

FORESTS & FINANCE

The banks and investors exposed to deforestation risks in Southeast Asia, Central and West Africa and in Brazil



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Instructions for Turning On Interpretation *Instruções para ativar a interpretação*

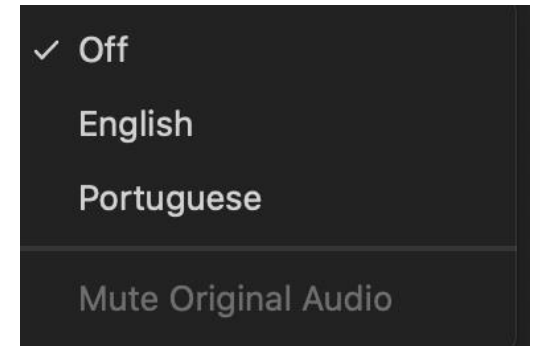
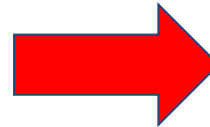
FIRST: Click the “Interpretation” Globe on your screen

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NEXT: Click the language for which you would like to hear the audio

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LAST: Click “Mute Original Audio” when you do not want to hear the original speaker’s voice. Unmute again when you want to hear original audio

ÚLTIMO: *Clique em “Silenciar áudio original” quando não quiser ouvir a voz do locutor original. Reative o som novamente quando quiser ouvir o áudio original*

Agenda

- Quick logistics review
- Intro to Forests & Finance
- Explanation of Methodology
- Key Findings
- Involvement of UN Principles for Responsible Banking signatories
- Case study
- Questions & Answers



1

Participants



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Q&A



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The banks and investors exposed to deforestation risks in Southeast Asia, Central and West Africa and in Brazil

EXPLORE

THE DATA

ASSESS

THE BANKS

SEE

THE IMPACTS



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Tropical deforestation now emits
MORE Co2
than the EU

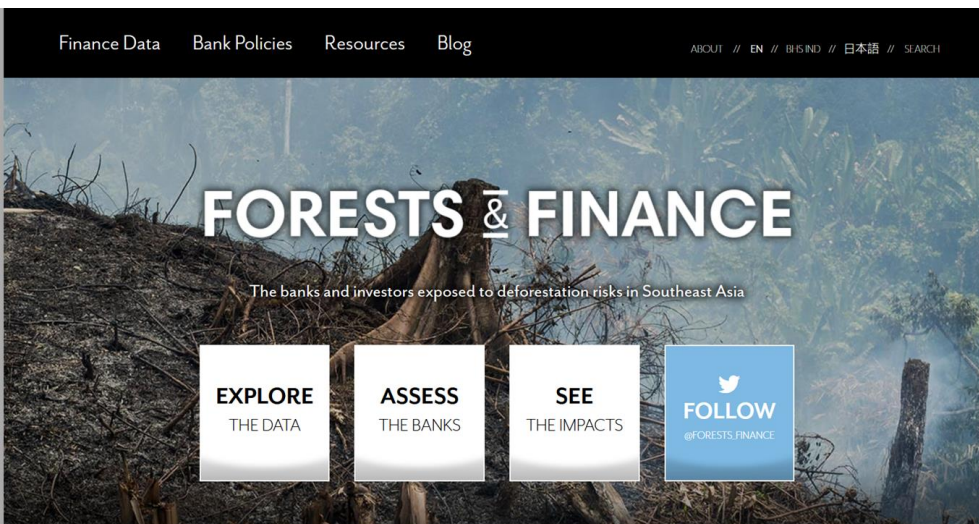
the tropics lost
12,000,000
hectares of tree cover in 2018

including on
LAND STOLEN
from local communities.

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Brief History of F&F

- Launched in 2016
- Initially a joint project by TuK Indonesia, Profundo and RAN
- Until now the website had:
 - A searchable database of financial flows to forest-risk commodity companies in SEA
 - Assessments of the relevant policies of the 30 most important financial institutions for the forest-risk sector in SEA
 - Case studies highlighting client operations, including violations of bank policies





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Forests & Finance: Methodology and Findings

Webinar 22nd September 2020

Overview

- Research methodology
- Findings
 - Analysis of creditors
 - Analysis of investors
 - Bank portfolio examples



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The banks and investors exposed to deforestation risks in Southeast Asia, Central and West Africa and in Brazil

Research methodology

Details on how the research was conducted

Research methodology

- Company selection
- Data sources
- Limitations of data sources
- Calculated elements
 - Deal contributions
 - Segment adjusters
 - Geographic adjusters
 - Brazil's National Rural Credit System (SNCR)



Methodology: Deal contribution

- 2019 **Marfrig** US\$ 736 million share issuance
- 9 banks, 4 bookrunners, **bookratio 1.25**
- Bookrunners 75% = **18.75% each**
- Participants 25% = **5% each**

Bank	Country	Per Investor Value (in mln US\$)	Percentage of Tranche Amount
JPMorgan Chase	United States	138.03	18.75%
Santander	Spain	138.03	18.75%
Banco do Brasil	Brazil	138.03	18.75%
Bradesco	Brazil	138.03	18.75%
Banco do Brasil (Securities)	Brazil	36.81	5.00%
Bradesco (Securities)	Brazil	36.81	5.00%
Jefferies Financial Group	United States	36.81	5.00%

Methodology: Segment adjuster

- Klabin has **four** reportable operating segments:
 - Forestry; Paper; Conversion, and; Pulp.
- Segment capital expenditures
- The pulp & paper adjuster = Paper, Conversion and Pulp segments.
The timber adjuster = Forestry (includes the sales to third parties).
 - Pulp & paper = $(392462+78820+1592536)/2500649 = 82.53\%$
 - Timber = $436831/2500649 = 17.47\%$

Company	Year	Type	Bank	Value (US\$ mln)	P & P	Timber
Klabin	2020	Bond issuance	Bradesco	33.33	27.51	5.82
Klabin	2020	Bond issuance	HSBC	33.33	27.51	5.82

Methodology: Geographic adjuster

- Minerva is a **100% beef** company
- Operations in **Brazil**, Argentina, Colombia, Paraguay and Uruguay.
- Geographic adjuster based on slaughtering capacity in Brazil.
 - Brazil proportion capacity = $10980/25480 = 43.1\%$
 - Beef Brazil = $100\% * 43.1\% = 43.1\%$

Year	Bank	Value (US\$ mln)	Beef overall F&F	Beef Brazil
2020	JPMorgan Chase	44.42	19.14	19.14
2020	Banco do Brasil	44.42	19.14	19.14
2020	Bradesco	14.81	6.38	6.38
2020	Itaú Unibanco	14.81	6.38	6.38

Methodology: Rural Credit Program

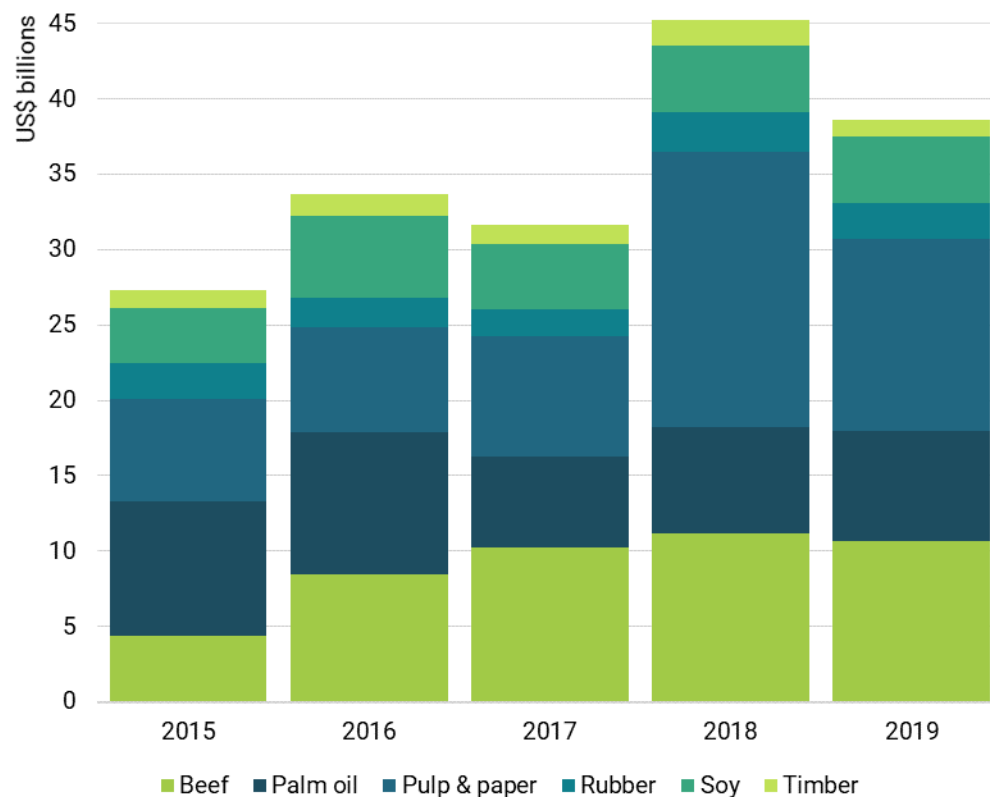
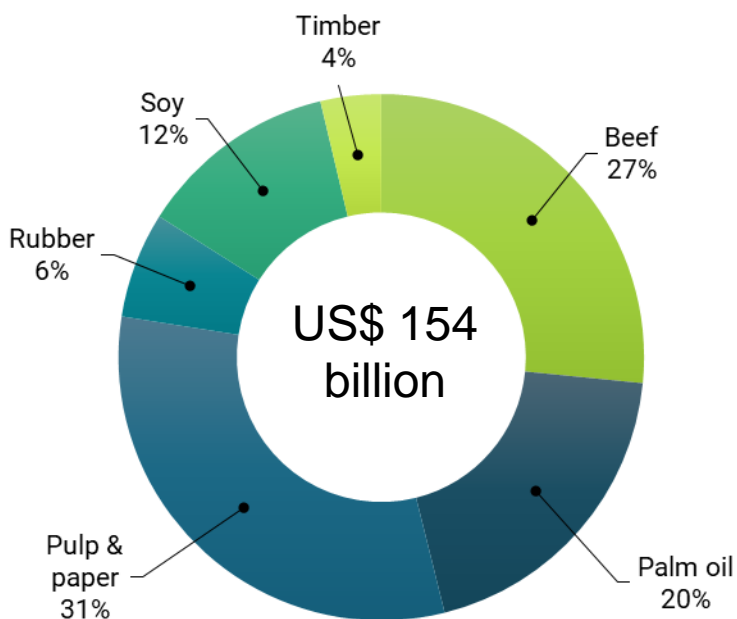
- Central Bank of Brazil data:
 - Rural Credit Program financing per commodity per state
 - Rural Credit Program financing per financial institution per state
- Calculated percent of total financing per commodity per state per year
- Applied this percentage to identified financing per financial institution per state per year
 - 2019 credit to Amazonas 52% = beef, 4% = soy, 2% = timber
 - Banco da Amazonia provided US\$ 17.78 million in total in 2019
 - Beef = $\text{US\$ } 17.78 * 52\% = \text{US\$ } 9.25 \text{ million}$
 - Soy = $\text{US\$ } 17.78 * 4\% = \text{US\$ } 0.71 \text{ million}$
 - Timber = $\text{US\$ } 17.78 * 2\% = \text{US\$ } 0.36 \text{ million}$

