

INVESTORS stake future on renewable energy

There are gains to be made by backing the businesses creating the energy-production methods of the future, writes investment specialist **Jean Ryan**.



Oil traders in New York don't often get a chance at world-wide fame. But for Richard Arens, a one-man band in the world of oil brokerage, it came at the beginning of this year.

On the first Wednesday in January, financiers and governments across the globe watched anxiously as the price of oil edged towards the historic \$100-a-barrel mark. Arens saw his opportunity and seized it.

He paid \$100,000 (€68,315) for 1,000 barrels – the minimum amount allowed under the trading rules – thus producing the much talked of \$100 per barrel which sparked anguish across the financial markets and made headline news from Boston to Beijing.

A little later, Arens sold the contract on for slightly below \$100 per barrel, taking a \$600 loss on the deal. The price of oil fell back, rose above \$100 a couple of days later, and has fallen well below that mark since.

Analysts later described Arens' trade as nothing more than a stunt. It was an eccentric trade that made a loss, but generated headlines. Some said the broker had, in effect, simply forked out \$600 for the kudos of being the first trader in the world to buy oil at \$100 a barrel – a story he could one day tell his grandchildren.

But what will Arens' grandchildren make of the story?

Some 30 or 40 years from now, assuming they had been attentive at school, Arens' grandchildren will be able to look back at the factors that affected oil prices at the beginning of the 21st century.

They could point to political unrest in oil-producing nations disrupting supply, putting upward pressure on prices. They might mention militant attacks in Nigeria and the assassination of Benazir Bhutto – Pakistan's stability is seen as crucial to US policy in the Middle East – as factors at play in January 2008.

It seems likely too that they will be able to point to how a downturn in the US economy caused the price of oil to fall back for a time in the months following January as demand eased.

But ultimately, having been taught to study long-term trends rather than short-term factors, they will surely conclude that the oil spike at the beginning of 2008 was just a small chapter in a much bigger story.

In recent years, the world has come to accept that the supply of oil is finite. Few analysts dispute the fact that we are past 'peak oil'. It may not run out for a long time yet, but production is declining. At the same time, the world's demand for energy is expanding. And at a phenomenal rate, fuelled largely by the booming economies of China and India.

These nations, with populations of over one billion each, have been growing their economies at a rate of 10% per annum. Their appetite for oil – to fuel their power stations and run the increasing number of cars on their roads – seems insatiable.

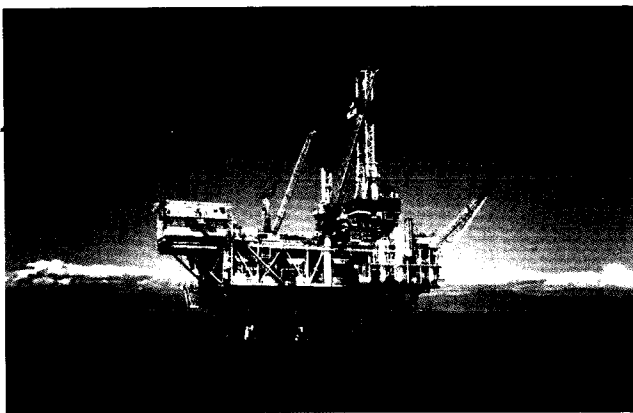
As a consequence, oil prices have quadrupled since 2002. It is hard to see how that remorseless rise won't continue for many years to come. Arens' grandchildren may well find their grandfather's story of \$100-a-barrel oil somewhat quaint.

Fortunately for that generation, they needn't be priced out of energy consumption altogether. In a market where supplies are diminishing and demand is increasing, innovators will seek out alternative sources of supply. Many are turning to renewable energy sources. And there have been significant strides made in the development and deployment of these over the last two decades.

Back in 1990, Tulsi Tanti – a textile manufacturer in India – was having his own problems with the soaring costs of power. An expensive and unreliable electricity supplier was hampering his Gujarat-based business.

Tanti invested in two small wind turbines and erected them alongside his plant. Many regarded this venture as foolhardy, not least because the wind turbines cost more than his business was worth.

But Tanti had seen the potential of wind power and over the next few years, he set about acquiring the technology and expertise to set



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up India's first wind technology company.

Today, he is no longer involved in textiles. His business, Suzlon Energy, is one of the biggest suppliers of wind turbines in the world, operating in 15 countries. It employs more than 10,000 people and is in the process of building Asia's largest ever wind park, a 1,000MW plant near Mumbai.

Suzlon has made Tanti a very wealthy man, but investors who shared his belief in the future of wind power have also made significant gains.

A specialist team at KBC Asset Management's Dublin office has been watching developments at Suzlon and other companies involved in the manufacture of wind turbines and turbine components for many years.

Our Eco Alternative Energy Fund, operating since 2000, has assets of over €500 million.

Stocks currently in the fund – there are between 60 and 70 at any one time – include the Spanish turbine manufacturer Gamesa, Denmark's Vestas – the market-leader in wind turbine manufacture – and Belgium's Hansen Transmissions, the leading supplier of gearboxes to the industry.

Long-term investment strategies require diversification so the Eco Alternative Energy Fund is exposed to companies involved in

different markets and operating at different points in the value chain. The fund also invests in other renewable energy sources: solar energy, hydropower, biomass, wave-power and fuel cells.

Tulsi Tanti's interest in wind power was sparked by his frustration at not being able to get cheap and reliable electricity from a traditional source, but it is not just fear of the rising price of fossil fuels that is driving the alternative energy industry. Consumer demand and government regulatory action also play a part.

A couple of weeks after Richard Arens caused jitters on the stock markets with his eccentric oil trade, the European Union announced targets for its constituent countries in terms of renewable energy production. Spain, alongside the UK, Italy and Germany are likely to meet these targets. Some countries won't. But governments throughout the world will ignore the drive towards renewable energy at their peril.

The Chinese government faces a challenge. Just 15 years ago, China was self-sufficient in oil and could run its power stations on what little it produced. But China's economic growth has been sudden and dramatic. Today, it is the second largest oil importer in the world and is poised to take over from the biggest, the US.

Faced with inevitable price

rises, China knows its reliance on oil is unsustainable. Coal will provide some respite in the short term; China has 30,000-odd mines. New mega-plants will turn coal into clean gas ready for electricity generation and for pumping directly into cars. But China knows that will not be enough, which is why it is also pumping billions into renewable energy. Everything from solar, to wind power, to biomass. By 2020, China intends 15% of its power to come from renewable sources.

Of course, it's not just countries that are looking to the future of the planet. Corporate and institutional investors are increasingly aware of the social consequences of their investments. They often find that green energy is a good fit with a Socially Responsible Investment (SRI) strategy.

This too has fuelled interest in our Eco Alternative Energy Fund, which – as an SRI fund – excludes stocks in companies deemed by independent assessors to be involved in questionable practices, environmental and otherwise. Individual 'green' investors can access the fund through New Ireland Life Assurance or through Bank of Ireland.

Investors are realizing there is money to be made by backing the businesses creating the energy-production methods of the future. Oil, for them, is losing its sheen.

It is true that in the years ahead, there will be further opportunities for speculative investors, like Richard Arens, to gain 15 minutes of fame, even while incurring a loss, by taking a punt on the price of oil. But investors with an eye for long-term returns are looking at the alternatives.

Jean Ryan is an investment specialist at KBC Asset Management Ltd. The views expressed are opinion only and should not be construed as investment advice. ®