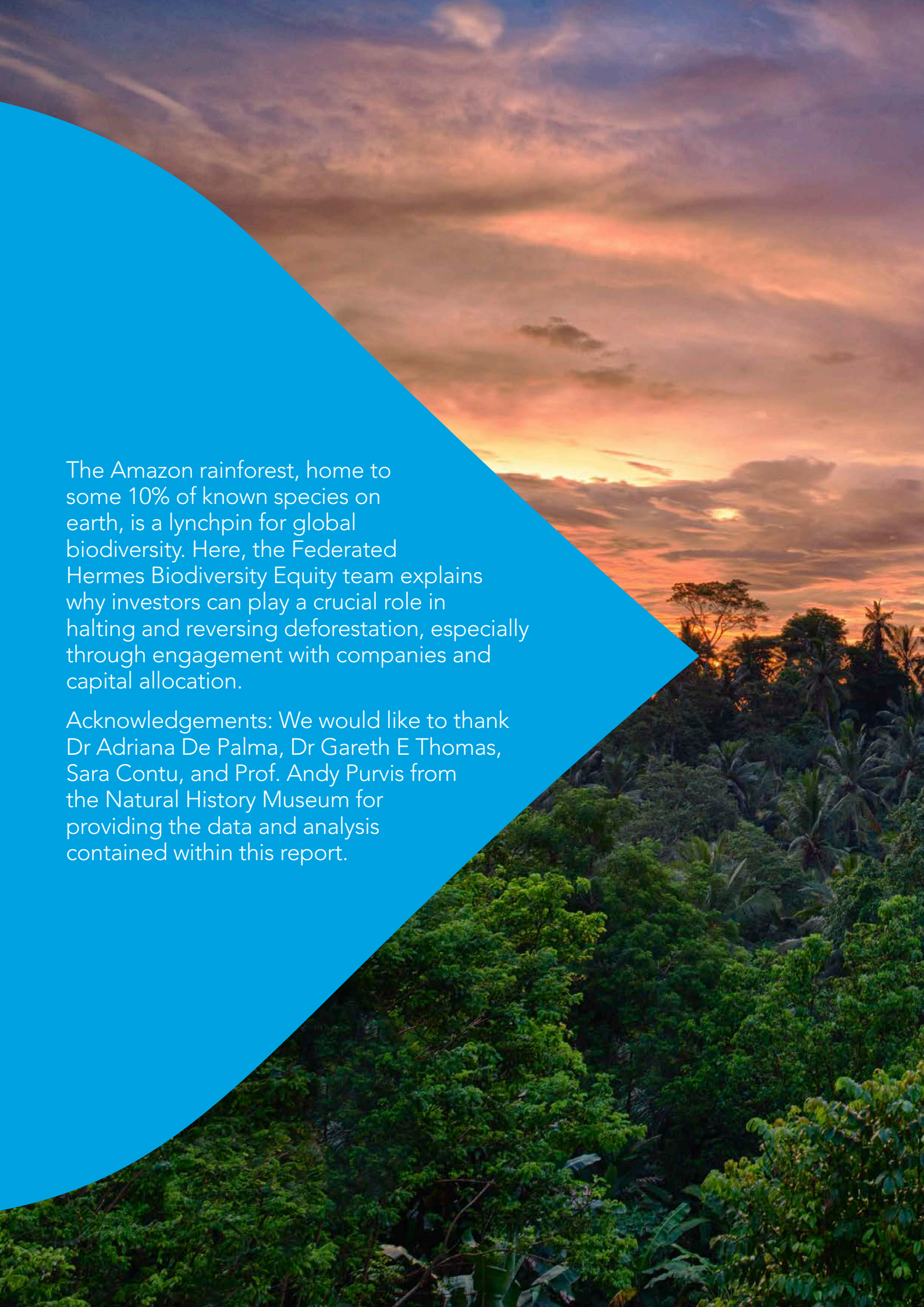




# Protect, sustain, restore: Why the Amazon matters

December 2022





The Amazon rainforest, home to some 10% of known species on earth, is a lynchpin for global biodiversity. Here, the Federated Hermes Biodiversity Equity team explains why investors can play a crucial role in halting and reversing deforestation, especially through engagement with companies and capital allocation.

