

JP Morgan Chase Bank: Environmental Performance

Introduction

In this article I will focus on the environmental record of JP Morgan Chase. A future article will deal with the issue of financial sustainability of the bank. Both articles deal with the question: should a Socially Responsible Investment (SRI) fund invest in J P Morgan Chase Bank? On the evidence below, the bank's environmental record is poor.

Domini is an investment firm specialising in socially and environmentally responsible investing. It manages funds for people who want to integrate ethical standards into their investment decisions.

The organisation says shareholders in its funds make a difference in the world by engaging companies on such issues as global warming, sweatshop labour, and product safety. It also claims to help revitalise distressed communities, bringing new voices to the table.

As part of a dialogue with Domini, I asked them why they invested in JP Morgan Chase Bank, the second largest bank in the US. On 18 August 2011, Adam Kanzer, Domini's social investments spokesperson, replied as follows:

“Approval of a company for our funds, particularly a company of the size and importance of JP Morgan Chase, is never an easy decision. These firms often present a mix of positive and negative characteristics. The financial sector is particularly difficult – no major financial institution is without controversy.

“JP Morgan Chase has a complicated story. The company is the largest small business lender in the U.S. In 2010, we understand that the company extended \$10 billion to small businesses, about \$800 million in financing to nonprofits, and \$100 million to community development organizations, and it provides lower interest rates to businesses that are creating new jobs. The company has also contributed billions in financing for renewable energy companies. In these areas, the bank is far ahead of its peers.

“However, the bank also has serious problems with foreclosures. While the company has processed over a million loan modifications in the last two years, it has been repeatedly criticized for mishandling foreclosures. On balance, we've felt that JP Morgan Chase has been willing to help homeowners to stay in their homes, but we do have concerns.

“We have approved a substantial number of Canadian banks because they were more conservatively managed and have avoided many of the risks and questionable practices of their U.S. counterparts. We have excluded a significant number of the very largest U.S. banks and financial companies for these very reasons, including Bank of America, Citigroup and Wells Fargo, along with a host of others.

“JPMorgan Chase and American Express are among the few U.S. banks that have survived our scrutiny. We continue to monitor these, and balance their negatives and positives. In general, companies are reviewed for major developments and generally undergo a full review at least once every 18 months.

“Several years ago, Domini was part of a small coalition of shareholders that convinced the bank to hire its first Director of Environmental Affairs, and adopt a comprehensive set of environmental policies, with a very strong focus on climate change. ... We have also discussed human rights issues with the bank, and were pleased to see their adoption of a human rights policy. ...

“We are currently in dialogue with JP Morgan Chase about its political activity. We are seeking to convince the bank to publicly disclose all of its political contributions, including payments to trade associations used for political purposes.

“We are also questioning the bank’s role as a board member of the U.S. Chamber of Commerce. Our shareholder proposal went to a vote at the bank’s annual meeting this year and received a very strong vote of 37 per cent.”

JP Morgan Chase’s Environmental Principles

JP Morgan Chase is an Associate Member of the Equator Principles. These apply to projects with a total capital cost of \$10 million or more. The bank adopted the Carbon Principles, and participates in the United Nations Environment Program for Financial Institutions. It has signed up the United Nations Principles for Responsible Investment, and it participates in the Carbon Disclosure Project. (See my article *Carbon Disclosure and Australasian Banks* in NZ Investor, July, for background information about the Project.)

In-House Actions

In 2008, JP Morgan Chase committed to reducing its greenhouse gas emissions 20 per cent by 2012 compared to 2005. It report that it is currently well on its way to achieving that goal. JP Morgan Chase state it encourages its suppliers to have effective environmental policies and management practices in place.

JP Morgan Chase is working to maximize the use of environmentally preferable paper, such as post-consumer waste recycled content paper, as well as paper supplied from independent third-party certified, well managed forests. Through the "electronification" of paper statements in 2010, they eliminated 203 million statements for retail and credit card customers.

