JBS: Environmental Justice Risks in 2022

December 2, 2024, JBS Factory Farm.

Summary

In 2022, a client requested that Responsible Alpha develop 12 case studies and the underlying business, economic, and investment analysis used by 123 environmental, indigenous rights, and racial justice organizations in their letter to the Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission on the proposed rule "The Enhancement and Standardization of Climate-Related Disclosures for Investors."

Responsible Alpha's analysis suggests investors need companies to disclose their climate-related financial risks and strategies for managing them, their greenhouse gas (GHG) emissions, their plans to remain viable or thrive in a low-carbon future economy, and their financial resilience across these dimensions, as it relates to and is in support of the communities where these companies exist, and their impacts are often felt and underreported. To further buttress and support this analysis, Responsible Alpha wrote 12 business cases of which the case below on JBS is one.

Brazil-based JBS, $16 billion market capitalization, $14.6 billion in fixed income securities outstanding, 250,000 employees, is the world's largest processor of animal protein. JBS emissions rose from 280 million metric tons of carbon dioxide equivalent (MtCO2e) in 2016 to 421.6 MtCO2e in 2021 – an increase of 51 percent over five years – and 90 percent of these emissions are Scope 3 emissions driven by its cattle production and upstream deforestation and degradation. JBS climate footprint is greater than the country of Italy, yet JBS does not report on its Scope 3 emissions, which are 90 percent of its emissions.

Meanwhile, over the same period of time, due to ongoing and undisclosed deforestation risks, corporate frauds, and other risks which resulted in investors and JBS paying more than $3.4 billion in separate financial penalties, costs increased for JBS and risks increased for its investors, beneficiaries, and lenders.

Company Overview

JBS processes meats, such as beef, pork, lamb and chicken, as well as hides. The company has more than 450 production units and commercial offices on five continents and in more than 20 countries and it serves customers in approximately 180 countries. JBS operates through five primary divisions: JBS USA Beef, JBS USA Pork, Pilgrim's Pride, JBS Brasil, and Seara.

JBS Brasil division consolidates the production of beef, leather and new businesses. It comprises the assets and brands of beef, leather and related businesses in the country, with brands such as Friboi, Bordon, Swift and more than 10 businesses in biodiesel, collagen and ingredients, natural wrappings, hygiene and cleaning, waste management, metal packaging, transport, among others.

This case focuses on deforestation and degradation from JBS Brazilian operations where it sources beef from ranchers in the Amazon and other regions in Brazil. The practice of clearing forest for livestock grazing is a key driver of deforestation and associated greenhouse gas emissions that are responsible for climate change and global warming.

Climate Risks

JBS has been linked to unregulated and at times illegal Amazonian deforestation since 2008. Since the mid-2000s, JBS has made many zero deforestation commitments, and, then subsequently, it has broken all of the deforestation commitments it has made.

It is estimated that JBS' total deforestation from JBS supply chains are 64 million hectares, or roughly the size of West Virginia. In 2021, JBS Scope 1, 2, and 3 emissions were estimated to be 421.6 MtCO2e, greater than Italy – a country of 59 million people, whose emissions in 2019 were 418.3 MtCO2e. JBS methane emissions have also caused concern amid a growing recognition that methane exerts a much stronger short-term warming effect than carbon dioxide.

Community Risks

Cattle ranchers in JBS supply chain upstream often use fire deliberately to burn forests and clear land to prep for cattle ranching but this negative health impacts.

A recent study estimated that increase in deforestation in the Amazon between 2012 and 2019 increased the dry-season fire count by 39 percent, and that this increase resulted in between 3,300 and 3,500 additional deaths due to particulate air pollution. The analysis demonstrated the benefits of reduced deforestation on public health in the Amazon.

A separate study of the 2019 fires in the Amazon found that the fires caused 2,195 hospitalizations, of which 21 percent involved infants under 1 year old. This assumed to be a significant undercount because of the limited access of Amazonian and Indigenous Peoples' communities to health facilities. In fact, the study concluded that 4.5 million people in 168 municipalities were exposed to harmful levels of fine particulate matter. Respiratory impacts were amplified beginning in 2020 by the COVID-19 pandemic.