Research findings: Creditors

Providers of loans and issuance underwriting services

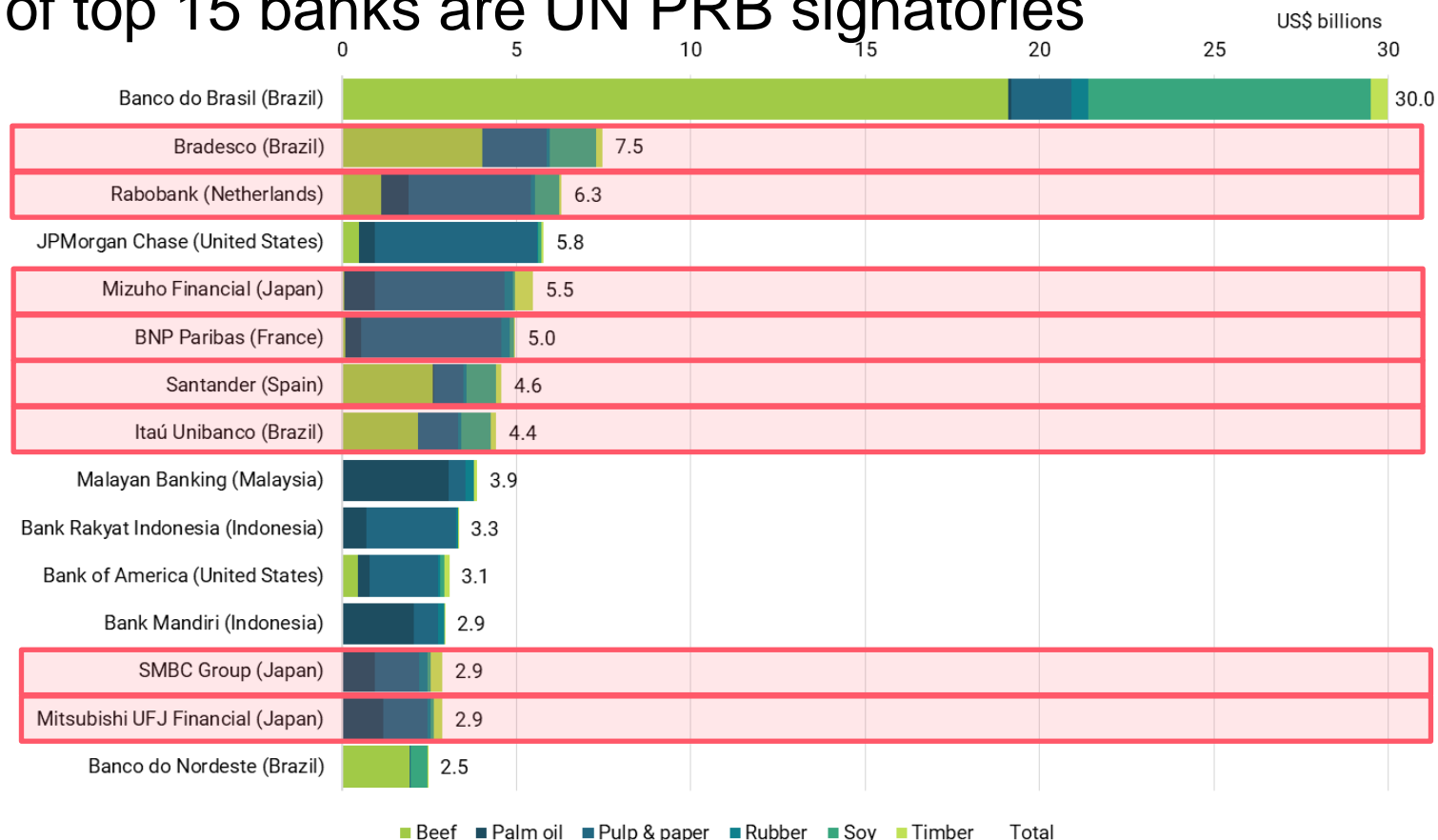
Creditors: Overall findings

- US\$ 154 billion since 2016
- Overall increasing trend



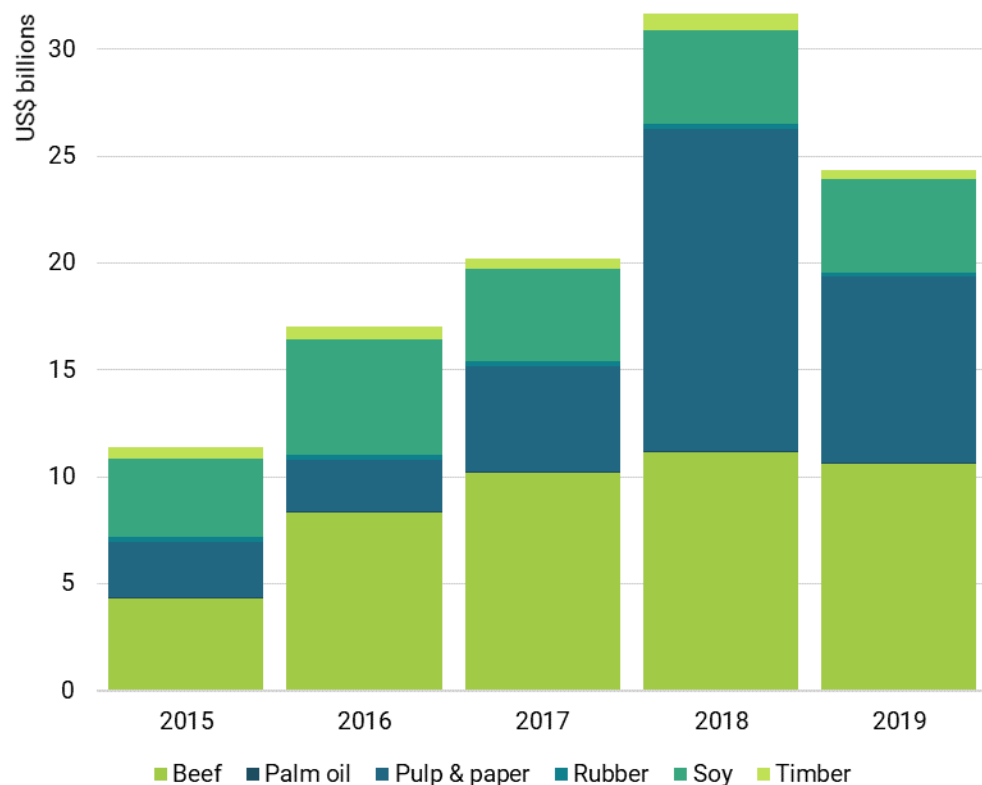
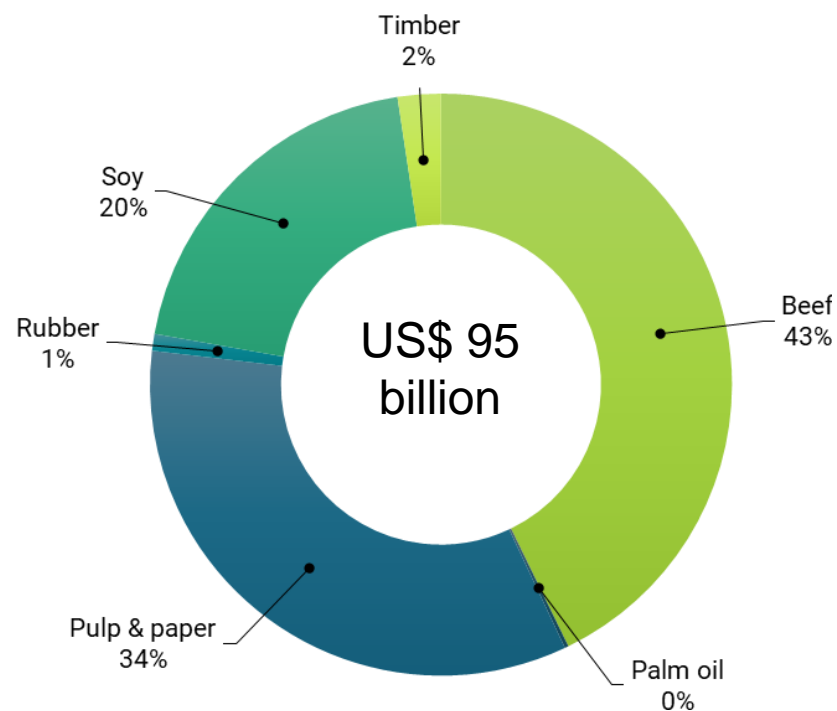
Creditors: Overall findings

- Top 15 banks provided US\$ 90.4 billion (59%)
- 8 of top 15 banks are UN PRB signatories



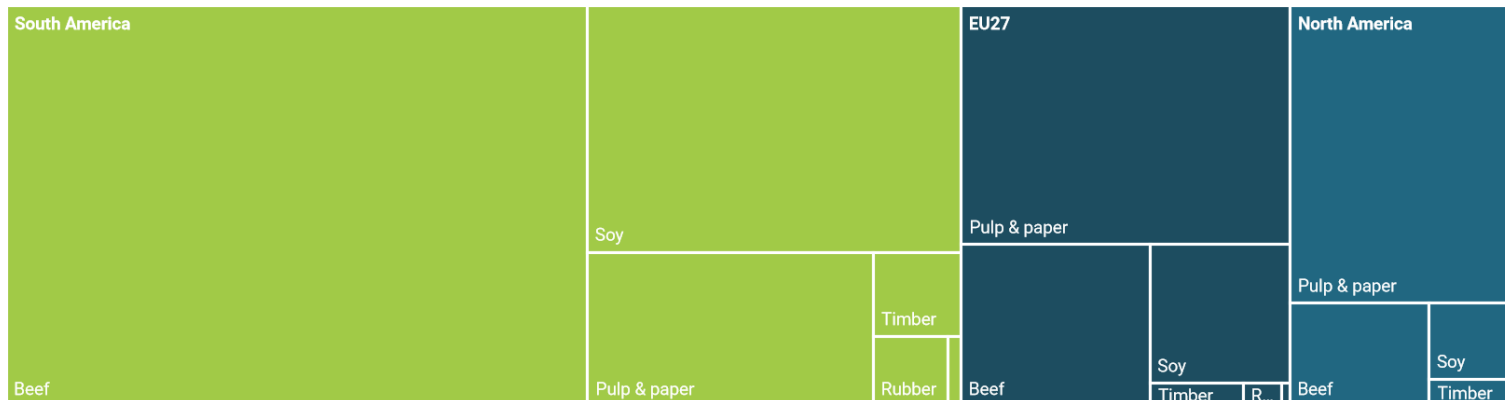
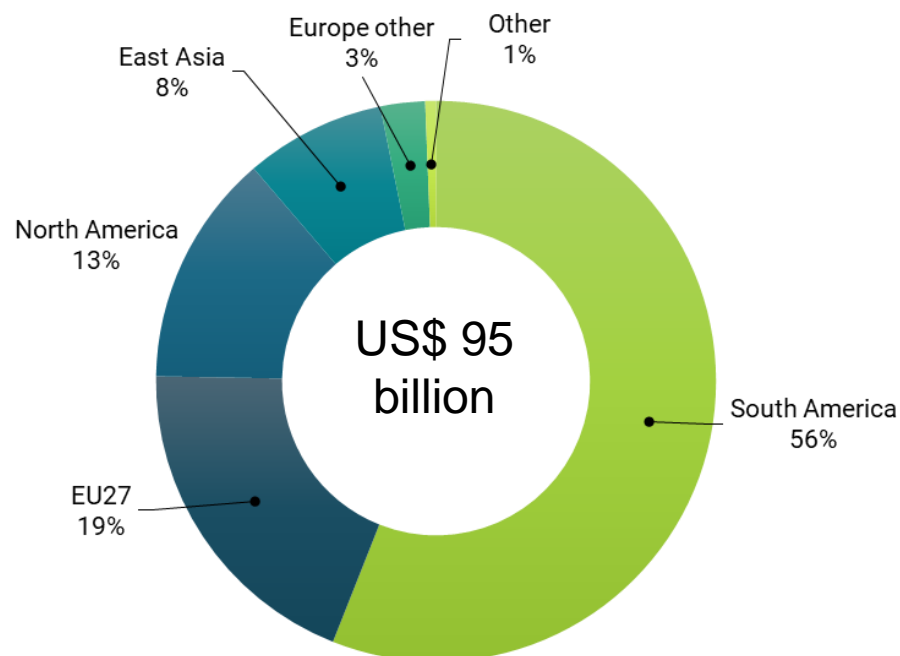
Creditors: Brazil

