Corporate Knights
The Company for Clean Capitalism

Canadian green bond market has potential to top $50B annually

TORONTO, April 10, 2017 – Canada's capacity for green bond issues will be at least $56.3 billion in fiscal 2017/18. That's the finding in a Corporate Knights report being released this morning at the RBC Capital Markets Green Bond Conference in Toronto. The figure is based on an analysis of the capital requirements, debt-raising capacity, and intended uses of proceeds on the part of 21 of Canada's largest public and private bond issuers.

"There's clear momentum in green bond markets, but it's still seen as a niche and perhaps even challenging financing tool," says Corporate Knights CEO Toby Heaps. "A billion dollars worth of bonds formally labeled as green are currently being issued in Canada annually. This analysis shows there's potential for exponential growth."

The analysis took a bottom-up approach to quantifying potential bond issues and is the first of its kind in Canada. The exercise involved identification of the largest potential issuers with specific financing needs in the relevant timeframe, amenable to bond financing, and which would or could qualify as green. This was then cross-referenced with data on debt-raising capacity provided by RBC Capital Markets.

In 2017/18, the 21 potential bond issuers have a need and capacity to fund $23.60 billion worth of "explicitly green projects" – such as public transit, renewable energy, and loans for electric vehicle purchases and green power projects. They have a further need and capacity to fund $32.7 billion worth of "potentially green projects" – such as energy efficient construction or retrofitting of public buildings and installation of broadband.

Issuer (figures in $billions)	**Explicitly Green Projects/Financing**	**Potentially Green Projects/Financing**	**Total Green Bond Capacity**
Federal Government	$3.40	$3.10	$6.50
Crown Corporations	$0.36		$0.36
9 Largest Provinces	$11.9	$22.63	$34.53
Telcom – Bell		$3.88	$3.88
Telcom – Telus		$2.90	$2.90
Utilities – Hydro One	$1.52		$1.52
Utilities – Hydro-Québec	$3.90		$3.90
Pension Plans – PSP Investments	$0.98	$0.19	$1.17
Automotive – Toyota Credit Canada	$0.13		$0.13

Banks – RBC	$0.38		$0.38
Banks – CIBC	$0.18		$0.18
Banks - Scotiabank	$0.28		$0.28
Banks – National Bank of Canada	$0.22		$0.22
Banks - BMO	$0.35		$0.35
TOTALS	$23.60	$32.70	$56.30

For the complete assessment, including methodology and breakdowns, see: *http://www.corporateknights.com/wp-content/uploads/2017/04/GreenbondsPotential_Canada.pdf*

Bank figures are based on 2016 Bloomberg New Energy power asset financing data.

Total green bond issues to date in Canada sit at $4.5 billion, and include issues from the Ontario government in 2014 and 2017 – some of the proceeds from which are paying for Toronto's Crosstown LRT project – and an inaugural issue in February from the Quebec government. The federal government has yet to make an issue. In a separate report released last week, RBC Capital Markets concluded that a sufficiently liquid and effectively functioning domestic green bond market would need to scale up to $10-$20 billion in size.

"Our assessment demonstrates that there's more than enough potential for Canada to host a robust green bond market, to the benefit of both issuers and investors," says Heaps. He adds that there are multiple sources of momentum right now, including the large infrastructure investments being made by many governments and the renewed commitment to climate action.

As part of its analysis, Corporate Knights also assessed the current ReNew Canada list of the top 100 infrastructure projects in Canada, and found that fully 56 of them – with a total value of $107 billion – would be green-bond eligible.

While green bonds have wide applicability in private sector financing, Heaps says the government role will remain crucial in these early days of market development – through both continued public green bond issues and other support. "For a nominal investment, government could offset the additional transaction costs that green bond issuers incur," he says. "And this would likely significantly lower the barrier to early adoption for some issuers."

The London UK-based Climate Bonds Initiative (CBI) recently quantified $694 billion (U.S.) in outstanding bonds globally which are specifically being used to finance low-carbon and climate-resilient infrastructure. That was an increase of $96 billion (U.S.) over the year previous.

"Green bonds are clearly on a strong global growth trajectory," says CBI CEO and Co-founder Sean Kidney, who is attending today's conference in Toronto. "It remains to be seen which financial centres will emerge as the definitive centres of excellence in this area. But the research released today clearly shows that green bonds have the potential to become a much bigger part of Canadian capital markets."

Corporate Knights Inc. (www.corporateknights.com) includes the award-winning business and society magazine Corporate Knights*, as well as a research division which produces corporate sustainability rankings, research reports and financial product ratings based on corporate sustainability performance. It serves as secretariat for the Council for Clean Capitalism (http://cleancapitalism.com).*

"Green Bonds" are those from which the proceeds are restricted to projects that address climate-change or otherwise improve environmental outcomes, and are commonly subject to third-party certifications.

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