MEDIA BRIEFER

Detailed Analysis of JPMorgan Chase's Environmental and Social Policy Framework Update

February 2020

BACKGROUND

On February 25, 2020, at its annual Investor Day, JPMorgan Chase published new restrictions on its lending and underwriting of coal and Arctic oil and gas, the first climate commitments from its asset management arm, and a strengthening of its clean financing target.

These steps put JPMorgan Chase on par with Goldman Sachs as having the strongest restrictions on lending and underwriting for fossil fuels among the big six U.S. banks, although the asset management measures lag behind BlackRock's recent policy. But as the world's biggest banker of fossil fuels between 2016-18, by a 29% margin, JPMorgan Chase bears a unique responsibility among commercial banks to phase out its climate impact.[1] These new policies do not meet that responsibility.

An archived copy of JPMorgan Chase's previous Environmental and Social Policy Framework can be found at bit.ly/JPMC_ESPF, its updated Environmental and Social Policy Framework can be found here, and a fact sheet with additional details about its new commitment can be found here.

Press statements about this announcement, including quotes, are here:

- Rainforest Action Network (RAN)
- Sierra Club and Gwich'in Steering Committee

COAL MINING

Previous commitment:

a) Projects: Prohibition on project or asset-specific financing for new greenfield coal mines
b) Companies:
   i) Commitment to over the medium term, reduce credit exposure (via lending) to companies that derive a majority of their revenue from coal mining
   ii) Commitment to continue decreasing exposure to companies engaged in mountain removal (MTR) mining, exceeding any decline in the overall market

Updated commitment:

a) Projects: As before
b) Companies:
   i) Prohibition on lending, capital markets (underwriting) or advisory services for companies that derive a majority of their revenue from coal mining
   ii) Commitment to phase out the remaining credit exposure to these companies by 2024
   iii) Prohibition on lending, capital markets or advisory services for companies engaged in mountain removal mining

Key strengths:

- ***Commits to phase out.*** JPMorgan Chase commits to get to zero exposure to majority coal mining companies on a defined, short-term timeline. This makes JPMorgan Chase the first major U.S. bank to set a date by which it will have fully cut ties with some coal mining companies.
- ***Immediate exclusion of some coal companies.*** This policy means that effective immediately, JPMorgan Chase will not provide new financing for majority coal mining companies or companies involved in MTR mining.
- ***Covers capital markets.*** The updated policy applies not just to credit exposure, but also to JPMorgan Chase's underwriting of bond and share issuances for these companies.
- ***Covers advisory services.*** This means that JPMorgan Chase won't help one company offload its coal mining assets onto another.

Key weaknesses:

- ***Covers only majority-coal companies, plus companies involved in MTR.*** This policy only applies to companies that derive a majority of their revenue from coal mining, plus companies involved in MTR. This means it does not apply to large diversified miners for which coal contributes less than half of their total revenue, but are nonetheless major coal producers. To illustrate the size of this loophole, three of the top ten coal miners in the world, by annual production, could still be financed under this policy.[2]

COAL POWER

Previous commitment:

a) Projects: Prohibition on project or asset-specific financing for new coal-fired power plants *in high income OECD countries*, with potential exceptions if carbon capture and storage is utilized
b) Companies: Expectation that the proportion of coal power within the range of power generation financed by the bank will continue to decline

Updated commitment:

a) Projects: Prohibition on project or asset-specific financing for new coal-fired power plants *worldwide*, or to refinance existing coal-fired power plants, with potential exceptions if carbon capture and storage is utilized
b) Companies: As before

Key strengths:

- ***Prohibits coal plant financing worldwide.*** JPMorgan Chase now prohibits direct financing for coal plants without carbon capture and storage regardless of their location.
- ***Covers refinancing of existing plants.*** This means that JPMorgan Chase cannot be involved in prolonging the life of a coal plant by helping it refinance.

Key weaknesses:

- ***Covers direct financing only.*** This gaping loophole allows JPMorgan Chase to continue financing companies that own coal-fired power plants and even companies that are building new coal-fired power plants if these plants, as is common, are being built without project-specific financing. By continuing to bank these clients, JPMorgan Chase is continuing to support the development of new coal-fired power.[3]
- ***Carbon capture and storage (CCS) carve-out.*** This policy allows financing of new coal plants if CCS is employed. Carbon capture and storage technology has yet to be proven at scale and is extremely expensive — meaning that coal plants with CCS cannot compete on price with solar or wind power, but may still be built if they receive sufficient government subsidies.[4] Furthermore, CCS does not address coal's other public health and environmental concerns, in particular those associated with mining.

