



STANDARDS FOR SUSTAINABLE FINANCIAL PRODUCTS GREEN BONDS

SUMMARY

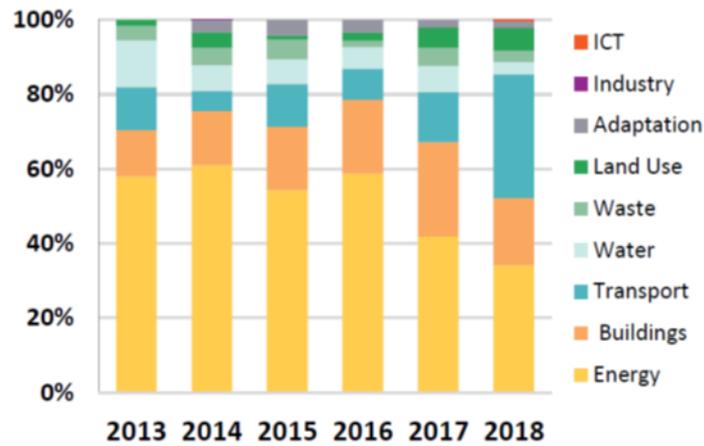
The European Commission's technical expert group on sustainable finance will be responsible for preparing a report on an EU Green Bond standard, building on current best practices and public feedback. The technical expert group states the need for Green Bond investments to be scaled up if we are to meet the UN 2030 Agenda for Sustainable Development and Paris Climate Agreement which will require radical changes in the way that we finance for development, notably in our cities. Both agreements recognise the need to expand public transport so any efforts by the Commission should help to scale up investments in low carbon, sustainable public transport infrastructure and use.

Some key elements of this position include:

- As public transport is inherently a clean, low carbon form of transport it is naturally a prime candidate for Green Bond investment.
- Green Bond proceeds should be used for a wide variety of environmental projects in the public transport sector to help advance local level priorities.
- In order to facilitate channelling more investments into green projects, any such standard should not be overly prescriptive or restrictive and encourage the finance or re-financing of a broad range of green projects, assets or business activities in public transport.
- When establishing a sustainability taxonomy to help guide aligned assets and projects, it needs to be a technology neutral but have a robust classification system to establish market clarity on what is 'green' or 'sustainable'. This would enhance market efficiency and would channel funds to sustainable projects. The taxonomy should be aligned with the Sustainable Development Goals (SDGs), which includes a target on expanding public transport (SDG target 11.2).
- The need for a high level of transparency and that an issuer's process for project evaluation and selection be supplemented by voluntary guidelines to support monitoring, reporting and verification.

CURRENT STATE OF AFFAIRS

While the green bond market is expanding rapidly, it still accounts for less than 1% of total bonds outstanding worldwide. Last year, most of the green bond issuance (around \$60 billion) came from Europe with the first issued by the European Investment Bank in 2007. Since then, European accumulative issuances total €122 billion in 2018 with investments in the transport sector rising.



Source: The Green Bond Market in Europe, 2018 (The Climate Bonds Initiative)

A Green Bond is like a normal bond, the difference being that proceeds are allocated to projects that are beneficial to the environment, not just the climate. They have been issued by corporates, multilateral development banks, governments, municipalities and banks. Currently, there is more demand for Green Bonds than supply at the moment.

As public transport is inherently a low carbon form of transport it is naturally a prime candidate for Green Bond investment. As half of all road transport emissions occur in urban areas it is essential that public transport is not only seen as a Green Bond eligible category but a priority for investment. Given the far reaching sustainability benefits of public transport and its essential role in the 2030 Agenda, it is important that investments are geared towards scaling up public transport projects and not restricting them.

Importantly, Green Bonds are increasingly being used to finance or re-finance public transport. For example, London, Paris and Gothenburg as well as operators (e.g. SNCF) have all used Green Bonds to invest in developing the public transport offer. It is envisaged that the number of public transport undertakings using Green Bonds will increase but it will be necessary that the sector has the necessary skills and knowledge to comply with any potential EU Standard.

