To: CEOs of 66 financial institutions

Concerning: Concerns on the issuance of US$ 1 billion in sustainability-linked bond (SLB) by JBS

Nijmegen, October 22 2021

Dear Mr./Mrs. CEO,

We, civil society organisations and activists, are writing to express concern regarding the issuance of a sustainability-linked bond (SLB)[i] by the world's largest meat processing company JBS announced in June this year. The bond attracted considerable interest, with nearly USD 4.8 billion of orders being placed for what was ultimately a USD 1 billion issue.[ii] At best, this bond will have negligible real world impact, at worst it provides sustainability cover for a business model that will see JBS expand its climate-intensive activities over the next decade. This must be a matter of concern to all parties involved, both the underwriters and the bond holders.

JBS itself reports that Banco Bradesco BBI, Barclays, BTG Pactual, Mizuho, Santander and XP were lead underwriters for the bond issue.[iii] Company disclosures show that BMO Financial Group,[iv] Credit Suisse,[v] Danske Bank,[vi] Deutsche Bank,[vii] Fidelity Investments,[viii] Franklin Resources (Franklin Templeton),[ix] Marsh & McLennan Companies,[x] MassMutual,[xi] State Street[xii] are bond purchasers.

As your financial institution is reported to hold this bond, we urge you to divest from this bond, to no longer work with JBS, and to consider future SLBs more carefully.

Aligning land-use sector finance with the climate emergency

The scale and speed of action necessary to decarbonise the economy in line with 1.5°C is profound. According to the Intergovernmental Panel on Climate Change (IPCC) 'Code Red for humanity' report, without 'immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach'.[xiii] According to the IPCC, emissions need to decline by about 45% from 2010 levels by 2030 to stay within the 1.5°C limit.[xiv]

It is not just about carbon dioxide (CO_2) from fossil fuels; methane and industrial meat production are key climate forcers. Methane (CH_4) emissions are responsible for almost a quarter of global warming.[xv] Its global warming impact is 84 times higher than CO_2 over a 20-year period.[xvi] Cutting methane emissions is identified as the biggest opportunity to slow warming between now and 2040.[xvii] The livestock sector is one of the largest methane emission sources.[xviii] Production of animal-based foods is responsible for 19% of global GHG emissions, including emissions from livestock, the feed they consume, associated deforestation, fires and use of chemical inputs;[xix] methane accounts for about one-third of these emissions.[xx]

Industrial meat production is driving numerous environmental and health crises including climate change. Numerous scientific reports[xxi] show that an urgent and profound shift away from industrial livestock production towards agroecological approaches and nature restoration is required to meet the Sustainable Development Goals and the Paris Climate Agreement goals. The sector is recognised as a main driver in the emergence of zoonotic disease[xxii] and antimicrobial resistance. Overuse of antibiotics for livestock is considered one of the biggest current threats to global health, food security, and development by the World Health Organisation.[xxiii]

South American ecosystems are at the front line. Halting and reversing deforestation and fire in natural ecosystems such as the Amazon is of extreme urgency. Without this action, it will be virtually impossible to limit global warming to 1.5 °C.[xxiv] Areas of the Amazon are now reported to be at or near an irreversible tipping point, emitting more CO_2 than the biome as a whole absorbs,[xxv] and almost half of the Cerrado's native vegetation – which helps maintain the aquifers that supply the nation's rivers with water – has already been destroyed.[xxvi]

Cattle production is the largest driver of deforestation emissions in the Amazon, and historically has been responsible for 80% of deforestation across Amazon countries.[xxvii] Research shows that, as of 2020, some 57 million hectares of the Brazilian Amazon is now under cattle ranching.[xxviii]

Beef is also the leading cause of deforestation in Australia where JBS is the largest meat processing company.[xxix]

The conclusions for the finance sector are clear:

Continued investment in climate-intensive sectors such as industrial meat exacerbates the risks of planetary collapse and associated financial consequences. **Finance must shift wholesale to zero emissions energy, resilient food systems, ecosystem conservation and restoration**.

Ending investment in the most destructive sectors starts by dropping the biggest, most destructive actors. Global meat giant JBS exemplifies this.

