

Brazilian Green Bonds: Fibria Celulose S.A.

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It is now widely acknowledged that there is an enormous need for 'green' infrastructure, be it urban transport, renewable power or water services. The *Better Growth, Better Climate 2016* report by the New Climate Economy estimated that from 2015 to 2030, global demand for new, climate resilient infrastructure could surpass US\$90 trillion. Water and forest management are among the global conservation priorities, and historically the lack of investment has resulted in adverse impacts on these resources. As green bonds mature into mainstream structures for environmental finance, it is clear that the bond market will be essential for developing economies to meet their sustainable development and carbon reduction needs. With its ratification of the Paris Agreement,¹ Brazil has taken a significant step toward achieving its domestic and international commitments.² Positive changes in environmental policy and financial regulation are developing and Brazilian companies are set to reap the benefits.

Fibria's Green Bond

Fibria Celulose S.A. ("Fibria"), a Brazilian forest products company and the world's largest eucalyptus pulp producer, issued its first-ever green bond in January 2017. It was represented by a team of White & Case lawyers based in São Paulo, New York, Miami and London, as well as other advisors. The US\$700 million 10-year note is the largest green bond to date by a Brazilian corporate issuer.

Following a successful roadshow in Los Angeles, New York, London and Boston, this SEC registered offering was announced the morning of January 11th and quickly reached a reported US\$3.5 billion in demand (five times oversubscribed), resulting in pricing 42.5bp below initial expectations.³ Approximately 40% of the notes were allocated to green accounts, setting a record for this type of transaction.⁴

The issuance of Fibria's green bond follows the Company's history of innovation in terms of its approaches to sustainability and internal monitoring. Since 2012, Fibria has included in its integrated reporting a detailed business model diagram setting out the various positive (and negative) social and environmental impacts of its operations.

¹ The Paris Agreement of the United Nations Framework Convention on Climate Change is the world's first comprehensive climate agreement outlining the contribution required of each country to achieve global greenhouse gas emissions reduction targets (referred to as nationally determined contributions or "NDCs").
http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

² Brazil has developed its intended national commitments under the aegis of the National Policy on Climate Change (Law 12,187/2009), the Law on the Protection of Native Forests (Law 12,651/2012) and the Law on the National System of Conservation Units (Law 9,985/2000).

³ <http://www.bondsloans.com/news/article/1174/case-study-fibria-breaks-ground-with-well-tim>

⁴ <http://www.fibria.com.br/en/midia/releases/fibria-ends-2016-with-higher-sales-strong-net-income-growth-and-robust-cash-position/>

The Green Bond Framework

Fibria's Green Bond Framework⁵ was developed by the company by applying the Green Bond Principles⁶ (the "GBP") to demonstrate its plans to issue Green Bonds "to fund projects focused on environmental sustainability across the company's global business divisions and operations."

The Framework is divided into the following sections:

1. **Use of Proceeds** identifies 'Eligibility Criteria' that projects must meet in order to be funded by the proceeds of Fibria's Green Bond, including sustainable forest management, restoration of native forests and conservation of biodiversity, waste management, sustainable water management/water usage efficiency and renewable energy/generation of energy from renewable sources.
2. **Project Evaluation and Selection Process** sets forth the composition of Fibria's Green Bond Sustainability Team that will select projects to be funded by the bond proceeds based on their compatibility with the Eligibility Criteria.
3. **Management of Proceeds** indicates the internal mechanisms that Fibria's Finance Department will use to manage and track funds in accordance with the Green Bond Sustainability Team's recommendations, as well as the time frame for the allocation of funds and management of proceeds pending disbursement.
4. **Reporting** identifies arrangements for Fibria's annual reporting (until full allocation) of the use of proceeds from its Green Bond and reporting on compliance with the Green Bond Framework, as well as the environmental and social impacts resulting from the Green Projects that are funded by the Green Bond. For example, the relevant reporting metrics for restoration of native forests and conservation of biodiversity include the total hectares of restored land, total hectares of land restored with native vegetation and greenhouse gas sequestration.
5. **External Review** confirms that the Green Bond Framework has been reviewed by a second party opinion provider, which has given an independent assessment on GBP alignment.