Environmental Risks

The Amazon in Brazil and throughout Latin American is being pushed to its tipping point, where it passes beyond a critical threshold unable to recycle moisture hindering its ability to regenerate leading subsequently to a drying of the forests, fire, and collapse releasing significant amounts carbon dioxide and methane into the atmosphere, and then accelerating climate change and global warning past the globally agreed upon 2° Celsius limit.

With strong multidecadal data on Amazonian fires, tracking fires, their location, the owner of the property, and, after it is deforested, the place of the products produced from property within global supply chains are now available and well documented.

For example, from July to September 2019, of the 376,000 fire alerts documented – *60 percent of the fires were in JBS estimated buying zones.*

Scientific climate models demonstrate that as the Amazon is deforested and it becomes drier due to the biotic pump of the Amazon weakening – on a normal day the Amazon releases 20 billion tons of moisture into the atmosphere – deforestation creates a vicious cycle of drying leading to fire, fire leading to forest degradation, and forest degradation leading to even more drying.

Forecasts state that the lengthening dry season, exacerbated by deforestation, in the southern Amazon may reach this tipping point within a generation, producing a multidimensional catastrophe that includes risk to the water security of the southern half of the South American continent.

Concurrently, as deforestation accelerates in the Amazon, Indigenous Peoples' and forest-dependent communities are disproportionately impacted directly and indirectly through the erosion of livelihoods and access to natural resources that they depend upon.

Risks Facing JBS

- 2017 and 2021: JBS $1 billion initial public offering of its JBS Foods International division was postponed twice, first in 2017 and again in 2021, with the firm losing out on billions in funding.
- 2017: JBS and its lead investors and founders agreed to pay $3.2 billion over 25 years to Brazilian regulators for frauds committed.
- 2017; JBS was fined $7.7 million knowingly purchasing cattle that were raised on 200 square miles of illegally deforested land.
- 2017: In one two-month period, JBS market capitalization declined $2.3 billion, increasing the cost of capital for JBS to fund its operations.
- 2017: Moody's downgraded JBS credit rating from Ba3 to Ba2 increasing it funding and borrowing costs.
- 2020: JBS and its largest shareholder representing paid settled with the U.S. Department of Justice and Securities and Exchange Commissions for $128 million and $27 million in penalties respectively.

Risks Facing JBS Investors and Lenders

- 2017: In one two-month period, JBS market capitalization declined $2.3 billion, as its share prices declined more than 50%, increasing the risk to asset owners and their beneficiaries, who had invested in JBS via asset managers.
- 2017: JBS and its lead investors and founders agreed to pay $3.2 billion over 25 years to Brazilian regulators for frauds committed.
- 2018: The Government Pension Fund of Norway divested its est. $350 million equity investment in JBS. Costs to beneficiaries were not disclosed.
- 2020: Nordea Asset Management divested its est. $47 million equity investment in JBS. Costs to beneficiaries were not disclosed.
- 2020: JBS and its largest shareholder representing paid settled with the U.S. Department of Justice and Securities and Exchange Commissions for $128 million and $27 million in penalties respectively.

Conclusion

JBS has had a long history of corporate frauds and related illegal activity. Investigations by Brazilian authorities into JBS have produced numerous accusations and settlements related to bribery, financial and accounting violations, labor standards, and illegal deforestation. JBS's largest shareholder is J&F Investimentos, owned by JBS founders including ex-CEOs Joesley and Wesley Batista and their father.

In 2017 in Brazil, J&F Investimentos, its executives including the Bautista family, and JBS agreed to pay $3.2 billion over 25 years following testimony by ex-CEOs Joesley and Wesley Batista that they spent about $185 million over several years to bribe nearly 1,900 politicians. At the same time, JBS was also fined $7.7 million by IBAMA because JBS knowingly bought cattle that were raised on 200 square miles of illegally deforested land. In the U.S., in October 2020 J&F and JBS settled with the Department of Justice for $128 million in penalties and JBS SA settled for $27 million in penalties with the SEC.

This ongoing cascade of scandals forced JBS to cancel its 2017 initial public offering for JBS Foods International estimated at $1 billion. Its subsequent IPO in 2021 was again cancelled.

The combination of these and other allegations has negatively impacted the company's performance and altered the firm's corporate strategy.