- US\$ 95 billion since 2016
- Peak in 2018 driven by Suzano bond issuance



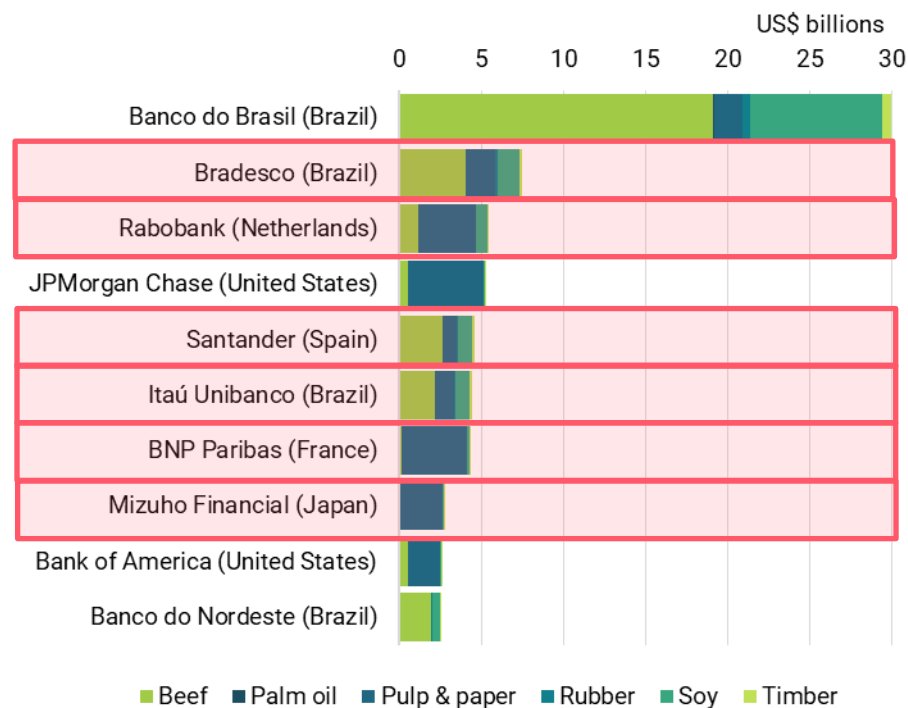
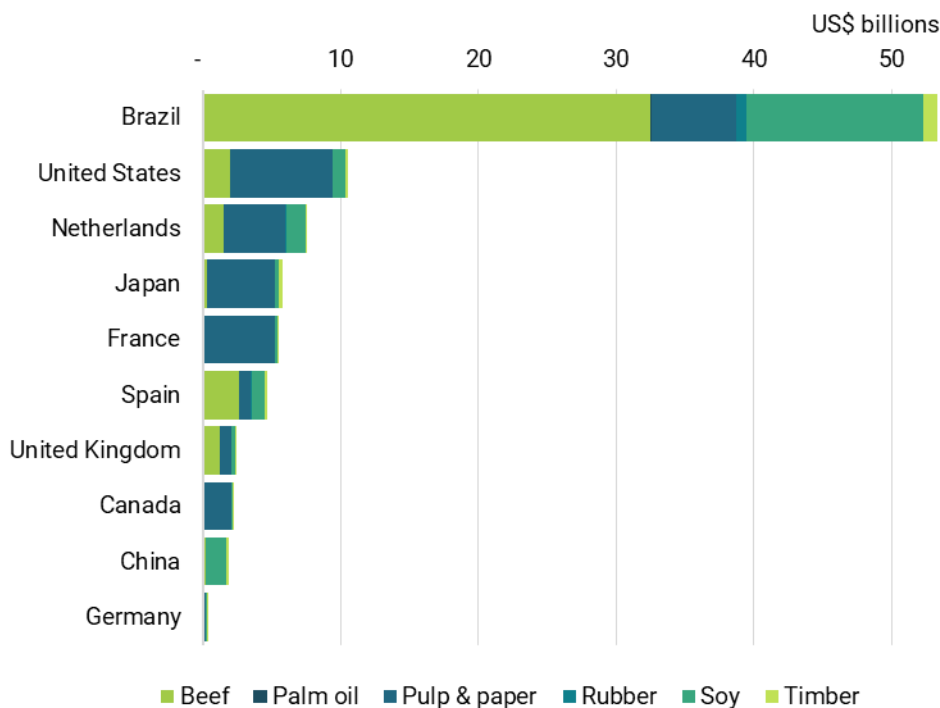
Creditors: Brazil

- South America banks
 - 80% of beef
 - 19% of pulp & paper
- EU27 banks 34% of pulp & paper
- North American banks 29% of pulp & paper



Creditors: Brazil

- 99% of credit provided by 10 countries
- 73% by 10 banks
- 6 of these are UN-PRB signatories

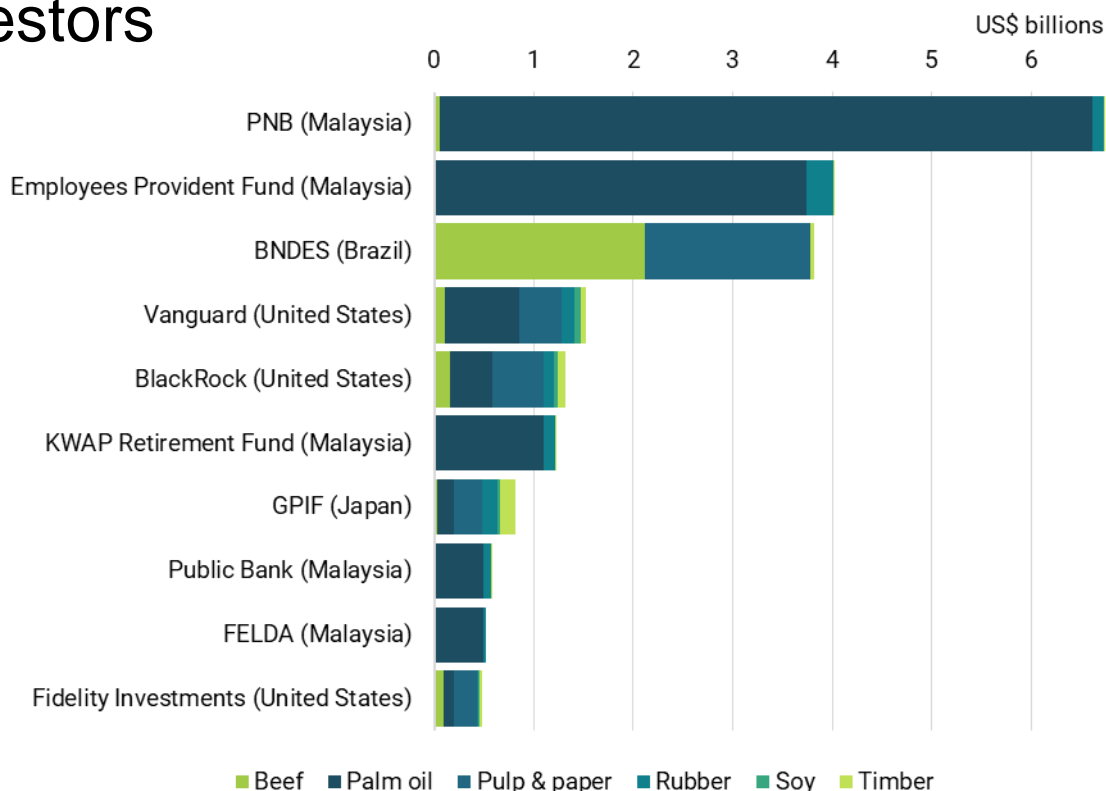
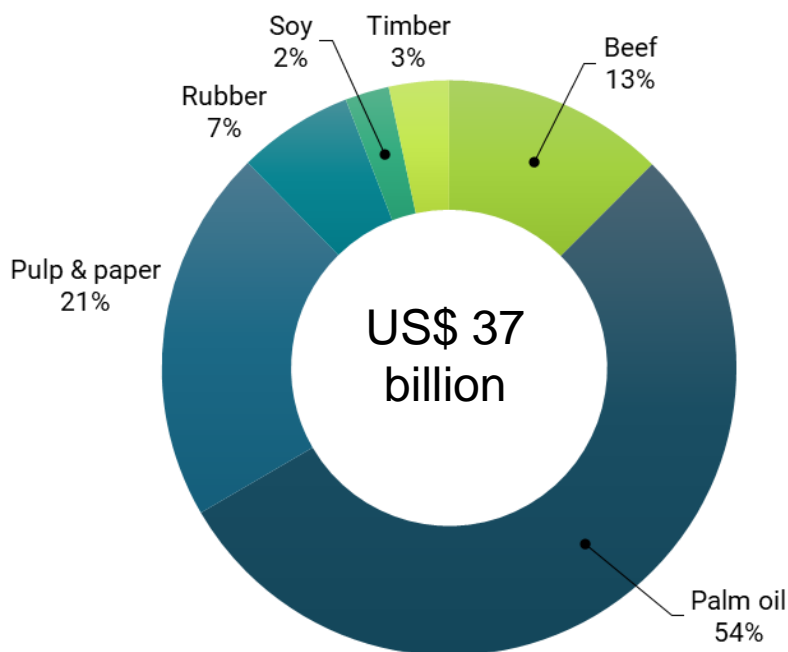


Research findings: Investors

Investors in bonds and shares

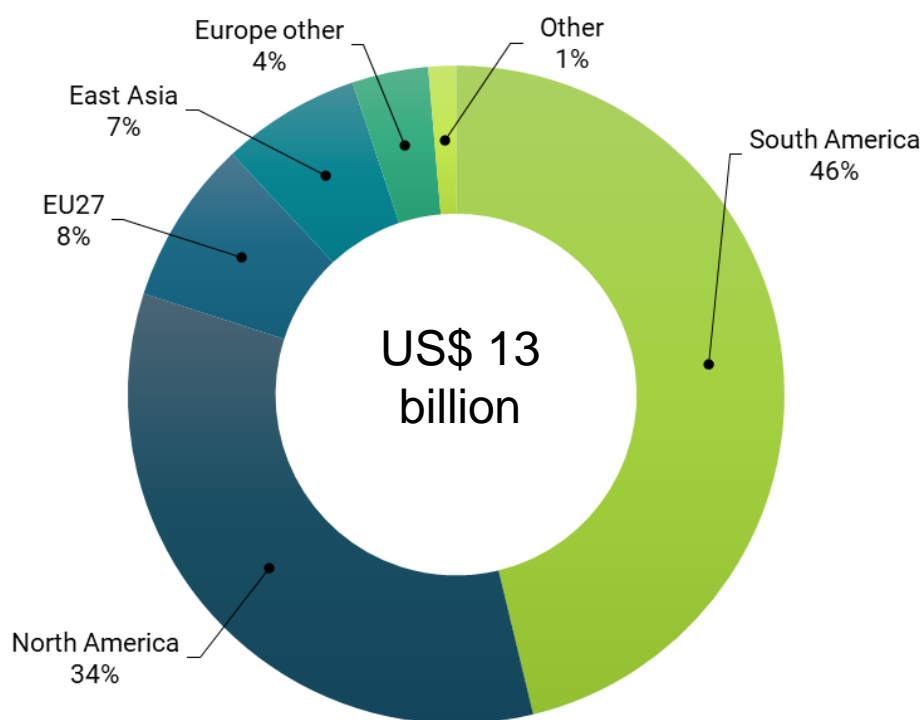
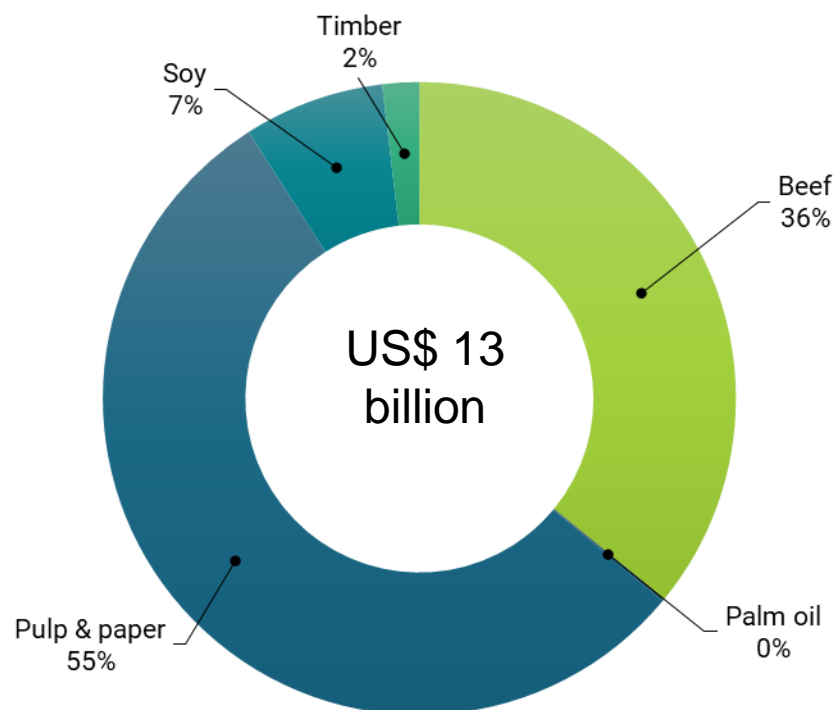
Investors: Overall findings

