Could China Steal the Solar Throne?
Despite rocky stock performances, Chinese companies could one day upset the solar industry's hierarchy. September 7, 2007 - 1:00 pm (EST) Greentech Media
by: Rachel Barron

Germany and Japan enjoy a cozy position as top solar-industry producers. But that could all change. Advantages, like low labor costs and manufacturing incentives, are shifting the power structures. As a result, China is on the rise and heading in a direction that could topple its international competitors.

But at least one high-level industry superstar isn't worried. "In terms of production, I think we are in quite a good position here in Europe," said Winfried Hoffmann, president of the European Photovolatic Industry Association, at the European Photovoltaic Solar Energy Conference and Exhibition in Milan.

While China's advantage is its notoriously low labor costs, a vast part of solar manufacturing relies on machines. "Automated equipment doesn't need a lot of labor to be incorporated," he said. "Therefore, what is always argued about the cheap labor in China is something where we will be threatened? I don't see that argument," he said.

But that just responds to one aspect of the discussion. China has other advantages, including a 1.3 billion-population country full of untapped local markets.

Last year, those markets helped China overtake the United States in solar-electric production. China now sits in third place, behind Europe and Japan, according to PV News, an analyst-written newsletter published by Greentech Media and the Prometheus Institute.

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But, for the short term, China can still be viewed as a sleeping dragon. In the last few months, Chinese solar stocks have had a rocky ride.

Solar-cell manufacturer China Sunergy (Nasdaq: CSUN) and solar-panel manufacturer Canadian Solar (Nasdaq: CSIQ) saw shares drop after posting second-quarter losses. Both had netted profits in the same quarter last year. Even Trina Solar (NYSE: TSL), which in August reported that net income grew more than fivefold from a year ago, saw shares drop 9.2 percent after reporting that its gross margin decreased to 18.9 percent from 27.5 percent in the second quarter of 2006.

But Michael Rogol, managing director of Photon Consulting, said a number of Chinese companies should do well in the future. "China companies' cash flows appear secure," he said. "This is the main reason they have been able to raise billions on the New York Stock Exchange and Nasdaq."

In particular, JA Solar, Motech Industries, Yingli Solar, Renesola, Suntech Power, Trina Solar and LDK Solar are "important companies with very low cost structures," he said. LDK, for example, can process silicon into ingots and wafers for 30 to 50 percent less than many non-Chinese competitors and is driving down costs quickly, he said.

A major reason for the current stock-price slump could be the shortage of solar-grade silicon. China Sunergy blamed the tight supply for its missed earnings, reporting that the cost of making its cells more than doubled from the last year and cutting a planned expansion from six production lines to four.