According to the most up-to-date figures, 19% of global GHG emissions come from the production of animal-based foods (both the livestock themselves and the feed they consume).[xxx] Global meat giant JBS – the world's largest animal protein company and the second-largest food company in the world by annual sales[xxxi] – is **a significant contributor to climate change**. Globally, its operations have been estimated to produce around half the annual carbon-equivalent emissions of fossil fuel giants such as ExxonMobil, Shell or BP.[xxxii]

To date, **neither JBS's net zero pledge[xxxiii] nor its sustainability-linked bond provide credible plans to tackle[xxxiv] – let alone rapidly reduce – the overwhelming bulk of JBS's emissions**. So-called Scope 3 (supply chain) emissions – emissions from the livestock it sources – lie at the heart of its business model and are acknowledged by the company itself to represent more than 90% of its total liability.[xxxv] The majority of these Scope 3 emissions are calculated to result directly from the animals themselves, as well as from forest clearance, fires and land conversion in the Amazon and other biomes linked to its cattle and feed supply chains, and from chemicals used in the production of feedstock such as soya or maize.[xxxvi]

The sustainability-linked bond only addresses JBS's Scope 1 and 2 emissions, which JBS acknowledges in the Secondary Party Opinion accompanying the bond issuance represent less than 10% of its overall emissions liability;[xxxvii] the bond is tied to JBS reducing the *intensity* of these emissions by 30% by 2030. Reducing emission intensity (emissions per unit of meat processed) is not the same as reducing total emissions. **If JBS operations continue to expand, these emissions may actually increase.**

JBS's 2040 net zero promise commits to too little and far too late. JBS's overarching net zero pledge[xxxviii] by 2040 is a vague commitment with few milestones and no hard numbers. It appears to only cover carbon and not methane. There is no pledge to deliver rapid and dramatic emissions reduction, and the current promise will not save the Amazon, Cerrado or the Pantanal biomes in Brazil. In fact, the March 2021 Net Zero statement allows it to **continue to source cattle linked to <u>illegal</u> deforestation in the Amazon until 2025**, in other biomes until 2030 (updated to 2025 in a subsequent statement[xxxix]) and **JBS has not committed to eliminate**

deforestation from its entire supply chain for another 14 years.[xl] There is no explicit statement in the pledge against use of fire in the ranches supplying it with cattle or feedstock. JBS's latest pledge must be judged against a background of a series of broken 'zero deforestation' promises by JBS, such as the *Termo de Ajuste de Conduta* (TAC) signed with the Federal Public Ministry, as well as the Cattle Agreement, both in 2009, through which it promised to exclude sourcing from properties involved in deforestation, slave labor, or invasions of Indigenous Peoples' lands and protected areas by 2011.

The company's supply chains continue to be associated with a range of social and environmental issues,[xli] including sourcing of cattle from **suppliers linked to deforestation and fires, use of slave labour, land grabbing and the encroachment of Indigenous Peoples' lands**. The company has also been embroiled in several **major corruption scandals** over the past years.[xlii] A recent study conservatively estimates that since 2008, JBS' deforestation footprint in just six Brazilian states may be as high as 200,000 ha in its direct supply chain and 1.5 million ha in its indirect supply chain.[xliii]

As a signatory of the United Nations Principles for Responsible Banking/Principles for Responsible Investment, your financial institution is required to incorporate ESG issues into investment decision-making processes and ownership policies and practices. JBS's historic emissions and linked deforestation rates are clearly in conflict with these international standards and your own policy framework.

JBS bonds poses serious reputational, regulatory, legal and ultimately financial risks to your financial institution. Different markets are developing regulations to address their deforestation footprint, including through imported deforestation-risk commodities. The EU regulations, due for publication by the end of 2021, will control deforestation-risk commodities including soya and beef with Brazil classed as a high-risk country. Other legal risks are posed by a host of due diligence laws being brought in by countries including France and Germany, which oblige major companies to identify, prevent, and mitigate environmental, social and human rights impacts from their supply chains. Two major French-based supermarket groups – Carrefour and Casino – are facing legal challenges over their links to JBS; financial institutions risk similar legal challenges.

Holding JBS's SLB has additional reputational risk, as the bond is a clear greenwashing instrument. Increasingly, jurisdictions like the EU are implementing regulations to determine what can be considered 'green bonds'. As the EU's taxonomy rules for livestock risk to be insufficient and considering that the draft EU Green Bond Standard requires the funds raised by a green bond to be allocated fully to projects that are aligned with the EU taxonomy,[xliv] it is unlikely that the oversubscribed JBS SLB could qualify as a 'Green Bond' under EU standards.

