

Green Bonds for Low Carbon Buildings – do they contribute to real emissions reduction? A case study on the Woolworths Green Bond

[Nishtha Aggarwal](#), Financed Emissions Analyst

[Tim Buckley](#), Director, [Climate Energy Finance](#)

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With the effects of climate change worsening, global annual clean energy investments must more than double from a record US \$1.8tn in 2023, to US \$4.5tn annually by the early 2030s to be consistent with an International Energy Agency (IEA) [1.5 degree-aligned emissions reduction pathway](#). Private finance needs, therefore, to massively upscale this decade.

Green bonds are designed to be a source of private capital mobilisation that corporates and countries can issue to obtain finance specifically to use for achieving environmental outcomes, most notably used for mitigating climate change by reducing emissions. Given the volume of investment required to fund global decarbonisation, it is imperative that investors can identify credible emissions reduction opportunities to support.

The built environment is a key focus area for decarbonisation efforts by the Federal Government, being a priority sector for the Climate Change Authority’s [sectoral pathway development](#) and the Australian Sustainable Finance Institute’s (ASFI) initial set of [taxonomy eligibility criteria](#). Green buildings (including green homes) have also featured as a major asset class under the Australian big four banks’ combined \$150bn+ financing of environmental outcomes since 2015.

The Climate Bonds Initiative (CBI) offers a [green bond certification program](#) that helps the market identify the activities and/or assets that have “climate integrity” via their “contribution to climate change mitigation”, i.e. through emissions reduction. The Australian Federal Government this week released its [Green Bond Framework](#) which endorses CBI as certifier of their sovereign green bonds and Australia’s sustainable finance taxonomy is also being developed in partnership with CBI.

In 2019, Woolworths Group became the first retailer in Australia, and the first supermarket globally, to [issue a green bond certified by CBI](#). The five-year, A\$400m Green Bond qualified under CBI’s [Low Carbon Buildings criteria](#). Per its [2023 Green Bond Impact and Use of Proceeds report](#), Woolworths used 86% of the Bond’s proceeds to finance 32 ‘low carbon stores’ and the remaining 14% was used to finance energy efficiency projects (see [Figure 1](#) below).

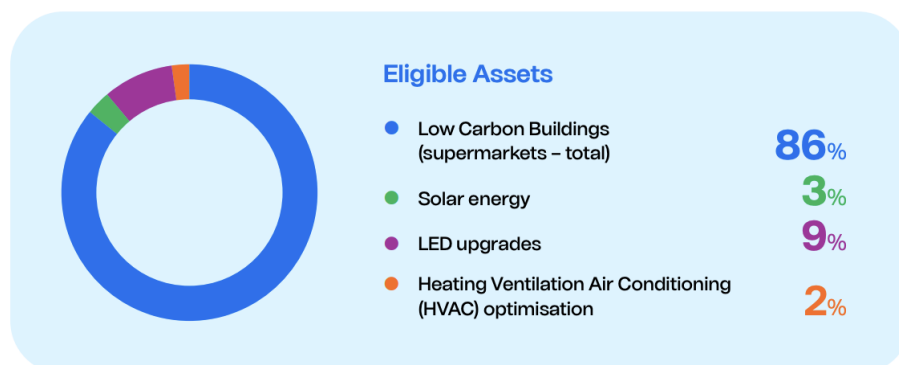


Figure 1

We find that it is difficult to credit CBI's certification of these uses of proceeds as "contributing to climate mitigation" at all. Passive ownership, or occupancy, of real property does not contribute to climate change mitigation unless it *enables* emissions reduction, such as land where a wind farm is operated. Additionally, when a company isn't financially constrained, and its carbon mitigation capex generates cost savings, no carbon mitigation results from earmarking bond proceeds for this capex.

Low carbon buildings

Greenhouse gas emissions arise from the supply chains of construction materials (such as cement, steel, timber etc.), the process of construction itself, and the building occupants' energy use. The design, development, management and maintenance of buildings can also influence emissions. These are all **activities**.

By contrast, an inert building **asset** does not produce emissions. Therefore, passive ownership of a building does not reduce emissions unless the property directly enables climate change mitigation activity, such as premises purpose-built for manufacturing or wind turbines or land ownership that facilitates the operation of utility-scale renewables.