- US\$ 37 billion at most recent filing date in April 2020
- Three quarters in palm oil and pulp & paper
- 56% from only 10 investors



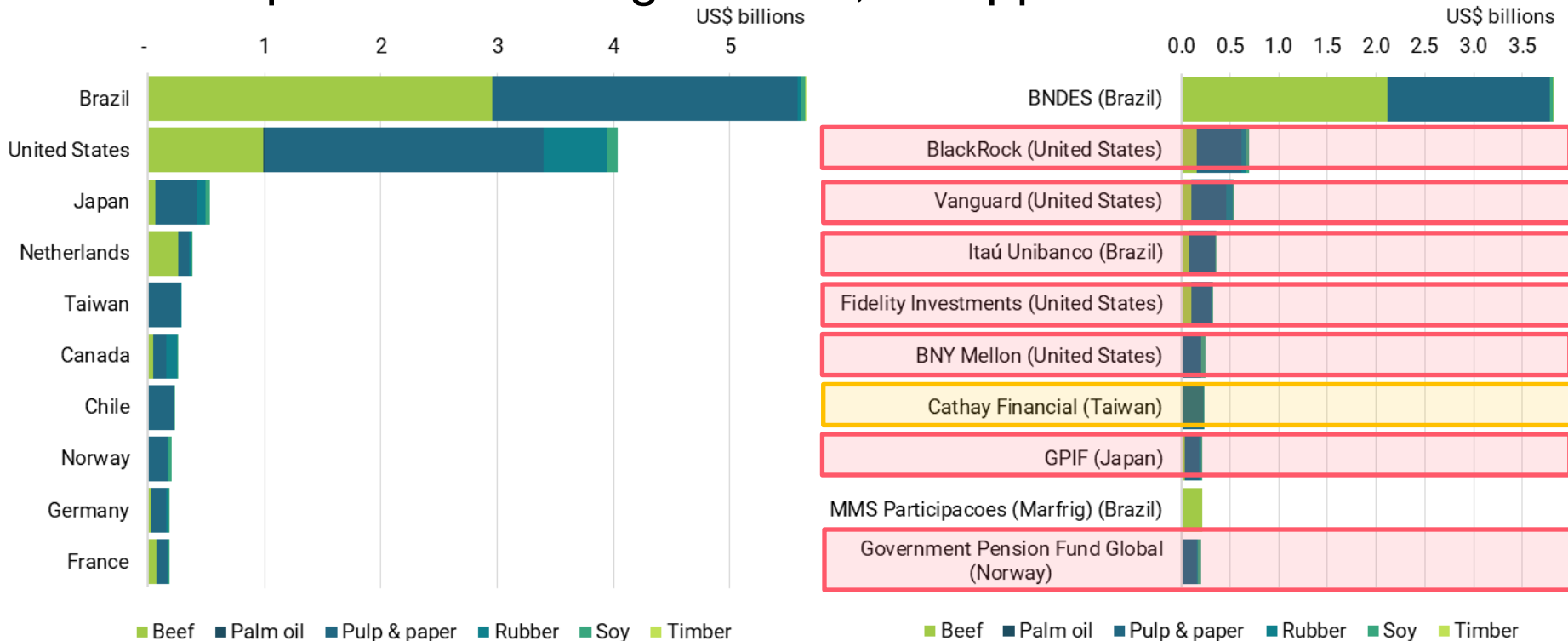
Investors: Brazil

- US\$ 13 billion at most recent filing date in April 2020
- More than half in pulp & paper, third in beef
- Just under half from regional investors



Investors: Brazil

- Brazilian investors (44%) & US investors (32%) dominate
- BNDES largest investor, beef and pulp & paper
- 7 of top 10 UN-PRI signatories, 1 supporter

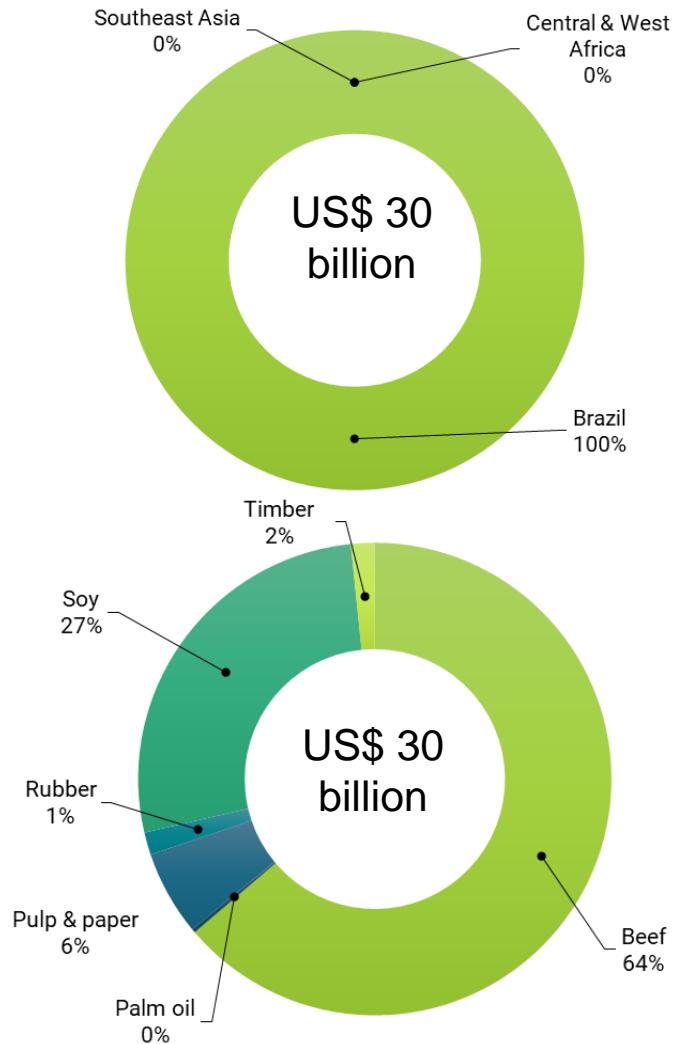


Research findings: Bank portfolios

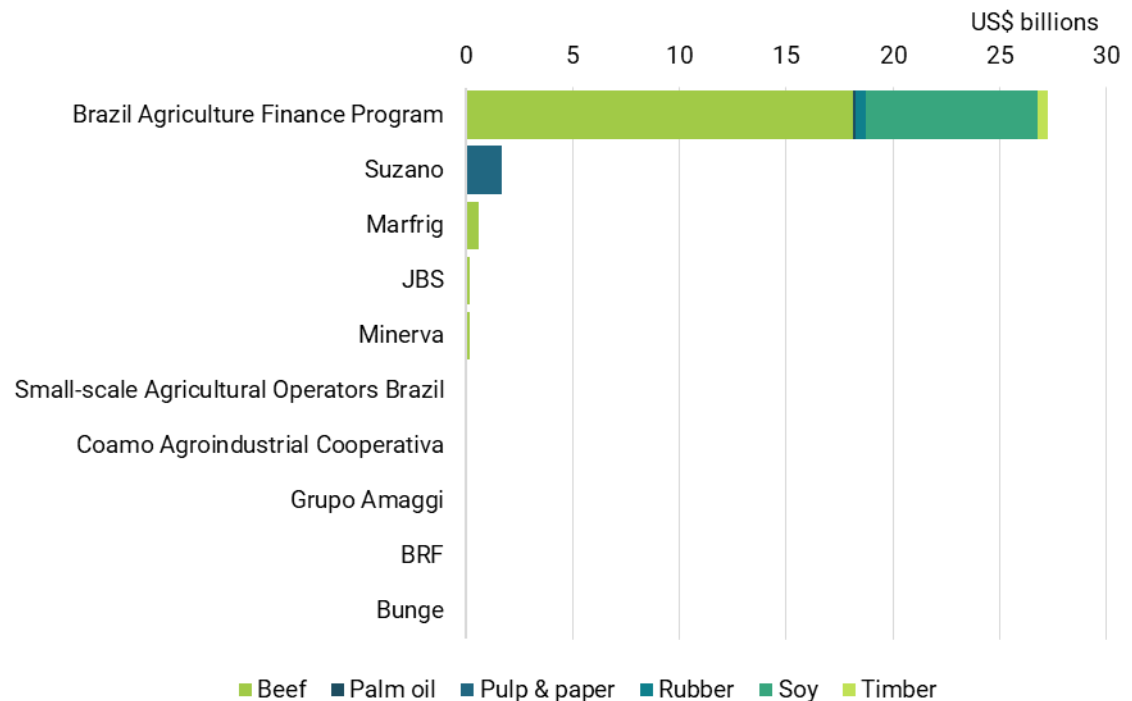
Examples of bank forest-risk client portfolios

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Bank portfolio: Banco do Brasil



- US\$ 30 billion since 2016
- All in Brazil
- 2/3 beef, 1/4 soy



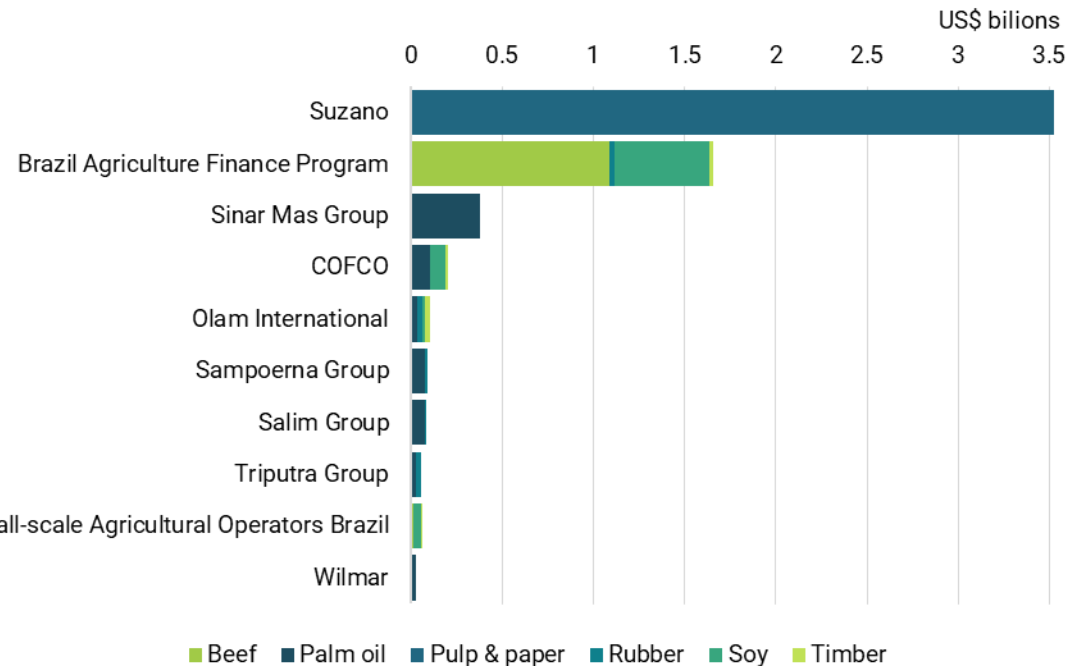
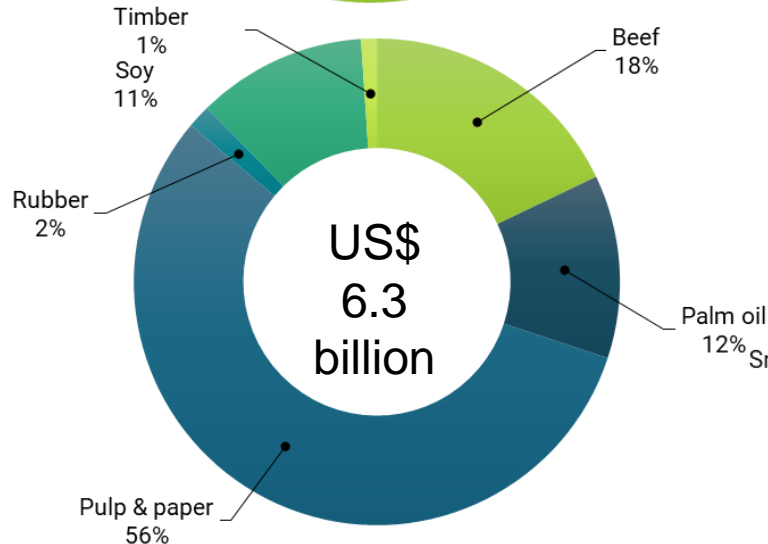
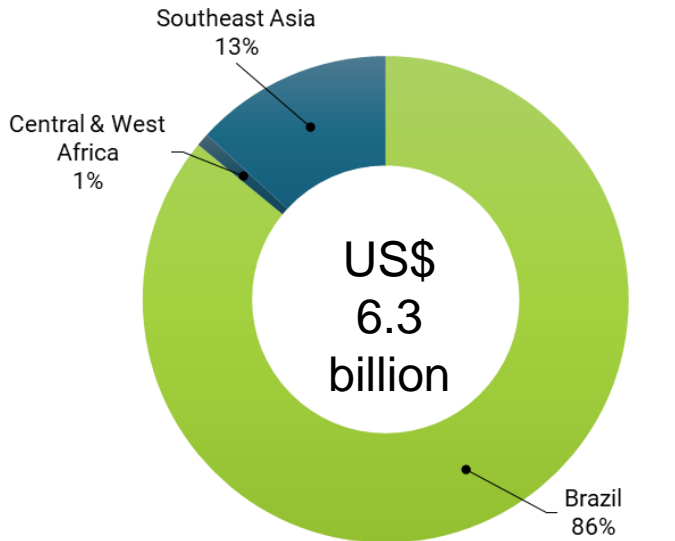
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Bank portfolio: Rabobank



