6.7.23

Green bond issuance overtakes fossil-fuel sales

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For the first time, companies and governments are raising considerably more money in the debt markets for environmentally friendly projects than they are for fossil fuels.

Almost $350 billion was raised from green bond sales and loan arrangements in the first half of this year, compared with less than $235 billion of oil, gas and coal-related financing, according to data compiled by Bloomberg. The ratio was roughly $300 billion green versus $315 billion fossil fuels in the same period last year.

From a climate perspective, however, “it’s too early to say whether this is good news,” said April Merleaux, research manager at the environmental nonprofit Rainforest Action Network.

Much of this year’s green issuance is from financial institutions, governments, a handful of utilities and comparatively few renewables companies, and it’s unclear precisely how all these funds are being used and what this means for the energy transition, Merleaux said.

“Transparency is still a major issue in this market,” she said.

Take RWE AG. The German utility has raised €1 billion ($1.1 billion) this year selling green bonds. The company says the proceeds are earmarked for solar and wind projects.

But RWE is Europe’s biggest greenhouse gas emitter and a major coal developer, Merleaux said. “The energy transition unequivocally needs more financing, but I’m not convinced that financing for renewables should be going to companies that are opening new coal mines at the very same time,” she said.

Still, the debt markets are vastly different than they were in, say, 2020 when the Covid-19 pandemic emerged. This may provide an explanation for why green bonds are topping their dirtier brethren of late.

The amount of fossil-fuel financing that year was more than triple what companies and governments raised from green bonds and loans. Now, most fossil-fuel companies are flush with cash, bolstered by higher energy prices due in large part to Russia’s war on Ukraine.

The cash flow being generated (and expected to continue) by oil refiners has been so robust that companies likely won’t need to access fixed-income markets to support operations or meet debt maturities, says Jaimin Patel, senior credit analyst at Bloomberg Intelligence.

In fact, companies including Valero Energy Corp., Marathon Petroleum Corp., Phillips 66 and HF Sinclair Corp. have adequate cash balances to cover their bond maturities through at least 2025, with aggregate maturities of just $4.3 billion and consensus free cash flow of more than $60 billion, he says.

The reality at the moment is that many companies operating in the refining industry are able to use their excess funds to raise dividends and buy back stock to bolster shareholder returns, Patel says. Given the shortage of refining capacity, particularly in the US, it’s likely this trend will continue for the foreseeable future.

The banking industry meanwhile is profiting from the surge in green bond sales, with BNP Paribas SA, Bank of America Corp. and Credit Agricole SA all earning fees of more than $60 million from the deals in the first half, according to Bloomberg data. They also happened to rank as the leading underwriters of the bonds and loans.

As for fossil fuels financing, Wells Fargo & Co., RBC Capital Markets and JPMorgan Chase & Co. were the top coordinators of bonds and loans for oil, gas and coal companies, Bloomberg data show. Wells Fargo posted first-half revenue of almost $105 million from the work.