In 2017, declining revenues, material regulatory fines, and reputational risks resulted in a Moody's downgrade from Ba3 to Ba2. In one two-month period in 2017, due to reports of JBS executives bribing officials and illegal deforestation, JBS stock collapsed from $6.96 to a low of $3.68 resulting in a $2.3 billion decline in JBS' market capitalization.

Also in 2017, corporations such as Domino's, Waitrose, and many others ceased sourcing from JBS.

Subsequently, many leading institutional investors have now publicly have excluded or divested their holdings from JBS including the Government Pension Fund of Norway, Nordea Asset Management, and others, due to the material risks the firm's operations present.

Governance issues have created "lasting questions that need to be addressed if an IPO is to come in the future." These lasting questions may cost JBS in coming years due to the **higher costs of capital** if they cannot take the company public.

Annex: Timeline of Risks

Not exhaustive

2007: Since 2007, after an IPO to raise capital, with the support of BNDES, JBS has pursued an aggressive strategy to become a dominant player in the global meat market by acquiring rivals inside and outside of Brazil, financed mainly by debt. This expansion came without instituting standard corporate governance procedure. The company therefore grew without acting responsibly, or in some instances, illegally.

2007: BNDES, Brazil's development bank has had a stake in JBS, now valued April 2022 at 22.79 percent stake of JBS through its equity arm, BNDES Participações SA.

June 2007: in June 2007 JBS secured a $600 million loan from BNDES (later increased to $750 million), used towards its purchase of Swift & Company for $1.4 billion.

2009: JBS, Bertin, Minerva and Marfrig, representing a 65 percent market share of Brazilian beef exports, committed to a Cattle Agreement for the Amazon. This included strict monitoring and certification to exclude either beef or leather from newly deforested, indigenous or protected lands from their supply chains.

2012: Tesco cancels beef contracts linked to JBS after Greenpeace demonstrates deforestation via JBS supply chains.

December 5, 2016: JBS announced plans for a U.S. IPO**.**

March 17, 2017: Brazilian federal police served court orders, warrants, and detention requests to JBS and BRF for allegedly bribing meat inspectors.

March 21, 2017: Brazil's environmental protection agency, IBAMA alleged JBS knowingly bought cattle that were raised on 200 square miles of illegally deforested land. The environmental agency, IBAMA, ordered the suspension of two JBS meat packing plants and 13 others in southwest Pará state for buying cattle raised on pastures cleared by slashing and burning the forest. It fined the company 24 million reais ($7.7 million).

May 12, 2017: the Brazilian Federal Audit Court (TCU) released an audit of alleged fraud into Brazilian Development Bank (BNDES) loans used by JBS to finance its 2007 Swift & Company acquisition.

May 26, 2017: JBS Chairman of the Board Joesley Batista resigned. Tarek Farahat was named the new JBS Chairman of the Board.

May 31, 2017: J&F Investimentos agreed to pay USD 3.2 billion over 25-years following testimony by J&F owners Joesley and Wesley Batista that they spent about USD 185 million over several years to bribe nearly 1,900 politicians. The Batista family, via the holding company FB Participações, is the controlling shareholder of JBS. They own 42.3 percent while BNDES owns 21.3 percent.

June 6, 2017: The Guardian reported that JBS allegedly paid about USD 3 million from 2013 to 2016 for cattle sourced from a farm in the state of Pará where Brazilian prosecutors in June 2016 uncovered laborers forced to work under inhumane and degrading conditions. The farm owner had also previously been fined USD 36 million for illegally deforesting an area of 33,000 hectares from 2012 to 2015. As a result, Waitrose and Domino's Pizza suspended purchasing from JBS.

July 13, 2017: J&F Investimentos sold their 86 percent position in Alpargatas SA for USD 1.1 billion.

July 19, **2017:** The Securities and Exchange Commission of Brazil (CVM) stated it had opened two probes into foreign exchange transactions by J&F Investimentos. It also stated that it was conducting 12 other investigations into alleged corporate wrong-doing by J&F controlled companies, including allegations of insider trading.

July 25, 2017: JBS announced that its banks will allow it to roll over 90 percent of its USD 6.5 billion in notional debt for the next 12 months in exchange for amortizing 10 percent of this debt in four installments over the next 270 days. JBS also committed to apply 80 percent of its assets sales' net proceeds to amortize debt.