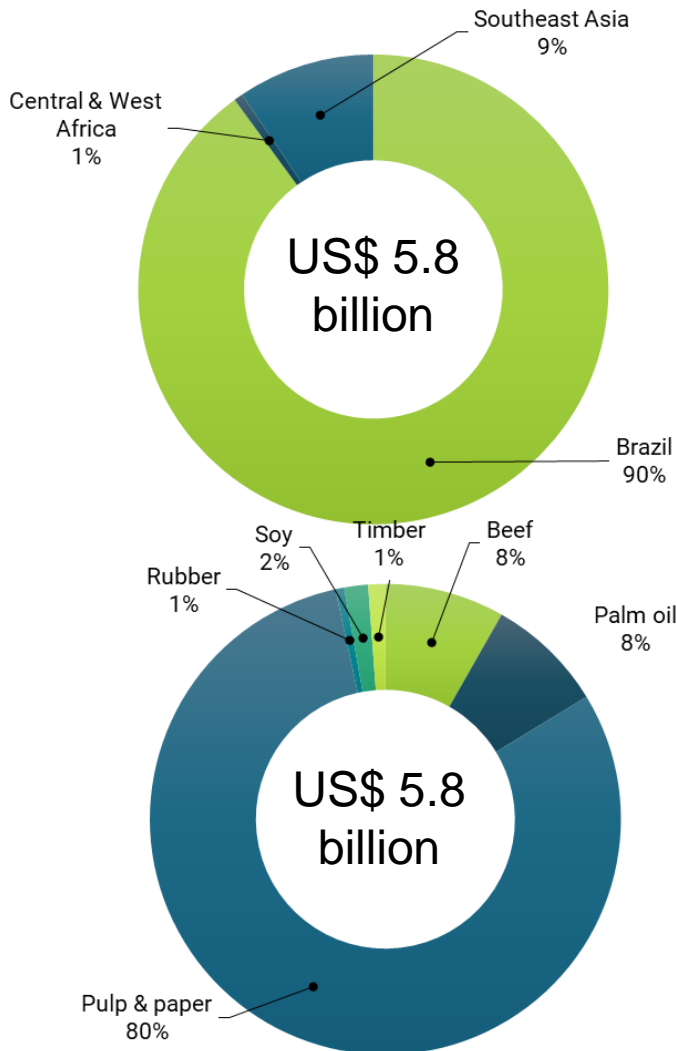
PRINCIPLES FOR
RESPONSIBLE
BANKING

- US\$ 6.3 billion since 2016
- Majority in Brazil
- More than half in pulp & paper

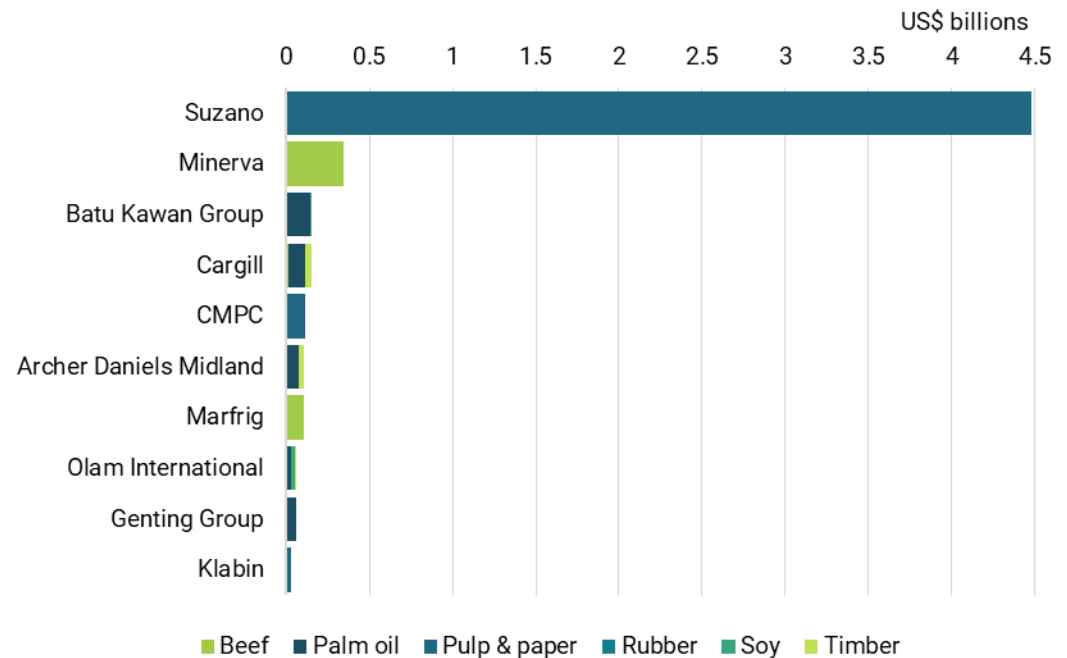


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Bank portfolio: JPMorgan Chase



- US\$ 5.8 billion since 2016
- Majority in Brazil
- Predominantly in pulp & paper

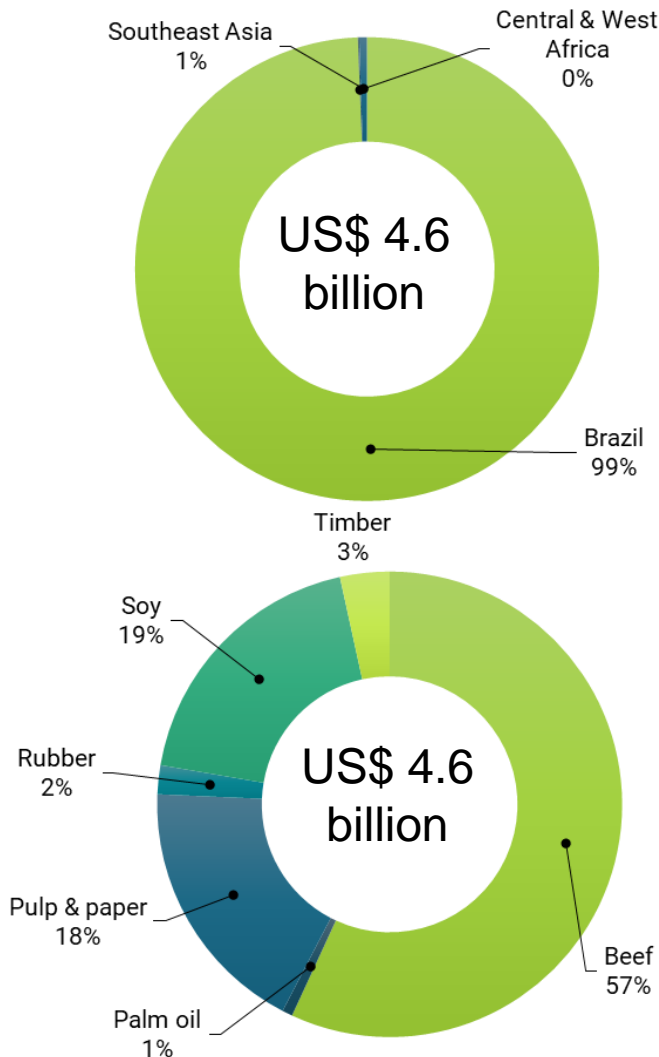


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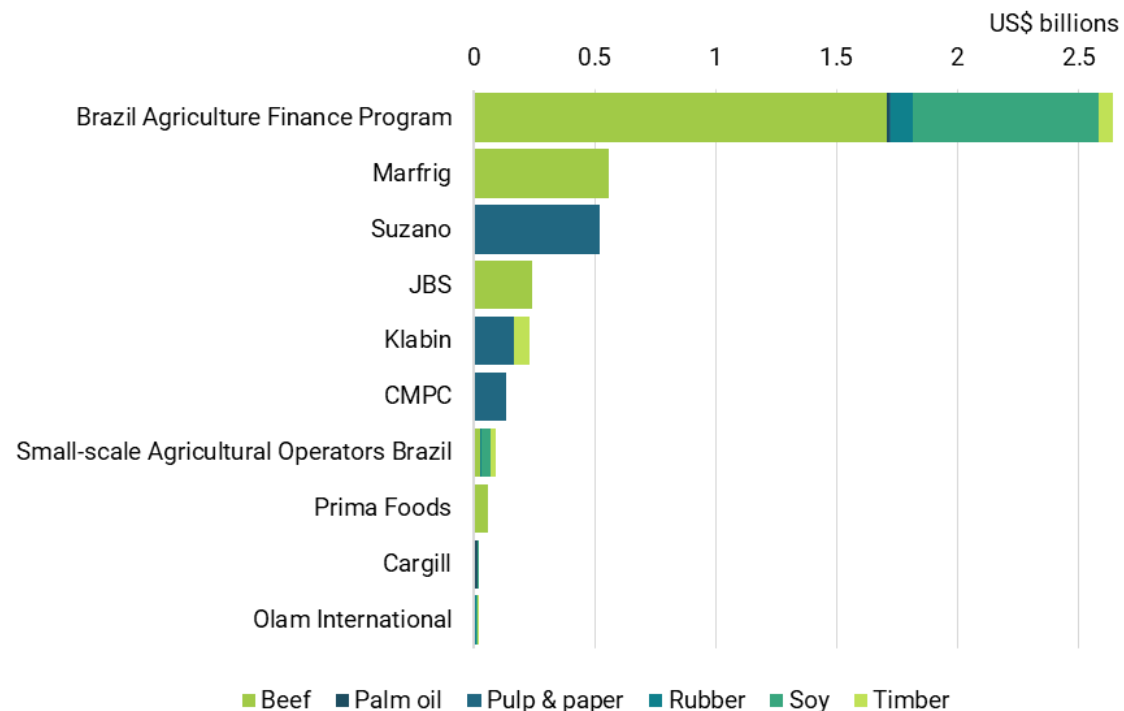
Bank portfolio: Santander