DEVELOPING AN EU STANDARD

In theory, Green Bonds proceeds should be used for a wide variety of environmental projects. Currently no one international standard exists as to which projects must comply in order to achieve the corresponding Certification mark. As such, a number of independent Standards and Certification Schemes have been established that aim to develop screening criteria for investors

and governments which allow them to easily prioritize Green Bonds with confidence that the funds are being used appropriately. The Green Bond market is moving rapidly and in advance of widely accepted standards for use of proceeds, project evaluation and ongoing reporting is important.

Having an EU wide standard could potentially help to identify projects that can be easily labelled. At the same time, any standard should not be overly prescriptive so as to limit the types of projects that can be invested in and be flexible enough so that it can help to advance efforts on local level priorities. UITP is therefore of the view that any EU standard should not be restrictive of the types of projects that are eligible for green financing as it could hamper innovation and investment in the sector. As public transport is fundamentally a low carbon, sustainable transport mode all types of projects should be eligible for consideration.

This is particularly true with regards to the types of vehicles that should be considered clean. By only targeting investments in zero tailpipe emissions vehicles, there runs the risk that this would restrict investment in the solutions on offer needed to address local level priorities. Air quality is one of the biggest environmental priorities faced at the local level. Significant investments will need to be made to clean up the European bus fleet, notably through retrofit solutions or through the latest euro standards, which some Green Bonds have helped to invest in. Given that public transport can help to avoid up to 20 times more carbon dioxide (CO₂) than it emits, ensuring any EU wide Green Bond standard is flexible enough to account for a range of solutions on the market that will enhance the sustainability of cities and avoid lock-in to carbon intensive investments.

Investments in the sector must also be consistent with other policy areas, such as the revised Clean Vehicles Directive, the Directive for Alternative Fuels Infrastructure, the new Renewable Energy Directive and so on. When accounting emissions, organisations can use a range of reporting frameworks such as the GHG Reporting Protocol or ISO14064 to provide guidance in terms of the range of emissions that can be considered.

UITP is of the view that any standard should be flexible enough for local responsible authorities to use Green Bond investments to tackle their local priorities and that solutions are scaled up in the public transport sector that encourage the uptake of holistic solutions that will help advance the sustainability of our cities. It should also be sufficiently flexibility to allow for iterative review and updating as research, solutions and markets develop.

FRAMEWORK FOR A PUBLIC TRANSPORT GREEN BOND

UITP is of the view that a broader investment-grade Climate Bond portfolio should be envisaged for the public transport sector including renewable energy and efficiency, green property, waste management, biodiversity, pollution prevention and water investments as well as climate adaptation. This would facilitate the issuance of bonds from issuers that otherwise would not necessarily invest in the public transport sector. The goal is to attain a large and liquid market in bonds for qualifying assets quickly that attracts mainstream players and helps lower the cost of capital.

When establishing a sustainability taxonomy to help guide aligned assets and projects, it needs to be a technology neutral approach but have a robust classification system to establish market clarity on what is 'sustainable'. This would enhance market efficiency and would channel funds to sustainable projects. As a priority, any taxonomy should be aligned with the SDGs. Furthermore, any Green Bond Standard should complement this taxonomy and drive efforts on SDG 11 (resilient and sustainable cities) which aims at expanding public transport (SDG target 11.2).

ELIGIBLE INVESTMENTS FOR A PUBLIC TRANSPORT GREEN BOND

The priority in emissions reduction is to encourage people to shift from individual modes of transport to public means of transport. As such, the main criteria for public transport investments is that it should help to enhance and increase public transport's capacity and reduce the environmental impact of the sector. It is imperative not to restrict the types of projects that should be eligible for Green Bond investments. Rather, projects should aim to prevent and design out potential causes of negative environmental impacts (i.e. a risk based approach) in the early stages of work and drive continuous improvements. Projects should also aim to deliver good environmental performance, both in-house and through suppliers and drive innovation when designing, procuring, operating and maintaining transport infrastructure, vehicles and rolling stock. Projects should help comply with relevant environment legislation and, where possible, exceed compliance and encourage good practice and develop the environmental engagement and skills of staff.

