



Environmental bonds: When polluter pays

If a site suffers an environmental accident, the operator is liable for clean-up – even if insolvent. Environmental bonds let you breathe, knowing your costs, and your reputation, are covered.



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The year is 1976. Swiss pharmaceutical and cosmetics giant Hoffman LaRoche is one of the most successful and pioneering healthcare companies in the world. But on 10 July, disaster struck. A cloud of smoke from a chemical plant owned by one of LaRoche's subsidiaries began to descend on the north Italian town of Seveso – soaring temperatures and high pressure caused the plant's valve to malfunction, emitting dangerous toxins.

The white cloud contained a lethal chemical – dioxin – also known for its carcinogenic properties. Over the days and weeks that followed, the town would witness the full impact of the contamination: plants and animals within the vicinity began to die and about 80,000 animals were slaughtered as a pre-emptive measure aimed at protecting the food chain. Vegetation was destroyed, topsoil removed, and houses in the area nearest to the chemical plant demolished.

In the immediate aftermath, Seveso's human population suffered nausea, blurred vision, skin lesions and, later, many of its inhabitants, particularly children, developed severe chloracne, a rare skin condition.

Research into the long-term health effects of the disaster is ongoing, but one study suggests that babies born to women who lived in Seveso at the time of the accident were six times more likely to have altered thyroid function than other babies.

Today, the name 'Seveso' is associated with tough European laws that require any site that stores, manufactures or manages dangerous chemicals to inform local authorities; and to develop measures for the prevention and management of potential accidents.

Seveso is a reminder of the disasters that can occur and a company's responsibility to the environment. It reminds us to ensure that the right preventative actions are taken, and that the right protections are in place. And while insurance is an important consideration, businesses would also do well to consider environmental bonds. For high-risk businesses, bonds are mandated by law, but other businesses could also benefit from this added protection.

Of course, that means understanding exactly what they entail. We asked Marc Cambourakis, country manager, Atradius Bonding France, and Simona Belati, senior manager technical underwriting, Atradius Bonding Italy, to answer our readers' most frequently asked questions about environmental bonds.

WHAT ARE ENVIRONMENTAL BONDS?

Under EU laws and the polluter pays principle adopted by OECD countries, sites (quarries, wind farms, farmland, etc) at high risk of environmental damage must obtain a contractual agreement that provides these guarantees should the operator of the site not respect the obligations stated in the authorization given by the public authority.

- The costs of preventing and managing environmental damage caused by pollution are paid in full
- The cost of restoration is covered

Environmental bonds are mandatory, particularly in the following areas:

- Management, treatment, collection and storage of waste
- Handling of so-called 'Seveso' installations
- Treatment of surfaces
- Construction of wind farms

Environmental bonds issued by Atradius prevent

HOW DO ENVIRONMENTAL BONDS BENEFIT MY RISK MANAGEMENT PROGRAMME?

For some sites, environmental bonds are mandatory and required by law to legally operate. But over and above the legal obligations, bonds can also help safeguard against other risks: reputation damage, for example.

Corporate social responsibility and a company's involvement in protecting the environment has come under the spotlight in recent years. If a site is liable for causing environmental damage and fails to adequately clean up any spillages, for example, its reputation could be tarnished.

SHOULD I USE ENVIRONMENTAL BONDS INSTEAD OF INSURANCE?

Environmental bonds are not the same as insurance. While bonds provide surety around the protection and restoration of a named site, they do not cover third-party liabilities, nor any other risks linked to high-risk sites. Following thorough risk assessments, insurance policies should be taken out that complement the environmental bond.

I'D LIKE TO INVEST IN ENVIRONMENTAL BONDS. BUT WHY SHOULD I CHOOSE ATRADIUS?

A historic leader in the issuance of bonds, Atradius has been supporting companies to meet the requirements of environmental regulations, ensuring more and more diversified activities and sectors, including quarries, Seveso sites, storage and waste transfer, and wind farms.

Today, Atradius is the first choice for companies that are newly subject to surety bond obligations. This is because our brand is well known to the authorities, giving them comfort that our bonds meet all legal requirements. In France, for example, we have more than €1bn of exposure in environmental bonds.

Our customers continue coming back to us because we quickly and professionally respond to their needs and in most cases, we can issue bonds within 24 hours.

Atradius is a bond underwriter, not a capacity provider. This means we issue bonds willingly based on our assessments of contracts. Our goal is to help customers grow their business safely. **SR**

ATRADIUS BONDING: THE STATS

MORE THAN
55k
 customers supported

MORE THAN
300
 types of bonds issued

MORE THAN
140k
 new bonds issued each year

your company from immobilising valuable cash needed for the smooth operation and development of sites. They provide operators with the surety bonds required by EU law. In addition, environmental bonds are fixed-income financial tools that provide capital for new and existing low-carbon projects such as renewable energy activities.

WHAT RISKS ARE COVERED BY ENVIRONMENTAL BONDS?

Environmental bonds protect against damage to a site and are provided in three main areas:

- The security and maintenance of sites
- Clean-up following accidents and spillages that cause environmental damage
- Restoration of sites

In any of the above scenarios, environmental bonds will provide guarantee in case the principal fails to perform according to the terms and conditions of the contract with the public beneficiary.

In an event that a site needs to be restored – for example where an operator is instructed by the authorities to dismantle all wind turbines and restore the site to its original form; or damaged is caused after the leakage of harmful toxins – but the operator does not perform based on his obligations set in the authorisation, the bond can be called and the cost of restoration guaranteed.

THE ATRADIUS ENVIRONMENT DEPOSIT

- Surety bonds fulfilling a legal obligation
- The financial strength of the European private bond provider
- Serenity for your operation and your cashflow
- A simple and fast approach that brings you into compliance with the regulations
- A powerful online management tool