Spotlight on JPMorgan’s Deforestation Risk Exposure

By Niamh McCarthy and Matt Piotrowski
Introduction

U.S.-based investment bank JPMorgan has become increasingly vocal about its growing ambition to reduce exposure to climate change risks and foster positive change among its customers, investees, and peers. The bank has warned of widespread, destructive droughts, wildfires, and higher sea levels, along with negative impacts on economic growth. In July, it joined a new initiative, the Center for Climate-Aligned Finance, which aims to advance climate goals of Wall Street banks, and one of its most notable moves as of late is its pledge not to finance thermal coal or new Arctic oil and gas activity.¹

The bank's broad ambitions are disconnected from its actions and commitments. Despite JPMorgan's bold pronouncements on tackling climate change, its slow pace on advancing climate policies and mitigating climate-related financial risks is a major threat to the bank's reputation. JPMorgan has been the focus of environmental campaigns, and activists and some state treasuries are calling on the bank to align its climate goals with the Paris Accord.² As the world's largest financier of fossil fuels, it has not been transparent about the emissions impact of the companies in which it invests.³

While most of the attention is centered on exposure to fossil fuels, JPMorgan's financing of agricultural companies that operate in commodities linked to deforestation also represents a major risk. To become a leader in this area, JPMorgan should raise awareness, engage with companies most at risk of supply chain links to deforestation, and if necessary, cut financing from companies that do not adequately address deforestation and Environmental, Social, Governance (ESG) risks associated with it, such as human rights violations and biodiversity damage. With agriculture accounting for about a quarter of global GHG emissions, it is imperative that financiers address deforestation and pressure companies to do the same.

This report focuses on JPMorgan's opportunities and risks related to its investments in agricultural commodities in Brazil, where deforestation has reached alarming levels and is threatening the Amazon and Cerrado biomes.

JPMorgan’s Climate Commitments Thin on Deforestation

On October 6, 2020, JPMorgan announced its commitment to align its financing with Paris Agreement Goals.⁴ Although this sends an important signal to the financial sector, it does not

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outline quantitative targets or include a commitment to achieve zero financed emissions by 2050, a key tenet of the Paris Agreement. JPMorgan does intend to provide support to clients transitioning to a low-carbon economy and to track their carbon intensity. However, without setting targets for absolute emissions, clients may improve efficiency while continuing to increase emissions.

A notable omission from the announcement was a No deforestation, No Peat, No Exploitation (NDPE) policy or a Free, Prior and Informed Consent (FPIC) policy. Without a commitment to make financing contingent on NDPE and FPIC adherence, JPMorgan is likely to continue financing deforestation and human rights abuses both directly and indirectly. Current JPMorgan policies prohibit financing clients “that intentionally utilize uncontrolled fire as a means of land clearance,” but fall short of addressing deforestation. JPMorgan does require soy producers to conform to the Roundtable on Responsible Soy (RTRS), which is a positive step, but the RTRS still includes the major soy traders operating in the Cerrado region that have come out against a moratorium on deforestation in the Cerrado.

This does not mean that JPMorgan is unaware of deforestation risks in its portfolio. In 2017, the bank joined the Soft Commodities Compact, a voluntary program that calls for net-zero deforestation by 2020 in the palm oil, soy, and timber sectors. One main problem with this initiative is that it is voluntary and, therefore, lacks accountability. Moreover, the Soft Commodities Compact also focuses heavily on certification schemes and updates on progress have been sparse. With agricultural companies in all commodities going to miss their 2020 target to achieve zero deforestation, the Compact has not inspired the change it originally sought.

JPMorgan’s lack of action on deforestation has caught the attention of NGOs and U.S. lawmakers. Amazon Watch, for instance, noted JPMorgan’s investment companies operating in the Brazilian soy and cattle markets in a major report in 2019. Forest500 puts the bank’s deforestation score at just 47 percent. In early 2020, a group of Democrats from the U.S. House of Representatives wrote a letter to a number of top U.S. financial players, including JPMorgan, calling on them to address their links to deforestation through investments in Brazil. Should the Democratic candidate Joe Biden win the November presidential election and Democrats regain a majority in the Senate, they are expected to increase the country’s ambition around climate change. This could include requiring every public company to disclose their climate-related risks. JPMorgan and its peers could come under greater pressure on deforestation links, particularly with rates rising in Brazil due to environmental rollbacks under the Jair Bolsonaro administration.

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JPMorgan’s Opportunity

There are opportunities for JPMorgan to move ahead of its peers, particularly BlackRock, which has stepped up its engagement with companies over climate change disclosure but has yet to articulate a bold strategy for agriculture and deforestation.¹¹ Not only does JPMorgan face the possibility of lagging behind BlackRock, but it also could see a growing gap with its European competitors and U.S-based activist investors. For instance, there are now 58 signatories of the Cerrado Manifesto, which calls on the private sector to end deforestation in the soy-rich biome.¹² U.S.-based investors such as Green Century Capital Management, Trillium Asset Management, and Boston Common have all signed the Manifesto, as have key European banks such as BNP Paribas, Robeco, and Storebrand. Nordea Asset Management recently sold its shares in meatpacker JBS SA over deforestation, other European investors have also threatened divestment, and a handful have actually had high-level discussion with the Brazilian government.¹³ JPMorgan is not among those leading the dialogue on deforestation risks for investors and companies operating in agricultural commodities.

