

## Biden's infrastructure bill can lead the green bond market

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The Biden presidency has put the United States back on track to fight climate change and transition towards a net-zero emission future by 2050, by joining again the Paris Climate Agreement. As we come out of the COVID-19 pandemic and the US administration pushes forward the USD1.9tn fiscal stimulus, the White House missed an opportunity to take the stage and lead forward the global climate transition. While the relief bill passed without significant political challenges, despite the slim majority, it has left a noticeable void as it does little to address carbon emissions. The White House has focused to roll-back some of the previous administration's environmental legislation, such as to restore more stringent tailpipe emissions, and to freeze temporarily new federal land permits for the extraction industries. However, in an already polarized political landscape, it comes as no surprise that the Biden administration will need to compromise given the razor-thin majority, also within the Democratic party. Senator Joe Manchin, who is a democrat, chair of the Senate Energy Committee and representative of West Virginia; the largest coal producing state, has held-up the relief stimulus bill and now wants to see the President work in a bi-partisan effort on the next point of his agenda; the politically charged infrastructure bill.

The infrastructure bill is not solely about fixing bridges and roads, as Janet Yellen, now Treasury Secretary, said that the plan is to "build back better" the US economy. The proposal would include investments in the 5G network, increasing access to healthcare and education. The green agenda in the bill, is yet unclear, however Biden's election campaign pushed to leverage the government's procurement system for green spending. The plan includes installing 500,000 public electric vehicle charging outlets, restore full tax credits for EV purchases, invest in research for carbon capture storage and target a 50%



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reduction of the carbon footprint of the US building stock. Biden is now pushing the envelope further, increasing by \$1trillion the size of the bill, to be financed by increasing taxes for corporations and high earners. Republican leader Mitch McConnell already made clear that the opposition would not support the bill as it is a “Trojan horse for massive tax hikes and other job-killing left-wing policies”. Despite the political challenges, the US infrastructure is in need of a significant upgrade, with the American Society of Civil Engineers 2021 report estimating an under-funding of USD2.6 trillion over the next decade. The bill is a once in a generation opportunity, for the US economy and to launch the climate transition in the US and the role of green bonds. While these policies are focused on federal spending, ultimately, the biggest challenge for the administration is passing legislation that sets the regulatory and policy framework, that provide much needed guidance for investors to identify long-term sustainable investment opportunities and unlock private capital.

That is why, the administration and Treasury need to focus on their climate ambitions and green rhetoric, which would provide investors guidance on what a green transition will look like. Discussions of a green bond treasury programme would help to do just that, joining over 16 countries that have issued green bonds, and most importantly to support and promote climate finance which has been growing but remains a fraction of global fixed income markets. In addition, an inaugural treasury green bond would align with Biden's electoral campaign, where funding could be allocated to carbon capture storage research, financing of green tax credits, improving energy efficiency of buildings, as well as protecting biodiversity. Many of these projects are already common in sovereign green bond frameworks. In addition, promoting the adoption of green bonds would institutionalize the market in the US, which remains behind compared to the size of the market in Europe. According to the Climate Bond Initiative, the green bond market has grown to reach \$1trillion since 2007, with US issuers raising just over \$200bn compared to over \$430bn in Europe. There is a financing gap in the US green bond market and significant financing needs, the Biden administration can help cover lost ground and move forward with its climate ambitions.



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