

Commerzbank: Global wind market continues to grow, albeit with regional fluctuations

- **New installations collapsed in Germany, volatility is putting wind sector under pressure**
- **Internationalisation as a strategic trend**
- **Long-term power purchase agreements are gaining ground**

This week, Commerzbank presented its view of the global wind energy market in Hamburg to coincide with the *Husum Wind* industry event, which takes place from 10 to 13 September 2019. "If we want to achieve our CO2 emission reduction targets, we have to significantly expand wind energy in Germany. At the same time, all market participants need to establish an international footprint, in order to tap into new markets and increase cost efficiency", says Berthold Bonanni, Head of the Energy unit (CoC Energy) at Commerzbank AG.

Onshore

The global wind market continues to grow, albeit with significant regional fluctuations. Commerzbank anticipates annual global growth for the onshore sector to increase to 68 gigawatts (GW) by 2020, from 46 GW in 2018. Annual growth forecasts for the years 2021 to 2028 vary between 57 GW and 63 GW per annum. This uncertainty is primarily due to regulatory changes, such as the discontinuation of state subsidies in the US and China as of 2021.

In Germany, ongoing modifications to the legal framework for tenders (first introduced in 2017 through the Renewable Energy Sources Act) have led to distortions of installation volumes over the last few years. In addition, permits are increasingly delayed due to a large number of applications and an increasing number of appeals and legal complaints. In the first half of 2019, only 287 megawatts (MW) (-82 % yoy) of wind power was newly commissioned. Of the 86 wind turbines installed, only 27 (representing 33%) were in Northern Germany (Lower Saxony: 14, Mecklenburg-Western Pomerania: 11, Schleswig-Holstein: 2, Hamburg/Bremen: 0). As a result, German turbine manufacturers, their suppliers as well as project developers are increasingly facing economic pressure.

In view of the expected lower business potential in Germany, Commerzbank has already expanded its international activities in recent years and has increasingly financed projects abroad, for example in the USA, where a local team was established in New York 10 years ago, in Scandinavia, Spain and Chile.

Growth trend offshore

By contrast, the outlook for the offshore sector differs starkly with an average growth rate of 15% anticipated over the next 10 years (from currently 4.3 GW annual installations to 19.1 GW p.a.). Commerzbank, which has established itself as a leading bank within the European offshore market (specifically Germany, Belgium, France and the United Kingdom), sees significant potential in the newly developing offshore sector in the USA. Commerzbank is also optimistic with regard to Asia – particularly South Korea, Japan and Taiwan – where it has already participated in the project financing of one offshore wind farm and is currently reviewing another promising transaction.

Long-term power purchase agreements

In many markets, such as the USA, Scandinavia and Spain, projects are increasingly securing their revenues from power generation via power purchase agreements (PPAs). In Germany, however, Commerzbank currently only expects new PPA-based projects for large-scale photovoltaic plants which are not eligible for subsidies. The trend of falling remuneration rates and lower levelised cost of electricity for renewable energies will make PPAs more attractive. In particular, the anticipation of rising power prices can offer industrial electricity consumers the opportunity to hedge their electricity price by contracting green power for the long term. Also, an increasing awareness of companies' carbon footprint has led to a rise in the demand for green PPAs. However, in order to secure project financings on the basis of long-term PPAs with tenors of 10 to 15 years, only offtakers with good credit ratings can be considered.

“From today's perspective, we deem it unrealistic to achieve political wind energy installation targets exclusively on the basis of PPAs due to the limited availability of creditworthy offtakers. In order to enable the much-needed expansion of renewable energies and to achieve the CO2 reduction targets, PPAs make sense as a supplement to a subsidy regime”, Bonanni says.

Commerzbank AG, with its Centre of Competence Energy (headquartered in Hamburg), is one of the leading financiers of renewable energies, with a loan volume of around €4.9 billion in project financing and around €0.9 billion in corporate financing.

Media contact

Thomas Kleyboldt +49 173 2477706

About Commerzbank

Commerzbank is a leading international commercial bank with branches and offices in almost 50 countries. In the two business segments Private and Small-Business Customers and Corporate Clients, the Bank offers a comprehensive portfolio of financial services which is precisely aligned to its clients' needs. Commerzbank finances approximately 30% of Germany's foreign trade and is the leading finance provider for corporate clients in Germany. Due to its in-depth sector know-how in the German economy, the Bank is a leading provider of capital market products. Its subsidiaries Comdirect in Germany and mBank in Poland are two of the world's most innovative online banks. With approximately 1,000 branches, Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank serves more than 18 million private and small business customers, as well as more than 70,000 corporate clients, multinationals, financial service providers, and institutional clients worldwide. In 2018, it generated gross revenues of €8.6 billion with approximately 49,000 employees.

Disclaimer

This release contains forward-looking statements. Forward-looking statements are statements that are not historical facts. In this release, these statements concern inter alia the expected future business of Commerzbank, efficiency gains and expected synergies, expected growth prospects and other opportunities for an increase in value of Commerzbank as well as expected future financial results, restructuring costs and other financial developments and information. These forward-looking statements are based on the management's current plans, expectations, estimates and projections. They are subject to a number of assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from any future results and developments expressed or implied by such forward-looking statements. Such factors include the conditions in the financial markets in Germany, in Europe, in the USA and other regions from which Commerzbank derives a substantial portion of its revenues and in which Commerzbank holds a substantial portion of its assets, the development of asset prices and market volatility, especially due to the ongoing European debt crisis, potential defaults of borrowers or trading counterparties, the implementation of its strategic initiatives to improve its business model, the reliability of its risk management policies, procedures and methods, risks arising as a result of regulatory change and other risks. Forward-looking statements therefore speak only as of the date they are made. Commerzbank has no obligation to update or release any revisions to the forward-looking statements contained in this release to reflect events or circumstances after the date of this release.