Excerpt from The Telegraph (U.K.), February 27, 2008

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2008/02/26/cmgreen26.xml

The future is bright, the future is green

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Conventional energy investments over the past 10 years have seen strong returns as global demand for fossil fuels has increased. The thirst for oil from emerging economies such as China and India has been a significant driver - and a reason why it broke through the $100 a barrel barrier this week - but so has the fact that existing oil reserves are declining faster than new ones are being discovered.

One of the consequences of the rising price of fossil fuels has been to make alternative forms of energy generation such as wind and solar more economically viable and global concerns about climate change and energy security only look set to accelerate this trend.

According to the IEA, world energy consumption is expected to rise by 55 per cent by 2030, but oil production is struggling to keep up with demand. North Sea production has experienced year-over-year declines since 2000. Kuwait's Burgan field, the world's second largest, and the massive Cantarell field in Mexico are both in decline.

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Wind power has really come of age in the past five years. Germany, Denmark and Spain have invested heavily in the area, taking leader in the late 1970s and 80s. Wind currently accounts for approximately 1 per cent of global production, and it seems not unreasonable to postulate that it could make up as much as 10 per cent .

To reach this figure the industry would need to grow at 20 per cent a year for the next 15 years..

Solar installations account for only around 3GW of capacity, about 3 per cent that of the wind industry or about 0.1 per cent of global capacity (and 0.05 per cent of global production). Solar is at an earlier stage, but it appears to be starting to gain real traction despite being currently significantly more expensive than grid electricity.

The expansion in solar demand has in the short run been due to incentives introduced in Japan and Germany.

This is being augmented now in the US by strongly supportive policies, particularly by states such as California.

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Another important development has been the increase in companies active in these sectors now listed on global stock markets.

Their market capitalisation (excluding hydro-power utilities) has grown from $53 billion at end 2002 to $469 billion at end 2007. And the increasing attractiveness of the sector has been reflected in rising stock prices.

The Wilderhill Clean Energy Index, for example, has risen by 17.68 per cent pa (130.36 per cent compound from 31 December 2002 to 14 February 2008) versus a return of 10.70 per cent pa (68.40 per cent) by the S&P500.

Because the companies are very long-term growth stories, investors have to accept above-average volatility and are well advised to take a very long-term view.

Tim Guiness is manager of the Guinness Alternative Energy Fund