Acknowledgements: We would like to thank Dr Adriana De Palma, Dr Gareth E Thomas, Sara Contu, and Prof. Andy Purvis from the Natural History Museum for providing the data and analysis contained within this report.

## Introduction

The importance of the Amazon rainforest in tackling climate change and biodiversity loss is widely acknowledged. Forests absorb carbon dioxide from the atmosphere, providing a valuable carbon store. They produce oxygen during photosynthesis, which is why the Amazon rainforest is often referred to as 'the lungs of the planet'<sup>1</sup>. It is one of the most biodiverse ecosystems on Earth, providing abundant ecosystem services that sustain our economies and societies. Biodiversity is intrinsically linked to the biological, chemical, and physical processes that underpin all life on Earth.

The Amazon rainforest represents nearly a third of all the tropical rainforest remaining on Earth. It is the habitat for approximately 10% of known species on Earth, though the figure is likely to be higher as many species are still being discovered<sup>2</sup>. It also plays an important role in regulating local and global precipitation patterns, with 20 billion tonnes of water released from trees into the air every day<sup>3</sup>.

### The Amazon rainforest at a glance

Crosses eight countries and one overseas territory in South America, representing an area approximately

**28** times the size of the UK

Covers

**1%** of the world's surface but contains **10%** of known wildlife species

A new species of plant or animal is discovered on average every **3** days

Approximately

**76bn** tonnes of carbon are stored in the Amazon rainforest

Over

**400** different indigenous groups are thought to live in the Amazon rainforest

Source: WWF

The Amazon rainforest is thought to be home to two million Indigenous people from over 400 different Indigenous groups. Indigenous people account for only 5% of the global population but safeguard 80% of biodiversity. These communities have been stewards of the land for many years and their valuable knowledge should be harnessed to protect, sustainably manage and restore the Amazon rainforest.



### Deforestation and biodiversity loss in the Amazon rainforest

Clearing and burning the Amazon rainforest destroys vital habitats and releases carbon dioxide back into the atmosphere. Despite the immense value of the Amazon rainforest, deforestation has continued and increased in recent years under the Bolsonaro government, in part due to the weakening of policies and limited law enforcement<sup>4</sup>. Alarming research shows that large ecosystems, such as the Amazon rainforest, may collapse quickly once critical tipping points are reached<sup>5</sup>.

The challenge of measuring biodiversity is frequently raised. The Natural History Museum (NHM) has developed the Biodiversity Intactness Index (BII) using the most comprehensive evidence base of its kind, alongside robust, peer-reviewed methodology<sup>6</sup>.

The BII contains a sample of 58,000 species across birds, mammals, plants, fungi and insects, which have been mapped in around 46,000 locations around the world. BII is an indicator of the 'health' of nature, with a value between 0% and 100%. A BII value of 100% is what we would expect to see if an area has not been impacted by humans. Though 100% is not always a suitable or realistic target, it helps to put existing BII values into context and inform decisions. The NHM can project how the BII is likely to change in response to future management decisions, which can help companies evaluate the effectiveness of different interventions and strategies.

Researchers have suggested that if the BII of an area falls to below 90%, it is below what is considered a safe space for humanity within the planetary boundaries concept<sup>7</sup>. Crossing this boundary increases the risk that the area and ecosystem can no longer be relied upon to provide key ecosystem services such as clean air and water, food, and fuel. In these cases, substantial human intervention may be needed to restore the resilience of the ecosystem, once again.

<sup>1</sup> World Economic Forum, 'The lungs of the planet' are on fire.

<sup>2</sup> WWF, *The Amazon*.

