The Unstoppable Growth of Cleantech: no green bubbles in sight!

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The Clean Technology sector will be the success story of the next 20 years. Its global revenue has grown exponentially over the last few years and this growth is forecast to continue for many years to come.

'Cleantech' groups together environmentally beneficial industries. It represents a new approach although the work undertaken by the industries is nothing new. The sector includes renewables, water, waste, recycling, environmental services, carbon trading and other businesses that have both environmental and economic benefits. It provides, for the first time, the wider investment community with a solution to the dichotomy between good returns and positive environmental investments.

Some commentators have dismissed the phenomenon as being a mere 'green bubble', similar to the IT bubble of the turn of the century. However the drivers behind cleantech's growth are significantly different. Firstly, there are many real assets being constructed to provide core services such as power, water, waste and recycling. Secondly, the demand for these core services is growing due to population growth and increasing wealth. Thirdly, as the world continues to use and deplete its natural resources there is increasing pressure on communities to act sustainably. Finally there is the recognition of climate change and consequent regulatory regimes. This is a separate driver from those above and, whilst it will result in additional growth in some cleantech sub-sectors, it does not underpin the cleantech sector as a whole. As a result, the growth of cleantech will be unstoppable.

Research and forecasts by Clean Edge indicate that the clean energy sector alone had global revenues of US$77.3Bn in 2007 and this is forecast to rise to over US$250Bn by 2017.

In Australia, the definitive measure of cleantech performance is the ACT Australian CleanTech Index. This tracks 73 cleantech companies listed on Australian exchanges with combined forecast FY08 revenues of over A$13Bn and a combined market capitalisation at the end of April 2008 of over A$15Bn. The ACT Index outperformed both the S&P/ASX200 and the S&P/ASX Small Ordinaries during the 2006-07 financial year with a gain of 42.9%. Over the first four months of 2008, the ACT Index has again outperformed both of its benchmarks. If the Australian growth matches the global forecasts, annual revenue for the Australian cleantech sector could exceed $40Bn within the next 10 years.

The dominant Australian cleantech sub-sectors are currently waste and wind with large companies also present in water, biofuels and environmental services. An assessment of what sub-sectors will dominate in 10 years can be made by looking at Australia's areas of natural competitive advantage. With its abundant solar and wind resources, along with its water scarcity, the country is likely to see the emergence of large scale solar generators and providers of water efficiency solutions.

Until recently the Australian cleantech market has lagged behind both its US and European counterparts. In the US the strength of venture capitalists together with favourable regulation in some States has spurred innovation. In Europe, growth has been largely driven by regulation and mandated targets supported by financial gains through carbon trading. In both cases, the link to the finance industry has enabled the recent growth. Australia is now turning the corner and financial markets here are starting to see opportunities for profitable investments.

A positive regulatory environment, whilst not essential to the growth of cleantech, is obviously an important factor. Courageous, long term political leadership will result in wins both for the environment and those investors who also take a long term view. Opportunities exist to develop leading technologies that utilise Australia's natural competitive advantages. Bold infrastructure projects, funded by a world's best Emissions Trading Scheme (ETS), have been envisioned which will spur on future sustainable growth. One such project is to build a direct current cable network connecting the wind resources of South Australia's west coast, through the solar thermal resources in SA and western New South Wales to the main east coast population centres.

Yet politicians are often tempted to make decisions based on short term expediency. An example of the dilemmas ahead is the case of carbon Capture and Storage (CCS). Coal is one of Australia's abundant natural resources and the basis of strong, traditional industries here. Yet developments of energy technologies that produce no emissions risk being delayed by the distraction of CCS, a solution, that in the long term is an unsustainable 'end of the pipe' solution.

Regardless of political decisions, the future for cleantech, both here and abroad, is bright. It has multiple global drivers and government backing which makes it stand out from previous growth industries. As it grows, mainstream corporate Australia will buy in through purchasing and acquisition decisions and this will enable the entire economy to move towards sustainability. By combining industry with investors, the cleantech sector will underpin and be essential for the transition to a sustainable world.

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