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Renewable Power Trumps Fossils for First Time as UN Stalls (1)
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(Updates with comment from Shell from 18th paragraph.)

By Alex Morales

Nov. 25 (Bloomberg) -- Renewable energy is surpassing fossil fuels for the first time in new power-plant investments, shaking off setbacks from the financial crisis and an impasse at the United Nations global warming talks.

Electricity from the wind, sun, waves and biomass drew $187 billion last year compared with $157 billion for natural gas, oil and coal, according to calculations by Bloomberg New Energy Finance using the lastest data. Accelerating installations of solar and wind power led to lower equipment prices, making clean energy more competitive with coal.

“The progress of renewables has been nothing short of remarkable,” United Nations Environment Program Executive Secretary Achim Steiner said in an interview. “You have record investment in the midst of an economic and financial crisis.”

The findings indicate the world is shifting toward consuming more renewable energy even without a global agreement on limiting greenhouse gases. Delegates from more than 190 nations converge in Durban, South Africa, on Nov. 28 to discuss new measures for limiting emissions damaging the climate.

Subsidizing the Boom

The renewables boom, spurred by about $66 billion of subsidies last year, intensified competition between wind- turbine and solar-panel manufacturers, gutting margins from the biggest producers led by Vestas Wind Systems A/S and First Solar Inc. The 95-member WilderHill New Energy Index of renewable- energy stocks has tumbled 40 percent this year, steeper than the
14 percent drop in the MSCI World Index.

The zeal to replace fossil fuels, which take millions of years to form from dead organic matter, belies the failed efforts at the UN talks to broker a deal that would limit carbon dioxide emissions from coal and oil blamed for global warming.
Without a deal, existing pollution caps under the 1997 Kyoto Protocol expire next year.

Debate in South Africa’s third-largest city will include how to establish a fund that would channel an unspecified portion of $100 billion a year in climate aid pledged by rich nations to developing countries by 2020. Monitoring and verifying emissions cuts made by all nations are also on the agenda, as well as making a mechanism for transferring CO_2- reducing technology between states. Discussions on those issues may be eclipsed by talks on the future of Kyoto.

‘Paralyzed’

"It's impossible to punt any further down the line a decision regarding a second commitment period for the Kyoto Protocol," Harvard University Environmental Economics Director Robert Stavins said in an interview. "Those discussions will dominate, and the process could become paralyzed."

The talks on the future of Kyoto were deadlocked after existing members Russia, Canada and Japan said they won't make new emissions targets after 2012 because the accord doesn't set limits for the three biggest polluters: the U.S., which never ratified it, and developing nations China and India.

"Hopes have been ratcheted down," said Daniel Yergin, chairman of IHS Cambridge Energy Research Associates. "The notion that there is going to be a global compact on this have been pushed back," said the author of "The Prize," a history of the oil industry that won him a Pulitzer Prize in 1992.

'Bewildering' Rules

The wind-energy industry is now more focused on the "sometimes bewildering variety of domestic and regional policies" than on the UN negotiations as a source of impetus for growth, said Steve Sawyer, secretary-general of the Brussels-based Global Wind Energy Council.

As well as renewables spending exceeding that on new fossil plants, last year also was the first time expenditure in developing countries, mainly China, exceeded that in the industrialized world, Sawyer said, predicting both trends will continue.

The New Energy Finance figures exclude investment that merely replaces existing plants, and its renewables tally excludes money spent on building large hydropower projects.

Wind operators are likely to install 43 gigawatts of generating capacity this year and 48 gigawatts next year, up from 36 gigawatts in 2010, GWEC estimates.

New Energy Finance forecast solar installations globally to total 26.4 gigawatts in 2011 and 27.8 gigawatts in 2012, up from 18.2 gigawatts last year. Investment in renewable energy may double to $395 billion a year by 2020, led by growth in offshore wind and solar projects, the London-based analyst said Nov. 16.

Struggling Industry

Even with the boom, renewables companies are struggling. Growing demand for wind turbines and solar panels led to a surge in production. The resulting overcapacity forced companies from Chinese solar manufacturers Yingli Green Energy Holding Co. and Renesola Ltd. to U.S. rivals SunPower Corp. and First Solar along with Vestas of Denmark to slash forecasts for margins and sales this year. Recession in European nations has also held back demand.

"In some countries the actual energy consumption has gone down because of the financial crisis, and that means it's even more difficult to develop new projects," said Ditlev Engel, chief executive officer of Vestas, which is the world's biggest wind turbine maker.

Royal Dutch Shell Plc is among the companies supporting CO2 trading under the climate talks as a cheap way to encourage cleaner emissions, said Graeme Sweeney, executive vice president for CO2 at Shell, Europe's biggest oil company.

Pollution Price

"CO2 pricing that's supported through carbon markets delivers the lowest cost, the fastest, and the most effective response to climate change," Sweeney said. The company would like to see carbon capture and storage, a technology that pumps power plant emissions for permanent underground storage, included in the UN's Clean Development Mechanism carbon-offset program, he said.

Financial austerity measures in 10 nations, including the U.S., Japan, Spain and Germany, will cut spending on climate- protection measures by $45 billion in the five years through 2015, Ernst & Young forecast on Nov. 17. The measures include renewable-energy subsidies and tax credits and pollution- abatement programs.

"Governments of the leading countries of the world are likely to drastically slow down their investments in sustainability amid public spending cuts that could escalate if the debt crisis worsens in Europe," said Juan Costa Climent, E&Y's London-based climate sustainability chief, a former Spanish trade secretary. "In this context, reaching an agreement in Durban seems impossible."

Share of Demand

Renewable energy now accounts for a small proportion of global demand, about 4 percent when counted with biomass and generators powered by waste, according to the International Energy Agency. That level will rise to 14 percent by 2035 under the Paris-based organization's central forecast. Oil, coal and gas that today have 75 percent of demand will see that figure drop to 62 percent over the same period, the IEA says.

With an extension to Kyoto in its current form unlikely, the 27-nation EU bloc will push for a clear path charting when countries will make legally binding commitments, EU Climate Commissioner Connie Hedegaard said in an interview. The EU, which accounts for 11 percent of global emissions, will seek to reach a new, expanded treaty with the world's biggest emitters.

"You cannot keep momentum in a political process just by implementing old decisions," Hedegaard said. "A road map with a timetable would mark one significant step forward."

Envoys at last year's climate talks in Cancun, Mexico, set a goal to contain global warming to 2 degrees Celsius (3.6 Fahrenheit) since the 19th century. Pledges made so far, which aren't legally binding, are insufficient, according to the IEA.

"With current policies in place, global temperatures are set to increase 6 degrees Celsius, which has catastrophic implications," IEA Chief Economist Fatih Birol said. "If as of 2017 there is not a start of a major wave of new and clean investments, the door to 2 degrees will be closed."

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