

# Australia

# New Zealand



**Total green bond issuance: Australia AUD8.3bn (USD6.3bn), New Zealand NZD2.1bn (USD1.5bn)**  
**2018 issuance in Q1 and Q2: Australia AUD2.6bn (USD1.95bn), New Zealand NZD200m (USD136m)**  
**Growth expected particularly from green RMBS in Australia and renewable energy in New Zealand**

### Green bond markets growing under different policies

**Australian entities\* were early issuers of green bonds** and have been important players ever since. The Australian green bond market has been driven by the banking and real estate sectors since the first deals in 2014.

**New Zealand issuers entered the market in 2017 with a Certified Climate Bonds programme.** Australia and New Zealand are leaders in best practice and Certification under the Climate Bonds Standard.

Australia and New Zealand are characterised by small populations, high GDP per capita and well-developed capital markets. Australia also benefits from a AUD2.6tn superannuation market. While bond markets, particularly corporate bond markets, remain small in both countries, their green bond markets are growing.

In terms of climate policy, New Zealand and Australia are in contrast. Little progress has been made in Australia since the government signed the Paris Agreement in 2015. Competing narratives around emissions reduction and energy issues have hindered green investment, particularly in the energy sector. New Zealand, on the other hand, has committed to carbon neutrality by 2050 and is looking at mechanisms to phase out fossil fuels.

However, policy is not the whole picture. Despite an unfavourable policy backdrop, Australian banks, sub-sovereigns and corporate issuers have been global and regional leaders in the green bond market. Australia was the second largest cumulative source of issuance within the Asia-Pacific region in H1 2018 and 12<sup>th</sup> in the world, outpacing even large bond markets like Japan.

Australia has also emerged as a best practice model of market development with commitment from the major banks, a diversity of issuers and high levels of certification, which requires ongoing impact reporting. Such features are key to investor confidence and demonstrate leadership to new markets.

The nascent New Zealand market has shown encouraging signs of implementing best practice from the start. Neither nation has time to rest on their laurels – if climate targets are going to be met, scale, market depth and increased corporate participation is required.

### Australia

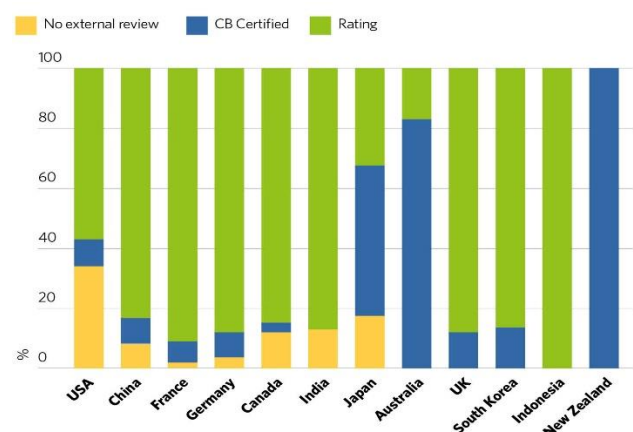
The first Australian entities\* to issue green bonds were **Stockland** and **NAB** in 2014. They became two of only a handful of corporations worldwide to have issued green bonds and set the tone for the market. While still small in absolute terms, the market has continued to innovate and lead in the green bond space.

### Australia and New Zealand are important players in the Asia-Pacific region



Note: Figures show cumulative issuance up to 30 June 2018

### Australia and New Zealand are global leaders in certification under the Climate Bonds Standard



\* **Methodology:** This report covers issuance from entities with Australia as their country of risk. AUD Green Bonds were introduced to the Australian market by development banks before 2014 but are not included in this report.

**Financial institutions have driven market growth**, with the four major banks – **NAB, ANZ, Westpac** and **CBA** having issued Certified Climate Bonds. The importance of these banks cannot be understated. Between them, they account for approximately 27% of the market capitalisation of the ASX100<sup>1</sup>, and hold about three quarters of the AUD4.6tn in assets held by Australian deposit-taking institutions.<sup>2</sup> Their role in providing finance for a low carbon transition through green bonds, green loans and underwriting is pivotal. As **green underwriters** the banking sector is a source of vital support for other new issuers advising on the green issuance process, market conditions and investor appetite.