For all the reasons argued above, we urge your financial institution to drop this bond and to refrain from any future financing or investing in JBS as a critical step toward aligning its portfolio with the Paris agreement. Furthermore, we ask your financial institution to please confirm by 2 November (EOB) the following:

1. **Are you aligned with the Paris Agreement?** Is your portfolio on track to deliver profound emissions reductions by 2030 and support a just transition, in alignment with the goals of the Paris Agreement, the Convention on Biological Diversity and the Sustainable Development Goals? How are you accounting for real emission reductions, and does your approach assess and set reduction targets for Scope 1, 2 and 3 emissions?
2. **What is your due diligence and disclosure commitment?** Is full transparency a condition for finance? How are you assessing corporate groups linked to heavy climate emissions, ecosystem destruction or biodiversity loss and human rights abuses? And how will you publicly demonstrate that your due diligence process ensures that your financial institution only supports financial products that have a real material impact, aligned with a 1.5°C scenario and a just transition?
3. **Are you divesting from climate-intensive sectors including industrial meat?** The industrial livestock sector is inherently incompatible with a 1.5°C scenario.[xlv] What steps will your financial institution take to begin a phase out for this sector, starting with divesting from the worst emitters like JBS, and to redirect financial flows to resilient food systems that do not

drive conversion of natural ecosystems, climate change, human rights abuses or future pandemic risk?

We look forward to hearing from you, and in the meantime, do not hesitate to reach out to us if you have any questions concerning this letter.

Yours sincerely,

BankTrack

Greenpeace International

Rainforest Action Network

Profundo

Amazon Watch

Feedback

Friends of the Earth U.S.

Wilderness Society

---

[i] https://jbs.com.br/en/jbs-news-en/jbs-announces-sustainability-linked-unsecured-senior-notes/

[ii] Reportedly increased from an initial figure of $500m Sources: https://www.globalcapital.com/article/b1s646cmgy2n06/meat-group-jbs-pitches-esg-credentials-with-$1bn-slb and https://www.globalcapital.com/article/b1s6vmh0lx9bpk/dirty-sectors-produce-hot-slbs-but-credibility-questioned

[iii] https://jbs.com.br/en/jbs-news-en/jbs-announces-sustainability-linked-unsecured-senior-notes/

[iv] https://www.bmogam.com/ca-en/advisors/zjk-bmo-high-yield-us-corporate-bond-index-etf/ accessed October 2021. Copy held by Profundo.

[v] https://research-doc.credit-suisse.com/docView?language=ENG&format=XLSX&document_id=800000085&source_id=csplusresearch&serialid=59GSvo5TvtRu4BGMGsrVnwUSkx%2BD4Qz%2FueXcMNdwvm4%3D accessed 20 June 2021. Copy held by Profundo.

[vi] https://www.danskeinvest.dk/w/show_funds.beholdningsliste?p_nId=190&p_nFund=4570&p_nFundgroup=190 and https://wm.danskebank.fi/w/show_funds.beholdningsliste?p_nId=173&p_nFund=6404&p_nFundgroup=176 accessed October 2021. Copy held by Profundo.

[vii] https://etf.dws.com/etfdata/export/GBR/ENG/excel/product/constituent/IE00BDR5HM97 accessed 20 June 2021. Copy held by Profundo.

[viii] https://institutional.fidelity.com/app/proxy/content?literatureURL=/AMIFA-HRQTLY.PDF accessed October 2021. Copy held by Profundo.

[ix] https://www.franklintempleton.com/en-usa//investments-and-solutions/investment-options/etfs/portfolio/21558//?gwbid=gw.portfolio accessed June 2021. Copy held by Profundo.

[x] https://www.mercer.us/content/dam/mercer-subdomains/delegated-solutions/USHoldings/opportunistic-fixed-income-holdings.xlsx accessed October 2021. Copy held by Profundo.

[xi] https://www.massmutual.com/mmfunds/holdings.pdf accessed June 2021. Copy held by Profundo.

[xii] https://www.ssga.com/library-content/products/fund-data/etfs/us/holdings-daily-us-en-emtl.xlsx and https://www.ssga.com/library-content/products/fund-data/etfs/us/holdings-daily-us-en-totl.xlsx accessed xxx. Copy held by Profundo.

