

Clean technology in the downturn

Gathering clouds

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The economic slowdown casts a shadow over the prospects for clean technology

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EARLIER this year, with the oil price at record heights, T. Boone Pickens, a celebrated Texas oilman, seemed to confirm the unstoppable growth of the clean-technology industry when he announced plans not only to build the world's biggest wind farm, but also to spend \$58m of his personal fortune promoting the cause of wind power. On October 30th, with oil prices having fallen by more than half, he told a television reporter that the boom he had foreseen in wind would be "put off", due to the unexpected fall in the price of fossil fuels and the sudden difficulty of borrowing money.

Mr Pickens is not the only clean-tech investor caught out by the credit crunch. New Energy Finance, a research firm, calculates that the amount of project finance devoted to clean-energy projects around the world fell by almost 25% in the third quarter, to \$18 billion. The firm expects it to fall further before the end of the year. It also expects firms to raise less money on stockmarkets, due to the financial turmoil. NEX, an index that tracks clean-tech stocks globally, has tumbled even faster than the market as a whole (see chart).

Big American utilities are slashing their investments in alternative energy. Florida Power & Light has cut its planned investment in wind power next year by 400 megawatts. Duke Energy of North Carolina has lopped \$50m off its budget for solar power. And on October 31st VeraSun Energy, one of America's biggest ethanol producers, caught out by gyrations in the prices of corn and petrol (gasoline), filed for Chapter 11 bankruptcy protection. In the European Union the price of carbon permits has fallen from a

high of almost €30 in July to around €20, making clean-tech investments less attractive.

But Michael Liebreich, the boss of New Energy Finance, expects total investments in clean energy to fall only slightly in 2008, thanks to a strong performance in the first part of the year. Venture-capital and private-equity investments actually rose slightly in the third quarter. The price of oil aside, he says, the issues that stoked interest in clean tech, including global warming and energy security, are as prominent as ever.

A few customers for wind turbines, says Steve Bolze of GE Energy, are delaying their orders, but the firm has no doubts about the industry's long-term prospects. The world still needs energy, argues Steve Sawyer, the head of the Global Wind Energy Council, an industry group, and even if banks are slower to lend, utilities can often afford to pay for new generation out of their own revenues. Investing in dirtier sources of power carries risks of its own, he adds, as illustrated by the recent see-sawing in the price of fossil fuels.

Moreover, a new rationale for promoting green investments is beginning to emerge. Many luminaries, from the head of the United Nations Environment Programme to Barack Obama, America's president-elect, tout the industry as a means both to address global warming and stimulate flagging Western economies. Reports enumerating the economic benefits of state support for clean technology, in the form of industries fostered and jobs created, abound (although few of them examine the potential costs of such schemes, in the form of increased government debt and misallocated capital). American lawmakers, at any rate, seem convinced: they slipped an extension of all-important subsidies for renewable energy into the recent bail-out for financial services.

Clean-tech firms with strong business models can still raise money. EDF Energies Nouvelles, the renewable-energy firm controlled by Europe's biggest utility, recently raised \$734m from a secondary share issue. GridPoint, an American start-up which sells technology to improve the efficiency of electrical grids, raised \$120m in venture capital in September; Silver Spring Networks, another smart-grid firm, raised \$75m last month. In general, firms selling technology that will earn a quick return, in fields such as energy efficiency, are proving most resilient. Capital-intensive businesses such as ethanol distilleries are struggling—especially Brazilian ones whose debts are in dollars while their revenues come in depreciating reals.

Makers of wind turbines and solar panels still have long waiting-lists for their wares, so a slowdown is not as alarming as it sounds, Mr Liebreich points out. Smaller manufacturers with weaker balance-sheets will be snapped up by bigger, more efficient firms, he predicts, and shortages that have crimped the industry's growth will ease. The price of silicon, the chief component of photovoltaic cells, is already falling. Cheaper steel and copper should help reduce the cost of making wind turbines. A shortage of capital may become a new bottleneck, he says, but it will not kill off the industry any more than the previous ones did.

