Banking on nature destruction: An analysis of Australian bank financing of deforestation

AUSTRALIAN CONSERVATION FOUNDATION | Nature needs us, now

We acknowledge the Traditional Owners of Country and their continuing connection to land, waters and community. **We pay respect to their Elders past and present** and to the pivotal role that First Nations Peoples continue to play in **caring for Country across Australia.**

This Australian Conservation Foundation report was prepared by Nathaniel Pelle, Annica Schoo and Audrey van Herwaarden, based on analysis from Martin Taylor (NatureAnalytics, University of Queensland).

We are grateful to The Wilderness Society for the generous provision of land use and ownership data originating from the Office of the Queensland Valuer General's Valuation System.

Cover. Aerial shot of Queensland land clearing *Photo.* Dean Sewell
Right. Windrows of trees cleared for housing *Photo.* Dr Martin Taylor

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Executive summary

Perhaps no country in the world is as famous for its unique nature as Australia—from kangaroos and platypus, to the Great Barrier Reef. It is one of only 17 megadiverse countries in the world, with more unique species than any other nation apart from Indonesia.

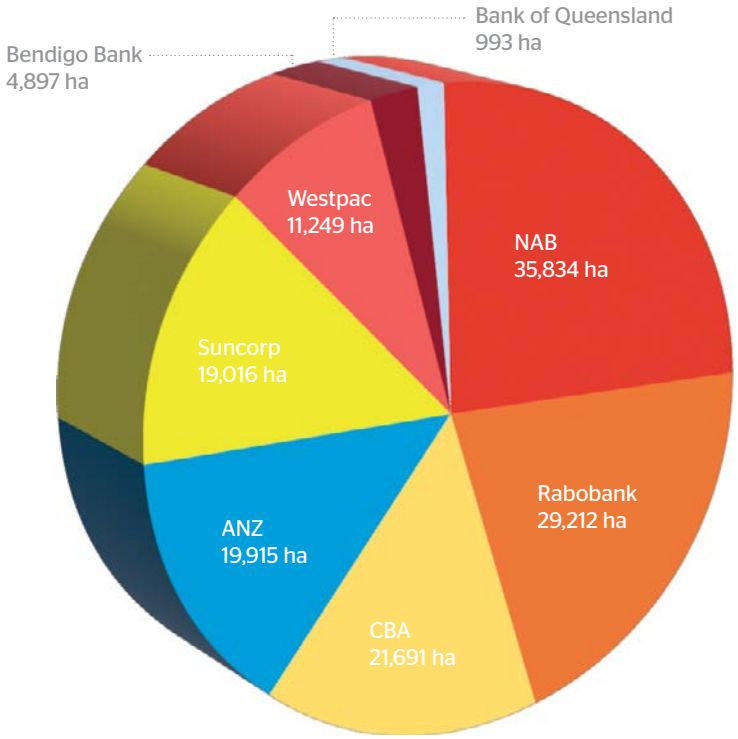
But Australia is also a world leader in extinction. The latest State of the Environment report showed a dramatic decline in the health of Australia's nature, according to almost every indicator. This translates to the loss of intrinsic, cultural and ecological values associated with healthy ecosystems and the species Australians, and people around the world, love. It is also predicted to have dire social and economic consequences.

Roughly half Australia's GDP, around $900 billion a year, has a moderate to very high direct dependence on nature. The sectors with the highest dependencies include primary industries like agriculture, food product manufacturing and construction, but indirectly every sector of the economy depends on services provided by nature. Many of the industries with a high dependency on nature are also engaged in practices that have a negative impact on the natural capital they are directly reliant on. Activities like deforestation are already generating physical risks and they can be expected to translate into transitional and systemic risks for the businesses engaging in, or financing them.

According to the federal government threatened species committee, "land clearance has been the most significant threatening process in Australia since European settlement." Land clearing is one of the reasons why almost two-thirds of Australia's threatened species are on the threatened species list. It degrades soils, increases flood risk, alters local temperatures and rainfall patterns, and emits greenhouse gases.

Since 1788, half of Australia's forest has been destroyed. But land clearing is not merely a historical phenomenon. From 2018 to 2020 (the latest available official data), more than one million hectares of woody vegetation was cleared in Queensland, mainly for cattle. This report finds that, of that clearing, over 364,000 hectares meets the strictest international definition of deforestation (a category of land clearing) and was high risk for significantly impacting a listed threatened species or ecological community, without federal approval, and therefore was potentially illegal.
Overall, 217 threatened species lost critical habitat, with koalas (191,893ha) and greater gliders (124,323ha) losing the most.

Figure 3. Bank exposure to potentially illegal deforestation in Queensland, 2018-2020



Area deforested (hectares) in sample parcels held by security holder with a high risk of impacting a matter of national environmental significance

The deforestation impacting listed threatened species or ecological communities occurred across 5,018 properties, but more than 50% of the deforestation is attributable to just 267 properties and 241 owners, meaning a minority of pastoral businesses are responsible for the majority of ongoing deforestation. Of those properties, approximately 73% were linked to an Australian bank via a security such as a mortgage.

Nearly a quarter of the properties were subject to a security held by NAB (Fig. 3), with Rabobank second at approximately 16% of securities, followed by Commbank, ANZ, Suncorp and Westpac.

Just as bank lending, investing, or underwriting of sectors or businesses that contribute to greenhouse gas emissions are termed *financed emissions*, bank lending and investment in businesses that engage in deforestation can be termed *financed deforestation.*

The deforestation activities are not only likely to eventually result in economic losses for producers and landowners due to the long-term reduction in productive capacity of the land; producers that continue to deforest also risk losing market access as Australia's trading partners, big consumer brands, and international financiers place restrictions on goods associated with deforestation. They also leave themselves open to potentially costly compliance actions.