PRINCIPLES FOR
RESPONSIBLE
BANKING

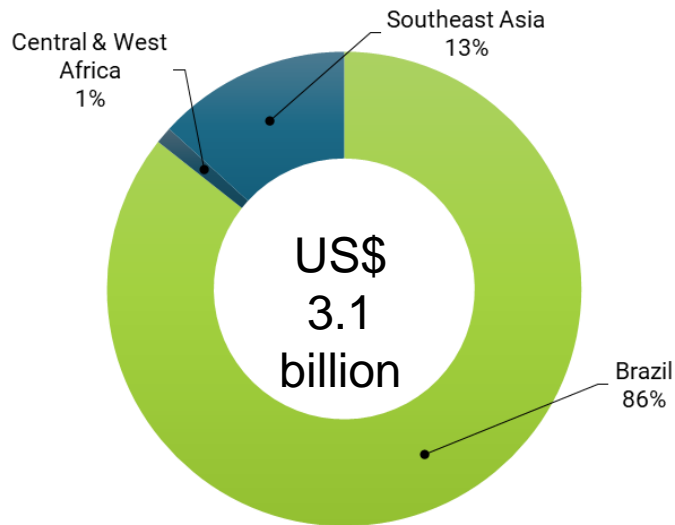


- US\$ 4.6 billion since 2016
- Almost all in Brazil
- Beef, soy, pulp & paper main clients

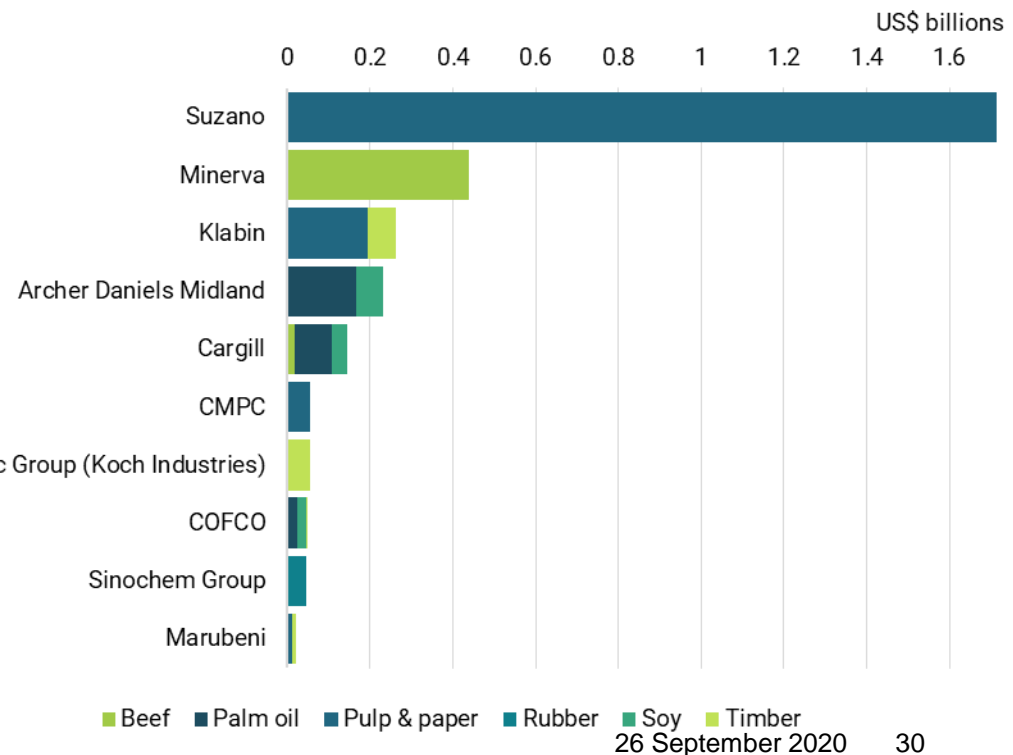
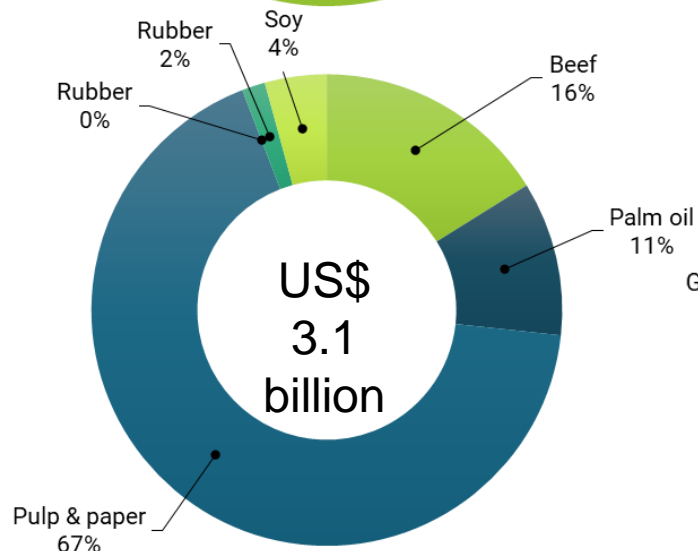


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Bank portfolio: Bank of America



- US\$ 3.1 billion since 2016
- Majority in Brazil
- Two thirds pulp & paper

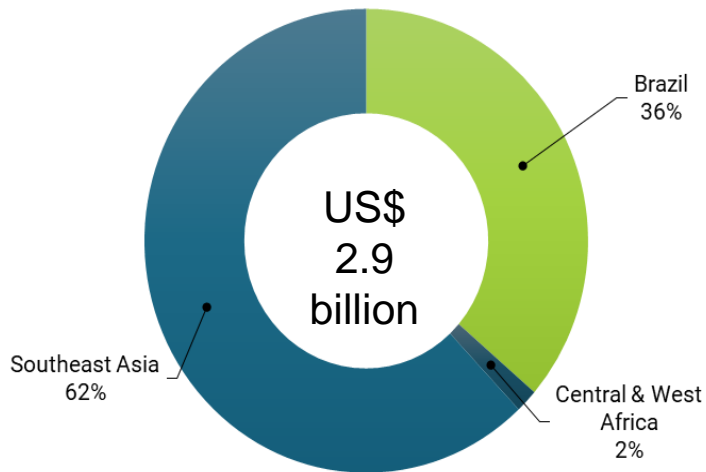


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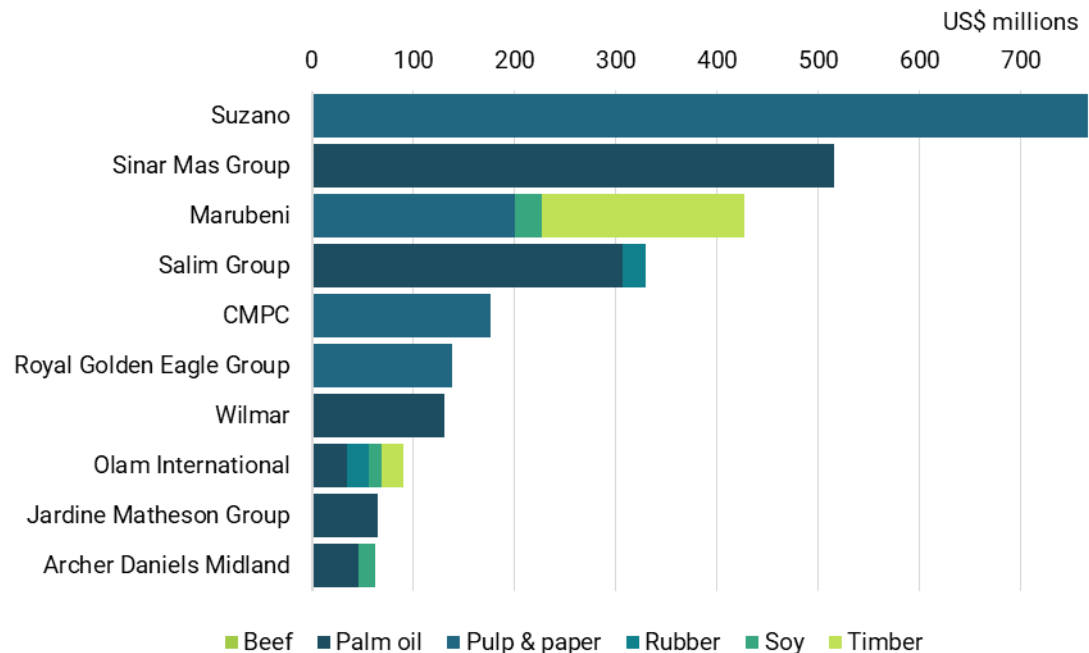
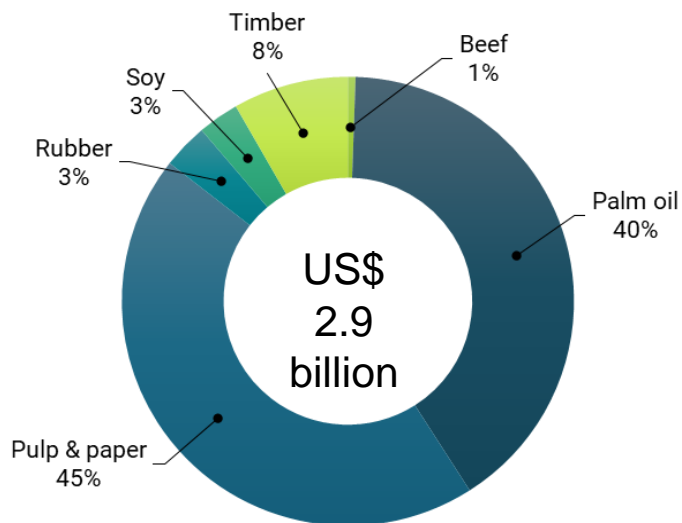
Bank portfolio: Mitsubishi UFJ



PRINCIPLES FOR
RESPONSIBLE
BANKING



- US\$ 2.9 billion since 2016
- 2/3 Southeast Asia, 1/3 Brazil
- 40% palm oil, 45% pulp & paper



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PRINCIPLES FOR
RESPONSIBLE
BANKING



PRINCIPLE 1: **ALIGNMENT**

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.



PRINCIPLE 2: **IMPACT & TARGET SETTING**

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.



PRINCIPLE 3: **CLIENTS & CUSTOMERS**

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.



PRINCIPLE 4: **STAKEHOLDERS**

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.



PRINCIPLE 5: **GOVERNANCE & CULTURE**

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.



PRINCIPLE 6: **TRANSPARENCY & ACCOUNTABILITY**

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

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Loans, underwriting & investment in 6 forest-risk commodity sectors by 20 PRB banks
(2016-2020Q1, USD Mln) Source: Forestsandfinance.org



BlackRock and JBS case study

Repórter Brasil

André Campos
Piero Locatelli

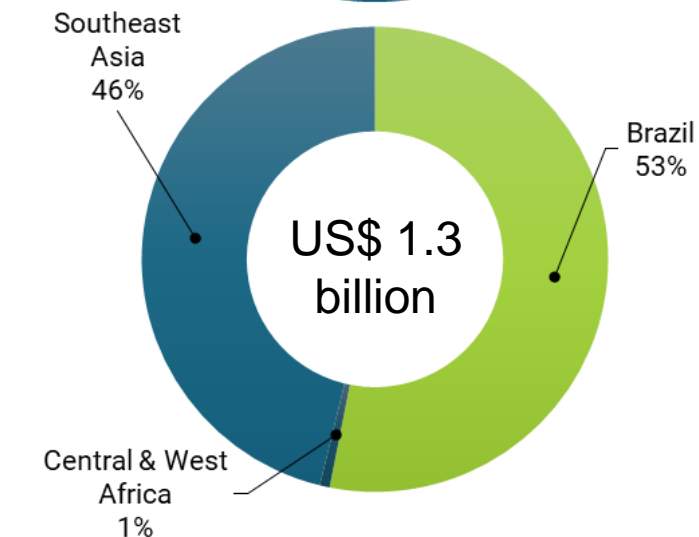
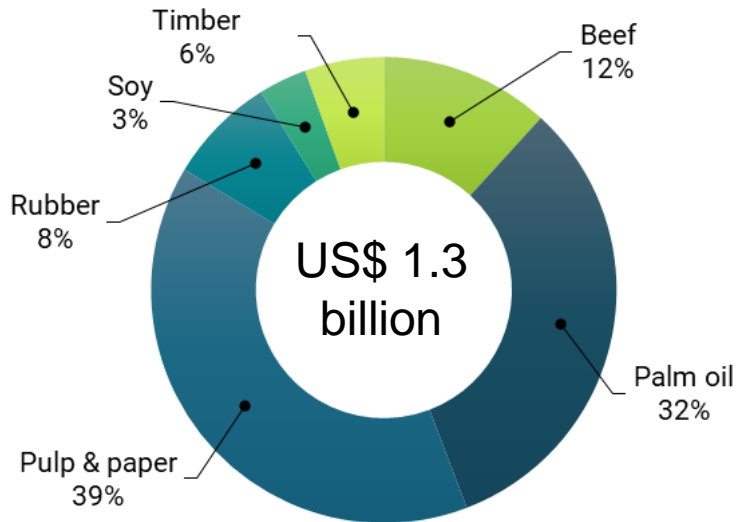


