CLEANTECH GETS ITS PLACE UNDER THE SUN

But after attending the sector's 3rd local shindig, Mitra Ardron thinks the best deals are getting away.

Last month's *3rd AustralAsian Cleantech Forum* brought about 230 delegates, including fund managers, investors and investees, regulators and consultants together in Melbourne to review the sector, its growth and prospects. But did they get what they were looking for?

The opening session set a theme for the conference as a whole. Gerry Morvell from the Australian Greenhouse Office attempted to convince the audience of the Federal Government's commitment to the issue, and of the relevance of its *Asia Pacific Partnership on Clean Development and Climate.* But as other speakers showed, drastic emission reductions are not only possible, but profitable.

Theo Theophaneous, the Victorian minister for Industry, was better received due to recent Victorian proposals for clear, if inadequate, targets of 60% cuts in emissions, by 2050. Theophaneous also made the important statement that environmental challenges bring both costs and opportunities, which the Victorian government is keen to take advantage of.

Of course, politics is politics. Theophaneous concluded that renewables could not meet all of Australia's needs, and that so-called "Clean Coal" (in particular gasification of brown coal) will need to pick up the difference, and save at least 30% of the emissions.

This point was challenged by Terry Tamminen – advisor to California's Governor Schwarzenegger, who questioned what would happen to the 70% remaining emissions.

Tamminen as the architect of *the Governator's* environment policy was clearly keen that California would take advantage of the mobility of industries seeking a regional Government that is more favourable to renewables.

Then Clint Wilder from Clean Edge, pointed out that 10% of US venture capital investment now goes to cleantech (up from 1% in 1997) and that in 2004 the US had 115,000 jobs in clean energy compared with 80,000 in coal. And he hypothesised that with the automation of most mines combined with even a modest move to renewables, a similar change in the *green vs brown* jobs balance would emerge in Australia.

India as a cleantech hub

The session on India presented some strong arguments as to why it is another region where cleantech has strong prospects. For example, a single city like Mumbai has a similar population to Australia.

By contrast with China, India has a higher cleantech investment risk profile, partly because of China's better regulations.

Opportunities include water filtration; wind farms, small run hydro and energy from waste, according to Somak Ghosh of Yes Bank.

Several speakers mirrored my own experience of the necessity for having the right partners when working in India, and the need for both practical and legal enforceability since the Indian system is litigious and slow.

Rob Fowler of Abatement Solutions pointed out the potential upswing in investments in CDM (Clean Development Mechanism) projects if Federal Labor is elected and signs the Kyoto Protocol.

The session glossed over the serious issue of corruption. At

least one major cleantech project was cancelled recently because too many gatekeepers were looking for kickbacks.

If it's an asset class - risk vs return

This is the year that climate change finally reached prominence among the general public. Labor is proposing 60% reduction in GHG emissions by 2050 and both the Greens and Brisbane City Council are proposing 80%.

With climate science each year showing more potential critical events, it might be assumed that by the time we reach 2050 the target will be closer to zero. And so the smart money is likely to be asking what technologies, businesses, investments and funds will deliver strong returns in a market which is set to demand continued economic growth with close to zero net emissions.

PriceWaterHouseCoopers' Sean Lucy and Nicole Bryant described a number of approaches to maximising returns from this changing situation. Most notable of these was the need to ensure clarity around the ownership of environmental credits (water, carbon etc), and to consider the likelihood that regulatory, legal and tax issues could be substantially different between entry and exit.

Steve Gibbs of the Commonwealth Superannuation Scheme focussed on the risk side of the risk-return equation – super trustees face a fiduciary, rather than an ethical duty to factor in environmental risks. So he sees an asset allocation to cleantech-related private equity and sustainable infrastructure as an increasing part of a diversified portfolio.

By contrast Macquarie Funds Management's John Brakey was firmly focused on returns, with the Bank managing over $1bn in cleantech assets, predominantly in wind farms.

Barkey says his fund looks for 30% Internal Rate of Return on individual deals to cover the inevitable failures and "walking dead". Despite this he believes the biggest impediment to greater investment is the risk-avoidance mentality of fund managers and asset consultants, who seem unwilling to allocate funds to a sector with less than a 20 year investment track record. Ian Robertson from the Local Government Super Scheme concurred that asset consultants were the fundamental problem with seeking out investment in renewable energy.

Overall, Brakey stressed the need to dispel the perception of a low risk, low return sector and the need to get exposure by specifically targeting cleantech as an asset class.

The first clean-pitch-fest

This was the first Cleantech Forum to include an Investment Showcase. Ten companies presented their business model and investment requirements both through short presentations and from exhibition booths. Most presentations were strong and interesting; particularly MicroFlow's valves, Anzode's Zinc paste electrodes, and Biopower's undersea generators.

Microflow has a simple but elegant solution to reducing the operational energy of valves, reducing costs and expanding the potential applications in water saving applications. It is raising $3-5m to get into production and secure licences.

Anzode is looking for $2-5m to start manufacture of cells based on zinc paste which eliminates problems in an area of battery development. Its cost and weight characteristics should suit the expanding hybrid vehicle market.

BioPower has two related biomimicry based wave generator systems and need $1-2m for the first ocean-scale prototypes. Its team has strong experience in this challenging area.

Most pitch-fest presentations were strong and interesting; particularly MicroFlow, Anzode's Zinc and Biopower.

It was noticeable that, apart from a couple of notable mid-stage funders such as Starfish Ventures and CVC Sustainable Investments, investors at the conference were asking where the large, low-risk deals were. Yet all ten companies in the "pitch-fest" were looking for less than $10m and with higher risks and better up-sides.

In my opinion, our challenges in Australia, in a time of great opportunity for the cleantech industry are: investors that are focussed only on big, low-risk deals; a bureaucratic government funding system that is inaccessible to start-ups in the process of commercialising new technologies; and a government that still thinks our energy future is basically in mining coal or uranium.

It should not be surprising to see more of Australia's clean technology start-ups head overseas for funding. This will of course lead to the very shortage of local later-stage deals that the fund managers complain about.

The positive perspective on this is that for those, here or abroad, willing to look at risky early stage deals, there are bargains in Australia. ❑

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