This, largely unaccounted for, financed deforestation is likely exposing Australian banks, and their shareholders, to direct and indirect credit risk due to the potential economic impacts on producers engaging in deforestation, as well as other nature-related reputational, legal and transition risks, and systemic risks. Banks that haven't accounted for this deforestation are also likely under-reporting their financed emissions and will struggle to meet nature-related risk reporting obligations, such as those recommended by the Taskforce on Nature-related Financial Disclosures (TNFD). As none of Australia's large banks have 'no deforestation' policies the banks are also failing to live up their net zero commitments as members of the UN's Net Zero Banking Alliance.

Banks need to urgently assess their exposure to nature-related risks, take stock of their nature-related impacts and dependencies, commit to align their lending to global nature goals using science-based targets, including 'no deforestation' targets, and implement policies such as conditional lending in order to deliver them. Geolocating their lending to assess their exposure to deforestation should be one of the first steps.

Below. Queensland Land Clearing *Photo.* Dean Sewell

Introduction

Australia is at the forefront of global nature destruction; while we have more unique wildlife and ecosystems than almost any other country in the world, we also lead the world in mammal extinctions. Australia is also the only developed country with a global deforestation front, similar to the Amazon and the Congo.

While international commitments from economic markets like the EU and the world's biggest investors and consumer companies have begun setting laws and restrictive policies to prevent the sourcing and financing of products linked to deforestation, a significant number of Australian farmers and the banks that finance them have failed to take any action. Not one of Australia's big four banks has a no deforestation policy, nor do they monitor deforestation activities across the properties they finance through lending or investment.

We analysed clearing in Queensland between June 2018 and June 2020 and linked instances of deforestation to Australian banks via searches on title securities. The analysis found that over 364,000 hectares of clearing during the period met the strictest international definition of deforestation and also represented a potential breach of Australia's federal environmental law because it was high risk for significantly impacting a matter of national environmental significance (MNES) without approval. Almost 200,000 hectares of the deforestation was habitat for the now-endangered koala; the species most impacted by this destruction. Greater gliders, northern quolls, ornamental snakes and Australian painted snipes also saw tens of thousands of hectares of their forest habitat destroyed respectively. Overall, 227 threatened species and ecological communities saw some of their forest habitat destroyed.

We found that almost a quarter of the deforestation occurred on properties over which a security was held by National Australia Bank, Australia's biggest and most trusted (by farmers) agricultural lender, followed by Rabobank, Commbank, ANZ, Suncorp and Westpac. This failure to act on deforestation occurring across their loan portfolios exposes the banks to direct and indirect credit, reputational, and shareholder risks and potentially amounts to financed deforestation.

Australian banks need to move quickly to understand their exposure to deforestation and other activities that result in harmful nature impacts, set science-based and time-bound nature targets including to end the financing of deforestation, and implement lending policies that require the avoidance of harm to nature and incentivise their customers to adopt practices that will restore the health of the ecosystems they depend upon.

Land clearing or deforestation?

Land clearing in this study is defined as the clearance of woody native vegetation, including trees and shrubs for crops, pasture, plantations, houses, mines, buildings and infrastructure like roads or transmission lines.

Deforestation is the clearing of 'forest'. For this analysis, we've focused on clearing of forest that meets the internationally accepted United Nations Food and Agriculture Organisation (FAO) definition—land spanning more than 0.5 hectares with trees higher than 5 metres and a canopy cover of more than 10%, or trees able to reach those thresholds in situ (plantations are not included). This is the definition the European Union, Accountability Framework Initiative, and Science-Based Targets definitions, among others, are based upon.

Australia's **nature in crisis**

State of the environment Australia

The latest five-yearly State of the Environment report contained a sobering catalogue of statistics pointing to a decline in the health of nature in Australia on almost every indicator. Australia has one of the worst extinction records in the world, with the disappearance of more mammals than any other continent since European colonisation.

The most significant pressures on Australian biodiversity have come from invasive species, habitat destruction associated with agricultural and urban expansion, and climate change, including extreme weather events, with industrial pollution, mining, and water extractions also having major impacts.[1]

Between 2000 and 2017, 7.7 million hectares of terrestrial threatened species habitat was cleared. Many of Australia's landscapes are now severely degraded and most of the remaining native vegetation has been modified to some extent.

Above. Tasmania *Photo.* Matt Palmer / Unsplash

Nineteen Australian ecosystems are classified as 'collapsing'—including the Murray-Darling river basin, the Great Barrier Reef, Queensland's World Heritage-listed Wet Tropics, and the Australian Alps—with grazing and agricultural expansion, invasive species, and climate change the most prevalent drivers of collapse. Beyond the loss of intrinsic, cultural, and ecological values associated with ecosystem health, these collapses are predicted to have major social and economic consequences—the Murray-Darling alone supports more than 9,000 irrigated agricultural businesses producing $22 billion of food each year.[2]

Australia's strategies and investment in biodiversity do not match the scale of the challenge. Without transformative change we will continue to see species extinctions and deteriorating ecosystem conditions which are already destroying the natural capital on which the economy and our access to food, water, and health depends.

The nature crisis is an economic crisis

Approximately half (49.2%) of Australia's GDP, around $900 billion, has a moderate to very high direct dependence on nature.[3] The sectors with the highest direct nature dependency include primary industries like agriculture, forestry, and fisheries ($38.7bn), food product manufacturing ($23.1bn), and construction ($144.4bn). Sectors with a moderate to high direct dependency on nature include mining ($127.0bn), real estate ($207.0bn), transport and logistics ($89.6bn), and accommodation and hospitality ($44.3bn).[4] These industries rely on the direct extraction of the earth's natural resources or directly depend on the provision of ecosystem services such as clean water, a stable climate, pollination, erosion prevention, healthy soils, and protection from floods and storms.

