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ENGAGEMENT

Following our engagement piece on Australian Ports published in June 2025, we have continued to explore a nascent segment of the labelled bond market that is closely linked to this theme, blue bonds. For this topic, we aim to provide readers with an overview of the blue economy, recent developments in the blue bond market, and the key risks and opportunities for this sector.

SUMMARY

Blue bonds are financing instruments where the proceeds are specifically allocated to projects that support the sustainable use and conservation of ocean and freshwater resources. They are similar in structure to green bonds but focus on marine and aquatic environments.

The blue bond market currently represents only a small portion of the overall labelled bond market. However, given its environmental benefits and the scale of the blue economy, Artesian believes this market is still in its early stages and expects issuance to increase over time. We anticipate greater participation from a range of issuers, including quasi-sovereigns, financial institutions and corporates.

BLUE ECONOMY & BLUE BONDS

According to the International Finance Corporation (IFC), blue bonds are defined as financing instruments "that raise funds for investments such as water and wastewater management, reducing ocean plastic pollution, marine ecosystem restoration, sustainable shipping, eco-friendly tourism or offshore renewable energy."[1] More importantly, referencing IFC's guidelines for blue finance dated January 2022, to qualify as a blue project, the project should be consistent with the project categories of green bond principles and green loan principles and contribute either to Sustainable Development Goal 6 (Clean Water and Sanitation) or 14 (Life below Water).

While maintaining healthy oceans and marine ecosystems are important to preserve our marine diversity and ensure food security, we argue that substantial economic benefits also accrue, as the blue economy plays a vital role in our global economy. According to the OECD[2], the global ocean economy accounted for between 3% and 4% of global economic output, and between 3.5% and 4.7% of global employment, each year from 1995 to 2020.

Furthermore, the ocean economy doubled in size in real terms, increasing from USD 1.3 trillion in 1995 to USD 2.6 trillion in 2020, representing an average annual growth rate of 3%. If this growth rate continues, the global ocean economy would be approximately 400% larger in real terms by 2050 compared with 1995.

Given the importance of healthy oceans, marine ecosystems and the blue economy, Artesian believes we have an important role, specifically in the blue bond sector, to ensure that it grows in a sustainable manner that safeguards livelihoods and protects the environment.[3]

Figure 1 – Estimate Size of the Blue Economy[4]

Source: International Finance Corporation

WHY BLUE BONDS? WHY NOW?

Maritime trade is a key driver of the Australian economy, with more than 99% of Australia's international trade carried by sea and Australian ports handling over 1.6 billion tones of cargo each year. This makes it essential to consider climate change threats such as rising sea levels, floods and storms, along with their potential impacts. Equally important are the mitigation measures and resilience-building initiatives required to ensure the long-term sustainability of the port sector. Moreover, proceeds from blue bond issuance can be used to advance initiatives in sustainable shipping, helping to reduce carbon emissions. This is particularly important at a time when rising global temperatures, driven by increased greenhouse gas emissions, pose significant environmental challenges.

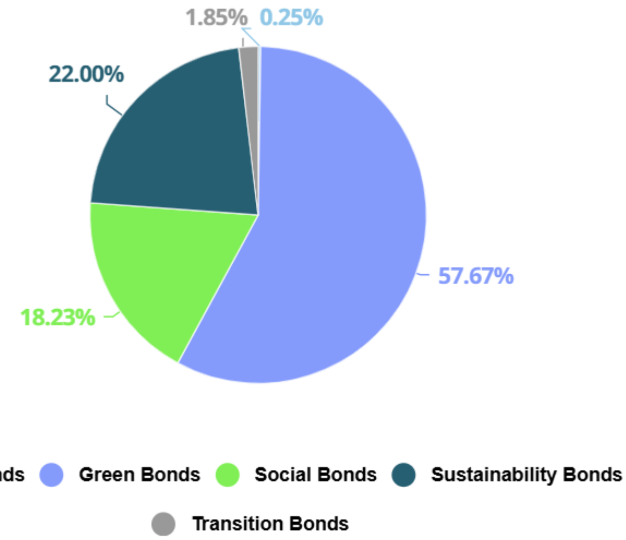
Note: These impacts and risks have been explored in our earlier report, "Australian Ports Integrated Risk Analysis" https://www.artesianinvest.com/post/australian-ports-integrated-risk-analysis

MARKET DEVELOPMENT

It is encouraging to see blue bond issuance beginning to gain traction in Asia. In April, quasi-sovereign Korea Ocean Business Corp (rated Aa2 by Moody's and AA- by Fitch) issued its inaugural blue bond. Given the limited supply of publicly traded blue bonds in the region, demand was exceptionally strong, with order books for the USD 300 million issue exceeding USD 3 billion (more than ten times oversubscribed). This high level of interest underscores strong investor appetite, and the blue bond has continued to outperform in the secondary market. Such performance should encourage more issuers to enter the blue bond market, further supporting its growth and visibility among investors.

With reference to Figure 2 below, the blue bond issuance currently accounts for only a small share of the overall labelled bond market, representing just 0.25% of total labelled bond issuance. Nevertheless, we view it as a nascent market with significant growth potential. We anticipate increased public blue bond issuance in the near term, building on the steady year-on-year growth recorded over the past three years.

Figure 2 – Breakdown of Labelled Bond Issuance in 2024



Source: Intercontinental Exchange, Sustainable Bond Analysis 2024[5]

HEADWINDS & FUTURE OF BLUE BONDS

There are several challenges currently facing the public blue bond market. For instance, while some corporate issuers may hold eligible assets that could qualify for a blue bond, the related capital expenditure is often not large enough to justify issuing a publicly listed bond. In most cases, liquid bond transactions require a minimum size of around USD 100 million. We believe there are opportunities for certain sectors, such as ports and water utilities, to play a leading role in supporting blue bond issuance. These sectors are particularly exposed to climate change risks, including rising sea levels and flooding, which makes them well aligned with the objectives of blue bond financing. In the early stages of market development, we expect that government bodies, state agencies and quasi-sovereign issuers, such as Korea Ocean Business Corp, will be important in providing support. Pooling capital expenditure across multiple projects could help meet the minimum issuance size required for a publicly listed blue bond. Investors can also take a flexible approach by seeking exposure to blue economy assets through green or sustainable bonds when dedicated blue bond opportunities are not available.

NOTES

[1]https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/climate-finance/blue-finance
[2]https://www.oecd.org/en/publications/2025/03/the-ocean-economy-to-2050_e3f6a132.html
[3]https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/climate-finance/blue-finance#:~:text=Blue%20Bonds%20and%20Blue%20Loans,tourism%2C%20or%20offshore%20renewable%20energy
[4]https://www.ifc.org/content/dam/ifc/doclink/2025/the-growing-blue-economy-2025.pdf
[5]https://www.ice.com/insights/sustainable-bond-report-2024#:~:text=The%20establishment%20of%20blue%20bonds,sustainable%20bonds%20issued%20last%20year.

DISCLAIMER

CONTACTS:

Gibson Goh	(+65) 8366 5862	gibson@artesianinvest.com
David Gallagher	(+61) 412 972 070	david@artesianinvest.com