J.P. Morgan Treasury Services' Go Green campaign, launched in 2007, has worked with more than 10,000 clients to eliminate more than 141 million documents (40 million in 2010), the equivalent of four million pounds of paper. Of the paper it used, 87 per cent was certified as coming from sustainably managed forests.

Renewable Energy Investments and Initiatives

From 2003 to year-end 2010, JPMorgan Chase has made cumulative tax equity investments totalling more than \$3.2 billion, and, over the same period, arranged an additional \$3.5 billion from other institutions in 67 wind farms, four geothermal projects, 12 photovoltaic solar projects and a large, concentrated thermal solar facility in the United States.

The total installed capacity of more than 6,500 megawatts of wind in which JPMorgan Chase has invested can power close to 1.9 million U.S. homes annually

and also represents 16 per cent of the total installed wind capacity in the United States.

JPMorgan Chase's wholly-owned independent subsidiary, EcoSecurities, originates and manages the world's largest portfolio of emission reduction projects eligible to be used for compliance under the European Union's Emission Trading Scheme and other national programs.

Evaluation

The United Nations Principles of Responsible Investment, and the Carbon Principles, unfortunately are inadequate in helping decide whether a company is acting in an environmentally responsible way.

Carbon Disclosure Project

While the bank is to be applauded for supporting the Carbon Disclosure Project, the information from the Project shows that J P Morgan Chase has a lot of work to do. Banks that Domini excluded from its portfolio (Wells Fargo; Bank of America Merrill Lynch) scored far better marks than J P Morgan Chase.

The bank's reported emission of 1,322,232 metric tons is only for in-house activities. It does not include the impact of loans. Because of the bank's financial support for mining, oil and gas, the full carbon impact of the bank is not reported.

Domini does not invest in coal companies and does not invest in rail companies that derive the majority of revenues from the transportation of coal. This is not consistent with an investment in J P Morgan Chase.

Equator Principles

In J P Morgan Chase's 2010 Corporate Responsibility Report they described their Risk Review according to the Equator Principles (see table).

Transactions Receiving Environmental and Social Risk Management Review

<i>Sector</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>Total</i>
Oil and Gas	6	24	12	42
Mining	20	53	9	82
Chemicals	0	4	3	7
Forestry, pulp and paper	3	8	0	11
Agriculture	0	7	4	11
Manufacturing	1	24	8	33
Power	8	21	4	33
Infrastructure	2	5	3	10
Shipping and Storage	0	4	5	9
Other	2	3	2	7
Total	42 (28)	153 (117)	50 (41)	245 (186)

Category A — Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented.

Category B — Projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

Category C — Projects with minimal or no social or environmental impacts.

Brackets indicate the number of transactions that were approved (186). The difference of 59 of the 245 were dropped for non-environmental reasons by deal teams after the environmental and social review had been completed.

By this report the bank approved 145 projects (A and B) that were classified as having potential adverse social or environmental impacts. The largest number was in mining followed by oil and gas, and manufacturing.

BankTrack's report *Close the Gap*, stated that the only policy that received a respectable score was for the JP Morgan Chase's forestry policy.

Conclusion

J P Morgan has started to develop some policies and practices for its own operation to reduce its environmental impact. It has a good way to go. Its carbon footprint as recorded in the Carbon Disclosure Project is still too wide and heavy.

In regard to its investment policies, the bank's support of renewables is encouraging but too small. It continues to support mining, oil and gas ventures that it regarded as having potential adverse social or environmental impacts. There are many policies that it needs to develop and implement for it to become environmentally responsible.

Should an SRI fund invest in JP Chase Morgan? Because of a poor environmental record, investment could only be justified if there is active engagement with the bank and prospects of change.

To date there has been some changes, such as the appointment of a director of Environmental Affairs, due to engagement by Domini and others. But the SRI funds should be pressing for much more significant change.

If you are invested in J P Morgan Chase and concerned about its environmental performance, let your fund or advisor and the bank know about that concern. Support engagements such as Domini. If you are not invested in this bank, you need to carefully weigh the pros and cons of Domini before doing so.

Respect for the environment has yet to become a core part of the corporate culture of JP Morgan Chase, and considerably more change is necessary.

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