

GREEN BOND PRINCIPLES (GBP) Consultation Form

The GBP Executive Committee has set up working groups (WG) to among others help draft the enhancements of the Green Bond Principles with the view of preparing the 2017 edition of the GBP. The Terms of Reference (ToR) of each WG, summarising their priorities for the year to come, are available [here](#) [insert link].

This questionnaire is composed of one general request and of specific questions related to the subjects under review by certain WG.

Once completed, please send the form to: greenbonds@icmagroup.org

Before December 7, 2016 COB

Legal name of your organization: Carbone 4

Member category:

- Issuer
- Investor
- Underwriter

Or:

- Observer

-I- General matters

The 2016 edition of the GBP has been enhanced with the following updates:

- **Recommended public disclosure of Green Bond issuer alignment with the GBP through online GBP Resource Centre;**
- **Updated and additional Green Project categories;**
- **Clarifications on Green Bond issuer reporting obligations and disclosure, as well as new resources for impact reporting;**
- **External review definitions and public disclosure on the online GBP Resource Centre;**
- **Definition of Green Bonds vs pure play and climate/green themed bonds;**
- **Release of Guidelines for Social Bond issuers.**

I-1: In your opinion, what should be the Executive Committee's key areas of concern for the year to come?

Carbone 4's perspective is shaped by almost a decade of experience in quantifying and communicating the carbon impact of a variety of asset classes (namely infrastructure projects, public and private companies) spanning all sectors of the economy. Measuring the "carbon impact" of any activity implies quantifying not only the carbon footprint, or emissions induced by the activity, but also the avoided emissions of the activity and its contribution to the low-carbon transition. It is on this latter subject- measuring the contribution of a project- that we would like to contribute, notably through the lens of greenhouse gas emissions, our core expertise.

Priority number 1: Harmonize methods for calculating emissions avoided by a project, especially in regards to the reference scenario used in these calculations.

The use and choice of reference scenario can radically alter the calculation of avoided emissions. Two dimensions which are often overlooked in the calculation of avoided emissions are geography and time.

To illustrate this point, consider the example of a new railway project. This means of public transportation obviously offers potential to save emissions downstream when compared with a highway. However, wherein this railway constitutes an entirely new addition to the stock of transportation infrastructure in the country where it is being built, this project could also induce extra traffic, and for that part add to the country's overall emissions. There is thus a portion of this project that avoids emissions- the portion that replaces existing infrastructure- and a purely additional portion that adds emissions. The replacement rate will depend on the country in which the project is located and their rate of development, for example.

In the case of a wind turbine installation, we might assume that the impact of the project is determined by the emissions avoided over the lifetime of the project, as compared to fossil fuel-fired power generation. While this comparison is of course crucial to make, context is everything. The total emissions avoided by this project will depend on the country in which it is located, as well as that country's current and future energy mix. If we look at the present-day energy mix, we could conclude that a wind project installed in China generates more avoided emissions than the same project installed in France, since the current energy mix in China is more fossil-fuel based (leading to a higher national emissions factor). However, in order to obtain a more accurate picture of the emissions avoided over the lifetime of the project, we must also consider how this reference scenario will evolve in the future. In 10, 20, or 30 years, China's economy may be more decarbonized, providing a different baseline on which avoided emissions are estimated.

Currently, no universally adopted set of accounting principles for the estimation of avoided emissions exists. A set of guidelines, specifying the use of common geographically-based scenarios, should be outlined in future Green Bond Principles. This task is important for several reasons:

- To increase the accuracy of avoided emissions estimations and ensure that these emissions correspond to geographically specific contexts and sustainable development pathways.
- To facilitate external reviewer and investor analysis of the "use of proceeds". Green Bond stakeholders will be able to accurately compare different projects and emitters through examination of real projects using comparable measures of project impact.
- To improve the reputation of the green bond market through use of internationally recognized standards for measuring the impact of green bond projects. Once the impact of green bond projects is no longer in question, this confidence stimulates green investments and opens the doorway to reducing costs of capital for green projects.