July 31, 2017: Minerva completed its USD 300 million purchase of JBS Paraguay, Frigorico Caneloness, JBS Argentina, and Industria Paraguaya Frigorifica pursuant to the share purchase and sale agreement executed on June 5, 2017 with JBS.

August 2, 2017: JBS listed Pilgrim's Pride reported stronger Q2 2017 earnings than expected. They reported adjust EBITDA 49 percent up year-over-year.

August 3, 2017: President Temer barely survived a vote by the Brazil's lower house of Congress 263 to 227 that would have given the okay for his prosecution for allegations that he received millions of dollars in bribes from JBS. As a result, JBS USD one billion IPO scheduled for H1 2017 was delayed and JBS financial position has weakened. The Batistas have sold other assets to ensure financial stability for JBS and to pay for their legal settlements after they confessed to corporate crimes used to grow JBS globally, generating possibly over USD five billion from these sales.

August 4, 2017: J&F Investimentos agreed to sell Vigor Alimentos – its cheese and yogurt business – to Mexico's Grupo Lala SAB. The deal is worth USD 1.8 billion. This sale has an exit multiple of 17.4X EV/EBITDA, which is very high. Lala entered into an agreement to buy 91.99 percent of Vigor from FB Participações and JBS. JBS had a 19 percent ownership position in Vigor.

October 17, 2017: JBS cancels IPO for U.S. processed food unit valued at $500 million.

November 4, 2019: "JBS developed a modern social and environmental monitoring system that uses satellite imagery, geo-referenced farm data and information from government agencies to analyze daily over 90k cattle suppliers in Brazil. Of these 90k suppliers, 50k are in the Amazon region. JBS monitors around 110 million acres of land in the Amazon region. They can track if there was deforestation in the past. The company is tracking specific areas rather than social security numbers, as one number can be blocked and they can use another in the same property. If a land suffered deforestation since 2009, this land will be blocked. The company can take this blocking, but the land owner needs to have presented a forestation project. The same goes for indigenous land. The objective of this tool is to identify and block suppliers that are not in compliance with the company's social and environmental criteria. Only the sustainability area is responsible for blocking or unblocking farms to supply the company. There are currently 7k farms in Brazil that are blocked from selling to them."

August 1, 2020: Nordea Asset Management divests EUR 40 million in JBS shares over environment, COVID-19 response. Nordea was one of 29 international financial institutions managing $3.7tn (£2.9tn) worth of funds that warned the Brazilian government last month over rising deforestation. Last year, Nordea suspended the purchase of Brazilian government bonds after the Amazon fires crisis.

October 12, 2020: JBS announced that its controlling shareholder J&F has reached an agreement with the U.S. Department of Justice (DOJ) to pay $256 million in fines to settle for the same wrong doings that were included in their leniency agreement signed with the Brazilian authorities (link). Of the total amount, J&F received a 50 percent discount related to the fees/penalties that were already paid to the Brazilian authorities and thus J&F will pay $128 million in fines to the DOJ. It is worthwhile to flag that this settlement puts an end to all criminal exposure of J&F and its affiliated related to the wrong doings. The company also announced that JBS has reached an agreement with the U.S. Securities and Exchange Commission (SEC) to pay $27 million in fines on failing to maintain proper governance and accounting controls over its poultry subsidiary PPC.

March 23, 2021: JBS announced a commitment to reach net zero global greenhouse gas (GHG) emissions by 2040. To reach this target and reduce emissions the company will adopt several strategies:

- Reduce emissions in its facilities by at least 30 percent until 2030 (based on 2019 levels).
- Invest more than U$1bn in incremental Capex dedicated to emission reduction projects over the next decade.
- Eliminate illegal Amazon deforestation from it supply chain, including the suppliers of its suppliers, by 2025 and in other BZ biomes by 2030, with the target to reach zero deforestation across its global supply chain by 2035.
- Utilize 100 percent renewable electricity in its facilities by 2040.
- Invest $100 million until 2030 in R&D projects to assist producers.

April 21, 2022: Institute for Agriculture and Trade Policy (IATP) found that JBS emissions rose from 280 million metric tons of carbon dioxide equivalent (MtCO2e) in 2016 to 421.6 MtCO2e in 2021 – an increase of 51 percent over five years. To put those figures in context, Italy – a country of 59 million people – produced 418.3 MtCO2e in 2019.