**The role of sub-sovereigns is becoming increasingly important.**

The first local government green bonds from **Treasury Corp of Victoria (TCV)** (2016) and **Queensland Treasury Corp (QTC)** (2017) were raised to finance a range of transport, water, buildings and energy projects. Both states have provided new impetus to the market and are building on the foundations laid by the banks. Early government entry into developing domestic green markets provides other potential issuers with proof of concept. By adopting global best practice on certification and disclosure, both Queensland and Victoria are reinforcing a high benchmark for other issuers to follow.

**100% of issuance has received an external review with 85% Certified Climate Bonds**, demonstrating market best practice.

Internationally, Australia is a leader in certification under the Climate Bonds Standard with 12% of global certified volume, making it the third largest source of certified issuance after China and USA.

**Renewable energy dominates use of proceeds** but transport projects are attracting increasing green bond funding. Energy projects primarily comprise wind and solar developments such as the Sunshine Coast Solar Farm (QTC bond). Recent growth in wind and solar projects may be collateral for future bank green bonds.

Green buildings projects have been a consistent part of the market due to the strength of the **NABERS** and **Green Star** certification schemes. Transport is a growing proportion of the allocation mix due primarily to the two sub-sovereign bonds (95% of the first QTC bond was allocated to transport projects).

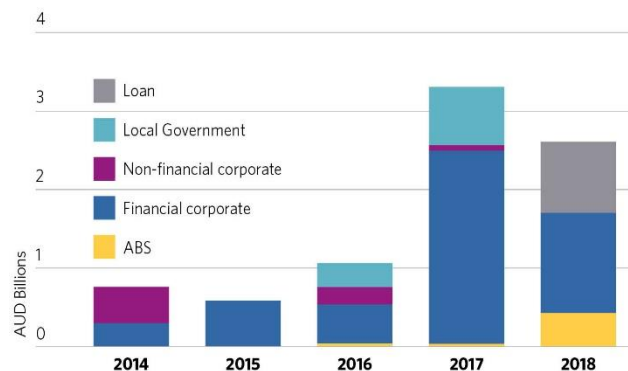
**It's not just corporate and sub-sovereign bonds. FlexiGroup**, through Flexi ABS Trust 2016-1 issued a AUD50m tranche as part of a wider securitisation deal, earmarking the green tranche proceeds on loan receivables from residential rooftop solar PV systems. The non-bank lender returned to market with two further deals in 2017 and 2018, including the first subordinated green ABS tranche in the Flexi ABS Trust 2018-1 transaction.

Leadership has also emerged from the tertiary sector with **Monash University** marking a world first with their 2016 AUD218m green bond in the US private placement market. **Westpac** has also issued offshore: Uridashi bonds for Japanese retail investors.

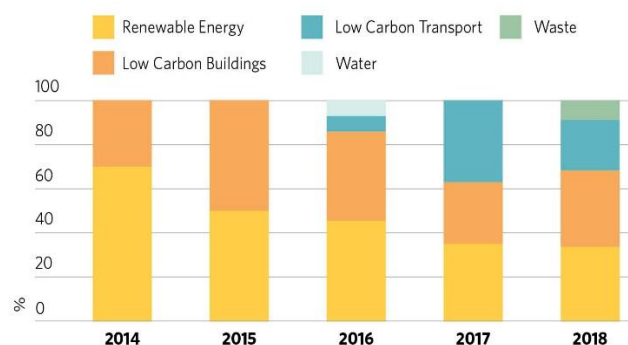
In 2018, **NAB** initiated a global first with its Low Carbon Shared Portfolio Notes which give investors access to a portfolio of eight loans originated by NAB under its Certified Climate Bonds programme and secured on existing wind and large-scale solar projects in Australia. As part of a GBP2bn loan facility, **Macquarie Group** issued two tranches totalling GBP500m to support renewable energy projects initially and a wider range of green projects in the future. The growing diversity of products appeals to a range of investor types and is an indication of a maturing market.

