Will Non-energy Cleantech be Left Behind?

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The Renewable Energy Target (RET) legislation has been passed by the Australian legislature but the Carbon Pollution Reduction Scheme (CPRS) was defeated. What impact will this have on the cleantech sector, both in the short and longer terms?

Let's start with the longer term and consider the prospects for cleantech companies in, say, five years time. This outcome is reliant on the key drivers behind the adoption of cleantech. In my view there are four unique and significant drivers behind the global move towards clean technologies – and only one of those relies on regulatory measures.

Firstly, cleantech solutions are being integrated into many real assets that provide core services, such as power, water, waste and recycling over the long term. This ensures that any over-exuberance in investments, comparable to the IT bubble of the early 2000s, has a lower bound and tangible level.

Secondly, the demand for these core services of energy, water and resources is growing due to both population growth and increasing wealth and its consequent improved standard of living.

Thirdly, as the world continues to use and deplete its natural resources there is increasing pressure on communities to act sustainably. Not only is the demand increasing but the supply of resources is decreasing, so it is essential to use more innovative technology to improve efficiency and reduce waste.

Finally, and certainly not most significantly, there is the recognition of climate change and the consequent regulatory regimes, such as the RET and the CPRS. 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 longer term growth of cleantech is assured and will be unstoppable.

So whether the RET and/or the CPRS, and their equivalents in other countries, are passed now, next year or the year after will have little impact on the long term growth of the sector. The long term winners will be those technologies that provide required solutions at the lowest costs. There may be some minor technology variations if the early stage subsidies are not provided, causing some of the individual technologies to fall in the valley of death. In general however, the sectors that could be winners will still be winners and the 'petty politics' of 2009 will become a mere detail in a few autobiographies of retiring and elderly ex-ministers.

The short term may not have any importance in the overall scheme of things, but it clearly has a huge and current impact on individuals, companies and investors. Individuals have reputations at stake, companies are trying to keep their shareholders happy and the investors are seeking pots of gold. The short term impact of the 'petty politics' is therefore immense.

A quick look at which of the sub-sectors of the Australian Cleantech Index have performed well in the last six months demonstrates the correlation between policy and investment returns. The ACT Solar Index has increase by 119% in the 6 months since 31 January, driven entirely by the increased demand for rooftop solar photovoltaic panels resulting from policy decisions. For instance, investors with $1,000 invested in Quantum Energy on 31 January could have cashed in $3,750 if they had sold out six months later.

The RET will drive a massive investment in renewable energy, with most pundits backing wind to be by far the biggest winner. There might be an additional 10,000MW of wind constructed over the next 5-6 years with a capital expenditure of over A$20 billion. Some estimates double this level of installed capacity. The ACT Wind Index and the companies investing in these assets will surely reflect this growth. Some solar, wave and geothermal projects and companies may also thrive, although the growth is certainly less certain.

A valid question is whether this will exhaust the investment appetite for cleantech leaving nothing for all the other sub-sectors. Will sub-sectors such as water, waste, vehicle technologies, energy efficiency and energy storage stagnate whilst their cleantech cousins in clean energy boom?

Will the delay and weakness of what may become the CPRS mean that Australia's non-energy related clean technologies will remain on the shelf?

Looking back at the fundamental drivers of cleantech, the answer is clearly 'no'. The other sub-sectors may not accelerate as fast in the short term and maybe the investment returns will not be so strong. However, the demand for increased resource efficiency, reduced waste and improved environmental performance will ensure that technologies across the cleantech spectrum will succeed even in the short term. We may go through a different ‘sliding door’ with respect to the uptake schedule and the exact technology mix and this may have profound impacts on individual companies and investments. From a sector level, however, the industry growth will continue and innovation and adoption will be widespread for all industries.

Cleantech is not reliant on regulatory regimes. Furthermore, for the technologies that improve efficiencies, reduce waste and consequently increase customer profits, investment will always be available.

Politics may influence the short term behaviours, but the long term drivers for cleantech adoption are far bigger than mere national politics.

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