<sup>3</sup> WWF, *Top Facts about the Amazon*.

<sup>4</sup> World Resources Institute, *2021 Must Be a Turning Point for Forests*.

<sup>5</sup> Cooper, et al. Regime shifts occur disproportionately faster in larger ecosystems. *Nature Communications* 11, 1175 (2020).

<sup>6</sup> The BII has been included as an indicator within the post-2020 "Global Biodiversity Framework" and been reported within the recent "Living Planet Report 2022" and the "IPBES: Global Assessment Report on Biodiversity and Ecosystem Services".

<sup>7</sup> W. Steffen et al., "Sustainability. Planetary Boundaries: Guiding Human Development on a Changing Planet," *Journal Article, Science* 347, no. 6223 (2015): 1259855, <https://doi.org/10.1126/science.1259855>.



Modelling and analysis from the NHM<sup>8</sup> provides a direct estimate of the impact of deforestation from 2000 to 2020 on BII in the Amazon rainforest biome<sup>9</sup>.

Land-use change and intensification caused the biome's average BII to fall by

**1.55%** between 2000 and 2020



Figure 1A shows that land-use change and intensification caused the biome's average BII to fall by 1.55% between 2000 and 2020 (the grey areas represent 95% confidence intervals). Although subtle, this decline is widespread, as shown in the maps in Figures 2 and 3. In some small-scale areas, BII decreased by 72% from 2000 to 2020.

The proportion of the biome where BII is below safe limits fell by approximately 1% over the same period, as shown in Figure 1B. The maps in Figures 2 and 3 demonstrate that areas near the south-eastern edge of the biome are most likely to have exceeded the 90% safe planetary boundary threshold in all sets of projections in 2020.

Cattle ranching remains the primary driver of deforestation in the Amazon, thought to be responsible for over

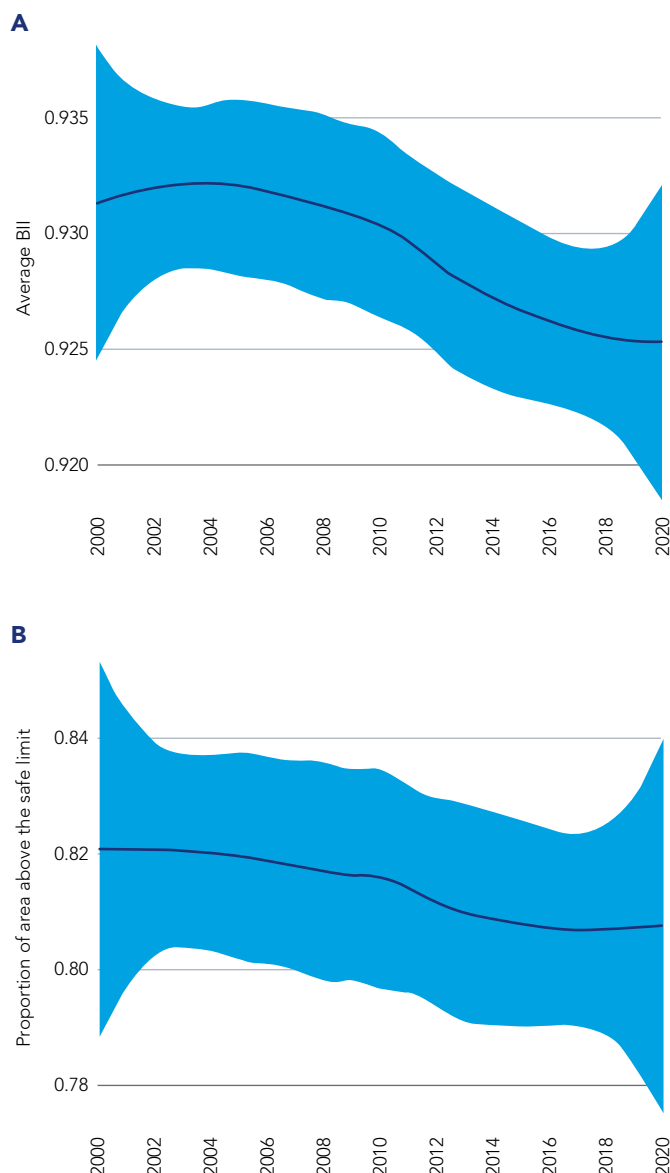
**70%** of deforestation in Brazil.



