Corporate Knights
The Company for Clean Capitalism

Climate Bonds Initiative

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<u>Corporate green investment already vast, but needs to be accelerated</u>

Toronto & London, March 6, 2019 – While 17 per cent of current investment by large public corporations is already green, there's an urgent need to mobilize even more capital to help build a lower-carbon and more sustainable economy. And while less than five per cent of 2017 corporate green investments were financed via certified green bonds, they have the potential to play a much larger role. Those are the key conclusions of a report released today by Corporate Knights Research and the Climate Bonds Initiative.

The assessment encompasses more than 7,000 of the world's largest companies, representing all publicly traded companies with US$1 billion+ in revenues. Collectively, these companies were found to have made capital and research and development expenditures of $3.6 trillion in 2017. Corporate Knights then applied a recently developed, sector-specific taxonomy to determine what proportion of their revenues – and, by extension, their capex and R&D – can be classified as having clear and specific environmental benefits. This yielded a figure of $611 billion in green investments in 2017.

"It's heartening to know that so much of global corporate capital flows already supports carbon reductions and a cleaner and more circular economy," said Corporate Knights CEO Toby Heaps. "And it's not surprising, since the green economy is growing much faster than the regular economy. But we're still falling far short of the green investment needed to put the global economy on track to meet the U.N. Sustainable Development Goals."

To reach "SDG alignment"– which must include urgent action to combat climate change – Corporate Knights estimates that total corporate capex and R&D spending needs to be boosted from $3.6 trillion to $3.8 trillion annually, while the green component of that investment needs to rise from $611 billion (17 per cent of the total) to about $1.07 trillion (28 per cent of the total). Over 87 per cent ($399 billion) of the additional annual green investments required arise in the most transition-exposed sectors (energy, utilities, automotive, steel and cement).

"Less than five per cent of corporate green investments are currently financed via certified green bonds," said Climate Bonds CEO Sean Kidney. "There is enormous potential for companies to serve up green bonds as part of their brown to green transition and no shortage of institutional investors looking for quality low-carbon opportunities particularly in the most transition-exposed sectors where the bulk of incremental green investments are required."

While large, the incremental investment requirement identified in the report is modest in proportion to the estimated $117 trillion in assets under management and loan books held via publicly traded financial corporations. There is strong and growing investor interest in financing green activities. But with 2018 annual issuance of certified corporate green bonds of only $78 billion (including $49 billion from financial corporations and $29 billion from non-financial corporations), much stronger linkages are needed between green-motivated capital providers and the corporate initiatives that urgently require such funding. Potential solutions include:

- Agreement on taxonomies and definitions for green activities, revenues and investments, in particular to facilitate "Clean Transition Bonds" – a form of green bond that would finance de-carbonization activities within high-carbon sectors that would otherwise likely be bypassed by conventional green bond issuers.

- Broader efforts on the part of banks and other financial issuers to raise and recycle capital through securitization of their green loan books (the report estimates banks have outstanding green loan books of $390 billion, which could be securitized and issued as green bonds).

- A move away from strict, in-or-out specifications of how green bonds proceeds are used by companies, in favour of an approach though which companies that pass a credible test for their own SDG-alignment would see all of their debt issuance qualified as green.

Today's report also evaluates the green bond issuance potential of a representative cross-section of 21 of the 2019 Global 100 Most Sustainable Corporations in the World. This includes a determination of likelihood of green bond issuance, and percentage of green investment requirements that could be covered by such an issuance. These companies alone have incremental green capital requirements of approximately $43 billion annually in order to move to full SGD alignment, a significant portion of which could be covered by green bond offerings.

"To meet the environmental and social goals to which the world has committed in the Paris Agreement and through the UN SDGs, we need to accelerate the funding of the transition away from harmful activities and towards more sustainable ones," said Stephanie Sfakianos, Head of Sustainable Capital Markets for BNP Paribas, which sponsored the report. "It is with this objective in mind that BNP Paribas is fully committed to support the development of a Clean Transition Bond market, providing funding access to clients that may not be eligible for the established labelled green bond market but are looking to embark on courageous and necessary transformation or improvement plans."

Today's report can be accessed here.

Background

- The Corporate Knights Clean Revenue Taxonomy was developed in 2018, and reflects input from over 120 companies, bond issuers, raters, underwriters and institutional investors. The taxonomy identifies sector-specific activities, which reduce carbon or otherwise improve environmental outcomes, and is among the research helping to guide various national and international initiatives to better define green economic activities.

- The 17 interdependent Sustainable Development Goals (SDGs), and 169 associated targets, cover a broad range of social and economic issues. This includes, for example, needs for climate change action, and universal access to clean water and electricity. The SDGs were adopted by resolution of the U.N. General Assembly in 2015 as part of its 2030 Agenda.

- "SDG alignment" refers to the investment levels required to support achievement of the SDGs by 2030. Estimated investment increases calculated by the Global Infrastructure Hub (a G20 initiative) have been used. Across most economic sectors, an overall 23.4 per cent increase in current investment levels will be required for SDG alignment. In high-carbon sectors, a smaller overall investment increase is required, but a significant re-allocation of existing capex and R&D – from non-green to green investments – will be required.

- The 21 companies whose specific green investment potential is analyzed in the report are: Alphabet Inc., Tesla Inc., BMW AG, Toyota, Suncor, Total SA, Banco do Brasil, Bank of America, BNP Paribas, Sun Life Financial, Amundi Asset Management, Bombardier, Siemens AG, ABB Group, Unilever, HP Inc., Teck Resources, UPM-Kymmene, City Developments Limited, Acciona, and Iberdrola.

About Corporate Knights: Corporate Knights Inc. includes the business and society magazine *Corporate Knights* and a research division that produces rankings and financial product ratings based on corporate sustainability performance.

About Climate Bonds Initiative: CBI is an international investor-focused not-for-profit organisation working to mobilise the USD100 trillion bond market for climate change solutions. The mission focus is to help drive down the cost of capital for large-scale climate and infrastructure projects and to support governments seeking increased capital markets investment to meet climate goals. The Climate Bonds Initiative carries out market analysis, policy research, and market development; advises governments and regulators; and administers a global green bond certification scheme.

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