Below are some eligible investments, while indicative and not limited to, which capture the most commonly used types of projects supported by or expected to be supported by the Green Bond market in the public transport sector:

- Low Carbon Transportation, infrastructures maintenance, renovations and vehicle renovation/renewal: development, construction and operation of clean / low carbon transportation solutions, including investment in:
 - projects to build or operate low carbon public transport vehicles, electric, hybrid, urban metro, heavy or light rail and rolling stock, non-motorized, multi-modal transportation such as construction of new lines, routes and services, network expansion, last mile solutions, expansions and upgrades that result in improved service levels; and
 - the creation or construction of infrastructure (including maintenance and renewal) that supports low carbon transportation such as alternative energy infrastructure (e.g. electric charging, rail infrastructure), signaling equipment, safety systems, network interfaces including passenger access, ancillary passenger services and facilities required for the safe, clean and efficient operation of the network, utilities and other enabling infrastructure.
- Energy Efficiency, including stations, depots, building and space modernisation: Design, manufacture and installation of systems, products and technology that reduce energy consumption or improve efficiency or mitigate greenhouse gas emissions in public transport construction and operations, as well as property management, including investments:

- that enable energy performance monitoring and modelling such as design and installation of computer controls, sensors, or information systems that optimise the amount and timing of energy consumption and minimise peak loads such as design and installation of metering, peak load shedding, regenerative braking systems, deployment of renewable energy or trackside energy storage system; and
 - the deployment of new and energy-efficient trains, light rail vehicles and buses that involve installation, maintenance or replacement of energy efficient heating, ventilation, air-conditioning, cooling, lighting and electrical equipment such as light emitting diodes (LEDs), sensor systems, platform screen doors and others.
- Sustainable depots, stations and head office buildings: existing or new buildings that are aligned, has received, or expects to receive based on its design, construction and operational plans, certification according to green building standards or equivalent certification scheme such as LEED and BREEAM that demonstrates efficiency in certified buildings. This category should also include projects that focus on the renewal of stations and those that increase station capacity, notably at the busiest stations, that will help to improve asset condition, the built environment and energy efficiency.
 - Adaptation to Climate Change: projects for the design, construction, maintenance and upgrades of infrastructure for adapting to extreme weather events including but not limited to flood prevention, flood defense or storm-water management, tunnels and channels, protection from heat-stress, among others.
 - Biodiversity and Conservation: ecological restoration, soil remediation and enhancement of biodiversity.
 - Water Management: rainwater collection, installation/upgrade of technologies to increase water efficiency, alternatively sourced water treatment facilities.
 - Waste Management: waste management support infrastructure within public transport undertakings such as waste reduction and reuse, recycling collection areas, technologies that enable the separation, handling and processing of waste to recycled materials, covering both construction & demolition (C&D) and commercial & industrial (C&I) waste.
 - Pollution Prevention - Improvement of Air Quality and Noise Reduction: technologies related to enhancing air quality such as but not limited to low emissions vehicles, increased air circulation, air filtration, noise reduction technologies such as noise barriers, modification of turnouts, rail dampers and insulation booths.

MONITORING, REPORTING AND VERIFICATION (MRV)

UITP recommends transparency and disclosure to promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. Core components should cover the use of proceeds, process for project evaluation and selection, management of proceeds and reporting of progress. Metrics should be material to the project, for instance total emissions avoided (t/CO₂ eq), energy saved or CO₂ per passenger km, and can include both quantitative and qualitative information. UITP does not consider it necessary for 3rd Party verification of reports but should an organization wish to, they should have that opportunity.

UITP encourages a high level of transparency and recommends that an issuer's process for project evaluation and selection be supplemented by voluntary guidelines to support MRV. These guidelines should be in line with Directive 2014/95/EU on non-financial reporting. At the same time, reporting requirements should not be overly burdensome but aligned to the SDGs which will help to provide a broad framework of reference by which issuers, investors and bond market participants can evaluate the financing objectives of a given Green Bond programme.

This is an official Position paper of UITP, the International Association of Public Transport. UITP has over 1,500 member companies in 96 countries throughout the world and represents the interests of key players in this sector. Its membership includes transport authorities, operators, both private and public, in all modes of collective passenger transport, and the industry. UITP addresses the economic, technical, organisation and management aspects of passenger transport, as well as the development of policy for mobility and public transport worldwide.



Rue Sainte-Marie 6, B-1080 Brussels | Belgium | Tel +32 (0)2 673 61 00 | Fax +32 (0)2 660 10 72 | info@uitp.org | www.uitp.org

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