OTHER COAL NOTES

This policy's overall approach to coal financing has other weaknesses, including:

- ***Allows financing for companies expanding coal.*** This policy allows JPMorgan Chase to continue financing companies that are expanding coal — whether in terms of mining, power, or transport and services. Emissions from oil, gas, and coal already in development use up the carbon budget for a 2°C temperature rise, underscoring that the world cannot afford buildout of new coal mines, plants, railways, or terminals.[5] Any company with these sort of expansion plans should be immediately ineligible for receiving financing from JPMorgan Chase if the bank is truly serious on climate. This is pressing on coal power in particular, given that JPMorgan Chase has provided $8.27 billion in financing between 2017 and the third quarter of 2019 to companies developing new coal plants, as identified on urgewald's Global Coal Exit List.[6]

- ***Does not cover coal transport and services.*** The policy allows financing of coal transport and service projects, such as railways and terminals. New projects of this type make up a key part of the coal value chain and financing them must be immediately prohibited in order to keep the Paris Agreement's goals within reach.

ARCTIC OIL AND GAS

Previous commitment: Enhanced due diligence for transactions in the region

Updated commitment:

a) Projects: Prohibition on project or asset-specific financing for upstream, midstream or downstream greenfield oil and gas development in the Arctic, including the Arctic National Wildlife Refuge

b) Companies: None

Key strengths:

- ***Covers gas as well as oil.*** Unlike Goldman Sachs, whose recent policy announcement only prohibits financing for Arctic oil projects, JPMorgan Chase's policy applies to gas development in the Arctic as well.[7] This makes JPMorgan Chase the first of the big six U.S. banks to put in place a prohibition on financing any sort of gas development.
- ***Applies to activities onshore and offshore.*** The policy applies to oil and gas development in both onshore and offshore areas in the Arctic.
- ***Covers direct financing of services and transport.*** By prohibiting direct financing for midstream and downstream development of Arctic oil and gas, JPMorgan Chase cannot provide direct financing for infrastructure such as pipelines and LNG terminals in the Arctic region.
- ***Explicit mention of the Arctic Refuge.*** By explicitly stating that JPMorgan Chase will not provide financing for greenfield oil and gas projects in the Arctic Refuge, JPMorgan Chase joins a growing group of banks moving to protect this sensitive ecosystem. The Arctic Refuge sustains a diverse wildlife population, as well as the lives and culture of the Gwich'in people, who have depended on the land for thousands of years.[8]

Key weaknesses:

- ***Applies to project or asset-specific financing only.*** The policy does not place any explicit restrictions on financing *companies* involved in Arctic oil and gas development, unless the use of proceeds for a given transaction is known. Fossil fuel companies often do not seek direct financing for their projects, meaning that JPMorgan Chase could still indirectly finance Arctic oil and gas by funding companies for which the Arctic is only one of their areas of operation.
- ***Covers greenfield projects only.*** This stipulation allows JPMorgan Chase to finance expansions of existing oil and gas projects in the Arctic region.
- ***Geographic definition based on a 10°C July Isotherm boundary.*** JPMorgan Chase's policy applies to the area in the Arctic that does not experience temperatures above 10°C. As the planet, and particularly the Arctic, continues to warm in the coming years, this isotherm boundary may shift and shrink. A more robust and steady definition of the Arctic would be to use the boundary of the Arctic Circle, as many other banks have done.
- ***Does not explicitly rule out exploration.*** By not explicitly ruling out financing for exploration, JPMorgan Chase could potentially still support exploration for new oil and gas reserves in the sensitive Arctic ecosystem, which is destructive in itself — especially techniques such as seismic testing — as well as being a precursor to extraction.

OTHER OIL AND GAS

In the three years following the adoption of the Paris Agreement (2016-2018), JPMorgan Chase was:

- Wall Street's biggest banker of tar sands oil (including supporting Line 3 and Keystone XL by banking Enbridge and TC Energy, respectively);
- The world's biggest banker of liquefied natural gas (LNG), and;
- The world's second biggest banker of fracking.[9]

Despite JPMorgan Chase's preeminent role in financing the oil and gas industry this policy announcement does not involve any restrictions on financing oil and gas outside the Arctic. Royal Bank of Scotland (soon to be named NatWest) recently established global best practice in this area for private banks, committing to stop lending and underwriting to any fossil companies without a credible Paris-compatible transition plan.