[xiii] https://www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/

[xiv] https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Summary_Volume_Low_Res.pdf

[xv] https://iopscience.iop.org/article/10.1088/1748-9326/ab9ed2

[xvi] https://iopscience.iop.org/article/10.1088/1748-9326/ab9ed2#erlab9ed2bib9

[xvii] https://www.ccacoalition.org/en/resources/global-methane-assessment-full-report see also https://www.theguardian.com/environment/2021/aug/06/reduce-methane-or-face-climate-catastrophe-scientists-warn

[xviii] See also https://www.unep.org/resources/assessment/global-methane-assessment-benefits-and-costs-mitigating-methane-emissions
[xix] https://www.nature.com/articles/s43016-021-00358-x
[xx] https://www.nature.com/articles/s43016-021-00358-x/tables/1 See ISS ESG Secondary Party Opinion: https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/af313c51-0d16-63ce-e999-e6a31cf27f83?origin=1 and https://doi.org/10.1007/s10584-021-03047-7
[xxi] IPBES 2019 https://ipbes.net/sites/default/files/inline/files/ipbes_global_assessment_report_summary_for_policymakers.pdf
FOLU 2019 https://www.foodandlandusecoalition.org/wp-content/uploads/2019/09/FOLU-GrowingBetter-GlobalReport-ExecutiveSummary.pdf
FAO 2019 http://www.fao.org/3/ca5602en/ca5602en.pdf
Dasgupta 2021
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957292/Dasgupta_Review_-_Abridged_Version.pdf
Chatham House 2021 https://www.chathamhouse.org/2021/02/food-system-impacts-biodiversity-loss
UNEP/FAO 2021 https://www.unep.org/resources/ecosystem-restoration-people-nature-climate
IPBES/IPCC 2021 https://ipbes.net/sites/default/files/2021-06/20210609_workshop_report_embargo_3pm_CEST_10_june_0.pdf
IPCC AR6 2021 https://www.ipcc.ch/report/ar6/wg1/
[xxii] https://www.unep.org/resources/report/preventing-future-zoonotic-disease-outbreaks-protecting-environment-animals-and
[xxiii] https://www.who.int/news/item/29-04-2019-new-report-calls-for-urgent-action-to-avert-antimicrobial-resistance-crisis and https://www.who.int/antimicrobial-resistance/interagency-coordination-group/en/
[xxiv] https://www.sciencedirect.com/science/article/pii/S2666049021000244
[xxv] https://www.nature.com/articles/s41586-021-03629-6.epdf?sharing_token=3Y-11-Y-qLDUKq2RU9bO6tRgN0jAjWel9jnR3ZoTv0NILaci0q8CXtVe4JKM-xF0Z0ZQpmJpnpSclAjJeIV-vCjviXK_Mb9hvvU5C3CiJVgu82-RGuHR01gFiQZAVMzDCCxiRyvlh0MBQxTvGN2oHmf2jIOC7MEEGXrOPGIblsh57v9qXkkZbM7U0OH8zbdQ4jnVO1zD9R1jeDcUVBS22YVLkjWEvC5vrNMdQ416fmEBL9kIHYs2ptVibFKXLxEuh-TQ08w-QGSFzN6221Kggjn2ROK-A_Ntt_w9cN3kZMnHg-PUA4SKJFON44wQKdfovKolUWWu4mEcjKu_M-JNUQ%3D%3D&tracking_referrer=www.theguardian.com and https://advances.sciencemag.org/content/4/2/eaat2340%CB/tab-article-info
[xxvi] https://news.mongabay.com/2021/07/amazon-and-cerrado-deforestation-warming-spark-record-drought-in-urban-brazil/
[xxvii] https://web.archive.org/web/20210224200921/https:/globalforestatlas.yale.edu/amazon/land-use/cattle-ranching See ISS ESG Secondary Party Opinion: https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/af313c51-0d16-63ce-e999-e6a31cf27f83?origin=1
and https://doi.org/10.1007/s10584-021-03047-7
[xxviii] https://mapbiomas-br-site.s3.amazonaws.com/Infograficos/Cole%C3%A7%C3%A3o6/MBI-Infografico-6.0-PTBR-amazonia.jpg
[xxix] See https://www.wilderness.org.au/images/resources/Beef-Deforestation-Scorecard-Report.pdf and https://jbsfoodsgroup.com/businesses/jbs-foods-australia
[xxx] https://www.nature.com/articles/s43016-021-00358-x
[xxxi] JBS (2020) 'Institutional presentation including 3Q20 results' page 3 https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/99d6d415-b1e4-2680-62d9-a88bf7bb0b05?origin=1
[xxxii] As reported by GRAIN/IATP (2018), ExxonMobil, Shell and BP were responsible for 577, 508 and 448 MtCO2e Scope 1+3 GHG emissions in 2015, respectively (source: Carbon Majors Database (2017) p15). In 2016, JBS's Scope 1+3 GHG emissions from processing and production of beef, pork and chicken totalled 280 MtCO2e, with the vast majority being accounted for by beef production. Scope 1 emissions are direct emissions from company-owned facilities, processing plants and machinery. Scope 2 emissions are indirect emissions related to energy consumption. Scope 3 emissions include all other indirect emissions resulting from the production of a commodity, both upstream and downstream (farm emissions from livestock, food production for livestock, land-use change etc). For fossil fuel producers this includes all emissions related to the burning of the products they sell. Source: GRAIN & IATP (2018).
[xxxiii] https://jbs.com.br/netzero/en/ last accessed 17 September 2021
[xxxiv] https://jbs.com.br/en/jbs-news-en/jbs-announces-sustainability-linked-unsecured-senior-notes/#:~:text=COVID%2D19%20%E2%80%93%20Preven%C3%A7%C3%A3o-,JBS%20ANNOUNCES%20THE%20ISSUANCE%20OF%20US%241,SUSTAINABILITY%2DLINKED%20BOND%20(SLB)&text=JBS%20issued%20and%20priced%20in,1%20and%202%20by%202030. And https://web.archive.org/web/20210224200921/https:/globalforestatlas.yale.edu/amazon/land-use/cattle-ranching; See ISS ESG Secondary Party Opinion: https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/af313c51-0d16-63ce-e999-e6a31cf27f83?origin=1; and https://doi.org/10.1007/s10584-021-03047-7
[xxxv] https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/af313c51-0d16-63ce-e999-e6a31cf27f83?origin=1 , p7.
[xxxvi] Soya is the second most significant driver of global deforestation after beef, and about 90% of it is used for animal feed. See European Commission (2013) pp21-22, Henders S, Persson UM & Kastner T (2015) p6 and Sharma S, IATP & Schlesinger S (2017) p25.
[xxxvii] See https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/af313c51-0d16-63ce-e999-e6a31cf27f83?origin=1, p7.
[xxxviii] https://jbs.com.br/netzero/en/
[xxxix] https://jbsfoodsgroup.com/articles/jbs-usa-announces-new-global-sustainability-targets-and-shares-2020-accomplishments
[xl] https://jbsfoodsgroup.com/articles/jbs-makes-global-commitment-to-achieve-net-zero-greenhouse-gas-emissions-by-2040; https://web.archive.org/web/20210224200921/https:/globalforestatlas.yale.edu/amazon/land-use/cattle-ranching
See ISS ESG Secondary Party Opinion: https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/af313c51-0d16-63ce-e999-e6a31cf27f83?origin=1 and https://doi.org/10.1007/s10584-021-03047-7