JPMorgan’s Investments in Brazilian Soy Industry

Only one-fifth of the natural vegetation located in the Cerrado biome remains intact, primarily due to the expanding Brazilian soy industry. Furthermore, the Soft Commodities Forum (SCF) estimates that Brazilian soy production will grow by 32 percent and require seven million more planted hectares over the next decade.¹⁴ The Brazilian soy industry is dominated by six key soy traders that are responsible for roughly sixty percent of soy exports from Brazil: Bunge, Cargill, Archer-Daniel-Midlands (ADM), Louis Dreyfus, Amaggi, and Gavilon (see Figure 1).¹⁵

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Figure 1: Key Traders in the Brazilian Soy Industry by Volume of Exports in 2018

Source: Climate Advisers visual based on Trase.Earth data 18

JPMorgan has high exposure to the three largest soy traders, ADM, Bunge, and Cargill, as shown in Figure 2. All three traders operate in the Cerrado and, thus, are at high risk of being linked to deforestation. Despite recent strides in tracing and publishing direct supply chains through the SCF, significant progress is needed to mitigate deforestation risk in indirect supply chains.16 The importance of establishing a strong monitoring system is underlined by recent estimates that one-fifth of EU exports from the Amazon and from the Cerrado have links to deforestation.17 All three traders were also highlighted in a recent Chain Reaction Research report on the 2019 fire season, which calculated the number of fire alerts within a 25-km radius of silos: Bunge (24,618 fire alerts); Cargill (15,301 fire alerts); and ADM (6,707 fire alerts).18

By investing in companies with close geographical proximity to deforestation hotspots without mandating supply chain transparency or making contracts contingent on adhering to zero-deforestation policies, JPMorgan is not mitigating material business risks that could result in reputational damage or lower long-term returns. JPMorgan also has a history of playing a lead role in issuing bonds and arranging revolving credit facilities for major soy traders in Brazil, especially ADM and Cargill. Between 2013 and 2020, JPMorgan acted as a lead in issuing about USD 58 million of bonds and USD 100 million in revolving credit facilities for ADM. During the same period of time, JPMorgan also led the issuance of approximately USD 14 million in bonds and arranged for USD 198 million in revolving credit facilities for Cargill. Additional details are included in Figure 3 below.

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19 Forests & Finance. [https://forestsandfinance.org/](https://forestsandfinance.org/)
JPMorgan’s Investments in the Brazilian Beef Industry

Three major meatpackers make up 63 percent of all Brazilian beef exports. JBS, alone, exports 34 percent. Cattle ranchers account for about 80 percent of tree cover loss in the Amazon, and meatpackers have followed closely behind to set up production infrastructure. JBS has the highest number of facilities in legal Amazon states at 23, compared to Marfrig’s five and Minerva’s four. While major meatpackers have developed supplier compliance policies to trace and conduct due diligence on the first tier of direct suppliers, a process known as “cattle laundering” has created an avenue for farms engaging in illegal activities to route cattle through approved farms. Marfrig estimates that half of its beef is sourced from indirect suppliers. Until Brazilian meatpackers can

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Achieve transparent supply chains, deforestation risk remains high and may have reverberating financial impacts on stakeholders like JPMorgan.

**Figure 4: Key Meatpackers in the Brazil’s Beef Industry by Export Volume in 2017**

<table>
<thead>
<tr>
<th>JBS</th>
<th>MARFRIG GLOBAL FOODS</th>
<th>MINERVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTHER</td>
<td>MATABOI ALIMENTOS</td>
<td></td>
</tr>
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</table>

Trade Volume (Tons)

- **26,057**
- **729,478**

*Source: Climate Advisers visual based on Trase.Earth data*

Notably, JPMorgan also holds USD 141.32 million and USD 0.83 million in JBS and Minerva debt respectively. Investments in JBS may be particularly high risk given the repeated allegations of involvement with deforestation and a recent string of divestments. In response to escalating external pressure, JBS recently released a new traceability initiative using blockchain technology, although the plan does not mandate complete supply chain transparency until the end of 2025.

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25 Bryan Harris, "Brazil’s JBS turns to blockchain to shine light on Amazon cattle supply," Financial Times, September 23, 2020, [https://www.ft.com/content/3a083ddf-7887-4229-b088-01180a0043fb](https://www.ft.com/content/3a083ddf-7887-4229-b088-01180a0043fb).
**Figure 5: Share and Bond Holdings in Key Brazilian Meatpackers**

Source: Climate Advisers visual based on Forests & Finance data

**Figure 6: JPMorgan’s Role in Establishing Financing for Key Brazilian Meatpackers Over Time**

Source: Climate Advisers visual based on Forests & Finance data
Next Steps and Recommendations

The following graphic identifies steps that JPMorgan, and its peers, can take to mitigate its exposure to deforestation and foster change in the agricultural industry.

**Figure 7: Risk Mitigation Planning in Company Supply Chains**

*As JPMorgan seeks to focus investments around climate change, the opportunity emerges to become a leader in the agricultural commodity space to prevent deforestation:*

- **Commit**
  - Commit to a time-bound zero-deforestation policy with accountability metrics
  - A robust zero-deforestation policy should apply to all regions and all forest-risk commodities

- **Identify**
  - Identify investments in sectors and geographies that are at high risk of deforestation
  - Consider exposure to agricultural commodities and proximity to primary forest

- **Assess**
  - Assess companies’ zero-deforestation policies if publicly available
  - Mitigate company sourcing weaknesses and improve traceability and transparency

- **Engage**
  - Establish continuous dialogue with companies that source high-risk commodities in Brazil
  - Urge companies to implement zero-deforestation policies and disclose GHG from deforestation

- **Communicate**
  - Speak publicly on addressing deforestation to signal a shift in communication strategy
  - Urge change in the financial community to mitigate deforestation risk

*Source: Climate Advisers*