordinate a public policy dialogue on halting deforestation and protecting the most vulnerable biomes in the world.

As an institutional investor, RBC BlueBay wants to continue to invest in countries affected by deforestation, contributing to their economic development and challenging the systemic risk posed by the significant loss of natural forests. As a founder and co-chair of the IPDD, we want to show that economic development and protection of the environment need not be mutually exclusive.

Brazil was the first country to be engaged in the IPDD initiative, and after three years of mostly virtual IPDD meetings with the government and civil society, an IPDD delegation from Europe and the local investment community we spent a week in Sao Paulo, Brasilia and the Amazon.



# Meeting the key actors in Brazil's effort to tackling deforestation

## Milestone engagement with Brazilian authorities on deforestation

This marked an important milestone in our engagement with the Brazilian authorities on deforestation. The new Lula government is committed to tackling deforestation as the centrepiece of its climate agenda and has re-engaged with the international community on the topic. There are short-term gains to be had from simply undoing some of the neglect of recent years. More sustained progress will depend on the political will to tackle vested interests by forcing transparency on supply chains.

For the BlueBay fixed income investment team, spending time on the ground in Brazil with other IPDD members and government representatives of Brazil itself was invaluable. In recent years Brazil has suffered sustained deforestation, despite promising dialogue dating back several years. Our latest discussions in Brazil left us feeling somewhat more positive about the prospects for action to address deforestation. Deforestation affects economic prosperity and represents a systemic risk to investment portfolios. Many investors are exposed to deforestation through global supply chains. Sovereign and fixed income investors increasingly consider deforestation in their analysis.

## Diary of the events of engagement

**Brazilian companies:** IPDD representatives met with companies in São Paulo whose inputs of soy, beef and cacao come from supply chains that could be exposed to deforestation risks. They told us how they are working to accelerate the implementation of voluntary systems that reach as far back through their indirect suppliers as possible so that they can certify that those producers have acted with transparency and integrity. However, they believe a lack of data on traceability within supply chains remains a significant obstacle.

## “The new Lula government is committed to tackling deforestation as the centrepiece of its climate agenda.”

**Brazil's government ministries:** We, therefore, also met with the government in Brasilia to hear what progress is feasible and likely in terms of transparency and in terms of ramping back up enforcement action following previous budget cuts.

We met with several ministries and the departments that monitor compliance with the forest code (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis the Brazilian, or IBAMA) and protection of biodiversity (Instituto Chico Mendes de Conservação da Biodiversidade, ICMBio). Happily, the Planning Ministry could confirm that an emergency budget for the Environment Ministry will restore resource levels to a more impactful level.



The situation, nevertheless, remains very challenging. The IBAMA agency has seen a cut in staff numbers and told us that around half of the remaining field agents are unfit for active duty in the dangerous role of monitoring and enforcement. IBAMA has started to address the issue, recruiting new staff, and there is optimism that emergency donor funding will be forthcoming to provide laptops and satellite phones for the new field agents. It was encouraging that the United States announced a US\$500m investment for Brazil's conservation initiative the Amazon Fund, while we were on the ground.

**Brazil's central bank:** We also met with Brazil's Central Bank, and the teams responsible there for monitoring rural credit and the financial flows from artisanal mining (which often occurs illegally and also contributes to deforestation). We heard how the rural credit teams, from state-owned Banco do Brasil, use geo-mapping both to ensure that they are not lending to owners of illegally deforested land and also to explore opportunities for the sale of voluntary carbon credits from independently verified standing forests.

**Political consultants, lobbyists, the World Bank and the body representing Amazon states:** While in Brasilia, we sat down with political consultants, lobbyists, the World Bank and the body representing Amazon states to map out the vested interests in the national Congress and elsewhere which stand to lose or gain from more concerted action to tackle deforestation. It is clear that agribusiness retains significant influence in Congress and, in our view, still in many cases takes a short-sighted view of the trade-offs that come from converting more forest to farmland.

We were able to emphasise the risks that new legislation in consumer countries poses to market access for Brazil's farmers if they are unable to prove that their products are free from deforestation. It seems clear that the current administration is determined to put climate policy (including deforestation) at the heart of its efforts to reintegrate Brazil into international fora. It will likely be a key theme for Brazil's presidency of the G20 in 2024 and underpins their offer to hold the COP 30 international climate summit in the state of Para in 2025.

## Witnessing 50 years of damage to the Amazon biome

At the end of the week, we travelled to the main soy-producing state of Mato Grosso and then north into the protected rainforest in the 11,000-hectare Cristalino private protected area. We witnessed first-hand the damage done to the Amazon biome over the last half of a century by the almost unbridled expansion of mono-culture farmland, and the rich biodiversity and ecosystem services of the remaining protected areas.

This reinforced our determination to highlight to the responsible authorities the importance of protecting the Amazon and other critical habitats in Brazil and elsewhere. It also brought home the importance of preventing further loss of forest cover to protect Brazil's future prosperity. It is in investors' best interests to support a transition to more sustainable practices in a way that conserves and restores forests and protects local communities and livelihoods, reduces systemic risk and contributes to future prosperity.

## Sustainable farming techniques were encouraging

On a positive note, we believe that more sustainable techniques of crop rotation and blending cattle and arable farming have the potential to reduce pressure on remaining forests while maintaining Brazil's role as a major supplier of soft commodities to global markets. Alongside best practices in sustainable agriculture, enforcement and transparency are key to positively moving the dial away from deforestation. The creation of the Ministry of Indigenous Peoples, and the transfer of the Rural Environment Registry (Cadastro Ambiental Rural, or CAR, which tracks rural land ownership) from the Agriculture Ministry to the Environment Ministry have been welcome steps. Improved public access to the CAR database and its counterpart for the transport of animals (Guia de Trânsito Animal, or GTA) would go a long way to increasing transparency in supply chains since it would allow beef producers, for example, to track animals from birth to abattoir and verify that they have not been raised on illegally deforested land. Such open access would expose less scrupulous producers.

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## We have a fiduciary duty to act

As an investor-led initiative, IPDD is committed to raising awareness among investors of the benefits of halting deforestation and the dangers of ignoring it.

**Financial institutions have a fiduciary duty to act in the best long-term interests of their beneficiaries while acting within the parameters of client mandates. Deforestation increasingly represents a long-term, financially-material portfolio risk, with investors, companies and countries exposed to ongoing deforestation facing increasing financial, regulatory, reputational and supply chain risks.**

Investors want to support a transition to deforestation-free practices so they can continue to invest in companies exposed to forest-risk commodity supply chains and in countries where these commodities are produced. Deforestation as an investment issue is rising up the agenda. Investors are realising that addressing deforestation is a key part of meeting 2050 net-zero targets. For Brazil, a combination of elements would turn the tide on rising levels of deforestation. The public commitment from the government is evident. It needs to be backed up by concrete action.



Author

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Graham joined RBC BlueBay in September 2013 as Senior EM Sovereign Strategist within the Emerging Markets Team. Prior to joining RBC BlueBay, Graham worked for three years as Chief Strategist at Insparo Asset Management. From 1998 until 2010, he worked in emerging markets research at JP Morgan in New York and London, covering Latin America, CEEMEA and Sub-Saharan Africa. In the early stages of his career, Graham taught English in Colombia, worked as an economist for the Government of Papua New Guinea, was a management consultant in London, and was senior Latin America economist at the Economist Intelligence Unit. He holds an MA (Econ) degree in Development Economics from the University of Manchester and a first-class BA (Hons) degree in Hispanic Studies from the University of Sheffield.

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