



# The Green Wave: Business Opportunities in the New Green Economy

**Sean Wallace** discusses the Green Economy and poses the question “The Green wave is coming...are you ready to catch it?”

## The Green Economy

The greening of the Irish economy and the development of green enterprise are seen as essential planks in the Government’s strategy for economic revival in Ireland. The so-called “Green Economy” is a growing force, with the environmental goods and services sector in Ireland estimated to be worth between €4.3bn and €5.2bn last year alone and growing rapidly. Environmental targets imposed at EU level and compliance with EU legislation are acting as key drivers for the development of the Green Economy in Ireland. Growing awareness of the consequences of climate change, rising energy prices and increased demand for environmentally friendly and sustainable products are fuelling this development worldwide.

At a governmental level, Green stimulus packages have been introduced in a number of jurisdictions, notably by the Obama administration in the US. Ireland has followed suit with the Government seeking to drive investment in the Green Economy through a combination of stimuli – green funds, and incentives such as grants and tax relief - and regulation, compelling companies to become more environmentally friendly. Governmental support has been evident in Ireland through a number of agencies ranging from usual suspects the IDA and Enterprise Ireland to more specific supports in the form of Sustainable Energy, the Environmental Protection Agency, Science Foundation Ireland, the Marine Institute, Irish Wind Energy Association and a host of others. The Green Economy remains high on the political agenda and as recently as May this year, Ministers Ryan & Coughlan announced the establishment of a new high level Action Group on the Green Economy, with the stated task of “mobilising our talents across the public and private sector to position Ireland as at the forefront of the new global green economy”.

## Sectoral Opportunities

So that’s the political and economic rhetoric; what does this mean for Irish businesses – and for professional advisers to them? Where do the opportunities lie?

The Green Economy comprises a multitude of sectors, including renewable energies, clean technologies, pollution & emissions control, waste management & recycling, energy management & efficiency (including eco-construction), water supply & wastewater treatment, environmental consultancy and services.

At an international and domestic level those sectors which are considered to have the strongest growth potential are clean technologies and renewable energy technologies. Take for example the renewable energy sector where Ireland’s individual target under the 2008 EU Renewables Directive is to derive 16% of its energy from renewable sources by 2020; but the Government has instead set a (voluntary) target of 40%; which will necessitate significant investment and expansion of the renewable energy market.

## Clean & Green

Clean technologies comprise of those products, systems and services which, for example, reduce energy consumption, use materials from more sustainable sources, reduce the use of raw materials and emissions etc. Renewable energy technologies comprise of the likes of wind, marine (wave / tidal), biomass (wood, waste and crops) and biofuels, geothermal and solar technologies for the generation of electricity. Naturally, there is considerable overlap between cleantech and renewables (combined heat and power systems, for example).

High profile projects such as the Government’s recently announced electric vehicles project (and Memorandum of Understanding with car manufacturer Renault) have boosted the awareness of the cleantech sector. On the renewable energy side, success stories such as wind turbine developer Airtricity and tidal developer OpenHydro have promoted interest and investment in the domestic renewable energy sector. Underneath the high profile projects and success stories lie an abundance of SME cleantech and renewable energy projects, looking to create the next wave of technologies and investment opportunities – leading to new opportunities for professional advisers.

## Finance

Internationally, investment in cleantech and renewables has increased dramatically in recent years, driven both by climate change and environmental protection issues and by the convergence of prices for fossil fuel energy generation and renewable energy generation. In 2008, clean technology venture investments in North America, Europe, China and India are estimated to have totalled c.US\$8.4 billion (source, Cleantech Group). Venture capital investment is widely recognised as a leading indicator of overall investment patterns and this represented the seventh consecutive year of growth in venture investment in cleantech / renewables. According to the published

research, the top clean technology sectors in 2008 were solar, biofuels, transportation, and wind. Venture capital investment in clean technologies is rapidly overtaking more traditional investment sectors and, in the US alone, lies behind only IT and biotechnology as an investment sector.

Domestically, funds such as Bank of Ireland's new €100m Green fund (as part of the Bank's recapitalisation package)- focused on renewable energy investment - and ESB's €200m Novus Modus venture fund – focused on cleantech investments – were each launched in early 2009 and are indicative of the direction that the investment market in Ireland is beginning to follow.

Additionally, an abundance of energy creating natural resources (wind, wave, forestry, but perhaps not solar!), combined with our past track-record in the ICT sector and attractive tax rates and incentives, are making Ireland an attractive investment destination once more.

## Incentives

The Government has also introduced a number of incentives / taxes aimed at attracting investment and development in cleantech and renewable. These include the following:

- REFITs (renewable energy fee-in tariffs) – these present one of the key signals that the Government can send to demonstrate their support for various technologies, and are a powerful incentive for ensuring entry into, and driving technological innovation in, a sector. The REFIT for onshore wind, which has been substantially increased for off-shore wind projects, has proven to be a very successful incentive tool for wind projects, but planning and grid connection issues still remain a concern for wind project developers. REFITs for CHP (currently insufficient) and the various marine energies will need to follow suit.
- R&D tax credits, in particular for the renewables sector, arise from eligible R&D expenditure which can be offset against a company's corporation tax liability.
- The accelerated capital allowances scheme administered by Sustainable Energy Ireland for energy efficient equipment also represents a major incentive, targeting the uptake, for example, of electric or alternative-fuel vehicles, by allowing 100% capital allowances in the first year for which the expenditure is incurred.
- The Electricity Tax, introduced under the Finance Act (No2) 2008 in December 2008, is a measure designed to incentivise the uptake of electricity from renewable sources. This tax, implemented on foot of the EU Energy Tax Directive, is levied on business consumers unless their electricity was generated from renewable sources or where the electricity is used for environmentally friendly purposes.
- The much mooted Carbon Tax, which is anticipated at the end of 2009, will also incentivise the uptake of renewables and focus attention on the necessity for improving energy efficiency.



## And for the Advisers...

In recognition of the market opportunities that the Green Economy presents for clients, BCM Hanby Wallace established its own Green Economy Group last year to bring together policy, regulatory, investment and legal expertise under one common banner. This has helped us to facilitate the exchange of ideas amongst clients, prospective clients, policy makers and investors, and to assist in bringing new cleantech and renewable energy products and services to market.

From a finance / accounting perspective, new client opportunities will arise for those advisers that are conversant in the technologies, markets and regulatory contexts in which Green Economy businesses operate.

Sectoral focus and knowledge of the technical, financial and regulatory issues affecting each sector will be key. In particular, advisers will need to be fully conversant in the range of specific taxation measures and available incentives for each relevant sector, some of which are highlighted above. Furthermore, specific accounting issues will continue to arise as technologies develop. For example, as accounting practitioners, you will be aware of the increased focus by clients on their carbon footprint, in particular from a corporate social responsibility (CSR) perspective. Yet, the treatment of carbon from an accountancy perspective remains ambiguous, with no clear international rules governing transactions involving carbon allowances. Addressing, and remaining ahead of these issues, presents the advisers' business opportunity.

The Green Economy presents significant opportunities for business and business advisers in Ireland across a multitude of sectors. There is political will and ambition behind the Green agenda and significant momentum and finance both domestically and internationally. The Green wave is coming...are you ready to catch it?

## Biography

*Sean Wallace is a partner in BCM Hanby Wallace and heads the Firm's multi-disciplinary Green Economy Group. He specialises in corporate transactional work, in particular advising on public and private capital financings and mergers and acquisitions. Sean has wide-ranging sectoral expertise in the energy, environmental and cleantech markets, with a particular focus on renewable energies.*