[xli] See for example https://www.amnesty.org/en/latest/news/2020/07/brazil-cattle-illegally-grazed-in-the-amazon-found-in-supply-chain-of-leading-meat-packer-jbs/ ; https://www.globalwitness.org/en/press-releases/major-global-banks-complicit-widespread-destruction-amazon-rainforest-linked-brazilian-beef-companies-and-international-audits-flawed/ ; https://reporterbrasil.org.br/2019/10/even-after-a-25-million-real-fine-jbs-still-sources-livestock-from-amazon-deforesting-companies/ ; https://reporterbrasil.org.br/wp-content/uploads/2021/01/Monitor-8-Slave-labor-in-Brazils-meat-industry.pdf ; https://www.thebureauinvestigates.com/stories/2020-07-27/brazilian-meat-giant-jbs-trucked-cattle-from-deforested-amazon-ranch and https://www.greenpeace.org/pantanalmincemeat

[xlii] See for example https://www.reuters.com/article/us-j-f-brazil-crime-idUKKBN26Z2FZ and https://www.sec.gov/news/press-release/2020-254

[xliii] https://chainreactionresearch.com/wp-content/uploads/2020/08/JBS-CRR-Report-1.pdf; https://web.archive.org/web/20210224200921/https:/globalforestatlas.yale.edu/amazon/land-use/cattle-ranching; See ISS ESG Secondary Party Opinion: https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/af313c51-0d16-63ce-e999-e6a31cf27f83?origin=1; and https://doi.org/10.1007/s10584-021-03047-7

[xliv] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/european-green-bond-standard_en

[xlv] See for example https://www.theguardian.com/environment/2021/aug/12/greenhouse-gas-emissions-must-peak-within-4-years-says-leaked-un-report; https://web.archive.org/web/20210224200921/https:/globalforestatlas.yale.edu/amazon/land-use/cattle-ranching; See ISS ESG Secondary Party Opinion: https://api.mziq.com/mzfilemanager/v2/d/043a77e1-0127-4502-bc5b-21427b991b22/af313c51-0d16-63ce-e999-e6a31cf27f83?origin=1; and https://doi.org/10.1007/s10584-021-03047-7