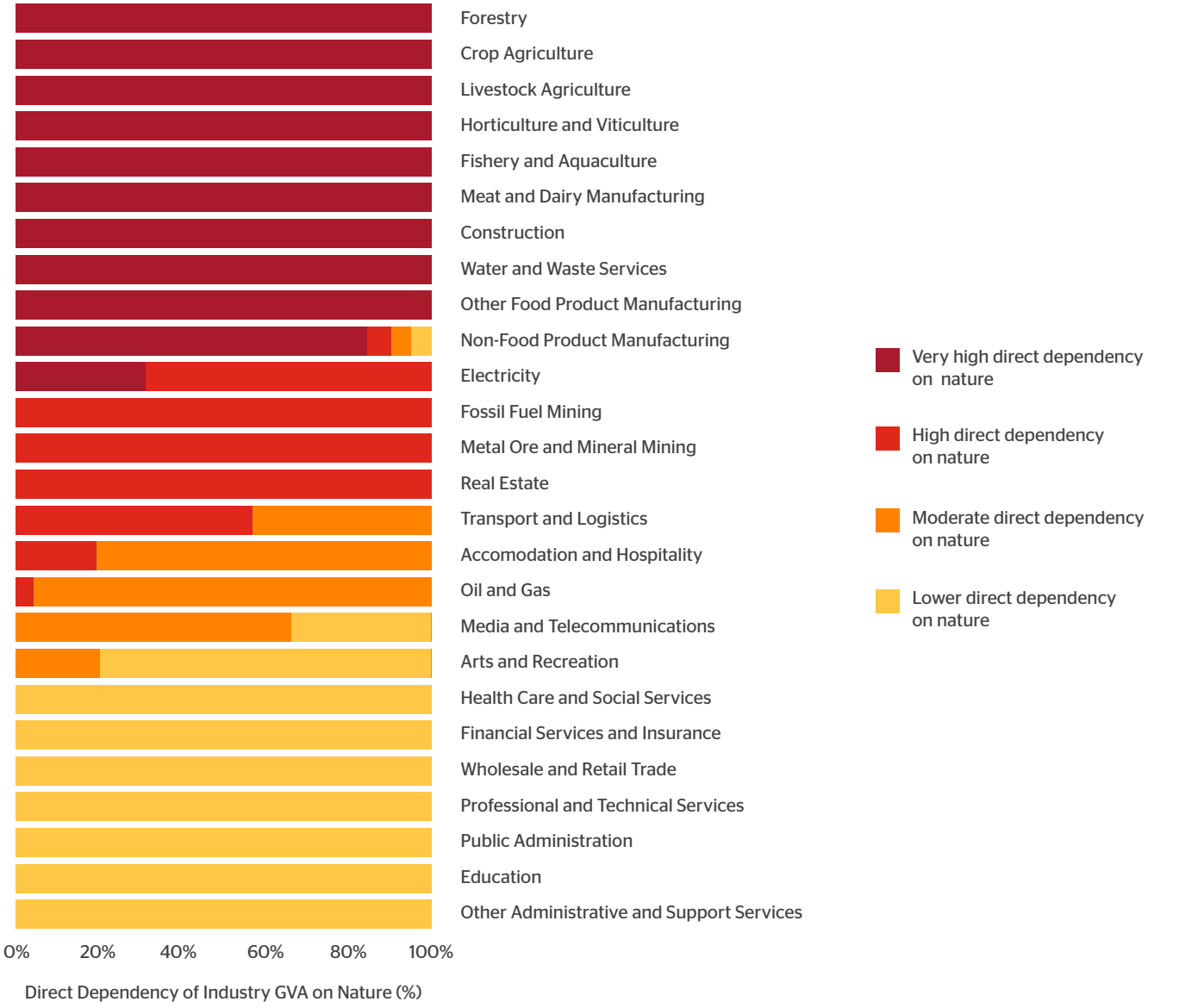
[1] Cresswell ID, Janke T, Johnston EL (2021) Australia State of the environment 2021. Department of Agriculture, Water and the Environment, Commonwealth of Australia.

[2] Bergstrom, Dana M., et al. (2021) "Combating Ecosystem Collapse from the Tropics to the Antarctic."

[3] ACF (2022) The nature-based economy: how Australia's prosperity depends on nature. The Australian Conservation Foundation.

[4] Ibid.

Figure 1. Direct nature dependency by industry sector[5]



Many of the industries with a high dependency on nature are engaged in practices that have a negative impact on the natural capital they are directly reliant upon. As nature's limits are exceeded through harmful activities, such as land clearing or the pollution of waterways, ecological systems and functions are altered. Consequently, the ecosystem services they provide to people, and the contribution of natural capital to the economy, falls. The integration of natural capital considerations into business and government decision-making is in its infancy, but because of the increasing recognition of the importance of nature to the economy this can be expected to change rapidly. In short, activities such as deforestation are already generating physical risks, and can be expected to translate into transitional, and systemic risks for the businesses engaging in or financing them.

