Blow To Big Wind In The Power-Market Stakes

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THE stark backdrop to the UN's uneventful climate change negotiations in Doha last month that left environment groups smoking with disappointment is the long-running meltdown on global green-energy markets.

The fall in value of the world's major renewable energy companies has mirrored the faltering practical actions from the world's major economies to make deep and speedy cuts to carbon dioxide emissions.

From the peak of dashed political climate-change aspirations in Copenhagen in 2009, the value of the world's major wind and solar companies has been in free fall.

RENIXX, the key stockmarket index for renewables, is down more than 90 per cent from its high point in December 2007. RENIXX tracks the world's 30 largest renewable energy companies headquartered in China, the US and Europe.

It includes the biggest names in wind and solar including wind turbine makers Vestas, Gamesa and Suzlon and solar companies First Solar, Suntech Power and Sun Power.

There are many reasons for the falling fortunes of renewable energy companies and supporters are correct to point out it is a scenario familiar for sunrise industries.

In some ways the renewable rout mirrors the tech wreck of 2000 which saw trillions of dollars lost in the dot-com bust, which was a brief hiccup in the transformative digital juggernaut, they say. But there are key differences.

Chief among them is the renewable energy sector's heavy dependence on government-mandated subsidies for survival. In tough economic times many of the renewable energy schemes that helped spawn the global renewables industry have outlived their welcome.

In the US, the world's second largest wind market, the industry has been built on the back of a lucrative tax credit that has now expired with no sign of the political support needed to extend it. Many have predicted this will spell the end of the US wind industry. Even if a deal can be done, orders are forecast to plunge between 70 per cent and 90 per cent this year.

In Europe, Spain's solar market dropped 80 per cent after subsidies – which paid operators up to 10 times the rate for conventional electricity with a 20-year subsidy guarantee – were axed. Germany, the home of rooftop solar, cut feed-in tariff subsidies three times in 2011 and has a 2017 deadline to phase them out completely.

Plans to build a mega solar array in North Africa to supply 15 per cent of Europe's energy needs are in trouble after two key financial backers, Siemens and Bosch, pulled out because of the high public subsidies the project needs.

In Britain, there is a growing public and political backlash at both the high cost and environmental intrusion of renewable energy projects.

The political backlash and cuts to mandated subsidies have financially crippled many wind and solar manufacturers and spawned an anti-dumping trade war between Europe, the US and China.

Against this backdrop, Australia is seen as a sweet spot for future investment by renewable energy players. The chief marketing officer of wind industry leader Vestas, Morten Albaek, told an uncritical online trade press recently that Australia was a very attractive market for three reasons. Two of the three reasons relate to government compulsion.

The first was the Renewable Energy Target that forces power utilities and big energy consumers to buy more than 20 per cent of the electricity from renewables by 2020. The other was the carbon tax, which is designed to make fossil fuels progressively more expensive.

On the cusp of a potential renewable bonanza in Australia, the message big wind wants to send is to not expect cheaper prices despite hard times in the industry.

The more critical question is whether Australia is thinking strategically enough about its clean energy future.

As one of the few nations to sign up to a second Kyoto period at Doha, Australia has shown it wants to put itself at the front of the curve on dealing with climate change. But it must be careful not to put itself behind the eight ball on future energy.

Despite the strong political licence for renewables and hundreds of billions of dollars invested, global energy is still a story of fossil fuel.

A new report by Worldwatch, a Washington-based independent research organisation that works on energy, resource and environmental issues, says coal's share of the global primary energy mix reached 28 per cent in 2011, its highest point since the International Energy Agency began keeping statistics in 1971.

Global consumption of coal increased 5.4 per cent in 2011, to 3.72 billion tonnes of oil equivalent, while natural gas use grew 2.2 per cent to 2.91 billion tonnes of oil equivalent.

Just over 70 per cent of global coal demand in 2011 was in countries outside the OECD, including China and India.

If there is a radical transformation taking place in global energy markets it has less to do with renewables than many would wish.

The critical new development is the emergence of shale gas.

Long-term energy watchers, including Margaret Thatcher's energy minister Nigel Lawson, who ironically helped put global warming from carbon dioxide emissions on the world's political agenda (sic), says it is impossible to overstate the implications of the shale gas revolution.

The ramifications are financial, geopolitical and environmental.

Shale gas has the potential to break the US dependence on the Middle East for energy and free Europe from the gas dictates of Russia. The opening of unconventional gas in US, Canada, Europe and China has the potential to usher in a new era of cheap energy world wide.

Analysts say there are both threats and opportunities for Australia in the shale gas revolution.

Financially, the biggest threat is the potential impact pending US gas exports will have on Australia's multi-billion-dollar export liquefied natural gas industry. A long-awaited US government study said shipping some of the newly abundant natural gas overseas would benefit the nation's economy more than keeping it all at home.

The federal government has commissioned a study of Australia's shale gas potential which is due early next year.

The big question is where do gas and renewables sit in the new global energy paradigm. Most people say the sensible future energy mix will have a bit of everything.

But green groups have clearly identified gas as a potential mortal threat to their favoured renewables option. They argue that the abundance and environmental positives of shale gas are overstated. Gas wells are producing less than expected, they say, fracking costs are higher and leaking methane emissions cancel out any carbon dioxide emission savings benefits.

Despite these concerns, the US has dramatically lowered its carbon dioxide emissions by switching more of its energy mix to gas, a fact that receives scant attention in the broader climate-change debate.

In Australia, Queensland Greens veteran Drew Hutton has created an extraordinary coalition of opposition to exploration for coal seam gas.

Hutton's "lock the gate" group is rooted in the deep rural attachment to property rights and concern for the future of prime agricultural land and the health of the Great Artesian Basin.

But just below the surface is potent deep green opposition to coal mining and the use of fossil fuels at all. There is a keen awareness of the threat posed by unconventional gas to the roll-out of renewable energies that require large subsidies from consumers and greatly increase costs to industry.

Britain has experienced similar opposition to unconventional gas as Australia. But as the tide has started to turn against renewables in Britain, the political wheel is moving in favour of gas.

British Prime Minister David Cameron has said the country must be at the heart of what he called the “shale gas revolution” declaring himself critical of environmentalists opposed to exploiting the technology.

“I think some in the green movement really want us to rule out gas and opt right now for nuclear plus renewables plus energy efficiency. Zip. That’s it,” he said.

“I think that would be a mistake. It may be that this gas revolution is really quite transformative and there is going to be a lot more gas and the price won’t be as expensive as some people think.”

There is another reason many people in the environment movement reject the prospect of a gas revolution and it has more to do with politics than the environment.

Writing in Stratfor, Robert Kaplan said the rise of shale gas in the US and Australia could define the world’s future energy landscape.

“The alliance of these two great energy producers (US and Australia) could further cement Western influence in Asia,” Kaplan said.

“Indeed, if unconventional natural gas exploitation has anything to do with it, the so-called post-American world would be anything but.”