**53% of Australian bonds are denominated in AUD** while the rest are issued in EUR, GBP and USD. Large offshore deals included NAB's 2018 USD750m deal – the largest Australian green bond to date and the Westpac's EUR500m bond in late 2017.

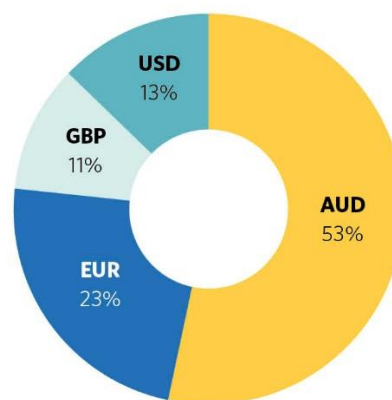
**Banks and sub-sovereign issuers are driving the Australian green bond market**



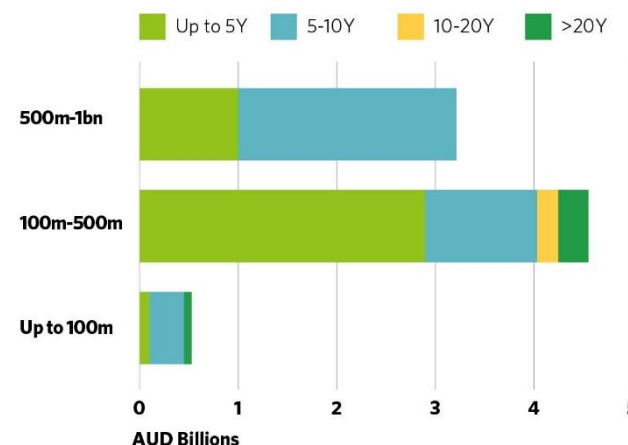
**Proceeds are financing energy, transport, buildings**



**53% of issuance is AUD-denominated**



**Medium term bonds dominate but longer tenors are becoming more common in Australian**



**Longer tenors are emerging across the Australian bond market** due, in part, to the 2016 issuance of the first 30-year Australian government bond in recent times.<sup>3</sup> It attracted widespread interest from investors across the world and opened the door for longer-dated domestic issuance. The green bond market has been no exception with some long tenor bonds like Monash University (25 years) and an average tenor of almost 9 years.

**A range of other social and environmental products abound.** While not covered by this report, they demonstrate the strength in demand for a range of ESG-based fixed income investment products such as the NAB Social Bond (Gender Equality) and their ground-breaking SDG Green Bonds, ANZ’s SDG Bond, Newpin Social Impact Bond and the Australian Catholic University Sustainability bond.

## New Zealand

New Zealand is a relatively recent entrant to the green bond market with the first instrument issued in 2017 by Contact Energy. The City of Auckland followed in mid-2018, raising market awareness and bringing total issuance to USD1.5bn.

**A world first “Green Borrowing Programme”** was launched by power utility **Contact Energy** in late 2017 to fund its geothermal power generation assets. The programme includes existing and

future debt and was certified under the Geothermal Criteria of the Climate Bonds Standard. Eligible debt under the Programme currently amounts to NZD1.8bn (USD1.4m).

Certifying an entire programme provides flexibility to Contact Energy as it allows it to refinance and raise new debt at any time, using a variety of debt instruments such as public and private placement bonds, retail bonds, term credit facilities, an export credit line and a commercial paper programme.

**The City of Auckland** broke new ground in 2018, becoming the second green bond issuer in New Zealand with its NZD200m deal in June. The bond will finance electric trains and related infrastructure.

The Auckland bond was also notable for its inaugural listing on the NZX, a pointer to future green secondary market possibilities if local issuance volumes grow.

### More on Australia and New Zealand

The **Green Infrastructure Investment Opportunities Australia & New Zealand** report identifies a pipeline of green projects in both countries and provides references cases.