This data highlights the continued vulnerability of the Amazon rainforest. Deforestation has had a notable impact on the biodiversity of the biome over the past 20 years. Cattle ranching remains the primary driver of deforestation in the Amazon, thought to be responsible for over 70% of deforestation in Brazil<sup>10</sup>. The production of soybeans, primarily for animal feed, is also a significant contributor to deforestation and the associated biodiversity loss.

**The production of soybeans, primarily for animal feed, is also a significant contributor to deforestation and the associated biodiversity loss.**

**Figure 1:** Average change in Biodiversity Intactness Index and the proportion of area above the safe operating limit between 2000 and 2020

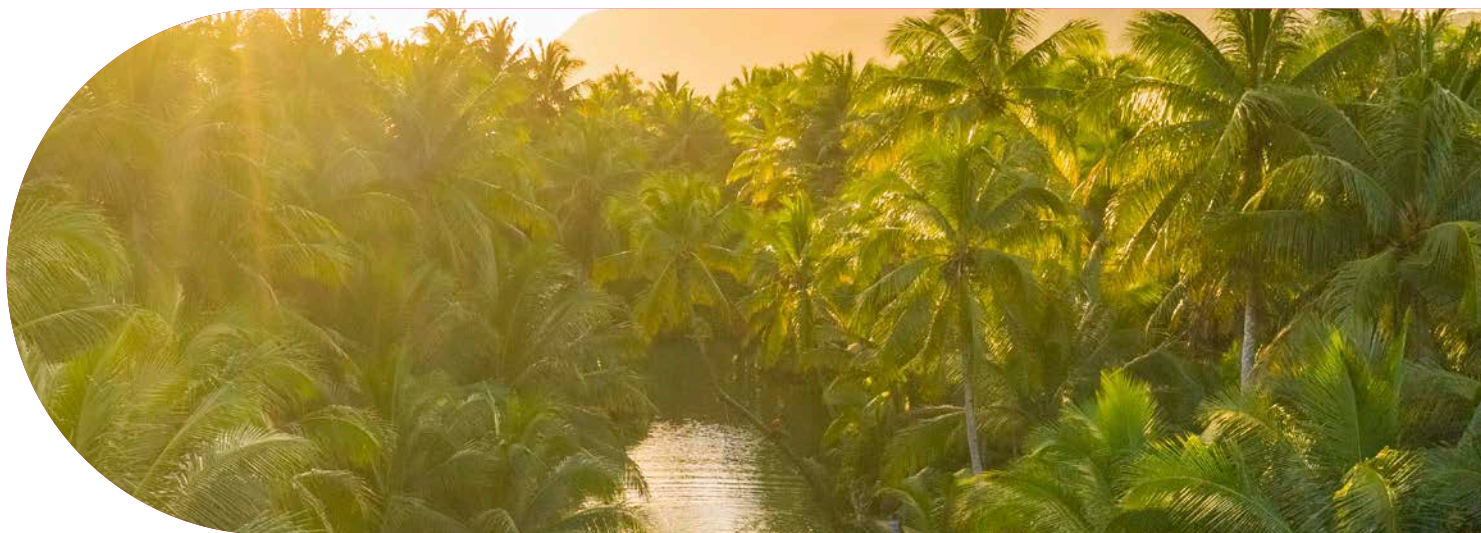


Source: Natural History Museum, 2022

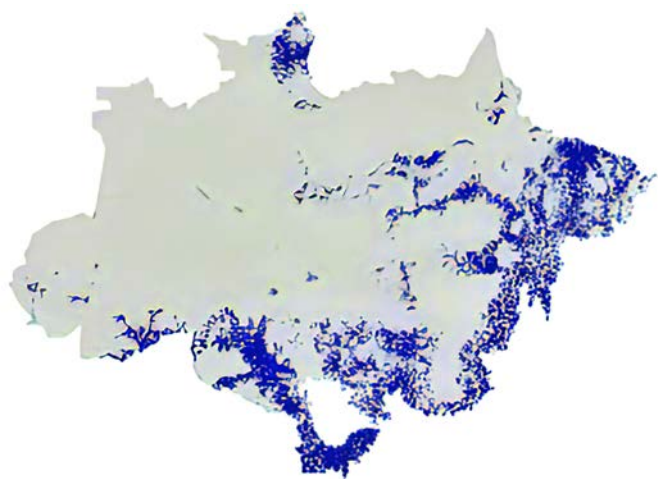
<sup>8</sup> De Palma A., Thomas G. E., Contu S., and Purvis A. (2022) Biodiversity change in the Amazon. The Natural History Museum, London.

<sup>9</sup> The "Amazon biome" definition of the region has been used because of the consistency of its natural vegetation (lowland tropical rainforest). This excludes the mountainous areas in the west of the Amazon basin and the drier Cerrado areas to the south, while including rainforest beyond the northern and eastern borders of the region.

<sup>10</sup> Our World in Data, Drivers of Deforestation.



**Figure 2:** Areas within the Amazon biome where the Biodiversity Intactness Index decreased from 2000 – 2020 across all sets of projections



Source: Natural History Museum, 2022

**Figure 3:** Areas within the Amazon biome where the Biodiversity Intactness Index in 2020 was below the 90% safe-planetary boundary threshold in all sets of projections



Source: Natural History Museum, 2022

## Risks of deforestation

Commodity-driven deforestation poses significant risks to companies and their investors. The risks can be summarised as follows:

