Press Release

For immediate release, 2 April 2009

44% plunge in investment as crisis catches up with clean energy

The latest authoritative figures from research firm New Energy Finance show that new investment in clean energy has collapsed to just $13.3bn in the first quarter of 2009, down by no less than 44% on the fourth quarter of last year and 53% below the level achieved in the first quarter of 2008.

It took until the first quarter of 2009 for the credit crunch and the recession to catch up fully with investment in renewable energy, low-carbon technologies and energy efficiency. Despite the sector's medium-term and long-term growth prospects, it suffered in Q1 2009 from a severe shortage of bank finance for projects and the parlous state of overall stock market confidence. Over $150bn of stimulus spending around the world has been earmarked for clean energy, but these figures show it has not started to flow fast enough to fill the current funding gap.

The unprecedented fall in recorded investment in Q1 2009 reflects two influences. The first, and more significant, is a sharp drop in underlying activity. The second is the fact that many deals are taking longer than usual to complete because of the state of financial markets, and had therefore not been closed by the last day of the quarter.

- The biggest single element in clean energy investment is asset finance of new-build projects such as wind farms, solar parks and biofuel plants. This amounted to just under $11.5bn in the first three months of 2009, down 44% from Q4 2008 and half the figure for Q1 last year.
- Venture capital and private equity finance for clean energy companies held up well last year, as funds put equity into expanding technology companies, some of which might have floated in a healthier year for the stock market. However in the first quarter of 2009, VC/PE fell 22% compared with Q4 2008 to $1.8bn, its lowest in any quarter for more than two years.
- The weakest segment of all was public market investment. Stock market investors contributed less than $100m to pure-play clean energy companies in Q1 2009, although a number of other firms with a mixture of activities, some in clean energy and some not, did succeed in raising equity finance. Even in 2008's bear market, no quarter was as bleak as this for public market investment – Q4 2008 saw $1.1bn raised for instance, and Q1 2008 saw $2.1bn raised.
- Merger, acquisition, buy-out and refinancing activity, which is not included in the new investment total because it represents assets and equity changing hands rather than fresh capital coming into the sector, was $8.8bn in Q1 2009, compared to $17.3bn in Q4 2008 and $18.8bn in Q1 2008. The number of corporate M&A deals is likely to increase during the year as well-capitalised players take advantage of rivals that find themselves unable to raise new finance.

Michael Liebreich, chairman and CEO of New Energy Finance, commented: "Green stimulus plans may represent the light at the end of the tunnel for clean energy companies, but meanwhile the sector has been hit by an oncoming train. These figures highlight the need for policy-makers and administrators in the US and elsewhere to ensure that stimulus funds start flowing immediately, not in a year or so. There is also a strong case for further measures, such as requiring state-supported banks to raise lending to the sector, providing capital gains tax exemptions on investments in clean technology, creating a framework for Green Bonds and so on, all targeted at getting investment flowing. Many of the policies to achieve growth over the medium term are already in place, including feed-in tariff regimes, mandatory renewable energy targets and tax incentives. There is far too much emphasis among policy-makers on support mechanisms, and not enough on the urgent needs of investors right now."

Looking at the detailed geographical data, asset finance of new-build renewable energy projects in the US totalled just $500m, compared to $2bn in Q4 2008 and just over $5bn in Q1 2008. The Obama stimulus funds have not yet started to flow. These figures show just how much they are needed.

In Brazil, new-build asset finance was down sharply in Q1 2009 at $900m, compared to $3.3bn in Q4 2008. But refinancing shot up to $1.4bn, more than half of the world total, from virtually nothing in Q4 – showing how state-owned banks are moving to fill the financing gap left by private sector banks, particularly in the ethanol sector. This may provide a pointer to the rest of the world on what can be achieved by the public sector if there is political will.

Overall global investment in clean energy reached $155bn in 2008, up slightly from $148bn in 2007, according to New Energy Finance data. Given the slowness of the first quarter of 2009, it will take a very sharp acceleration in investment in the remaining three quarters for this year to match 2008 levels.

Liebreich said: "The medium-term and long-term outlook for clean energy is strong, given the imperatives for G20 economies to curb carbon emissions and improve energy security. We forecast that on current policies, annual investment in the sector will return to growth in due course and reach $350bn by 2020 – although as we showed in our recent Global Futures work, even that is not sufficient to achieve a peak in carbon dioxide emissions before 2020. Right now, however, the industry has to get through some very difficult quarters until the stimulus funds start to flow. Only then can we focus again on the longer term challenges."

New Energy Finance has also published today a communiqué to G20 leaders meeting in London, based on the debates and recommendations of 275 senior decision-makers who attended the New Energy Finance Summit in early March. The communiqué will detail the principles that policy-makers should follow to rapidly boost clean energy investment towards the levels that will be required to contain climate change.

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ABOUT NEW ENERGY FINANCE:

New Energy Finance is the world's leading independent provider of subscription-based research to decision-makers in renewable energy, biofuels, low-carbon technologies and the carbon markets. The company has a research staff of around 130, based in London, Washington, New York, Palo Alto, Beijing, New Delhi, Hyderabad, Tel Aviv, Cape Town, São Paulo and Perth.

New Energy Finance's Insight Services provide deep market analysis to investors in wind, solar, bioenergy, geothermal, carbon capture and storage, energy efficiency, nuclear power and the traditional energy markets. New Energy Finance's Industry Intelligence service provides access to the world's most comprehensive database of investors and investments in clean energy. The New Energy Finance Briefing is the world's leading news and newsletter service focusing on clean energy investment. New Energy Finance is co-publisher of the world's first global stock-market index of quoted clean energy companies (ticker symbol NEX). The company also undertakes bespoke research and consultancy, and runs senior-level networking events.

ABOUT NEW CARBON FINANCE:

New Carbon Finance is the leading provider of high quality fundamental analysis of the European, North American, Kyoto and Australian carbon markets. Its team of analysts has been providing professional advice on carbon markets since 1998, including assistance in the design of various national and international schemes and company-level strategic advice. During this time New Carbon Finance has built up highly detailed abatement curves and market models that analyse carbon market demand and supply and provide regular forecasts of future carbon prices. New Carbon Finance operates as a division of New Energy Finance.

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