## Green bond issuers to date

Country	Issuer	Issued amount <sup>1</sup>	First issue date	External review <sup>2</sup>	Use of proceeds summary	GB as % of all bonds <sup>3</sup>
Australia	ANZ Bank	AUD 600m	Jun 2015	Certified	Energy (solar, wind), buildings	1%
	Commonwealth Bank of Australia	AUD 650m	Mar 2017	Certified	Energy (wind), buildings, transport	<1%
	FlexiGroup (via ABS entities)	AUD 181m	Apr 2016	Certified	Energy (solar)	N/A
	Investa (2 property funds)	AUD 250m	Apr 2017	Certified	Buildings	8%
	Macquarie Group (loans)	AUD 880m	Jun 2018	SPO	Energy, waste management, buildings, transport	4%
	Monash University	AUD 284m	Dec 2016	Certified	Energy (solar), buildings	N/A
	NAB and 2 related entities	AUD 2.5bn	Dec 2014	Certified	Energy (solar, wind, marine), transport, buildings	2%
	Queensland Treasury Corp.	AUD 750m	Mar 2017	Certified	Energy (solar), transport	1%
	Stockland Trust Management	AUD 461m	Nov 2014	SPO	Buildings	26%
	Treasury Corp Victoria	AUD 300m	Jul 2016	Certified	Energy (solar, wind), buildings, transport, water	1%
	Westpac Banking Corp	AUD 1.5bn	Jun 2016	Certified	Energy (solar, wind), transport, buildings	1%
New Zealand	Contact Energy (programme) <sup>4</sup>	NZD 1.8bn	May 2013	Certified	Energy (geothermal)	N/A
	Auckland Council	NZD 200m	Jun 2018	Certified	Transport	3%

Notes: 1. Issued amount reflects AUD or NZD equivalent regardless of currency of issue. 2. “Certified” denotes a green bond which has been Certified under the Climate Bonds Standard and sector specific criteria. More information on certified bonds is available on the Climate Bonds Initiative website. 3. Amounts are calculated as a percentage of total debt for the issuer listed on Thomson Reuters EIKON. In some cases, this information is not available or not listed, e.g. private placements and loans in the case of Contact Energy and Monash University. 4. Certified in 2017, the programme includes existing and future debt.

## Five talking points for future issuance



### Climate-aligned issuance indicates opportunities in the energy and transport sectors

The Climate Bonds Initiative identifies potential green bond issuers by surveying current bond issuers across the world and determining which of them derive a significant proportion of their business from green activities. The results are summarised in our annual Global State of the Market report.

This year’s research has identified potential issuers in the rail sector in Australia including Reliance Rail and Aurizon Network. As their debt is refinanced, it could be relabelled as green to increase its visibility and discoverability for domestic and international investors with an ESG mandate or interest.

In New Zealand, potential issuers were identified in the energy sector due to the high proportion of energy generated from renewables. These include Meridian Energy and Mercury NZ.



**Could green RMBS unlock scale for the Australian residential property market?**

The RMBS market in Australia showed record growth with a total issuance of AUD33.5bn in the 2016/17 financial year, up 45% on 2015/16. This compares to AUD10.6bn in debt issued by non-financial corporates in the same period.<sup>3</sup> Given building codes in most states, there is huge potential for green loans to be aggregated into RMBS deals. The NRMBS 2018-1 green tranche (NAB) is secured on residential mortgages which meet Climate Bonds criteria.

The Climate Bonds Criteria for Low Carbon Buildings in Australia use Australian building codes and energy ratings certification schemes as proxies for Certification. This provides a streamlined process to package potential loans and pave the way for growth in green RMBS.



**How can green bonds help in Australia’s drought?**

The need for climate-resilient water infrastructure is in the spotlight as Australia’s eastern states suffer one of the worst droughts in history. Climate modelling predicts that climate change will result in a long-term reduction in rainfall in SE and SW Australia.<sup>4</sup> Green bonds can be used as a tool for federal or state governments to raise finance to introduce water saving and management measures as was done by South Africa’s City of Cape Town in 2017.

