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From Climate to Conservation: Government and Private Sector Leaders Bring Focus on Biodiversity and Nature to COP26

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By: Kenneth J. Markowitz, Stacey H. Mitchell, Shawn Whites

In this post, we dig into key issues underlying the intrinsic relationship between climate change and the loss of nature, and highlight several of the many developments from this week's nature-focused events at COP26 that present potential opportunities for businesses and investors seeking to make climate gains while promoting biodiversity.

Background

The collective developments coming out of COP26—which build on momentum from the 15th meeting of the Conference of the Parties to the U.N. Convention on Biological Diversity hosted by China last month—could lead to "systemic shifts" in private finance for nature, "in the trade in agricultural commodities and in the rights of Indigenous Peoples and local communities." These shifts, and the ongoing discussions surrounding them at COP26, reflect the clear scientific, economic and moral imperatives for promoting biodiversity and sustainable development. Indeed, recent reports such as the *Final Report of the Independent Review on the Economics of Biodiversity* (the "Dasgupta Review") highlight the urgent need to protect the world's dwindling supply of natural capital, as well as the certainty and prosperity that can result from its protection.

Scientists and economists argue that declines in biodiversity lead to less productivity, resilience and adaptivity from the natural environment. These declines, in turn, present new uncertainties that can inhibit economic growth and human wellbeing. As the Dasgupta Review points out, every developing and developed economy relies on biodiversity, which influences resource extraction, the way we produce and consume goods and services, and the way we manage our waste. Accordingly, Dasgupta and other experts predict that several "transitions" will take place over the next several decades, including reductions in our demand on nature, changing measures of economic success, and the transformation of ways that our institutions and systems value and foster sustainability.

Forward-thinking businesses and investors are recognizing the business and investment risks associated with biodiversity loss and habitat destruction, particularly in the world's forests and pockets of relatively untouched land in developing areas. Recognizing the "potential for quick returns" from natural capital, which also "forms the bulk of wealth in low income countries," the business and investment communities and global leaders are seeking to tie climate change solutions to biodiversity.

Key Developments for the Business and Investment Communities

U.S. Forest Investment Initiatives

On November 2, the United States issued a new Global Forests Conservation Plan (the "U.S. Conservation Plan") to halt deforestation and nature degradation and maximize the "climate mitigation potential of critical ecosystems," with a primary focus on "three critical ecosystems of global importance: Amazon, Congo and Southeast Asian forests." The Plan has four key objectives: (i) incentivize forest and ecosystem conservation and forest landscape restoration; (ii) catalyze private sector investment, finance and action to conserve critical carbon sinks; (iii) build long-term technical capacity and support data and systems that enhance accountability; and (iv) increase climate and conservation ambition.[1]

To catalyze private sector investment and finance, the United States launched two forest-focused initiatives at COP26 that are likely to be of interest to investors of natural capital and businesses within the forestry and lands sector:

- Forest Investor Club – a network of public and private financial institutions and other investors that aims to unlock and scale up investments in "restoration, conservation, sustainable agriculture and forestry, and green infrastructure." According to the U.S. Conservation Plan, the Club will "create a process for stakeholders to submit investment proposals for consideration" pursuant to a yet-to-be defined "agreed set of criteria."
- Forest Finance Risk Consortium – a convener of financial institutions and experts on forest monitoring and climate finance disclosure to "better assess and disclose

exposure to forest-related emissions in investment portfolios." Ultimately, the consortium aims to improve disclosure of forest-related climate risk "in line with existing and emerging climate finance disclosure guidance," and, in turn, help financial institutions "eliminate climate risks from their portfolios." Although the Department of State announcement does not specify which "existing and emerging" disclosure guidance the consortium will likely look to, one possibility is the emerging Taskforce on Nature-related Financial Disclosures, which was recently recognized in the G20 Sustainable Finance Roadmap.

Also of note is the United States' planned COP26 announcement of a forest investment platform called "ForInvest."[2] While details and timing are scant, the U.S. Conservation Plan notes that ForInvest will "take forest components of climate strategies from a series of objectives and planned actions to fully developed finance and investment strategies."

Private Finance

Over 30 private financial institutions with more than $8.7 trillion in assets under management committed this week to eliminate agricultural commodity-driven deforestation risks in their investment and lending portfolios by 2025, while supporting a transition to a sustainable agricultural sector. Signatories will focus on addressing "forest-risk" agricultural commodities that are responsible for a substantial share of deforestation impacts—i.e., palm oil, soy, beef and leather, pulp and paper—and aim to achieve the 2025 commitment primarily through active ownership and ongoing stewardship.

Relatedly, nine multilateral development banks issued a joint statement outlining various actions they will take to "mainstream" nature into their policies, analysis, assessments, advice, investments and operations. Such actions include, among others: (i) devising a uniform operational definition of "nature positive" in the context of their operations and investments; (ii) developing projects, business models and/or financing instruments to support economic activity that seeks to reverse nature loss and promote the protection, restoration, and sustainable use of nature and its services to people; and (iii) encouraging their public and private sector borrowers to share biodiversity information to better inform mainstreaming, project design and decision-making processes.