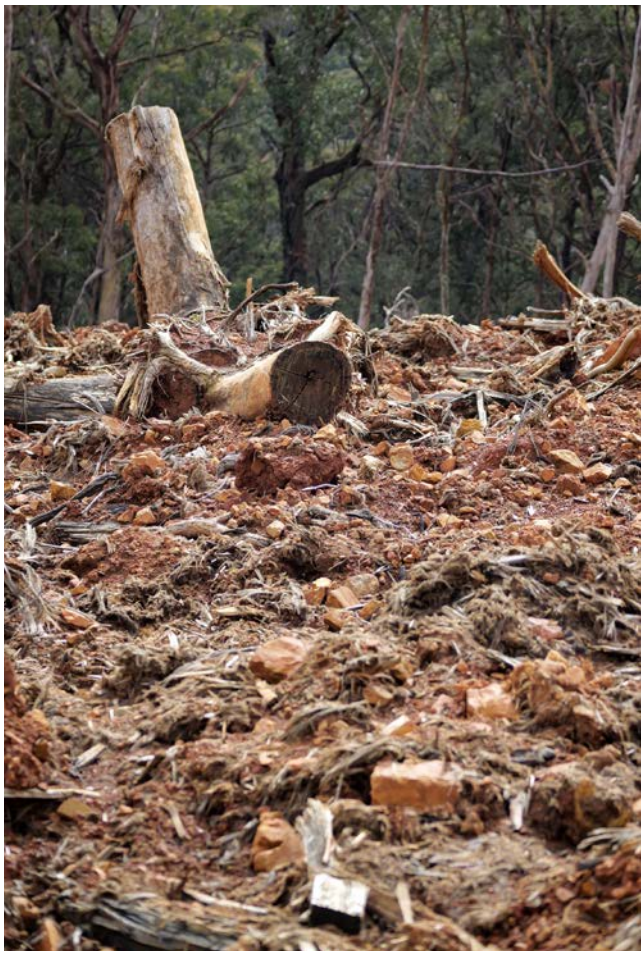
[5] ACF (2022) The nature-based economy: how Australia's prosperity depends on nature. The Australian Conservation Foundation.

How land clearing devastates the environment

Since colonisation, no activity has shaped the Australian landscape as profoundly as agriculture. More than 55% of Australia is agricultural land, the bulk of that grazing land for cattle and sheep.[6] Agriculture is the primary reason 44% of Australia's woodland has been cleared during this period,[7] and it remains the primary driver of ongoing land clearing, including more than one million hectares of clearing in Queensland between June 2018 and June 2020 alone, mainly for cattle grazing.[8] More than half of that clearing meets the United Nations Food and Agriculture Organisation's (FAO) definition of deforestation from which the Accountability Framework Initiative, the European Union, the Glasgow Declaration on Forests and Land Degradation, and a range of market-led initiatives have derived their definitions.

The bulldozing of native vegetation is a major cause of habitat loss and fragmentation, heritage, and biodiversity decline and has been implicated in 60% of the federal listings of Australia's threatened species.[9] According to the federal government's threatened species scientific committee "land clearance has been the most significant threatening process in Australia since European settlement."[10]

Land clearing can also lead to processes that degrade soils, such as erosion, salinisation, loss of organic matter and spoil carbon, and depleted soil fertility which compounds impacts on biodiversity and reduces the productive capacity of agricultural land over time.[11] Broad-scale clearing of native vegetation can also influence local climatic conditions including temperature and rainfall, increase sediment and chemical pollutant loads in freshwater streams, increase pollutants in marine environments including the Great Barrier Reef, exacerbate the impacts of invasive predators like cats and foxes, and harm pollinators like honeybees.[12,13] These impacts have obvious ramifications for biodiversity in Australia, but they also represent a material social and economic risk due to the degradation of natural capital that provides essential ecosystem services. Lastly, land use change including land clearing is responsible for approximately 25% of annual carbon emissions in Australia.[14]



Toolangi Deforesation *Photo.* Tom Kinsman

[6] Department of Agriculture Water and the Environment (DAWE) (2022) Snapshot of Australian Agriculture 2022. Canberra https://www.awe.gov.au/abares/products/insights/snapshot-of-australian-agriculture-2022

[7] DAWE (2016) State of the Environment Report https://soe.environment.gov.au/theme/land/topic/2016/regional-and-landscape-scale-pressures-land-clearing.

[8] QLD Government (2021) 2018–19 Statewide Land and Trees Study (SLATS) https://www.qld.gov.au/environment/land/management/mapping/statewide-monitoring/slats

[9] Cresswell ID, Janke T, Johnston EL (2021) Australia State of the environment 2021. Australian Government Department of Agriculture, Water and the Environment, Canberra

[10] Department of Climate Change, Energy, the Environment, and Water (DCCEEW) (n.d.) Land Clearance: Advice to the Minister for the Environment and Heritage from the Threatened Species Scientific Committee on a public nomination of a Key Threatening Process under the Environment Protection and Biodiversity Conservation Act 1999 https://www.dcceew.gov.au/environment/biodiversity/threatened/key-threatening-processes/land-clearance

[11] Productivity Commission (1996) Land degradation and the Australian agricultural industry, Commonwealth of Australia.

[12] Reside, April E. et al (2017) Ecological consequences of land clearing and policy reform in Queensland, Pacific Conservation Biology.

[13] Tomlinson, Sean et al (2017) Landscape context alters cost of living in honeybee metabolism and feeding, Proceedings of the Royal Society Biological Sciences.

[14] Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DISER) (2013 Australian National Greenhouse Accounts: Australian Land Use, Land Use Change and Forestry Emissions Projections to 2030. Commonwealth of Australia.

Why Australia's banks matter for nature

Banks play a crucial role in society by providing financial services such as savings accounts, loans, underwriting and investments that facilitate commerce, and help individuals and businesses achieve their financial goals.

The choice of activities that banks engage in, such as lending to certain sectors or investing in certain assets, as well as the conditions applied to the financial services they provide, can have significant impacts on society, including environmental sustainability. When banks lend or invest in companies or projects within emissions intensive sectors, they facilitate greenhouse gas emissions and contribute to global warming through what is termed *financed emissions*. Similarly, banks indirectly contribute to deforestation and biodiversity loss through lending or investing in companies or projects that engage in land clearing activities, including deforestation. This can be termed *financed deforestation*.

