Planet Tracker

PRESS RELEASE

planet-tracker.org
info@planet-tracker.org
+44 20 7459 4039

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Deforestation-driven climate change set to threaten Brazil's position as leading agricultural producer, warns Planet Tracker

Exposed to environmental-related financial risk, Brazil's sovereign bond, equity and debt investors must put pressure on Brazil's government and agribusiness sector to stop deforestation and protect their returns

LONDON, 16 September 2021: Deforestation is driving a negative feedback loop in Brazil, which is increasing risks for investors in Brazil's sovereign bonds, as well as for equity and debt investors supporting companies across Brazil's economy, according to a new report by financial think tank Planet Tracker.

Changing rainfall patterns induced by continued Amazon deforestation is shortening rainy seasons and decreasing precipitation levels, threatening crop yields. If farmers respond to deforestation-induced changing rainfall patterns by deforesting even more land, they will further exacerbate these rainfall changes, causing further losses that will offset any perceived short-term gains from newly deforested land.

Brazil's economy is increasingly reliant on soy and maize exports, with soy and maize comprising almost one fifth of total exports in 2018 – equivalent to 2.6% of GDP – and double-cropping is a vital part of this. Since 2008, double-cropping – using the same soil reserves to produce two crops consecutively – has yielded increased returns for Brazil's farmers and enabled the country to maintain its position as a leading soy and maize exporter. But the practice also brings increased risk: any delay in harvesting the first crop means the second crop has less time from planting to harvest – increasing the risk of a failed crop caused by the changing rainfall patterns in the region. Already, in the state of Rondonia, the onset of the rainy season has shifted, on average, 11 days later over the last three decades. Meanwhile, where heavy deforestation has not occurred, the onset has not shifted significantly.

While expanding the amount of land used might seem like the obvious answer to reduced yield caused by climate change, this would require further deforestation. And not only would most of this have to be illegal, but there is a significant risk that it would lead to a negative feedback loop, further reducing the rainfall which is essential for Brazil's agriculture, as well as for its hydro-electric power and river transport systems. In addition, associated increased frequency of extreme temperature days will impact worker health and productivity across the whole Brazilian economy making it hard for investors to avoid the impact.

"If deforestation continues, Brazil's ability to double-crop could be impaired, harming farmers' incomes and losing the country billions in export revenue from soy and maize," comments Peter Elwin, Director of Fixed Income & Head of Food & Land Use Programme at Planet Tracker. "For Brazil's sovereign bond investors, and equity and debt investors supporting any Brazilian companies – but especially agribusiness companies – deforestation-induced regional climate change creates significant environmental-related financial risk."

According to the report, investors have a responsibility to put pressure on Brazil's government and agribusiness sector to prevent further deforestation.

It calls on investors in Brazil's sovereign bonds to:

- **Join collective investor initiatives** such as the PRI and IPDD in order to increase the impact of any engagement efforts with the Brazilian government;
- **Support the efforts of the Retail Soy Group** in urging the Brazilian National Congress to reconsider the proposal to ratify illegal land occupation in the Amazon; and
- **Put pressure on the Brazilian government** to stop illegal deforestation by:
  - **Reversing cuts to the Ministry of Environment** (and related enforcement agencies), and pressuring for more government investment to prevent illegal deforestation;
  - **Strengthening current domestic policies**, laws and multistakeholder initiatives focused on preventing illegal deforestation;
  - **Ratifying the Escazu Agreement** which Brazil signed in September but has yet to adopt;
  - **Considering issuing a deforestation-linked sovereign bond** tying coupon payments to success in limiting deforestation.

and calls on equity and debt investors in Brazilian companies and financial institutions to:

- Pressure the agribusiness companies they are invested in, and the regional banks supporting them, to **adopt sustainable practices that target a deforestation-free approach**;
- Ensure that companies trading in Brazilian crops, or in the food manufacturers, food retailers, and restaurant chains using products derived from those crops, **publish and enforce deforestation policies**; and
- **Continue to support the Amazon Soy Moratorium** and apply pressure on the companies in their portfolios and watchlists to establish similar agreements covering other threatened biomes.

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ABOUT PLANET TRACKER

Planet Tracker is a non-profit financial think tank aligning capital markets with planetary boundaries. It was created primarily for the investor community to analyse the risk of market failure related to environmental limits which, other than climate change, are often not aligned with investor capital. Planet Tracker generates breakthrough analytics to redefine how financial and environmental data interact with the aim of changing the practices of financial decision makers to help avoid both environmental and financial failure.

www.planet-tracker.org

Media contact:
Ellie Hyman
Aspectus Group
ellie.hyman@aspectusgroup.com
+44 (0) 7890 072 773