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Alternative-Fuels Push May Inspire Some Better Bets

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President Bush's State of the Union address, which called for a nearly fivefold increase in the nation's alternative-fuel consumption by 2017, did little to silence critics who contend that new fuels like ethanol and biodiesel aren't likely to play a major role supplying the world's energy needs in the years ahead.

They see two key problems. First, the profitability of many alternative fuels -- without sizable subsidies -- is still in question. This is especially true now that the cost of raw ingredients used to produce "biofuel," including corn, has rocketed, squeezing profit margins for producers of those fuels.

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These analysts see an analogy in the dot-com bust of 2000. The bust cleared out some of the worst ideas and least-efficient companies in the tech arena, allowing deeper-pocketed investors to consolidate operations and emerge leaner to make the Internet an even more powerful force in the world economy.

They believe a similar scenario will play out in the alternative-fuels market.

"I quite look forward to a period of \$45-to-\$50 oil prices -- I think it will bring good discipline to the [alternative-energy] market," says Michael Liebreich, chief executive of New Energy Finance, a London-based research firm that specializes in alternative energies.

There are indications that a shift toward more-sustainable investments is

already taking place, as some serious investors channel their spending to energies that either produce less environmental fallout -- such as solar or wind power -- or to agriculture-based options that don't require as much water or compete with traditional food crops.

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Analysts say there's also far more private capital chasing alternative-energy solutions these days, partly because of the rise of hedge funds and other investment vehicles desperate to find new growth industries. Moreover, subsidies for the industry are more widespread than before. In addition to the U.S., many European countries as well as China, Brazil and others have adopted or are contemplating new biofuel incentives.

Mr. Liebreich at New Energy Finance estimates that investors poured about \$70 billion into alternative energies last year, more than double the 2004 total.

Much of the money is coming from well-established companies that could be in a position to buy up distressed assets if the alternative-fuel market continues to struggle.

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