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Green Bonds Likely To Blossom Despite Paris Accord Fallout

By **Tom Zanki**

Law360, New York (June 7, 2017, 7:37 PM EDT) -- President Donald Trump's call to withdraw the U.S. from the Paris climate agreement won't dampen the outlook for green bonds, experts say, noting that momentum for this nascent but growing segment of debt capital markets is gaining steam independently of the accord.

Green bonds, which have no unified legal definition but broadly encompass debt-raising for environmentally friendly purposes, hit a record $93 billion globally last year, according to Moody's rating agency. Growing public policy support for cleaner energy coupled with investor demand for debt instruments that finance such projects are cited as reasons for the growth.

Attorneys who advise energy-related finance deals don't see those fundamentals changing in light of the U.S.' potential departure from the landmark Paris pact. The agreement took effect last November and, while not binding, has been credited for boosting the appeal of green bonds.

"It certainly was a psychological blow to the green community, but not necessarily a practical blow to it," Shearman & Sterling LLP partner Robert Freedman said of Trump's call to pull out. "I think there is way too much momentum for sustainability and green on a global basis and in the U.S."

Trump last week said the U.S. will leave the nonbinding agreement, which calls on the participating 195 countries to voluntarily enact policies aimed at restraining global temperature growth to within 2 degrees Celsius above preindustrial levels. Trump said the pact undermines American industry and sovereignty, drawing jeers from many global leaders and environmental advocates worried that a pullout would reverse international progress on fighting climate change.

Whether or not the U.S. ultimately exits the pact — something that can't happen before 2020 under the agreement's rules — attorneys who spoke to Law360 see little reason for alarm. They note that the idea of green bonds dates back to 2007 and was steadily gaining market acceptance before the accord.

"It predates the Paris agreement and in my view is mostly independent of it," Mayer Brown LLP partner Paul Forrester said.

The first quarter of 2017 generated $29.7 billion in green bond proceeds, according to Moody's, up 75 percent from year-ago figures thanks largely to a £7 billion ($7.5 billion) green bond issued in January by France. The issuance was marked as the largest ever by the French government.

The current pace puts 2017 on track to generate $120 billion of green bond proceeds, which would represent a 29 percent increase from last year's record. That's still barely a sliver of the total $100 trillion global debt market, albeit more than triple the $36.6 billion in green bond dollars Moody's recorded in 2014.

Many forces are contributing to the growth of green bonds, including support for the idea outside the U.S. Chinese issuance accounted for 35 percent of 2016 issuance, according to Moody's.

Within the U.S., experts note, states are likely to pursue financing for environmental projects regardless of whether the U.S. participates in the Paris accord. California Treasurer John Chiang has said he plans to host a symposium this fall on overcoming obstacles to green bonds.

Attorneys also expect municipal bodies to step up activity in response to aging infrastructure, particularly coastal cities that need to update antiquated wastewater systems.

"Whether or not there is a global agreement in place to move to lower carbon output, infrastructure adaptation or resilience will require significant funding," White & Case LLP counsel Tallat Hussain said.

Corporations are getting into the act too. Apple Inc. unveiled a $1.5 billion green bond last year, saying the tech giant would pursue projects that reduce the impact of climate change by using renewable energy and improving energy efficiency within facilities and products throughout Apple's supply chain.

Apart from enabling corporations to demonstrate credibility on environmental matters, experts note, green bonds benefit from a growing investor base that is interested in allocating capital to projects involving renewable energy or energy efficiency. Moody's has said it expects a wider range of green bond types to develop, including money market securities in the form of short-term commercial paper and preferred stock, plus various securitized and structured transactions.

"Private equity and institutional investors are continuing to focus on climate change along with other environmental issues even in the absence of the U.S. government taking the lead," White & Case counsel Seth Kerschner said.

And whether the U.S. actually leaves the Paris accord is far from final. Under the agreement's rules, a country can't submit notice to exit the arrangement until three years after the November 2016 pact took effect — or November 2019.

After that, a country must give one-year notice of its exit plans, pushing the timetable to the 2020 presidential election at the earliest, assuming Trump proceeds with plans to leave. Trump, who had argued he would have preferred to renegotiate the pact, can also change his mind.

In the meantime, experts say, there is plenty of fertile soil for green bonds to grow.

"We don’t see a negative impact on green bonds per se,” Hussain said. “If anything, we think that the need for alternative finance structures will still be there so we actually see the potential for the market to be more and more comfortable with green bonds.”

--Editing by Pamela Wilkinson and Edrienne Su.

Correction: A previous version of this story misstated an attorney's title. The error has been corrected.