Sustainable Manufacturers are Taking Financial Advantage of Green Corporate Bonds

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Manufacturers are reaping financial benefits from the robust green bond market that grew to $55 billion / yr. in just the last three years.

(Capital Markets Partnership – Mike Italiano: 3-31-16) Green Bonds are reducing carbon and other pollution as a very important addition to the traditional global capital markets bond function of providing an investment vehicle, tradable instrument, and bank underwriting fees. Wind and solar projects have been frequent green bond assets especially by the World Bank: http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html

Investors with over $70 trillion in assets want to buy green bonds, thus causing a rapidly growing market with bonds selling out providing cheaper cost of capital, higher valued bonds, and investors accepting lower bond yields.

Manufacturers also benefit from brand and share value improvement provided the green bonds are based on activities documented to reduce pollution and avoid greenwash which green bond investors are very wary of.

Greenwash is unlawful and can destroy brand and increase liability risk. For example, according to The Wall Street Journal (3-28-16), the Federal Trade Commission (FTC) filed a complaint against a leading car manufacturer for misleading claims touting its diesel vehicles as environmentally friendly, while admitting in enforcement actions initiated by the government that it installed some 600,000 U.S. vehicles with software meant to trick emissions tests.

Most manufacturer green bonds have been for LEED green buildings, hybrid cars, wind farms, and solar construction, e.g. Apple and Toyota green bonds.

Apple's $1.5 billion corporate green bond is paying for the company's renewable energy, energy and water efficiency, and green building projects supporting its manufacturing and office buildings. Apple's preliminary 2013 green bond prospectus states the bond will help reduce carbon and other pollution and toxic substances used in manufacturing.

Apple stated the primary purpose for its green bond is to *"allow investors to show they will put their money where their hearts and concerns are"* according to Reuters. Apple is the first computer and phone manufacturer to issue a green bond. The UK's *Inquirer* (5-3-13) reported that the bond oversubscribed many times (sold out), which provides financial benefits through greater bond proceeds and cheaper cost of capital.

Toyota's $1.75 billion green bond financed more sales and leases of hybrid cars that have greater fuel efficiency and reduced tailpipe emissions. The bond was initially set at $1.25 billion, but due to strong investor demand it quickly oversubscribed and issued at $1.75 billion according to Toyota Financial Services.

Toyota announced that the *"Green Bond program is unique in the auto industry and enhances Toyota's leadership reputation for green innovation"* (6-18-15 Toyota press release).

The bond finances cars with minimum EPA-estimated MPG of 35 city / 35 highway and California Low-Emission Vehicle II (LEV II) certification of super ultra-low emission vehicles (SULEVs) or higher, which would include partial zero emissions vehicles (PZEVs) and zero emissions vehicles (ZEVs).

Unilever's $360 million corporate green bond finances waste, water, and energy reduction in manufacturing. The bond was 3x oversubscribed in three hours with many new investors. In addition to oversubscription, investor diversification reducing risk is an important benefit to bond issuers as emphasized by DC Water's CFO Mark Kim. The utility's $300 million green bond received orders for $1.1 billion allowing more proceeds with the bond finally issued at $350 million according to Kim.

Unilever's CEO Paul Polman, whose company makes Lipton tea, Magnum ice cream and Dove soap, said sustainable consumption makes business sense because it *"saves us money,"* according to the Financial Times (3-19-14). The peer-reviewed *Green Bond Business Case* released at the New York Stock Exchange documents ten years of increased profitability from sustainable manufacturing due to reduced operating costs from less waste, and energy and water efficiency.

Leading underwriters are structuring green IPOs (initial public offerings), green corporate bonds, and cheaper cost of capital programs for certified sustainable manufacturers meeting consensus underwriting standards that document pollution reductions, social equity, reuse, reduction of toxins over the supply chain, certified compliance with the FTC's environmental marketing guides, and increased cash flow. Standard development and approval was led by Standard & Poor's, Allianz Global Investors, UBS, and National Wildlife Federation.

Sustainable manufacturing bonds are expected to be a large and long term market due to:

- Substantial and pent-up investor demand and resulting financial benefits to manufacturers
- Interest by purchasers for more certified sustainable products
- Increasing regulatory constraints on carbon as well as growing and substantial divestment and stranded assets
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- Standard & Poor's planned climate credit rating downgrades to warn investors as required by law
- Liability risk reduction
- Increased profitability of certified sustainable manufacturing