- 1) **Reputational risk:** Companies found to be contributing to deforestation face significant reputational risks. For instance, supermarkets in the UK have continuously faced pressure from consumers, NGOs and investors to address deforestation in animal feed supply chains. In some cases, they responded by ending relationships with suppliers that had links to deforestation in the Amazon rainforest<sup>11</sup>.
- 2) **Regulatory risk:** Regulation related to deforestation is increasing, especially within the EU and the UK. Proposed regulation in the EU<sup>12</sup> would require commodities placed in the EU market to be deforestation-free, produced in accordance with laws in the country of origin, and covered by a due diligence statement. In the UK, following the Environment Act 2021, large companies that source commodities will be expected to conduct due diligence to ensure their products are free from illegal deforestation and conversion.
- 3) **Physical risk:** Deforestation exacerbates climate change and biodiversity loss, causing more frequent and severe physical climate change impacts and creating risks to the provision of ecosystem services such as water and climate regulation. In addition, many companies are dependent on products derived from the Amazon rainforest, such as for pharmaceuticals or cosmetic products. Destruction of the Amazon rainforest may jeopardise the availability of nature-based inputs to businesses over the short or long-term.
- 4) **Systemic risk:** Deforestation poses a systemic risk to the financial system and the global economy, in part through the physical risks mentioned above. The planetary boundaries framework highlights that transgressing any of the boundaries – but especially those for biodiversity loss and climate change – greatly increases the risk that the whole earth system will shift irrevocably away from the stable state that has characterised the last 11,000 years<sup>7</sup>.