Halting and reversing deforestation requires action to be taken throughout the value chain of the sectors driving it, and that includes the banks. Banks play a vital role in supporting agribusiness by providing deposit accounts, loans, revolving credit facilities and other financial services that support the growth and development of the agricultural sector. In 2022, total bank lending to agribusinesses in Australia was approximately $77 billion.[15] Loans through security on title are a common form of lending to agribusinesses. They refer to loans that are secured by the borrower's ownership of a property, as evidenced by the property's title. When a borrower takes out a loan through security on title, they grant the lender a mortgage over the property and in turn obtain a loan to finance land purchases, expansion of existing operations, purchasing new equipment, and other operational expenses.

Despite the lack of regulatory guidance, there is mounting pressure from the private sector for banks to develop robust policy and offer creative financial instruments to reduce deforestation and incentivise the protection of nature on farmland. Banks can and do promote the use of green loans[16] or sustainability-linked loans[17] to foster land-use practices which protect and restore nature. Additionally, green loans often include a clause which prohibits the use of proceeds for land clearing. However, green loans account for a very small percentage of the total $77 billion in bank lending to agribusiness in Australia. It is clear that banks are aware of the fact that loan funds could be used to fund land clearing and are cognizant of the alternative loan agreements which can reduce or eliminate indirect land clearing. To effectively manage their nature-related risks, banks should include land clearing or deforestation clauses in *all* loan agreements and monitor land clearing across portfolios exposed to higher nature-related risks, such as agriculture, which is possible with geospatial data. It is common practice to conduct an annual review with agribusiness customers which covers a range of issues and with geospatial data bankers can have a data-backed conversation with the customers to understand why clearing has been undertaken.

A recent Roy Morgan study found that NAB was the most trusted agribusiness bank by farmers, followed by Rural Bank (a division of Bendigo and Adelaide Bank) and Rabobank.[18] Given the reliance of agricultural businesses on banks, effective engagement with farmers over natural capital could be an advantageous leverage point for tackling Australia's deforestation problem, improving long-term productivity, and maximising resilience in the face of increasing nature and climate-related risks. Just as banks have helped finance the activities behind the climate and nature crisis, they can also finance the transformations needed across sectors to ensure the economy operates within planetary boundaries.

[15] Australian Banking Association (2022) Agribusiness report 2022. Australian Banking Association

[16] Green loans are loans in which the use of proceeds are restricted to activities that are intended to have positive environmental impacts.

[17] Sustainability linked loans are general purpose loans under which the borrower is awarded or penalised for achieving sustainability targets, usually though a decrease or increase in the loan interest rate respectively.

[18] https://www.roymorgan.com/findings/9106-agribusiness-net-trust-and-distrust-banks-november-2022

How are banks responding to the nature crisis?

According to the High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities established by the United Nations, a financial institution's net zero commitment should include (i) a policy of not investing in or financing businesses associated with deforestation and (ii) the elimination of agricultural commodity-driven deforestation from their investment and credit portfolios by 2025.[19] Yet not one of the big four Australian banks have a policy on deforestation.[20] Other banks including Bendigo and Adelaide Bank and Rabobank do, however, their lending policies are not succeeding in eliminating deforestation from their lending portfolios.

Additionally, of the ten banks survey in ACF's Risky Business report, 80% of banks had not set nature-related targets and 50% of banks had not evaluated their nature-related impacts and dependencies.

[19] United Nations (UN) (2022) Integrity Matters: Net Zero commitments by Businesses, Financial Institutions, Cities and Regions https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

[20] The Australian Conservation Foundation (2022), Risky Business at https://www.acf.org.au/risky-business-report

Above. Queensland Land Clearing *Photo.* Dean Sewell

Australian banks playing catch-up as the world commits to halt and reverse nature destruction

Over the past 12 months a range of international government and market-led initiatives targeting the trade and financing of products known as forest risk commodities—such as beef and palm oil—have been introduced.

These initiatives include the world's largest consumer goods companies, like Nestle, Unilever, McDonald's and Adidas, institutional investors like Aviva and the Norwegian Pension Fund, and international banks like HSBC and BNP Paribas making commitments to end the sourcing and financing of products associated with deforestation. Some of these commitments follow long-term campaigns targeting global brands on biodiversity grounds, others have stemmed from an increasing recognition that credible net zero commitments necessitate zero-deforestation commitments. Many of these commitments will only come into force in 2025 but, in some cases, producers will be expected to have ceased deforestation activities by 2020.

Australian cattle producers, processors, and traders that fail to remove deforestation from their supply chains risk losing market access and access to equity investments due to commitments made overseas. Australian banks' continued financing of producers engaged in deforestation, along with their lack of targets and policies to end the financing of agricultural deforestation, leaves them exposed to direct and indirect credit risks, reputational risk, and shareholder risk.

In April 2023 the European Union adopted a law designed to prevent the financing or importation of products associated with deforestation, with beef and leather a priority target commodity. The rule is expected to be in force by 2025, and means that "operators and traders will have to prove that the products are both deforestation-free (produced on land that was not subject to deforestation after 31 December 2020) and legal (compliant with all relevant applicable laws in force in the country of production)."[21] Perhaps more consequentially for Australian producers and their financiers (due to significant export volumes to the US), regulations preventing the importation of beef and other commodities associated with illegal deforestation are also proposed in the United States and the UK.[22]

[21] European Commission (2022) Green Deal: EU agrees law to fight global deforestation and forest degradation driven by EU production and consumption https://ec.europa.eu/commission/presscorner/detail/en/IP_22_7444

[22] Steptoe & Johnson LLP (2022) Comparing recent deforestation measures of the United States, European Union, and United Kingdom. Lexology.

Above. Toolangi Deforesation *Photo.* Tom Kinsman

The EU, US, and UK regulations may be a precursor to similar trade-related initiatives following the adoption of the Global Biodiversity Framework (GBF) at COP15 in Montreal. The GBF requires its 196 member states to implement regulatory measures to deliver the four goals and twenty-three targets collectively designed to halt and reverse nature destruction by the end of the decade. They include a requirement of the corporate and financial sectors to report on nature-related impacts and dependencies and to ensure that all industries with significant impacts on biodiversity align their practices with the goals and targets.

