

The Downturn Hits Renewable Energy

By Mark Scott

Cheaper oil is diluting demand for energy efficiency in Europe, and tighter financing is making it difficult for renewable energy companies to expand, or even survive.

It was only a matter of time. As the impact of the global financial crisis spreads into all corners of the economy, Europe's world-beating green energy sector is starting to feel the pinch. Plunging oil prices have made renewable energy sources relatively less cost-effective, while thinner profit margins have prompted big industrial users of power to tighten their budgets for sustainable energy programs -- cutting into sales by green energy suppliers.

At the same time, the rising cost of capital is making it harder for both consumer and suppliers of alternative energy equipment and services to finance new green projects. The impact will be felt especially acutely by small, independent manufacturers and electricity producers, some of whom could go out of business or be forced to sell out to larger companies. "Small companies are more fragile, and some will have difficulties in financing their projects," says Colette Lewiner, global energy, utilities, and chemicals leader at consultancy Capgemini.

It's a dramatic change from just a few months ago. Earlier this year, European alternative energy companies such as German solar panel manufacturer Q-Cells and Danish wind-turbine maker Vestas were scrambling to keep up with global demand as prices for solar cells and wind turbines soared. Regulatory carbon reduction requirements in Europe and elsewhere, coupled with rising public eco-consciousness, promised a bright future for renewable power.

Seeking Government Aid

Now, with demand weakening and prices in decline, the green sector is hoping for more government support to carry it through the economic turmoil. Many forms of alternative energy already enjoy government subsidies to move the cost of green power closer to parity with cheaper fossil fuels. Now companies are looking for direct investments by governments in clean energy projects.

Politicians already are responding. On Nov. 17, the French government created a new feed-in electricity tariff that will subsidize the use of solar power. Under the plan, which mirrors similar incentives already available in Spain and Germany, electricity producers that invest in solar will be paid an above-market rate for the power they generate. By 2020, France hopes to increase the supply of domestic solar energy 400-fold and produce 23 percent of its entire electric output from renewables, compared with the current 10.4 percent figure.

The European Union is also getting into the act. On Nov. 26, the European Commission announced a €200 billion (\$252 billion) economy recovery plan that includes targeted investments in carbon reduction as a linchpin to reignite Europe's struggling economy. The programs may include additional green energy subsidies and support for energy efficiency by consumers.

"We're going to see a lot of money from the public sector spent to help eco-friendly projects," says Martin Porter, managing director of policy think tank The Centre in Brussels. "It's a good way to combine an economic response to the financial crisis with long-term goals of sustainability and CO2 cuts."

A Lift from Obama?

Aside from support in the Old World, the European green energy sector may be able to take advantage of an unexpected new source of backing: the United States. President-elect Barack Obama is expected to focus some of his estimated \$700 billion stimulus package on eco-friendly businesses. Denmark's Vestas, for example, already manufactures wind turbines in the US and could be well placed to profit from government investment in clean technology. Iberian renewable energy producers Iberdrola Renovables (EBER.F) and EDP Renovaveis (EDPR.LS)—already America's second- and third-largest wind energy producers, respectively -- similarly stand to benefit from federal assistance for renewables.

Renewed government intervention comes after years of steady private-sector investment in Europe's green sector, which has placed the Old World at the forefront of tackling climate change. The EU Emission Trading Scheme -- which assigns an amount of CO2 companies can emit each year, then allows them to trade these allowances in an open market -- has led utilities to spend billions of dollars on renewables to cut their carbon footprints.

Yet as the price of oil has tumbled from its record high in July 2008, the cost of offsetting CO2 emissions also has halved over the same period. Without this economic incentive to invest in green energy, companies have started to curtail their spending on solar, wind, and other environmentally friendly technologies. "With the oil and natural gas prices falling, the competitive case for renewables won't be as strong," says Capgemini's Lewiner.

Despite the expected state aid for green energy, market watchers still expect a number of renewables firms -- particularly those that are highly leveraged -- to fall afoul of the economic downturn. The combination of slack demand and higher project financing costs could be too much for weaker players. The result could be a round of merger and acquisition activity as larger, better-funded companies swoop in. Big utilities like France's EDF and Spain's Iberdrola are among the most likely buyers.

No matter which companies survive the current financial crisis, extra state investment certainly will be necessary to get the European renewables sector through the storm. While some may decry yet more governmental involvement in the economy, in this case politicians have little choice. Caught between an economic crisis and tough CO2 reduction commitments, leaders have to keep the green sector alive or risk blowing past their carbon targets -- and potentially facing further problems down the road from global climate change.

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