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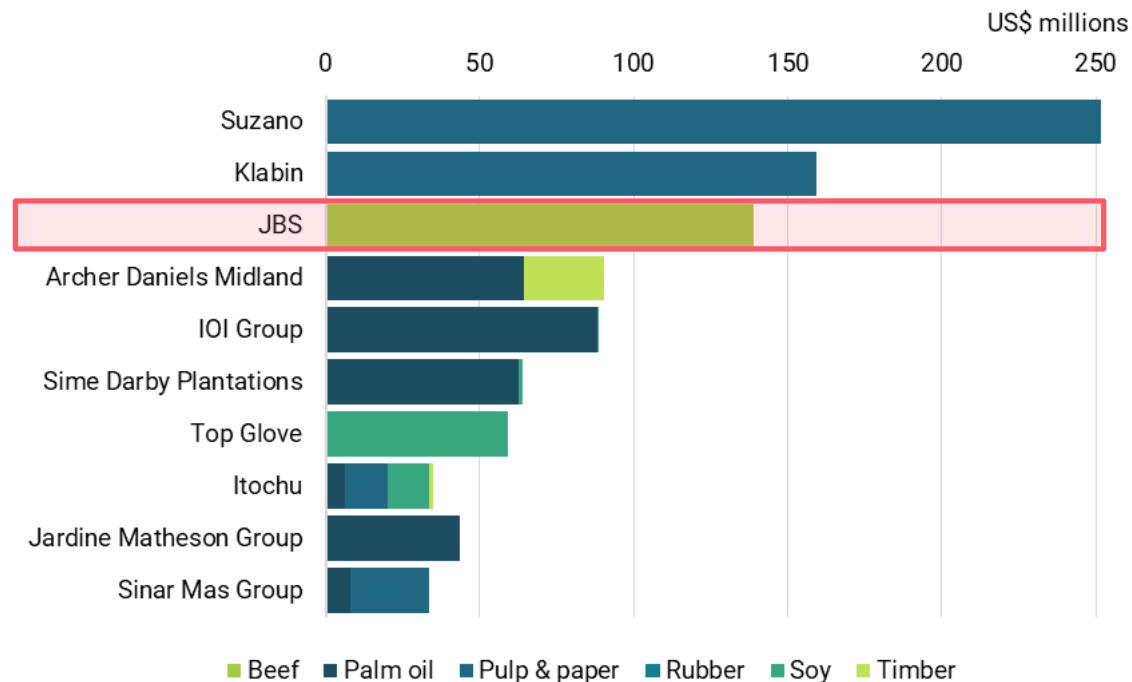
Bank/Investor	Forest-Risk Group	Forest-Risk Sector	Finance Type	Year	Amount (USD Million)
BlackRock	Suzano	Pulp & paper	Shareholding	2020	151.051
BlackRock	Klabin	Pulp & paper	Shareholding	2020	117.494
BlackRock	JBS	Beef	Shareholding	2020	92.501
BlackRock	Sime Darby Plantations	Palm oil	Shareholding	2020	43.768
BlackRock	Top Glove	Rubber	Shareholding	2020	41.368
BlackRock	Archer Daniels Midland	Palm oil	Shareholding	2020	39.440
BlackRock	Klabin	Pulp & paper	Shareholding	2020	35.944
BlackRock	IOI Group	Palm oil	Shareholding	2020	30.636
BlackRock	IOI Group	Palm oil	Shareholding	2020	30.636
BlackRock	Suzano	Pulp & paper	Shareholding	2020	25.966
BlackRock	Klabin	Timber	Shareholding	2020	24.869

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Investor portfolio: BlackRock PRI | Principles for Responsible Investment



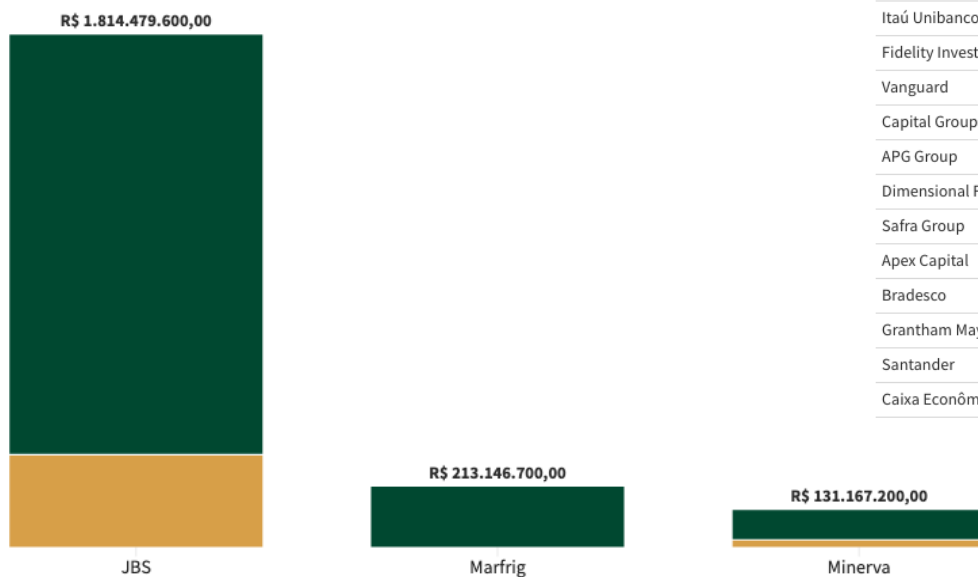
- US\$ 1.3 billion in April 2020
- 50:50 Brazil and Southeast Asia
- 1/3 palm oil, 1/3 pulp & paper



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Investimentos da BlackRock nos maiores frigoríficos da Amazônia

Investimento ativo Investimento passivo



Investidor	Quantidade de ações	Participação	Valor
J&F Investimentos*	1.131.331.882	42,43%	R\$ 26.903.072.153,96
BNDES	581.661.101	21,82%	R\$ 13.831.900.981,78
BlackRock	54.921.665	2,06%	R\$ 1.306.037.193,70
Itaú Unibanco	40.749.686	1,53%	R\$ 969.027.533,08
Fidelity Investments	35.870.932	1,35%	R\$ 853.010.762,96
Vanguard	34.966.755	1,31%	R\$ 831.509.433,90
Capital Group	22.786.856	0,85%	R\$ 541.871.435,68
APG Group	20.955.571	0,79%	R\$ 498.323.478,38
Dimensional Fund Advisors	16.917.589	0,63%	R\$ 402.300.266,42
Safrá Group	15.291.601	0,57%	R\$ 363.634.271,78
Apex Capital	15.249.000	0,57%	R\$ 362.621.220,00
Bradesco	14.592.870	0,55%	R\$ 347.018.448,60
Grantham Mayo Van Otterloo & Co	14.038.500	0,53%	R\$ 333.835.530,00
Santander	12.007.047	0,45%	R\$ 285.527.577,66
Caixa Econômica Federal	11.847.398	0,44%	R\$ 281.731.124,44

Source: O Eco/Forests&Finance

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FROM FOREST TO FARMLAND

CATTLE ILLEGALLY GRAZED IN BRAZIL'S AMAZON
FOUND IN JBS'S SUPPLY CHAIN



CONFLICT AND ENVIRONMENT

AMNESTY
INTERNATIONAL



Animals farmed
Brazil

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About this content

**André Campos, Andrew
Wasley, Alexandra Heal,
Dom Phillips and Piero
Locatelli**

Mon 27 Jul 2020 12:00 BST



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2,236

● This article is more than 1 month old

Revealed: new evidence links Brazil meat giant JBS to Amazon deforestation

Photographs by employee appear to show company trucks being used to transport cattle from allegedly prohibited cattle farm

● **Resistance to the 'environmental sect' is a cornerstone of Bolsonaro's rule**

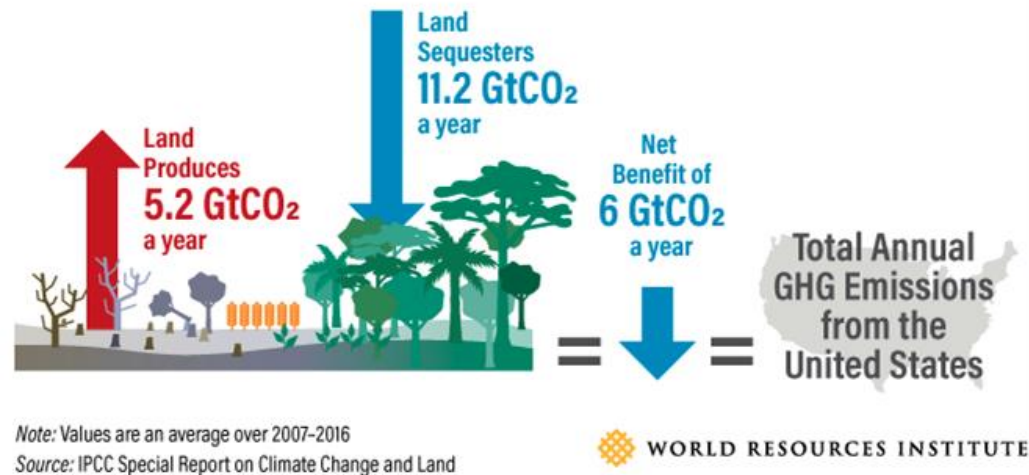


▲ JBS have acknowledged the difficulty of monitoring cattle indirectly supplied to them via approved farms.
Photograph: Paulo Whitaker/Reuters

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- 80% of global deforestation is a result of agricultural production [Kissinger G, Herold M & De Sy V (2012) p11]
- By 2030, the livestock sector is set to have spewed out almost half (49%) of the total quantity of greenhouse gases that human activity worldwide can emit from now on if global warming is to be restricted to the 1.5°C target that the Paris Agreement recognised as the safe maximum. [Harwatt H (2019)]

Land is Both a Powerful Sink and Emitter of Carbon Dioxide Emissions



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BlackRock.

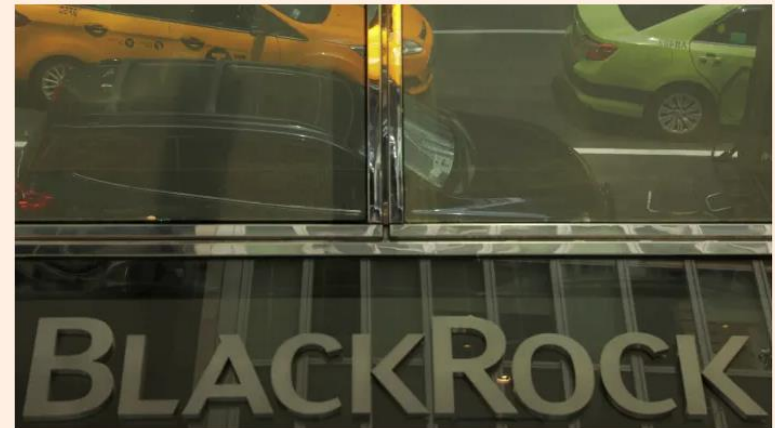
Our approach to sustainability

BlackRock Investment Stewardship

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BlackRock punishes 53 companies over climate inaction

World's biggest asset manager is under scrutiny for its role in tackling global warming



BlackRock has placed 244 companies 'on watch' for insufficient progress on climate issues © REUTERS

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- In July, BlackRock, said it would take concrete action against at least 53 companies for their inaction regarding global warming and place 191 others under observation. None of them are from the agribusiness sector.
- The words cattle and deforestation are missing from the 30 pages of the report in which BlackRock describes the actions it is taking to combat climate change.

Exhibit 5:

List of 53 companies where we have taken voting action this year for lack of progress on climate.

