

The Cleantech Doldrums of the Southern Seas!

John O'Brien, Australian CleanTech

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Overall, the story of environmental investments in Australia is a depressing one compared to global cleantech stock performance. The drivers of this poor performance include weak and inconsistent political leadership on environmental issues.

This should be the time when the cleantech stocks in the southern seas start to significantly outperform all other stocks. It should be the time that those that have been investing in the sector finally get to say 'I told you so!' So why are the cleantech stocks in Australia faring so badly?

The cleantech sector was profiled a recent report, the Australian Cleantech Review. The 420 public and private companies profiled have a combined revenue of A\$9.2 billion and employed over 13,000 people. They raised a total of A\$2.3 billion in new funds during the 2009 calendar year in 86 separate capital transactions.

The report also made some predictions for cleantech trends for 2010. These included the introduction of 'carbon substitute' regulatory measures, increasing deregulation of the water sector, growth in commercial scale pV installations, consolidation in the water and solar sector and an increasing inflow of international capital to fund Australian cleantech companies.

The public measure of cleantech, the ACT Australian Cleantech Index tracks 78 listed companies that generate the majority of their revenue (or future revenue if they have none) from defined cleantech activities. At the end of July 2010, their combined market capitalisation was just under A\$10 billion, falling from its peak of \$16.3 billion in July 2007. In 2007 and 2008 financial years (to 30 June), the Index outperformed the general market in Australia. In 2009 however, it underperformed the market and, in the 12 months to 30 June 2010, it underperformed the main market index by over 40%!

There appears to be plenty of local good news that one might think would drive a buoyant sector: There is 20% by 2020 Renewable Energy Target that is driving wind

farms and, with feed-in tariffs, household solar pV installations; supply chain pressures are starting to build on the larger industrial companies; politicians are talking about energy efficiency measures; and environmental standards in water, air quality, engine performance and recycling are all creeping up.

However, the recent poor performance of Index tells the story of the shifting political environment in Australia. Australia signed the Kyoto Protocol only days after the new Rudd Government was elected in late 2007 and there was greater optimism that Australia could finally take a role in the global debate. As the reality of domestic politics set in, the proposed emissions trading scheme was watered down and finally abandoned and industry development initiatives were quietly shelved.

Australia's geographic isolation and good quality of life leads it to have an almost entirely inward focus. The previous Prime Minister, Kevin Rudd, despite his faults, was focussed on Australia's place in the world. The two contenders vying off for the position of prime minister in the current federal election have returned to the usual discussions of hospitals, schools and border security. Some token policy announcements include 'cash for clunkers' (saving emissions at an estimated cost of A\$400/t-CO₂e!) and a citizens' assembly to discuss climate change. In what is an entirely uninspiring campaign, there is however one possible outcome that may drive change. It is possible that the upper house, the Senate, will end up without a clear majority with the balance of power being held by the Greens. This may well cause chaos in the economy, but may also see greater impetus to environmental legislation.

Looking internationally, the sector growth is being driven by regulatory measures, emissions trading, venture capital and the after effects of green stimulus spending. Australia has to date lacked strength in all of these drivers. The government stimulus on cleantech was fragmented and small, the regulatory measures are providing only some assistance and the venture capital industry is under-funded.

Australia has the potential to be a global hub of cleantech. There are excellent research institutions producing some outstanding technologies, a large capital market and abundant natural resources of solar, wind, wave, hot rocks and even uranium. The lack of water has driven world leading innovation in terms of smart irrigation and water treatment. Sadly, the most successful of these Australian technologies often end up being commercialised elsewhere.

Australia's journey to a sustainable economy is currently becalmed in the doldrums of domestic politics and the lure of being the world's quarry pit. There is however a glimmer of hope that the transition will soon accelerate and will be driven by the southern winds of a hung parliament.

Australia may then utilise its natural competitive advantages and start to benefit from the potential of cleantech. It may time for some more optimism!

John O'Brien is Managing Director of Australian CleanTech, a research and broking firm that provides advice to cleantech companies and financial institutions. He also edited the book Opportunities Beyond Carbon. Australian CleanTech publishes the Australian Cleantech Review and the ACT Australian CleanTech Index.