

DEMAND FOR GREEN BONDS ON THE RISE IN SPANISH RENEWABLES MARKET - BIRD & BIRD

Posted on 13/05/2018



Category: [Energy](#)



Green bonds allow issuers to diversify their investor base, while they can also help companies to improve their corporate image and green credentials

There is significant demand for green bonds in the Spanish renewables market, though traditional project financing remains popular, according to Hermenegildo Altozano, partner at Bird & Bird in Spain.

Green bonds are a popular form of financing for funding projects that have environmental benefits, explains Altozano. He says that the reasons for the strong interest in green bonds are obvious in that they allow issuers to diversify their investor base. Altozano also argues that green bonds can also improve a company's corporate image and green credentials. In addition to the benefits offered to issuers, Altozano also says that investors have a strong appetite for green bonds.

However, the use of green bonds can pose a number of challenges. Among the concerns that need to be addressed, according to Altozano, include "the stability of the remuneration regime, the predictability of [price] floors and the good operating condition of the relevant installations". He adds:

"A good mixture of the above factors will provide security and stability."

What is a 'green project'?

The green bond that was issued by Repsol in 2017 stirred some debate regarding what actually constitutes a green project. The Madrid-based oil company completed the issue of a five-year green bond in May 2017 to aid its efforts to cut greenhouse gas emissions and improve the efficiency of its facilities. Altozano argues that now there is quite a clear consensus on what amounts to a green project, namely, "a project that has zero carbon impact". He continues: "So, in such cases, you are normally looking at technology connected with zero carbon or low emissions, such as wind, solar, hydropower and, under some circumstances, biomass, or a plant fuelled by biofuels."

Despite the growing demand for green bonds, traditional project financing for new projects remains popular, Altozano says. He adds: "For existing projects, there has been a significant amount of refinancing as existing banks are eager to refinance."

In the renewables sector, Spain moved from a policy of feed-in tariffs to a new system of remuneration for the production of electricity as result of reforms in 2013 and 2014. The change of policy caused some problems in the market, which resulted in a number of international arbitrations being brought against the Kingdom of Spain by foreign investors. They considered the new method of remuneration – which was applied retrospectively – led to a reduction in revenue when compared to the feed-in tariff which was in force when the investments were made.

Notwithstanding the change in policy, Altozano notes that there is now significant interest from investors and that this interest is growing. He explains that there are two reasons for increased attractiveness of Spanish energy sector assets: "On the one hand, prices are lower," Altozano says. "On the other, investors consider that there is now a more stable framework, which will not be subject to further change."

Given that M&A deals abound, as well as financing and refinancing projects, there is currently no shortage of work for lawyers in the energy and renewables sector. To take advantage of the number of projects in the market, law firms need to position themselves well, says Altozano. He adds: "There are a number of law firms in Spain with good energy practices and this means transactions are much faster and simpler."

Altozano says the more expertise a law firm has, the more efficiently it can provide its services and this is better for the client. He explains: "If a law firm lacks the relevant experience or appropriate resources, this translates to inefficiencies and the slowing down of the transaction – ultimately, this means higher costs for the client, and so clients benefit from experience."

Altozano points out that his firm's client base is purposefully broad and includes banks, sponsors and developers. One benefit of representing a diverse range of players in the market is the broad perspective it gives lawyers. Altozano says that, in order to succeed in the market, lawyers have to know the industry "and the operators". He adds that lawyers "also need to be very careful with conflicts of interest". Most important, says Altozano, is offering high quality services. "Quality always attracts good work," he says.