

# Case study: Beef, banks and the Brazilian Amazon: How Brazilian beef companies and their international financiers greenwash their links to Amazon deforestation

**Link:** <https://www.globalwitness.org/en/campaigns/forests/beef-banks-and-brazilian-amazon/>

## HOW CREDIBLE ARE THE CREDIT RATING AGENCIES?

A company's credit rating shows investors it is a safe bet. Three credit rating agencies dominate the industry: Moody's, Standard & Poor's (S&P) and Fitch<sup>1</sup>. So important are they, that when they gave their highest ratings to three trillion dollars' worth of bad credit, it helped crash the global economy in 2008<sup>2</sup>. Now their ratings could be contributing to another crisis: the destruction of tropical forests.

As the devastation of the Amazon escalated, these three agencies failed not only to downgrade the ratings of JBS and Marfrig for their links to deforestation but gave them more favourable ones, despite promising to take into account the environmental performance of companies<sup>3</sup>. As of May 2020, S&P upgraded JBS's credit rating, without mentioning its links to deforestation<sup>4</sup>. In a 2020 report, S&P described Marfrig's credit rating as "stable". Once again, deforestation was not mentioned<sup>5</sup>.

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<sup>1</sup> Investopedia, A Brief History Of Credit Rating Agencies

<https://www.investopedia.com/articles/bonds/09/history-credit-rating-agencies.asp>

<sup>2</sup> The Big Picture, Bloomberg: Blame the Ratings Agencies (Part I), "Driven by competition for fees and market share, the New York-based companies stamped out top ratings on debt pools that included \$3.2 trillion of loans to homebuyers with bad credit and undocumented incomes between 2002 and 2007. As subprime borrowers defaulted, the companies have downgraded more than three-quarters of the structured investment pools known as collateralized debt obligations issued in the last two years and rated AAA. Without those AAA ratings, the gold standard for debt, banks, insurance companies and pension funds wouldn't have bought the products.", 2008, <https://ritholtz.com/2008/09/bloomberg-blame-the-ratings-agencies-part-i/>

<sup>3</sup> Financial Times, Credit rating agencies turn attention to ESG risk, February 2019, <https://www.ft.com/content/c1f29e0c-6012-3ac5-9a05-13444b89c5ec>

<sup>4</sup> Greeley Tribune, Standard and Poor's upgrades JBS credit rating, PUBLISHED: October 12, 2018 at 6:30 a.m. | UPDATED: May 28, 2020 at 7:24 a.m., <https://www.greeleytribune.com/2018/10/12/standard-and-poors-upgrades-jbs-credit-rating/>

<sup>5</sup> S&P Global, <https://www.spglobal.com/ratings/en/research/articles/200429-protein-processors-scramble-to-adjust-to-disruption-from-pandemic-11467310> AND:

The agency Fitch also upgraded JBS's credit rating in June 2020<sup>6</sup>. Yet reviewing the last three years of Fitch's reporting on JBS's ratings shows deforestation was simply not a consideration<sup>7</sup>. Fitch also recently upgraded Marfrig's credit rating. Deforestation was again not considered<sup>8</sup>. Neither did Moody's recent credit upgrades for JBS and Marfrig include deforestation as a risk<sup>9</sup>.

Some agencies evaluate a company's environmental performance separately from its credit rating. S&P, for example, said: "There is no link between an ESG Evaluation and a credit rating – they are two separate opinions. When assigning an ESG Evaluation to a rated entity, we do not expect to learn any new ESG-related information material enough to affect the credit rating."<sup>10</sup> Thus, if a company is linked to environmental damage, this, according to S&P, should not impact its credit rating.

Even when ESG risks were highlighted, these had little to do with environmental issues and rarely impacted a rating. In Moody's upgrade of JBS's ratings for example, they only highlighted "judicial processes" and "litigations" against the company as risks for investors, but despite this upgraded the rating anyway<sup>11</sup>. In S&P's credit upgrade for JBS they stated the only ESG risks for investors related to official investigations of the company's "major shareholders for corruption"<sup>12</sup> - but again this did not stop the upgrade.

ESG issues are thus ignored, or seen exclusively as governance risks. Meanwhile, JBS and Marfrig are rewarded for their failures by investors that do inadequate due diligence, encouraged by credit ratings and agencies that do not sufficiently factor in the companies' links to the destruction of the Amazon.

When these allegations were put to the credit rating agencies, Moody's replied stating its "credit ratings reflect the likelihood that entities will meet their debt obligations on time and in full, and incorporate ESG and climate risks to the extent that they are material to credit. Beyond credit ratings, Moody's and its affiliates offer a variety of tools for evaluating companies on the basis of ESG and climate factors."

Fitch replied stating it had registered our allegations "as a complaint for review by Fitch Ratings' control function". It added: "JBS scores five under one of its ESG Relevance Score risk elements,

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<https://www.spglobal.com/ratings/en/research/articles/200820-credit-faq-implications-of-brazilian-meat-processors-juicy-second-quarter-results-11619273>

<sup>6</sup> Fitch ratings for JBS SA. Accessed 22 June 2020. <https://www.fitchratings.com/entity/jbs-sa-87468174#ratings>

<sup>7</sup> Fitch ratings for JBS SA. Accessed 22 June 2020. <https://www.fitchratings.com/entity/jbs-sa-87468174#ratings>

<sup>8</sup> Marfrig Global Foods S.A., 02 Ratings Actions, see last three years of articles, <https://www.fitchratings.com/entity/marfrig-global-foods-sa-87227374#ratings>

<sup>9</sup> Moody's Rating Action: Moody's upgrades JBS to Ba2; stable outlook, December 2019, [https://www.moodys.com/research/Moodys-upgrades-JBS-to-Ba2-stable-outlook--PR\\_414423](https://www.moodys.com/research/Moodys-upgrades-JBS-to-Ba2-stable-outlook--PR_414423) AND: Moody's, Marfrig Global Foods S.A., 05 July 2019, Marfrig Global Foods S.A.: Update following upgrade to B1, <https://www.moodys.com/credit-ratings/Marfrig-GlobalFoods-SA-credit-rating-809870321>

<sup>10</sup> S&P 'How we apply our ESG evaluation to our analytical approach'. 10 April 2019 <https://www.spratings.com/documents/20184/4918240/ESG-Analytical-Approach-FAQ.pdf>

<sup>11</sup> Moody's Rating Action: Moody's upgrades JBS to Ba2; stable outlook, December 2019, [https://www.moodys.com/research/Moodys-upgrades-JBS-to-Ba2-stable-outlook--PR\\_414423](https://www.moodys.com/research/Moodys-upgrades-JBS-to-Ba2-stable-outlook--PR_414423)

<sup>12</sup> Greeley Tribune, Standard and Poor's upgrades JBS credit rating, PUBLISHED: October 12, 2018 at 6:30 a.m. | UPDATED: May 28, 2020 at 7:24 a.m., <https://www.greeleytribune.com/2018/10/12/standard-and-poors-upgrades-jbs-credit-rating/>

which means that this ESG element has a significant impact on its rating and acts as a constraint on its speculative grade rating. Marfrig, also speculative grade, has a score of 4 under a similar ESG risk element that also impacts its ratings.” Standard and Poor’s did not respond to our requests for a comment.