<sup>11</sup> [Grocery Gazette, Tesco Suspends Supply from Deforestation Farms in Wake of Recent Report.](#)

<sup>12</sup> [European Commission, Proposal for a regulation on deforestation-free products.](#)

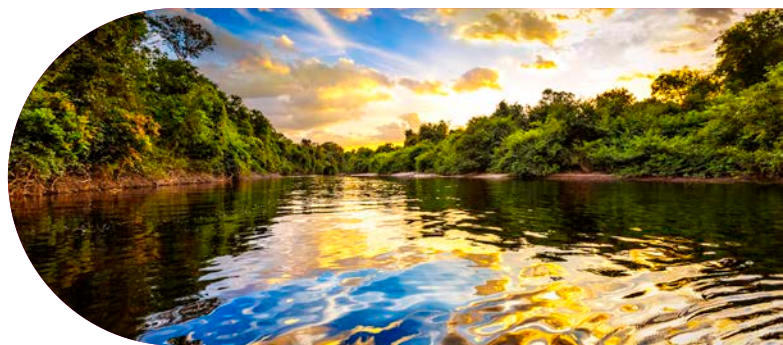


## The role of investors

Investors have a critical role to play in halting and reversing deforestation, especially through engagement with companies and capital allocation. Federated Hermes Limited signed the *Commitment on Eliminating Agricultural Commodity-Driven Deforestation*<sup>13</sup> ahead of COP26 in Glasgow. The commitment focuses on increasing engagement and due diligence to reduce exposure to deforestation in portfolios. A collaborative initiative called Finance Sector Deforestation Action (FSDA) has been launched to support investors in delivering on the commitment.

**We expect companies that source or produce soy, beef and leather, which are commonly linked to deforestation in the Amazon rainforest, to commit to deforestation and conversion-free production and sourcing by 2025, with 2030 as the latest possible cut-off date.**

We expect companies that source or produce soy, beef and leather, which are commonly linked to deforestation in the Amazon rainforest, to commit to deforestation and conversion-free production and sourcing by 2025, with 2030 as the latest possible cut-off date<sup>14</sup>. The commitment should cover all commodities, regions and suppliers, including indirect suppliers. We also encourage a commitment to achieving full traceability of commodities to source, across all tiers of the supply chain, in order to demonstrate that the company's value chain is deforestation and conversion-free. There should be an explicit commitment to respect human rights.



Companies should focus on the implementation of the commitment by articulating a clear strategy for how their operations and supply chain will become deforestation and conversion-free. This includes setting clear expectations for suppliers and creating mechanisms to enforce them. Ongoing due diligence and monitoring of suppliers and operations will be critical for effective implementation. Equally, ongoing collaboration will be necessary to tackle this complex issue.

**Companies should focus on the implementation of the commitment by articulating a clear strategy for how their operations and supply chain will become deforestation and conversion-free.**

We continue to engage with companies across the value chain that are exposed to deforestation risks. The EOS vote policy also includes a deforestation dimension, which targets companies that are lagging behind on disclosure and risk management.



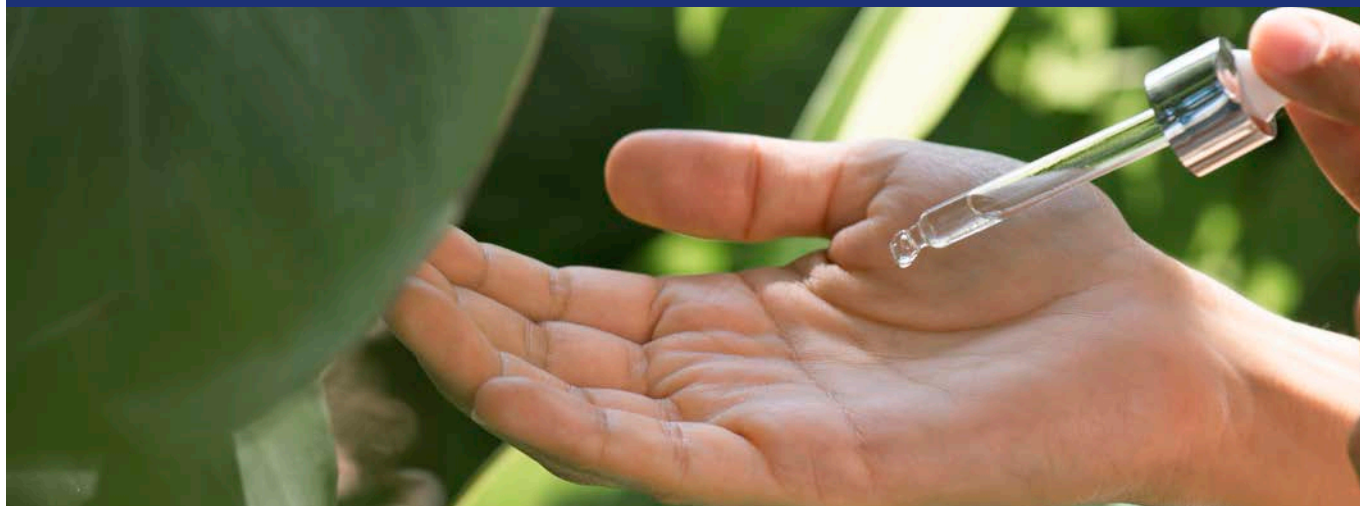
<sup>13</sup> Race to Zero, Tackling Deforestation + Scaling Nature-Based Solutions (NbS).