The second party opinion for this Green Bond was provided by Sustainalytics⁷ and took into account Fibria's overall sustainability strategy, including its sustainability committee, a multi-stakeholder process for defining material issues, short- and long-term sustainability targets and annual reporting. Sustainalytics concluded that Fibria's strategy, supported by its formal policy, demonstrates Fibria's commitment to prioritizing sustainability in its day-to-day operations.

The Brazilian Green Bond Market's Outlook

The second half of 2016 saw a number of positive developments indicating that the Brazilian Green Bond market is in a growth phase. In September, the Brazilian government ratified the Paris Agreement. Particular areas of focus for Brazil with respect to its Intended Nationally Determined Contribution ("INDC") to global carbon reductions⁸ include energy and land use.

Recognizing the gap in funding required to reach Brazil's goals under its INDC and publicly available resources, the Brazilian Federation of Banks and the Brazilian Business Council for Sustainable Development published in October 2016 *Guidelines for Issuing Green Bonds in Brazil 2016*,⁹ which serves as a non-exhaustive set of recommendations for participants and stakeholders in the Green Bond Market. It also identifies sectors that have the greatest potential for development of green bonds (including forestry). Also in October 2016, a group of domestic and international financial institutions active in the Brazilian capital

⁵ http://www.sustainalytics.com/sites/default/files/green_bond_framework_and_opinion_fibria.pdf

⁶ <http://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GBP-2016-Final-16-June-2016.pdf>

⁷ http://www.sustainalytics.com/sites/default/files/green_bond_framework_and_opinion_fibria.pdf

⁸ <http://www4.unfccc.int/submissions/INDC/Published%20Documents/Brazil/1/BRAZIL%20iNDC%20english%20FI%20NAL.pdf>

⁹ http://cebds.org/wp-content/uploads/2016/10/Guia_emissa%CC%83o_ti%CC%81tulos_verdes_ING-2.pdf

markets, collectively representing assets amounting to R\$1.6 trillion, signed up to the *Brazil Green Bond Statement*,¹⁰ declaring their understanding of climatic risks and committing to contribute to the development of a robust Green Bond market in Brazil. Adding to this momentum, the Brazilian Development Bank (“BNDES”) announced a R\$500 million green energy fund (*Fundo de Sustentavel*) in December 2016, which it expects to launch in July 2017 and hopes this will encourage the development of sustainable infrastructure and Green Bond issuances.¹¹ For Brazil, economic recovery, sustainable development and green finance go hand in hand.

About White & Case

Increasingly at White & Case we have witnessed the drive for integration of environmental policies in our clients’ operations, and we have helped them seek other innovative solutions, including green financing through the capital markets.

White & Case’s global Green Finance Practice relies on its extensive on-the-ground knowledge and experience, covering a range of industries, issuers, dealers/managers and financial intermediaries, investors and financial services providers. The combination of our legal, policy and regulatory capabilities makes our Green Finance Practice ideally placed to seamlessly guide clients through the structuring process of a Green Bond issuance and other green financing arrangements.¹²

Our top tier global Capital Markets, Structured Finance and Environmental teams have a history of providing ground-breaking advice on green financing, including Green Bonds.¹³ Renewable power specialists form part of our global team with practices covering sources such as onshore and offshore wind, solar, geothermal, hydropower and biofuels.

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¹⁰ <https://www.climatebonds.net/files/files/Brazil%20Investor%20Statement%2020161021%20FINAL.pdf>

¹¹ <https://renewablesnow.com/news/bndes-greenlights-usd-144m-sustainable-energy-fund-549240/>

¹² White & Case is a contributing Observer Member of the ICMA Green Bond Principles Working Group, a select member of the UK Green Finance Initiative and a CBI Partner.

¹³ White & Case was recently awarded “Green Bond Law Firm of the Year 2016” by *Environmental Finance*.