

China plays key role in green bonds

Clear trend set by one of the most committed nations in the global fight against climate change

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Whether you agree with the science or not, there is one undisputed fact: Our climate is changing.

Hurricanes and monsoons are becoming unseasonal with destructive forces not seen before. Unprecedented snow storms batter the northern hemisphere, and summer heat waves have intensified.

Just how much man has contributed to climate change has been a long-running debate between rich and poor countries.

Pollution is recognized as a contributing factor to climate change, and China leads the world in the fight to clean up those industries that most affect air and water quality.

Since the drafting of the Paris Agreement on climate change, green financing and sustainable development have become key development objectives in China's growth plans.

In just a few short years, China's green bond market, born as one of Beijing's responses to the 2015 Paris Climate Conference, has become the world's biggest.

Internationally aligned green bond issuance from China last year raised \$22.9 billion, according to data from Climate Bonds Initiative (CBI), an investment industry advocacy group based in London.

In its annual report *China Green Bond Market 2017* it said this was slightly lower than the \$23.6 billion reached in 2016.

The report noted, however, that despite the slight decrease, China remains one of the largest sources of issuance in the global green bond market in 2017.

"Globally, the United States was the largest issuer in 2017 with \$42.4 billion, followed by China and France. Other emerging markets, such as India and Mexico, were also among the top 10 issuers."

Since China's green bond market began in 2015, the country has issued over \$47 billion worth of green bonds and has become one of the world's most committed nations in the fight against climate change.

The environment is an issue President Xi Jinping has taken a par-

ticular interest in, putting China at the forefront of the climate change debate.

In his report to the 19th National Congress of the Communist Party of China on Oct 18 last year, Xi said China and its people had devoted "serious energy to ecological conservation".

"Taking a driving seat in international cooperation to respond to climate change, China has become an important participant, contributor and torchbearer in the global endeavor for ecological civilization," he said.

Green financing and sustainable development are key objectives of China's growth plans, said Lee Jini, a partner at international law firm Ashurst.

"The Chinese green bond market started to kick off in 2015, mostly due to the Chinese authorities' responses to the 2015 Paris Climate Conference," she told *China Daily Asia Weekly*.

Social responsibility

The People's Bank of China (PBOC) has estimated the country needs \$320 billion a year to meet government targets for addressing widespread air, soil and water pollution.

Most green bonds in China have a three- or five-year tenor. This allows Chinese banks and project developers to address a pressing problem — the mismatch in maturities between long-term infrastructure projects and the much shorter terms of trust products or other wealth management products that many banks have come to rely on in recent years, analysts say.

In China, green bonds play a larger role than in other economies, accounting for 2 percent of all bonds issued by domestic institutions and corporations, compared with 0.2 percent internationally, according to CBI.

For the second year running, China has dominated the green bond market, and the trend is expected to continue as the world's top carbon-emitter plays an ever increasing role in environmental protection.

"For investors, there is an increasing demand to satisfy environmental, social and governance (ESG) principles as part of their corporate policies," said Ashurst's Lee.



Workers install solar panels at a photovoltaic power station in Wuxi city, East China's Jiangsu province, on Dec 20 last year. China leads the way toward sustainable development and green financing plays an increasingly important role.

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She said green bonds offer investors direct access to the ESG-related sector.

"Investing in green bonds will help them gain international recognition for contributing to sustainable development," she said.

"Further, green bonds also have stricter information disclosure responsibilities and more transparent use of the proceeds, so investors can invest in environmental projects at a lower risk, at the same time satisfying their sense of social responsibility.

"For issuers, green bonds have attracted new types of investors to the market and provide diversification for the issuer."

Those who demand green bonds are usually responsible investors from the international capital market, banks, insurance companies, pension funds and fund companies that have a mandate for sustainable investment.

"This means they usually have a considerable investment allocation for green projects in their asset portfolio and therefore a large demand for green bonds," Lee said.

The proceeds raised by green bonds are invested in green projects, most of which enjoy subsidies from central and local governments.

Besides subsidies, preferential policies such as lower investment thresholds and more favorable tax rates are expected for green bonds.

These preferential policies can lower the financing cost to some extent, leading issuers and investors to invest more in projects for environmental protection, low-carbon development and sustainable development.

In China, commercial banks make up the largest proportion of issuance.

"This is partly attributable to the PBOC's announcement No 39 (2015), which encourages financial institutions to support green development and issuance of green bonds," Lee said.

More than 80 percent of China's green bonds are issued by commercial banks.

"China is one of the countries most exposed to pollution, particularly air pollution. Following the Paris 2015 United Nations Climate Change Conference, they have shown keenness to fight climate change," said Alban de Fay, a portfolio manager at Amundi Asset Management who handles socially responsible, fixed-income investments.

Government support

To many observers, China's status as a leading issuer of green bonds signals its commitment to address the environmental problems that have come with the country's rapid industrialization.

The growth of China's green capital market has come largely as a result of better government support, analysts said.

Sean Kidney, CBI's chief executive officer, told Xinhua recently that issuances of green bonds by three of the largest Chinese banks — Bank of China, Industrial and Commercial Bank of China and China Development Bank — were a "sign of the internationalization" of China's bond market.

In November last year, Bank of China issued a green bond in Paris denominated in three currencies — euro, US dollar and yuan — for a

total equivalent amount of \$1.5 billion.

It was the first issuance of a yuan-denominated green bond in the French capital, the Paris branch of Bank of China said in the statement.

This CBI-certified bond was issued in three tranches, namely 700 million euros, \$500 million and 1 billion yuan.

The issuance was subscribed by more than 230 investors, while the order book was more than 2.6 times oversubscribed, the bank said in the statement.

Proceeds were mainly for the construction of clean transport, renewable energy production and other green industry projects.

Kidney told Xinhua the green bond market was growing and that China was its most significant player.

"There has been very strong demand from offshore investors for quality green bonds, and the demand for this Bank of China green bond from international investors reflects that there is an appetite there for certified, quality green issuance out of China," said Kidney.

He said the government has been pushing for the development of green finance in order to seek sustainable growth and honor its commitments in addressing climate change.

Kidney said: "China is likely to stay at the head of the league table for global bond issuance, and green bond issuance will accelerate in 2018."

China accounted for nearly 40 percent of new green bonds in 2016, followed by the United States, France and Germany, said Moody's Investors Service, the credit rating agency.