

Sun is setting on China's solar industry

The solar industry will be suffering more than other renewable energy sectors, as large manufacturers expect a drop in solar module prices in 2009 and solar startups that grew too fast are squeezed in the tighter market.

Last week, the world's largest solar module maker Suntech Power said it laid off 10 percent of its workforce and last quarter the company's CEO Shi Zhengrong predicted low gross margins for the fourth quarter. The company is expected to report its fourth-quarter earnings next month.

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The Wuxi-based Suntech Power Holdings has reached capacity to produce 1 gigawatt (gw) of solar panels a year. Yet Shi also said an oversupply of panels in the world market would cause Suntech a 25 percent to 30 percent drop in its panel prices in 2009.

The global revenue for solar PV panels is expected to decline by 20 percent in 2009, an end to eight consecutive years of growth, as a result of massive oversupply, according to a report released by a US-based research company iSuppli Corp.

Worldwide revenue from shipments of panels will plunge to \$12.9 billion in 2009, down 19.1 percent from \$15.9 billion in 2008. A drop of this magnitude has not occurred in the last 10 years, it said.

The report said that the drop in revenue would come despite a 9.6 percent rise in gigawatt installations of solar panels in 2009, growing to 4.2gw for the year, up from 3.8gw in 2008. However, 11.1gw worth of panels will be produced in 2009, up 62 percent from 7.7gw in 2008. This means that supply will exceed demand by 168 percent in 2009, up from 102 percent in 2008.

With the gap between supply and demand rising to such a level, pricing and market revenue will decline in 2009.

Average prices for panels for new installation contracts will plunge to the \$2.50 to \$2.75 per watt range by the end of 2009, down from the current level of \$4.20 per watt.

The sluggish situation gives solar PV manufacturers plenty to fear in the year to come, especially for those start-ups who have invested heavily but are now facing potential of a massive oversupply.

"China's solar PV industry has kept a fairly high growth speed in the past five years, but 98 percent of its solar PV products are sold overseas," said Ma Shenghong, a solar industry researcher at China Academy of Science. "But an over reliance on the overseas market has led China's solar PV industry into trouble due to the global economic slump and regulatory conflict in Europe."

"High demand from Spain and Germany boosted Chinese solar manufacturers and kept solar orders and module prices high. But this boom is over due to the economic slump," said Shi Jingli, a researcher of Energy Research Institute under the National Development and Reform Commission.

China produced solar modules with an output of 1180mw in 2007 making it the number one producer in the world, according to statistics from China Solar Association.

Ironically, the overwhelming success of the solar industry resulted in the oversupply and revenue decline.

Market demand

Solar demand was booming in the Europe and US because the governments issued political incentives to secure traditional energy resources and reduce carbon dioxide emissions.

"Attractive profits and prosperous long-term prospects have lead to hundreds of new competitors to enter the PV market, resulting in oversupply throughout the value chain - from the essential raw material polysilicon to complete solar panels," said Shi.

Taking Jiangsu province as an example, its production capacity of solar PV reached 1000mw in 2007, accounting for one fourth of the total capacity of the global market.

In order to lower production costs by using large-scale manufacturing, companies have expanded their production annually.

But when the economic slowdown came and policies changed in the overseas markets, these Chinese solar panel makers were hit hard, researcher Shi said.

"The short- term future might mean a cold winter period for the solar industry, especially for those start-ups, with margin compression, integration and some producers might be unable to survive," the researcher said.

"But in the long-term it's good for the whole industry to become more organized and standardized. Some small Chinese silicon manufacturers are criticized for polluting the environment with production waste, damaging the industry's reputation and unsettling the market by over-cutting production costs. So it might offer new opportunities for Chinese solar PV industry to reshuffle its structure," she said

She also predicted in 2010 that PV panel revenue will return to its strong growth as the demand picture improves and some weak players go out the business and price declines slow.

The European Photovoltaic Industry Association predicted the United States will overtake Germany as the largest solar market in 2012 with US President-elect Obama's strong support for green energy.

"By that time, it could offer new opportunities for Chinese solar PV makers," researcher Shi said.



Two workers fix a solar navigating lantern in the Three Gorges area. [China Daily]

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