Before these requirements become enforceable, voluntary initiatives also promise to restrict access to global and consumer markets. 100 out of the 350 global companies most exposed to forest risk commodities have set commitments to end deforestation across their supply chains by 2025, according to Forest 500, which assesses the progress on global forest commitments every year.[23]

As part of the UNFCCC's Climate Champions initiative, international financial institutions with US$8.7 trillion under management committed to eliminate agricultural commodity-driven deforestation from their investment portfolios by 2025, with a cut off date of 2020.[24]

Australian banks are also failing to live up to their net zero commitments as members of the UN-auspiced Net Zero Banking Alliance, with the UN's high-level expert panel declaring that net zero commitments that lack a zero-deforestation target are not credible.[25]

Lastly, the development of a new voluntary reporting framework to be finalised by the taskforce for nature-related financial disclosures (TNFD) in the second half of 2023 is leading to expectations that corporations and financial institutions will need to assess and disclose their impacts on nature, set targets, and monitor progress towards them. Eventually nature reporting is expected to become mandatory. The European Union's recent Corporate Sustainability Reporting Directive mandates reporting of nature-related impacts and dependencies with a 'dual materiality' approach—that is, not only reporting nature-related financial risks to the business, but the business' impacts on people and the environment. Understanding how much deforestation is occurring across a company's supply chain, investment portfolio, or loan book will be a fundamental first step in meeting future reporting obligations.

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[23] Forest 500 (2023) 2023: A watershed year for action on deforestation. Global Canopy

[24] Finance Sector Deforestation Action (FSDA) (2022) Investor expectations of companies - 16.09.22. UNFCCC https://racetozero.unfccc.int/system/nature-and-tackling-deforestation/

[25] UN (2022) Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions

Above photo. Martin Wurt

Australian bank exposure
to high-risk, potentially illegal deforestation

Between June 2018 and June 2020, over one million hectares of woody vegetation was cleared in Queensland for agriculture, of which 73% was for beef production.

More than half (53%) of the clearing met the strictest international definition of deforestation. More than half (52%) of this forest destroyed was at least 30 years old while a further 15% was remnant forest, that is forest that shows no signs of having been cleared in the past—often called *primary forest*.

Risk of illegality

It is an offence under national environmental law to take an action that is likely to have a significant impact on a threatened species or ecological community without approval. Applying for approval is called "referral".

We identified agricultural operators whose deforestation impacted likely habitat for threatened species and ecological communities protected under the law. In addition, we confined attention to instances where deforestation exceeded indicative thresholds of significance (based on averages of past decisions of the regulator) and where there was no approval.

The footprint of deforestation in this category was distributed over 5,018 parcels and 3,221 owners. Half of this total footprint was attributable to just 267 parcels and 241 owners. Almost all these properties fell south and east of Townsville.

Whether or not individual cases are actually illegal will depend on the particularities of each case and would require on-ground efforts. However, deforestation which meets these thresholds is risky without due diligence and should have been referred to the federal environment department for certainty. For further information, see Appendix A.

Across the deforestation identified using the strictest definition, 364,221 hectares was determined to be high risk for significantly impacting protected threatened species and ecological communities, and at risk of being illegal.

There were 217 threatened species (158 plants and 59 animals) as well as 10 threatened ecological communities likely impacted by the deforestation. The threatened animals losing the greatest amount of likely habitat in the two-year period were the vulnerable greater glider (which has since been split into three subpopulations, two of which are now endangered) and the now-endangered koala.

Among threatened ecological communities, the greatest impact was on the Brigalow woodlands. A list of the top 5 species and ecological communities impacted for each group is provided at Table 1. For further information about how the deforestation data was derived, see Appendix A.