<sup>14</sup> FSDA, Investor expectations of companies.



## CASE STUDY

## Case study from the Federated Hermes Biodiversity Equity strategy: Natura



**Natura is a company that helps to prevent deforestation, as well as being a champion of sustainable forest use and biodiversity measurement. Natura is the world's largest B-Corp, and owner of four beauty and personal care brands: Natura, Bodyshop, Aesop and Avon, with a total of 200 million customers globally. There are two ways in which Natura mitigates impacts on biodiversity and supports the protection of nature.**

Natura is the world's largest B-Corp, and owner of four beauty and personal care brands: Natura, Bodyshop, Aesop and Avon, with a total of

**200m** customers globally. 

The first is its preservation of the Amazon rainforest, in which it directly and indirectly helps prevent deforestation. The business protects 2 million hectares of the Amazon, an area the size of the Netherlands, through its sourcing of 38 feedstocks from the region. Natura aims to increase this to 58 bio-ingredients by 2030.

The Ekos range of cosmetics, retailed by its eponymous Natura Brand since 2000, is fully made from bio-actives which are only found in the Amazon. By creating a sustainable economic case for the Amazon being left in situ, the business directly helps the prevention of tree felling for other uses. Furthermore, by engaging with, and procuring feedstocks through 33 local and Indigenous communities, the company indirectly helps support the economy of the Amazon through its approach to sourcing, further improving the case against its destruction and appropriation. Natura aims to increase this to 40 communities by 2030, which would equate to R\$60m (US\$13m) p.a. of commerce.<sup>15</sup>

The second way in which Natura helps protect biodiversity is through championing measurement. The company has partnered with the Union for Ethical Bio-Trade to design a new framework for the protection of nature, in which they will share their 20+ year supply chain knowledge base. As part of this, the company aims to invest US\$100m in developing regenerative solutions, such as biotech from waste to ingredients. Finally, the business operates the non-profit **Plenamata**, a real time deforestation tracker, designed to help illuminate the scale of the problem in the Amazon. This is a partnership between Natura, MapBiomas, NGOs and universities into delivering data that tracks deforestation in the Amazon. Its purpose is to provide visibility about what is happening and engage governments, the private sector, civil society, and local communities to fight against deforestation and foster successful conservation and environmental regeneration initiatives. Whilst a non-core part of the business, we believe that trackers such as this play a material role in mitigating deforestation, in part by illuminating the scale of the problem and encouraging the corporates responsible to adjust their business practices.

The company has partnered with the Union for Ethical Bio-Trade to design a new framework for the protection of nature, in which they will share their

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<sup>15</sup> Company press release: [Sustainability Vision 2030 - Natura RI \(naturaeco.com\)](https://www.naturaeco.com/en/sustainability-vision-2030)



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