In our view, incorrectly conflating the notion that both assets and activities "contribute to" climate change mitigation creates a market distortion where the issue of real emissions reduction is obfuscated. A good example of this is the Woolworths green bond, where CBI certifies **ownership of "Low Carbon Buildings"** as an eligible use of Green Bond proceeds.

Since ownership (or occupancy) are legal arrangements rather than **activities** whose impact on emissions can be measured and reported, CBI's certification allows *relative* emissions associated with building occupancy, i.e. the top 15% most energy efficient buildings within a jurisdiction or portfolio qualify under the CBI standard. In the case of Woolworths, its 32 stores qualify for certification because its other 1,000 or so stores emit comparatively more greenhouse gas (GHG) emissions.

The distortion in turn contorts corporate reporting. Woolworths claims that the Bond enables [7.263 tCO₂e of emissions to be avoided annually](#), the equivalent of taking 3,000 cars off the road annually. But there was no real change in emissions. The number reported is merely the difference in average emissions between the two groups of stores that Woolworths occupies, rather than the 32 stores' emissions versus their past emissions or actual emissions versus expected emissions.

The reality is that CBI certification of low carbon buildings does not require actions that could contribute to climate change mitigation or produce real emissions reduction.

The impact on climate finance could be significant. Real estate **assets** have vastly greater value than any associated climate mitigation investments, because the former includes amounts associated with land value, cost of improvements (e.g. labour, materials, sub-contracts), rental growth and market-driven price gains. It is not clear what proportion of the reported USD 1 Trillion Green Bond market is channelled away from needed climate investments in this way.

Energy efficiency upgrades

The remainder of Woolworths' Bond proceeds (A\$55m) are linked to energy efficiency upgrades such as replacing fluorescent lighting with motion-sensing LEDs. While these emissions-reducing activities did occur, it is not plausible that the Bond contributed to these.

Woolworths made emissions reductions commitments and commenced energy efficiency upgrades more than a decade before the Bond was issued. Its 'Project Enlighten', for example, commenced in early 2015 and had by late 2016 cost A\$137m. It went on to deliver cost savings worth [\\$132m per year with a 96% return on investment](#).

Even if such energy efficiency projects had a slower payoff, Woolworths did not require external finance. The Green Bond was issued to [refinance a Woolworths debt](#) that matured in the month prior to its issuance. While, in principle, refinancing debt as a Green Bond could offer emissions reduction outcomes (however marginally), this is foreseeable only if investor interest that reduced the issuer's cost of borrowings enabled the issuer to increase the scope or speed of its climate mitigation initiatives. However, [neither Woolworths nor its Green Bond proponents identify any such impact](#) (intended or actual).

In this case, it is clear that Woolworths did not require external finance for energy efficiency upgrades because it [returned more than 30 times the value of Bond-linked upgrades](#) (A\$1.7bn) to its shareholders, in the month after issuing the Bond. A [recent study published in the Journal of Banking and Finance](#) finds no evidence that providing incremental green bond financing to companies with low credit risk and low financial constraints makes any difference for the environment.

Conclusion

We find that it is difficult to credit the CBI certified Green Bond with "contributing to climate mitigation" at all, given the uses of proceeds described above.

The Bond benefits Woolworths by diversifying its lenders, i.e. attracting capital from asset managers who would not otherwise purchase Woolworths Bonds.

It also benefits these asset managers by enabling them to fulfil market demand for investment products that are advertised as supporting climate outcomes, which in this case were next to zero.

With private finance needed to accelerate towards achieving our collective net zero goals, market distortions such as those documented above can affect whether capital reaches genuine emissions reduction activities and whether or not the world will exceed its 1.5 degree warming limit.

Government adoption of private sector standards needs to be subject to rigorous, first-principles, due diligence on quality. Investors must apply similar rigour to standards they adopt or espouse.

Lastly, third-party assurance, [required as part of CBI's certification scheme](#), confers the impression of integrity in environmental outcomes. But it really assures the correct application of the CBI standard. We propose that third-party assurance should be conducted in the public interest – i.e. ensuring use of proceeds actually enables emissions reduction.