Koala
192,695 hectares lost

Great Glider
124,323 hectares lost

Northern Quoll
81,355 hectares lost

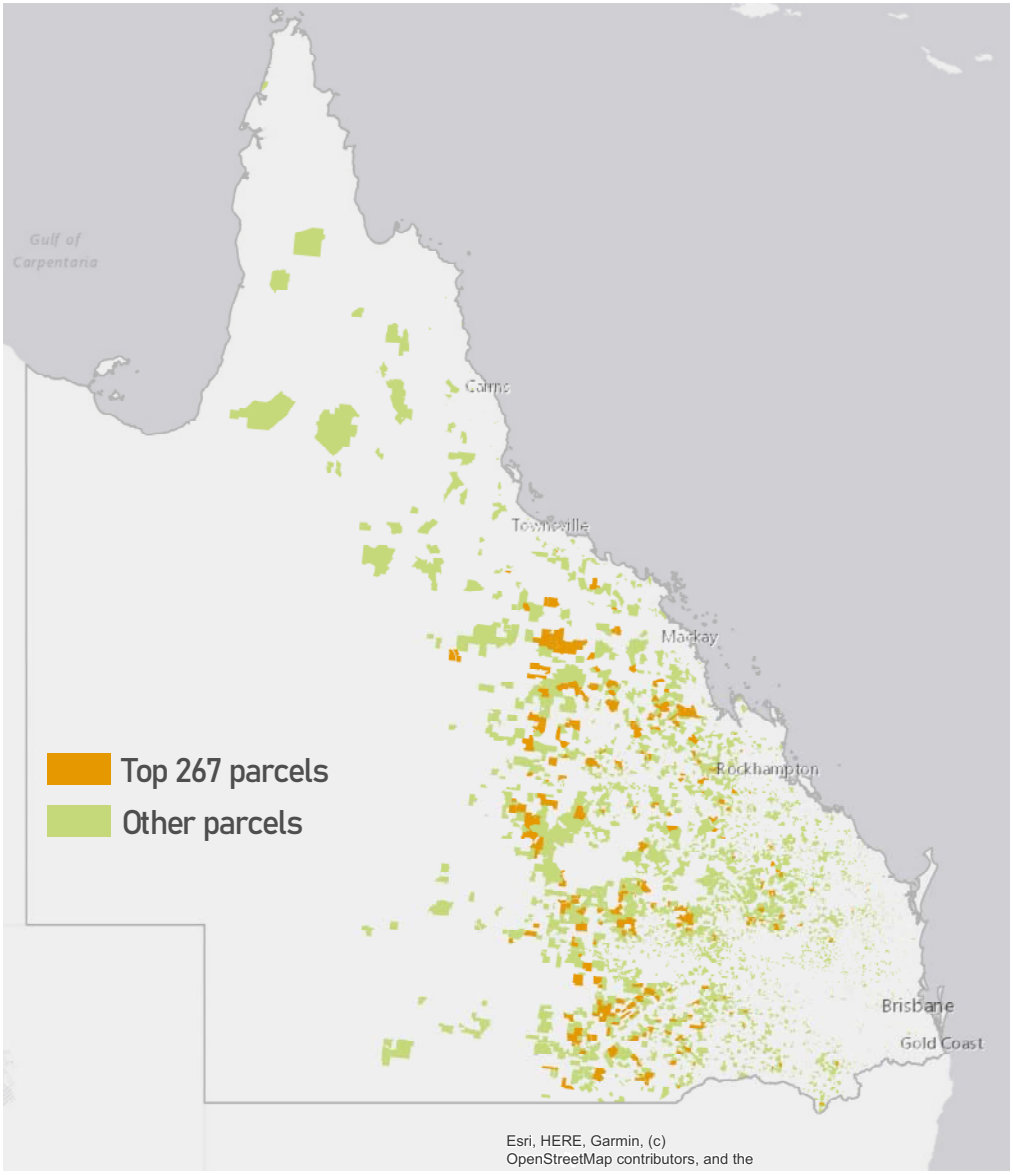
Australia is the world leader in mammal extinctions. Endangered koalas, greater gliders, and northern quolls had hundreds of thousands of hectares of their habitat destroyed by deforestation, mostly for cattle pasture.

Table 1. Most impacted species and ecological communities

Group	Name	Status	Area (ha)
Mammals	Greater Glider	EN	124,323
Mammals	Koala	EN	191,893
Mammals	Grey-headed Flying-fox	VU	23,432
Mammals	Bridled Nail-tail Wallaby	EN	204
Mammals	Northern Quoll	EN	81,355
Birds	Squatter Pigeon	VU	167,754
Birds	Star Finch	EN	119,930
Birds	Southern Black-throated Finch	EN	23,155
Birds	Black-breasted Button-quail	VU	8,012
Birds	Painted Honeyeater	VU	116,724
Reptiles	Retro Slider	EN	3,156
Reptiles	Fitzroy Turtle	VU	37,633
Reptiles	Ornamental Snake	VU	64,994
Reptiles	White-throated Snapping Turtle	CE	2,832
Reptiles	Dunmall's Snake	VU	5,437
Frogs	Kroombit Tinker Frog	CE	197
Frogs	Eungella Day Frog	EN	1,251
Frogs	Fleay's Frog	EN	713
Frogs	Magnificent Brood Frog	VU	94
Frogs	Giant Barred Frog	VU	860
Invertebrates	Boggomoss Snail	CE	488
Invertebrates	Dulacca Woodland Snail	EN	3,598
Invertebrates	Brigalow Woodland Snail	EN	250
Invertebrates	Australian Fritillary	CE	30
Invertebrates	Antbed Parrot Moth	EN	59
Plants	Proston Lasiopetalum	CE	103
Plants	Solanum johnsonianum	EN	2,255
Plants	Three-veined Hakea	VU	864
Plants	Solanum dissectum	EN	2,255
Plants	Pultenaea setulosa	VU	867
TEC	Brigalow	EN	7,492
TEC	Weeping myall woodland	EN	7,432
TEC	Semi-evergreen vine thicket	EN	541
TEC	Coolibah - Black Box	EN	2,179
TEC	Artesian springs	EN	820

As noted, deforestation that met the strictest definition and was high risk for impacting protected threatened species ('high-risk deforestation') was distributed over 5,018 parcels of land. Of those, we selected a sample of title certificates most likely to be exposed to trade sanctions for illegal deforestation (or to compliance action from the federal environment department). Our sample was derived from the top 350 parcels which together constitute over 55% of the high risk deforestation in footprint (more than 200,000 hectares).

Figure 2. Land parcels with high-risk deforestation June 2018 to June 2020



Land parcels in Queensland with forests 15 years or older, involving deforestation events between June 2018 and June 2020, with a likely significant impact on a matter of national environmental significance (MNES), and no evidence of referral. The parcels are divided into the top 267 parcels collectively accounting for half of all such habitat cleared, and the remaining parcels.

Note: areas mapped are the entire parcel areas not the areas cleared.