Complementing these commitments was the release of a Finance Sector Roadmap for Eliminating Commodity-Driven Deforestation by the multistakeholder Finance & Deforestation Advisory Group. The roadmap outlines five steps financial institutions—

including asset owners, pension funds, asset managers, insurers and banks—can take “to address risks related to deforestation, ecosystem conversion, and human rights abuses linked to soft commodity financing in their portfolio,” and is “well-aligned” with “tools and guidelines that companies are already using to reduce, measure, and report on deforestation risk.”[3]

Forest, Agriculture and Commodity Trade (FACT) Dialogue Roadmap for Action

Twenty-eight producer and consumer countries representing 76 percent of global trade in soy, palm, cocoa, beef and leather, timber, and paper and pulp—including the United States—endorsed a shared roadmap of actions to incentivize supply chain sustainability, support smallholder farmers’ participation in markets, improve supply chain transparency, and drive new technology and innovation. Going forward, these countries will “work together to share experiences, find common ground, support implementation, and encourage further ambition in support of” their shared aims. In doing so, the FACT Dialogue welcomes engagement with the private sector and civil society groups.

Agricultural Innovation Mission for Climate (AIM for Climate)

With the support of 31 countries and more than 45 nongovernment partners, the United States and the United Arab Emirates launched AIM for Climate to increase and accelerate investment in, and other support for, climate-smart agriculture and food systems innovation. To that end, the Department of State invites business, philanthropy and other nongovernment actors to announce “Innovation Sprints”—an increase in aggregate self-financed investment in agricultural innovation for climate-smart agriculture and food systems over the next five years. As outlined here, an Innovation Sprint would support climate-smart agriculture innovation by “increasing agriculture productivity while adapting and building resilience to climate change,” or by reducing or removing greenhouse gas emissions.

Implications

While time will tell whether world leaders’ commitments on deforestation and motivation to confront biodiversity loss will yield actionable domestic laws with corresponding high levels of compliance, at least one country is well on its way. In the United Kingdom, a long-awaited environment bill targeting illegal deforestation in the supply chain—among numerous other issues—is in the final stages of the parliamentary process. Notably, however, it does not seek to tackle ongoing legal deforestation.[4]

Regardless of whether the U.K. law or others come to fruition,[5] biodiversity and natural capital remain at the forefront of the next frontier of environmental, social and governance (ESG) and impact investing and will continue to command attention and resources moving forward. As such, forward-thinking businesses—especially those with a notable climate or land footprint—should take steps to better understand, and ultimately mitigate, climate- and biodiversity-related risks in their supply chain.

Relatedly, as the private sector increasingly looks to the voluntary carbon markets to help achieve ESG goals or "net zero" emissions reduction targets—whether as project developers or as purchasers of offsets—it is important to recognize that not all climate solutions are created equal. Some offset projects, like those targeting the agriculture industry, exhibit obvious biodiversity co-benefits. Others, such as renewable energy projects sited on or near high-conservation lands with abundant wind or solar potential, may have considerable negative impacts on biodiversity. To that end, voluntary carbon market participants should ensure that biodiversity risk is a key consideration when designing projects or conducting due diligence on existing projects, seeking permits and approvals, managing risk and making disclosures (whether mandated or voluntary). These efforts likewise should consider genuine engagement with indigenous and local communities for companies to truly succeed from an ESG and sustainability perspective while minimizing legal, operational and reputational risks.

What's Next for Nature at COP26?

With forests and lands featuring prominently at COP26, we expect attention in the coming days to include additional focus on oceans and other nature-based climate solutions. The United States may seek to build momentum from its recently announced plans to join the High-Level Panel for a Sustainable Ocean Economy. This multinational initiative seeks to harness the power of the ocean to reduce greenhouse gas emissions, provide jobs and food security, improve climate resilience and sustain biological diversity.

We also expect to see related developments on November 6, "Nature Day." This includes, for example, a UK Presidency Programme event that "will see leading businesses declare their commitment to protect nature through the 'Get Nature Positive' campaign" and "showcase ground breaking initiatives" from the food, finance and banking sectors.

To stay abreast of the latest developments from COP26, be sure to follow our Speaking Sustainability blog and Twitter feed.

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[1] Shortly after the White House released the Conservation Plan, House Majority Leader Steny Hoyer introduced the "America Mitigating and Achieving Zero-emissions Originating from Nature for the 21st Century Act" (H.R. 5830), which would authorize $9 billion in international climate finance to support and implement elements of the Conservation Plan, among other things.

[2] U.S. Conservation Plan at 16-17.

[3] Leah Samberg, Rainforest Alliance, et al., *Tackling deforestation: A clear way forward for financial institutions*, Nature4Climate, https://nature4climate.org/articles/tackling-deforestation-a-clear-way-forward-for-financial-institutions/ (last accessed November 4, 2021).

[4] If passed, the bill would (i) require large businesses operating in the UK to implement a due diligence system to ensure illegally-produced "forest risk" commodities (i.e., agricultural commodities associated with wide-scale deforestation) do not enter their supply chain; and (ii) prohibit the use of commodities produced on land that was illegally occupied or used—in each case, where reference to "illegal" is by reference to local law requirements (and not to a higher standard imposed by the U.K. or any international organization). See UK Parliament, Environmental Bill Explanatory Notes at 12, 120 (May 26, 2021), https://bills.parliament.uk/publications/41685/documents/327.

[5] Similar legislation was recently introduced by a bipartisan group of senators in the United States, and an anti-deforestation law is rumored to be in the works in the European Union following extensive proposals from the European Union in the Fit for 55 package announced earlier this year on deforestation (and biodiversity more broadly). See European Union Nature and Forest Strategy Factsheet.

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