It is important that the definitions are clear. While short-term funds for drought relief are important now, green bonds should finance infrastructure and systems that increase long-term resilience.

The Climate Bonds Initiative has convened expert groups in water, agriculture and climate resilience to develop best practice for future investment in these sectors.



**Can green bonds help in Australia’s recycling crisis?**

Australia has long had high recycling rates – just over 50% of household waste is recycled – but until recently most of this was being exported to China for processing. In July 2018, China announced that the import of waste will be banned, throwing local councils into turmoil as they seek alternative options to process material locally. While it may be a short-term crisis, in the longer term, there will need to be large investment in the industry, much of which could be financed by green bonds.



**Australia’s superannuation fund market will underpin growing demand for green bonds**

The superannuation market stands at approximately AUD2.6tn with about 25% of it invested in fixed income.<sup>5</sup> This is lower compared to Canada (40%), UK (45%) and South Korea (95%). Simultaneously, many Australian funds are seeking more ESG based investment opportunities providing ongoing demand<sup>6</sup> for green issuance. As funds respond to the Task Force on Climate-related Disclosures and climate risk issues<sup>7</sup>, institutional pressure will grow on local companies to reflect the brown to green transition in their business plans and capex decisions driving further green issuance from the ASX100 and ASX200.

**Conclusions and next steps**

Green bond markets across the world have grown in different ways. In the US and much of Europe, the market kicked off in the absence of policy or regulatory measures and has been spurred on by market infrastructure such as green bond funds and green index listings. In China and India, the market was stimulated from the top down – guidelines were put in place by regulators which then encouraged issuers to enter the market. Closer to home, SE Asia has seen multiple national policy decisions from Hong Kong to Malaysia to Indonesia to promote green finance. The ASEAN Green Bond Standards are another indicator of regional direction.

In Australia and New Zealand, green bond markets have emerged without any formal market infrastructure or policy support due to the active role of key issuers. Both countries will require a much larger pipeline of green projects and investment if they are to meet their Paris targets. This will ultimately rely on more substantive policy support for green projects and green finance.

In Australia, the current politics around energy pricing and supply has led to discussions about reinvestment in aging coal plants rather than renewable energy. So, in some sectors there is a long way to go, but there are encouraging signs too:

- In **Australia**, building code legislation applicable to housebuilding in New South Wales, Tasmania and Victoria has resulted in all new houses in those states qualifying for certification under the Climate Bonds Standard.
- In **New Zealand**, carbon neutrality targets are facilitating new renewable energy projects. The NZX has also outlined that its future support for the green bond market may include green bond listing segments, ETFs and guidelines.<sup>8</sup>

The local market has developed with banks and other issuers leading by example in formulating global best practice. Additional market infrastructure and policy support would be a positive signal to issuers and investors and spur further growth.

**Endnotes:** 1. <https://www.asx100list.com/>; 2. <https://financialservices.royalcommission.gov.au/publications/Documents/some-features-of-the-australian-banking-industry-background-paper-1.pdf>; 3. <https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf>; 4. [https://www.ipcc.ch/pdf/assessment-report/ar5/wg2/WGIIAR5-Chap25\\_FINAL.pdf](https://www.ipcc.ch/pdf/assessment-report/ar5/wg2/WGIIAR5-Chap25_FINAL.pdf); 5. <http://www.elri.com.au/wp-content/uploads/The-Australian-Corporate-Bond-Market-Discussion-Paper.pdf>; 6. <https://responsibleinvestment.org/wp-content/uploads/2018/07/Media-Release-launch-of-Benchmarking-Impact-2018-FINAL.pdf>; 7. <https://www.apra.gov.au/media-centre/speeches/australias-new-horizon-climate-change-challenges-and-prudential-risk>; <https://www.apra.gov.au/media-centre/speeches/weight-money-business-case-climate-risk-resilience>; <https://asic.gov.au/about-asic/media-centre/speeches/climate-change/>; 8. <https://www.nzx.com/services/listing-on-nzx-markets/debt/green-bonds>

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