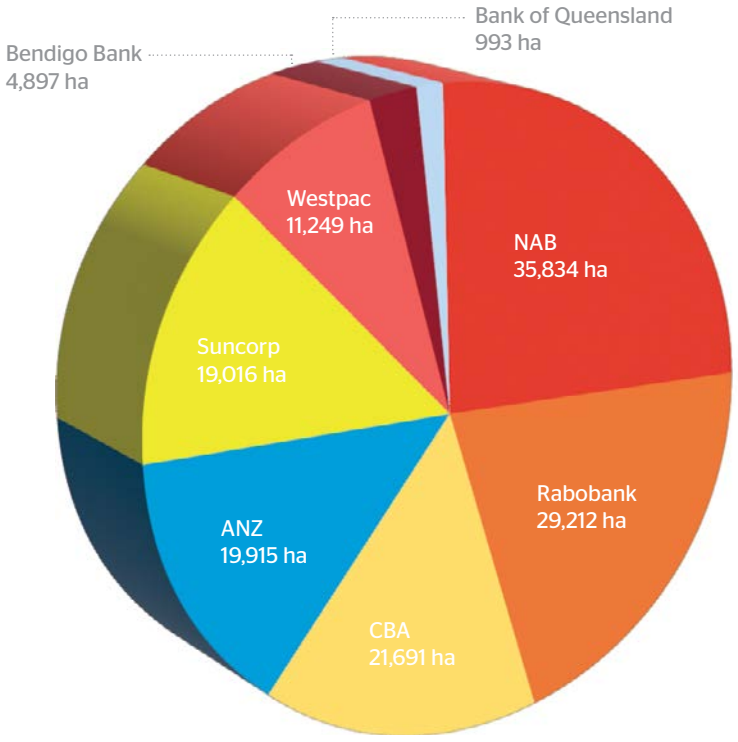
We excluded titles with no security. For titles with no security, the landholder may have financed deforestation without a loan, had a loan using security on another property on which the deforestation did not occur, received an unsecured loan, or had a loan using security over other forms of property such as livestock. It was outside of the scope of this study to explore this further.

The final sample consisted of 270 titles in which high risk deforestation occurred during the June 2018 to June 2020 period. There were 197 titles on which the security commenced before June 2020. The banks holding the securities are considered linked to the observed deforestation, either by (potentially) financing the activity through the relevant loan or through exposure to the legal, social, economic and natural risks by holding equity in the relevant land.

It is important to be clear: loans through securities on title are a common method for agribusiness to finance deforestation. However, we are not suggesting that these specific loans are in fact related to the deforestation observed. It is possible, but not proven in this study, as we are unable to access this data held by banks. Our findings are indicative of a heightened risk that the loans are connected to deforestation and of the need for banks, who have access to more granular data, to do appropriate due diligence.

Of the sample of 270 titles, the National Australia Bank (NAB) was the financial institution with the most exposure through securities on titles with high-risk deforestation. NAB held securities over roughly a quarter of the parcels in the sample, amounting to 35,834 hectares of high-risk deforestation (Fig. 3) .

Figure 3. Bank exposure to potentially illegal deforestation in Queensland, 2018-2020



Area deforested (hectares) in sample parcels held by security holder with a high risk of impacting a matter of national environmental significance

Rabobank was the next most exposed, with a share of roughly 18% of high-risk deforestation and 17% of parcels. Suncorp, ANZ, Commonwealth Bank and Westpac had similar exposure—with roughly a 9 to 13% share of parcels in the sample and a 7 to 13% share of high risk deforestation.

Bank name adjusted	Parcels	Parcels (%)	High-risk deforestation (ha)	High-risk deforestation (%)
NAB	63	23.33%	35834	22.25%
Rabobank	45	16.67%	29212	18.14%
CBA	29	10.74%	21691	13.47%
ANZ	32	11.85%	19915	12.36%
Suncorp	36	13.33%	19016	11.81%
Westpac	25	9.26%	11249	6.98%
QLD Government finance	13	4.81%	8589	5.33%
RIC (Comm. gov)	9	3.33%	5263	3.27%
Bendigo Bank	6	2.22%	4,897	3.04%
Other	5	1.85%	2,586	1.61%
Private mortgage	4	1.48%	1826	1.13%
Bank of Queensland	3	1.11%	993	0.62%
Grand Total	**270**	**100.00%**	**161071**	**100.00%**

While it was once one of Australia's largest rainforests, Lowland Rainforest of Subtropical Australia was extensively cleared post-colonisation and is now a critically endangered ecological community. As such is protected under Australia's national environmental law. 157 hectares of this important ecosystem was cleared for pasture in this two year period. A federal government guide warns landholders that approval should be sought for clearing.

What next for **banks and nature?**

This analysis represents just a handful of examples of one activity that drives nature destruction and increases nature-related risk, from one sector, in one geographic area. Industries like mining, energy generation (including renewable energy), real estate, construction, and infrastructure all have major impacts on nature through land clearing, over-extraction of water, pollution, overapplication of fertilisers and chemicals, the introduction of invasive species, and greenhouse gas emissions.

With a more robust, well-funded and independent federal Environmental Protection Authority (EPA), the risk of compliance action being taken against illegal deforestation is far more likely to materialise. Offences under the EPBC Act carry penalties and administrative compliance action can require costly remediation activities. Banks will be exposed to the impacts of these costs on agribusiness.

International commitments to halt and reverse nature destruction and to eliminate deforestation in commodity value chains can be expected to multiply and ultimately create significant transition risks, including loss of market access, for agricultural producers who engage in deforestation and the banks that finance them.

Anticipated reporting requirements for climate- and nature-related risks are also likely to lead to obligations to locate impacts such as deforestation, including financed deforestation, and transparently report them.

Transition risks aside, deforestation and other damaging activities carry the risk of depleting the productivity of land, contributing to climate change, and reducing the ability of nature to support the economy—banks should take heed of the serious systemic risks of ongoing land degradation.

Banks need to assess their exposure to nature-related risks, take stock of their nature-related impacts and dependencies, commit to align their lending to global nature goals using science-based targets, including 'no deforestation' targets, and implement policies such as conditional lending in order to deliver them. Geolocating their lending to assess their exposure to deforestation should be one of the first steps.

The Brigalow Belt's biodiversity is of national and global significance. It supports more bird species than any other bioregion in Australia, like the glossy black cockatoo (*below left)*, and reptiles like the golden-tailed gecko (*below right)*,that occur nowhere else in the world.

Right. Mt Hallem Koala Habitat Destruction

We love **our beautiful planet**

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