OVERALL CLIMATE IMPACT TARGETS

Alongside drawing red lines on particular fossil fuels, best practice for global banks now also requires setting targets to proactively reduce overall climate impact. For example, Royal Bank of Scotland has committed to halve the climate impact of its lending and underwriting by 2030, and Lloyd's has committed to halve the climate impact of its lending by the same date.[10]

As the world's biggest banker of fossil fuels, it is incumbent upon JPMorgan Chase to demonstrate climate leadership by setting a best-in-class target in this space.

HUMAN AND INDIGENOUS RIGHTS

Financing fossil fuels often means financing abuses of human rights (at the individual level) and Indigenous rights (at the collective level).

For instance, JPMorgan Chase is a leading banker of TC Energy, operator and joint owner of the Coastal GasLink pipeline, a fracked-gas pipeline that is being rammed through unceded Wet'suwet'en territory in Canada. This month, the Canadian police carried out a five-day militarized police raid against peaceful Indigenous land defenders, in order to get TC Energy's pipeline built.[11] As a major banker of TC Energy, JPMorgan Chase is complicit in these Indigenous rights abuses — even though its policy expects clients to obtain free, prior and informed consent of Indigenous Peoples.

This policy update does not involve a strengthening of JPMorgan Chase's human rights commitments, in the context of climate change, fossil fuel development, or otherwise.

ASSET MANAGEMENT

With growing pressure and scrutiny on asset managers' proxy voting behavior, JPMorgan Asset Management is following BlackRock and State Street in committing to integrate climate into its approach to shareholder stewardship. JPMorgan Asset Management is joining the Climate Action 100+ coalition, an investor initiative using shareholder engagement and voting to drive climate progress with many of the world's biggest corporate polluters. JPMorgan Asset Management's decision to join the initiative marks an about-face, as it has been one of the worst performing asset managers in this regard: in 2019, JPMorgan Asset Management voted for less than 7% of climate-related resolutions.[12] The upcoming proxy voting season will offer an immediate test on the consistency and transparency of this new commitment.

Disappointingly, despite the investment bank's significant new moves on coal, the company's asset management arm has failed to institute any divestment measures on coal or other fossil fuels. This comes a month after the world's largest asset manager, BlackRock, committed to remove companies with 25% or higher revenue from thermal coal production from all of its actively managed funds, and to exclude thermal coal from all ESG funds.[13] JPMorgan Asset Management continues to own a significant amount of fossil fuel holdings,[14] and many of its ESG or so-called "sustainable" portfolios are filled with coal, oil, and gas holdings.[15]

CONCLUSION

If JPMorgan Chase is serious about aligning bank policy and practice with a just transition to a world in which climate change is limited to 1.5° Celsius and human rights are fully respected, it must adopt and implement meaningful policies to restrict financing for fossil fuels worldwide:

- **Stop financing fossil fuel expansion.** Potential emissions from the coal, oil, and gas reserves already in production would take the world well beyond 2°C of warming, let alone 1.5°C. This means that financing any new coal mines or power plants, or any new oil and gas infrastructure, is incompatible with the goals of the Paris Agreement. JPMorgan Chase must stop financing expansion of fossil fuel extraction and infrastructure, whether via direct financing for new fossil fuel assets or through general corporate finance to companies that are expanding fossil fuel production and use.

- **Commit to phasing out fossil fuel financing on a timeline aligned with 1.5ºC.** In addition to stopping fossil fuel expansion, JPMorgan Chase should commit to aligning its overall fossil fuel policies and practices with the most prudent emissions pathway detailed in the Intergovernmental Panel on Climate Change's special report on global warming of 1.5ºC, which calls for emissions to be almost halved by 2030 and effectively reduced to zero by 2050.[16] To achieve this pathway, JPMorgan Chase must phase out its financing of existing coal, oil, and gas extraction and infrastructure — that is, it must do for all fossil fuels what it has just done for majority-coal mining companies.

- **Respect human rights.** Stop financing projects and companies that abuse human rights, especially Indigenous rights.

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