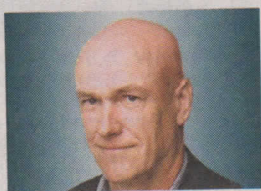


Clean-tech's surge mask

Experts say there are risks the current gains cannot be maintained

GILES PARKINSON
GREENCHIP



SOMETHING very unusual has been happening in the Australia sharemarket. Over each of the last three months and over the last quarter as a whole, Australian clean-tech stocks have outperformed the broader index by a ratio of about two to one.

In January, the ACT Australian CleanTech Index, which comprises 77 local stocks with a combined market cap of \$8 billion, recorded a 10 per cent gain, double the rise of the Australian sharemarket's benchmark S&P/ASX 200. Over the last three months, the CleanTech index has enjoyed a gain of 5.5 per cent, compared with a 1.9 per cent loss in the broader index.

Does Australia suddenly and unexpectedly find itself in the midst of a mini clean-tech boom? Sadly, it's not likely. The truth is that most clean-tech stocks did not have much further to fall. A look at the longer-dated returns shows a depressing picture.

Since July 2007, the value of the index has halved from its peak of \$16bn, buffeted first by the impact of the global financial crisis, then the political backflips and uncertainty over carbon pricing, but mostly ineffective government incentives. At least it has recovered from a low point of \$6.4bn reached in September last year. But over the last three years, the index has lost 30.3 per cent, while the broader benchmark has gained 21.2 per cent.

John O'Brien, director of Australian Cleantech, which compiles the index, says it is hard to pin the recent gains down to a change of sentiment for the sector, and most gains in individual companies are

not related to the passing of the carbon price, or anticipation that the proposed Clean Energy Finance Corporation could finally unblock the monies that have been pledged to support clean-tech investment but are so far unspent.

O'Brien says the recent rally has been driven by good gains at some of the larger companies that have no direct link to a carbon price, such as waste metals specialist Sims, Transpacific and the two lithium miners, Orocobre and Galaxy Resources. Only a few gains can be ascribed to growing interest in carbon issues and renewable energy.

"Given the main drivers for the index gain are not clearly related to a change in attitude to clean-tech in general, there is a risk that the current gains will not be maintained," O'Brien says.

"However, with increasing interest in the sector and the reality of more secure and larger revenues being delivered through government programs, there is a real chance that this will be the start of a clean-tech boom."

The biggest problems facing renewable energy developers in this country is that there hasn't been much to do. The outlook for most Australian clean-tech stocks has changed little in the past two years, with the surplus of renewable energy certificates and the failure of the government's grants-based programs, which has been highlighted by the continued problems around the Solar Flagships program. This has been replicated through all levels, including the Renewable Energy Development Program and the geothermal drilling program, which had to be wound up.

As a Grattan Institute study last year revealed, just 3 per cent of \$7.8bn of grants announced over the past decade by Coalition and Labor governments had actually been spent. Developers in the solar, geothermal, wave energy sectors have been stalled at the gates. Most have been compelled to seek opportunities overseas.

This was the primary motivation for the creation of CEFC, and the bid to provide more independence to the Australian Renewable Energy Agency, which is being encouraged to adopt a



Most solar and wind firms have been struggling to stay profitable be

more hard-nosed and commercial attitude to ensure that funds are actually spent.

Still, deployment is not necessarily a panacea for sharemarket woes in the clean-tech sector. Despite record investment in renewable energy across the globe — last year it reached \$270bn — international clean-tech stocks have also performed poorly. The Winderhill New Energy Global Innovation Index (NEX), a key benchmark, has dropped an average 6 per cent in the last three years, while the broader MSCI has grown 16 per cent. In the last quarter, the NEX fell 7 per cent, dragged down by spectacular falls from the likes of Vestas, the world's big-

gest wind turbine manufacturer, while the MSCI gained 4 per cent.

Tim Buckley, investment manager at Arkx Investment Management, the first Australian fund to specialise in listed clean-tech stocks, says the biggest single issue has been dealing with the high upfront capital cost of renewable energy when funding has been scarce, thanks to the GFC.

"Trying to raise the magnitude of money required when finance is scarce is hard. There is an aversion to risk and most people don't have a long-term horizon," he says.

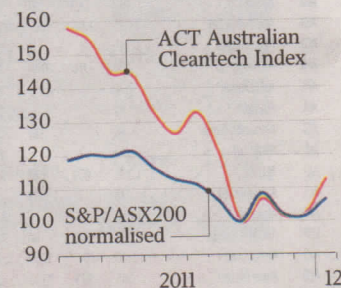
And although record amounts have been invested in renewable energy, the demand has been below expectations. "A lot of these

king troubled times



ACT Australian CleanTech Index

Indices set at 100 at September 30, 2011



certificates, as they are now known) were edging towards a price that may finally convince utilities to strike power-purchase agreements with wind-farm developers and to ensure enough LGCs were delivered by new projects to satisfy their needs beyond 2014. But after reaching a peak of \$42 in early December, the LGCs have eased back to close below \$39 on Thursday — well short of the \$45-\$50 range needed to bring the utilities to the negotiating table.

The fall has stumped brokers, who complain of a catch-22 situation. "Market dynamics indicated that market should go up," says Anthony Williams, manager of environmental markets at Green Energy Markets.

"Given the two-year lead time for wind-farm developments, it make sense that utilities start committing to projects soon."

But, to make matters worse, the wholesale price of electricity has also fallen, and has been averaging the mid-\$30/MWh mark when it could normally be expected to be in the \$40-\$50 range. This has been attributed to falling demand, the result of energy efficiency measures such as the much-maligned pink batts scheme, and the impact of rooftop solar and milder weather.

Renewable energy developers need the black price (wholesale) and the green price (LGCs) to be in the \$90-\$100 range to get their wind farms built. Right now, the combined price is well short at around \$75.

Wind-farm developers, and the Solar Flagships contenders too, will have to be patient.

Giles Parkinson is editor of reneweconomy.com.au

cause of massive overcapacity and pricing pressures

companies have been set up with higher expectations of demand," Buckley says.

In solar, forecasts were predicated on 30-35GW of installed capacity, but in the last two years it has been just over 20GW.

"That has created overcapacity and massive pricing pressure. In its own right, that pricing pressure is driving a more rapid move to grid parity, but in the meantime it erodes margins.

"These price falls are good in the long term for the economy, environment and take up of the product, but they are a significant negative to near-term corporate profitability, and most wind and solar firms have been struggling to

stay profitable in the last two years."

Not that this concerns China much, which is now the world leader in most renewable technologies, and can focus on five-year economic plans rather than quarterly and six-month reports. "They are looking at the long-term implications of grid parity, which is no longer a question of if, but when, and that will ultimately have profound implications for take-up of renewable energy."

Poor price signals

RENEWABLE energy developers rely on two traded commodities to send the right price signal that

could get them financing to build their wind plants. Right now neither is performing to expectations, and \$15bn of developments remain stalled at the starting gate.

The renewable energy certificate is the key currency created by the 20 per cent renewable energy target, but since a horrible miscalculation with incentives for rooftop solar, the market for RECs has been flooded.

This has enabled electricity retailers to stash away enough supply to last until 2014, effectively pulling a rug from beneath the market.

There was hope last year that the LGCs (large-scale generation

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