Priority number 2: Harmonize methods for *reporting* emissions avoided by a project. In parallel with the standardization of calculation methods, reporting guidelines should be put in place so that investors and other stakeholders may efficiently review and compare quantified results. The work of

the International Financial Institutions has already made important strides in this area and could be supplemented with more detailed guidance on quantified indicators.

-II- Green Projects Eligibility

II-1: Use of proceeds:

(a) Please provide feedback on the use of proceeds categories as updated in the 2016 version.

(b) In your opinion, is there still further need for clarification?

(c) Also, are there important differences between the GBP green categories and other established categorizations that your organisation uses/is aware of?

II-2: Project eligibility & green taxonomies (definitions):

(a1) If you are an issuer, which existing providers of green taxonomies as well as labels/certifications do you use for your green bonds?

(a2) If you are an investor, are currently used providers of green taxonomies as well as labels/certifications for green use of proceeds helpful for the assessment of green bonds and are they, to your opinion, sufficiently transparent?

(b) In general, do you find it difficult to identify and compare green taxonomies (definitions) or labels/certifications that give guidance at the level of underlying assets?

(c) Are there eligible project categories as specified by the GBP, for which you see gaps in coverage by providers of green taxonomies as well as labels/certifications?

-III- Impact Reporting

III-1: What are, in your opinion, the key project categories (sectors) the impact reporting WG should focus on this year, having developed a template for renewables and renewable energy in the prior year?

As mentioned in Part 1 of this questionnaire (General Matters), accurately measuring the impact of green bond projects (namely avoided greenhouse gas emissions) relies on the use of established country-specific and/or sector specific scenarios. The selection of sectors should therefore consider the availability and quality of these reference scenarios, in addition to the weight of selected sectors in worldwide emissions.

On this basis, **transportation, buildings, and industry** are three other sectors which merit the most attention from an energy-efficiency perspective. When including their electricity consumption and their supply chain, these sectors represent significant shares of worldwide emissions and, most importantly, significant potential to reduce worldwide emissions. Industry and construction represent the highest share of energy-related greenhouse gas emissions (17%), followed by transportation (15-16%) and the residential sector (10%). And, while other sectors such as agriculture, waste, and land use represent significant shares of non-energy-related carbon emissions, it is the energy-based sectors for which many of the reference scenarios have been constructed.

The International Energy Agency's 450 Scenario provides one of the most comprehensive sources of baselines aligned with a 2°C warming trajectory, with a focus on the energy-intensive sectors of transportation, buildings, and industry. The availability of these baselines and decarbonisation pathways for different countries offers great potential for the advancement of ambitious, standardized methods for measuring the impact of green bond projects.

III-2: For issuers and their partners supporting impact reporting:

(a) Please outline how manageable you have found impact reporting and the range of resources you have dedicated to the exercise (distinguish in-house staff vs outsourced work)?

Not applicable.

(b) Also, if you have reported on energy efficiency and renewable energy projects, are your reports based on the framework that has been developed by the leading International Financial Institutions for these sectors?

Although Carbone 4 does not carry out projects itself, it has assisted multiple clients in measuring and reporting the emissions associated with projects across all sectors. Carbone 4's approach is based on the principals outlined in Part 1 of this questionnaire (General Matters), with a high priority placed on the reference scenarios used. While harmonization efforts have been led by the Internal Financial Institutions, synthesized in the working group's recommendations for impact reporting (December 2015), these recommendations do not propose a common technical framework for measuring avoided emissions. This is something that Carbone 4 would like to work towards establishing, through selection of common sector-specific calculation principles and baselines.

(c) If not, could you explain which alternative framework you use and reasons for choosing it?

Not applicable.

-IV- Social Bonds

IV-1: Do the “Social Project categories” and “Examples of target populations” listed in the “Social Bonds – Guidance for Issuers” documentation adequately capture your requirements?

IV-2: Would you suggest further impact reporting metrics in addition to “number of beneficiaries” included in the Guidance?