Company name	Sector	Voting action taken
Adams Resources	Energy	Voted against directors/discharge
Air Liquide SA	Materials	Voted against directors/discharge
Allete Inc	Utilities	Voted against directors/discharge
Arch Coal Inc	Energy	Voted against directors/discharge
Athabasca Oil Corp	Energy	Voted against directors/discharge
Atlantic Power Corporation	Utilities	Voted against directors/discharge
CEZ a.s.	Utilities	Voted against directors/discharge
Chaparral Energy	Energy	Voted against directors/discharge
Cheniere Energy Inc	Energy	Voted against directors/discharge
Chevron Corp*	Energy	Supported climate-related shareholder proposal
CNX Resources Corp	Energy	Voted against directors/discharge
Concho Resources Inc	Energy	Voted against directors/discharge
Consol Energy Inc	Energy	Voted against directors/discharge
Daimler AG	Consumer Discretionary	Voted against directors/discharge
Delek US Holdings Inc	Energy	Voted against directors/discharge
Deutsche Lufthansa AG	Industrials	Voted against directors/discharge
Diamond Offshore Drilling Inc	Energy	Voted against directors/discharge
EVRAZ Plc	Materials	Voted against directors/discharge

Commentary

Investment Stewardship's approach to engagement with agribusiness companies on sustainable business practices

BlackRock has a fiduciary responsibility to help our clients protect and grow the value of their assets, and investment stewardship is an essential component of this effort. As we wrote in a letter to clients¹ in January 2020, our investment stewardship team is intensifying its focus and engagement with companies on sustainability-related risks. The BlackRock Investment Stewardship (BIS) team assesses a range of factors that can affect the long-term sustainability of the companies in which we invest on behalf of our clients. The BIS team engages companies to encourage the adoption of business practices that support the long-term value creation on which our clients depend to achieve their financial goals. Our [Global Corporate Governance & Engagement Principles](#) underscore our belief that sound corporate governance practices—including oversight of material environmental and social (“E&S”) factors—are essential to long-term performance. They signal operational excellence and high-quality management necessary to ensure that companies are financially sustainable and able to meet stakeholder expectations. E&S factors relevant to the long-term economic performance of companies are typically industry specific, though, in the current dynamic business environment, some E&S factors, such as some regulatory developments, can impact companies across industries.

As with other E&S issues, we note that companies face both challenges and opportunities in the operation of agribusinesses. The following describes how we assess and engage agribusiness companies to encourage corporate governance and business practices consistent with sustainable operations that benefit shareholders and other stakeholders over time.

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- Part of BlackRock's investments in JBS is offered to its customers as a "sustainable" option.
- JBS's shares are part of a BlackRock fund that manages investments linked to the Carbon Efficient Index (ICO2).
- It is advertised on the company's website as a fund that "favours companies with less greenhouse gas generation" and that brings a "low-cost, socially responsible investment solution."

BlackRock Produtos Quem somos Estratégias Perspectivas Educação Recursos 

AÇÕES  Volume de negociação  Informações do Fundo

ECO011 iShares Índice Carbono Eficiente (ICO2) Brasil Fundo de Índice

NAV em 17 set 2020 **BRL 102,58** Período de 52 semanas 67,49 - 123,85

Variação NAV de 1 dia 17 set 2020  0,07 (0,07%) Retorno total do NAV 16 set 2020 YTD:  -14,90 De acordo com o prospecto atual Taxa de adm. 0,38%

Visão geral Rentabilidade Principais Características Títulos Repartições da Exposição Informações aos Acionistas

Por que ECO011?

1. Busca manter a exposição a ações brasileiras enquanto busca maior eficiência na emissão de carbono
2. O fundo favorece as empresas com menor produção de gases de efeito estufa através da ponderação do portfólio
3. Solução de investimento socialmente responsável de baixo custo

Filosofia de investimento

O iShares Índice Carbono Eficiente (ICO2) Brasil Fundo de Índice ("Fundo") é um fundo de índice constituído sob a forma de condomínio aberto, que tem como referência Índice Carbono Eficiente – ICO2, conforme descrito abaixo.

BlackRock's answer:

"BlackRock's ETFs track the investment results of third-party indices to which our clients themselves choose to allocate their assets. For any questions about index methodology or rationale, we would direct you to the index provider."

"It's important to note that the ownership structure of many of the companies in the sector, which have a single or small group of affiliated shareholders that control a majority of the shares, also limits the impact of proxy voting by a minority shareholder like BlackRock."

BlackRock's answer:

"We have engaged with JBS and others to discuss their policies and practices on issues specific to operating in the Amazon Basin, such as land use and supply chain management, and to hear their views on the long-term climate-related risks for the agricultural industry associated with accelerated deforestation. Since those engagements last year, we have continued to closely monitor these companies to assess their operational standards and progress, including implementing their sustainable land use policies. In recent engagements, we discussed JBS's efforts to eradicate deforestation throughout its supply chain after the company provided an update on these efforts and progress of its advanced monitoring capabilities of supplier farms in the Amazon. We are closely monitoring progress and disclosures."

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Moira Birss, Climate & Finance Director at Amazon Watch:

"BlackRock likes to hide behind the excuse of the “passive” index fund model, under which ETFs fall. However, it’s more a question of ‘will not’ rather than ‘cannot’, because **BlackRock ignores the many ways that index fund purveyors have multiple choice points at which to apply sustainability policies.**"

Jeff Conant, Friends of the Earth's international forests program:

"They have not yet done everything they should on energy issues – they are still the world’s largest investor in coal – but they have been much more vocal about it than they have on agribusiness. My assumption is simply that **investors are very slow to realize the role that forests and land use play in climate change**, and have faced much less pressure on these issues."

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Mongabay Series: [Global Commodities](#)

BlackRock silent on livestock in latest global warming policy

by André Campos - Repórter Brasil, Piero Locatelli - Repórter Brasil on 9 September 2020



- In July, BlackRock, the world's largest investment fund manager, said it would take concrete action against at least 53 companies for their inaction regarding global warming and place 191 others under observation.
- But the announcement left out one of the major drivers of global warming: the meat industry, which is the main cause of deforestation in the Brazilian Amazon.
- In May, Blackrock became the third-biggest shareholder in JBS, the world's largest meatpacker, which was at the centre of a series of allegations this year of illegal deforestation in its supply chain.

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Presentation of the new Findings

► 51.136 financial deals identified

► USD 153.2 billion in credit since the Paris Climate Agreement

► Investment of USD 37.3 billion in 2020 (April)

Is Your Money Destroying Rainforests or Violating Rights?

forestsandfinance.org reveals the finance flowing into commodities driving deforestation and land degradation in Southeast Asia, Central and West Africa, and Brazil

It features:

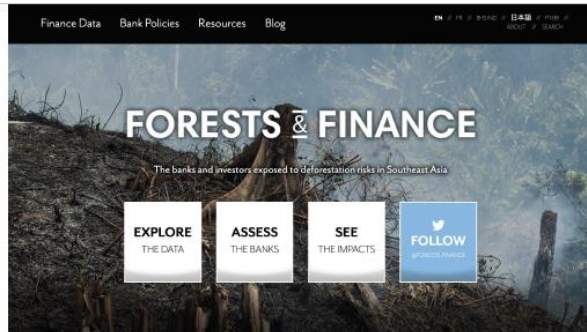
- a searchable database on financier-client deals from 2013 onwards
- scorecards on bank policies as relevant to forest-sector environmental, social and governance (ESG) risks
- case studies on clients linked to deforestation and human rights abuses

Explore the Data
Search the database to discover the links between banks, investor and forest-risk commodity companies. Run searches using different filter options including finance type, bank or investor, bank or investor region, forest-risk client or group, year and forest-risk sector. Results can be exported for further analysis.

Filter By	Institution	Product Name	Commodity Sector	Financing Type	Year	Amount (USD \$Bn)
Investor	Monnet Bank	Forestry Finance	Palm Oil	Construction	2019	480.00
	Monnet Bank	Forestry Finance	Palm Oil	Plantation	2019	480.00
	Monnet Bank	Forestry Finance	Palm Oil	Processing	2019	480.00
	Monnet Bank	Forestry Finance	Palm Oil	Trading	2019	480.00
Bank	HSBC Bank	Forestry Finance	Palm Oil	Construction	2019	480.00
	HSBC Bank	Forestry Finance	Palm Oil	Plantation	2019	480.00
	HSBC Bank	Forestry Finance	Palm Oil	Processing	2019	480.00
	HSBC Bank	Forestry Finance	Palm Oil	Trading	2019	480.00
Forest-Risk Commodity	Monnet Bank	Forestry Finance	Palm Oil	Construction	2019	480.00
	Monnet Bank	Forestry Finance	Palm Oil	Plantation	2019	480.00
	Monnet Bank	Forestry Finance	Palm Oil	Processing	2019	480.00
	Monnet Bank	Forestry Finance	Palm Oil	Trading	2019	480.00

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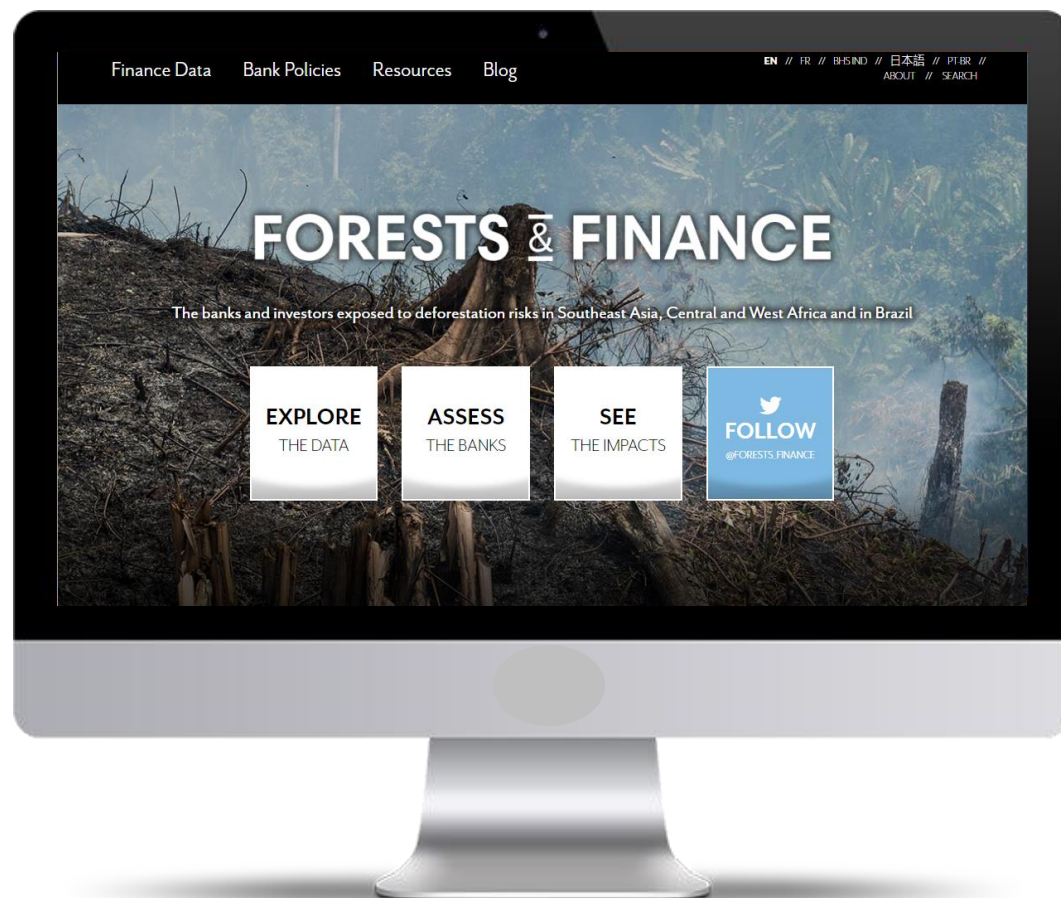
**But banks and investors can
choose to be part of the solution.**

Recommendations

- Robust ESG standards and due diligence processes by banks and investors are needed to turn the tide on the devastating social and environmental impacts endemic to the forest-risk commodity sectors.
- Financial institutions need to move faster, in larger numbers, across more regions, and adopt uniformly higher ESG standards than has occurred to date.
- Financial sector regulation has a critical role to play in accelerating and shaping this agenda, in order to ensure the economy serves public policy objectives.

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Questions ?



Check our website www.forestsandfinance.org to see more!

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The banks and investors exposed to deforestation risks in Southeast Asia, Central and West Africa and in Brazil

