

April 13, 2009

China Takes Steps To Rebalance Its Solar Industry

by [Lou Schwartz, China Strategies LLC](#)

Pennsylvania, United States [[RenewableEnergyWorld.com](#)]

As Jin Baofang, the Chairman of the Board of the Jinglong Group, a Chinese solar energy company and a delegate to the National People's Congress, recently said of the relationship between the Chinese economy and the economies of large consuming nations: "when nations that are large consumers sneeze, our manufacturers immediately catch a cold."

The worldwide financial crisis has laid bare the unhealthy symbiotic relationship between the Chinese and Western economies. The unsustainable economic model that had Western countries (most notably the U.S.) buying cheap, labor-intensive exports from China with funds borrowed from the Chinese has collapsed. Consequently the West (and particularly the U.S.) will have to reorient its economies to produce and save more and consume less while China will have to restructure its economy so that it relies less on exports and an increases domestic consumption to maintain its impressive GDP growth.

The Chinese solar power industry is a case in point, reflecting (no pun intended) China's unhealthy dependence on exports and the prospects for renewed growth as the Chinese government adjusts its model for economic growth.

In the words of Shi Dinghuan, an advisor to the State Council and Chairman of the Board of the China Renewable Energy Society, the new energy industry in China that has suffered the most from the worldwide financial crisis is China's solar industry. Through the end of 2008, China had become the world's largest producer of photovoltaic cells, but because approximately 98% of sales of PV products were exports, when financing became tight worldwide, orders for PV products from China were widely cancelled, particularly from the three largest consumers of Chinese solar power products: Spain, Germany and Japan.

The contraction and/or cancellation of orders from the West has been widely deleterious to China's solar power industry. For example, before the financial crisis of late 2008, in previous years, Wuxi's [Suntech](#) had operated at 60% capacity utilization during the winter months; since the worldwide financial crisis, Suntech has operated at capacity utilization rates one-half normal levels. The sudden drop-off in manufacturing activity in turn has forced Suntech to lay off approximately 10% of its existing workforce and not follow through on its plans to increase the company's workforce by an additional 20% or so.

Smaller PV manufacturers with fewer resources than Suntech, have been forced out of business. One need only look at the current stock prices of publicly traded Chinese solar companies and compare them to what those stocks were selling for a year or more ago, to appreciate the body blow that the Chinese solar power industry has taken of late due to its excessive dependence on foreign trade. Suntech's 52-week high was in excess of \$50/share; as of March 27, 2009 a share of Suntech sold for less than \$11/share.

Jin Baofang rightly points out that the root of the imbalance in the market for Chinese PV products that has come back to haunt Chinese solar manufacturers is the excessively low targets for development of China's domestic solar industry: the {Mid to Long Term Plan for Renewable Energy} sets the objective of China having a cumulative total of only 300 megawatts (MW) of installed PV power by 2010, increasing to just 1800 MW by 2020. These objectives for domestic growth of installed solar power in China are seriously out of balance with the output capacity of China's PV manufacturing industry.

Shi Dinghuan has stated that what China's solar power manufacturing industry needs is a more active set of government policies to support and subsidize the adoption of solar power domestically, along the lines of the industrial policies that have created significant growth in the Chinese wind industry. Because the use of solar power in China has been insignificant, the potential for growth is outstanding.

Very recently the framework of such policies intended to jumpstart domestic solar power demand and turn around China's overly export-oriented PV industry has begun to emerge. In late March, the Chinese Ministry of Finance promulgated its {Interim Measures for the Administration of Government Subsidies of Building Uses of Solar Energy Photovoltaic Power} (called "Interim Measures") and the accompanying {Implementing Opinion Concerning Speeding Up the Promotion of the Use of Solar Energy PV Power in Buildings} (called "Solar-Powered Buildings Promotion Opinion"), which together provide a framework for the implementation of China's "Solar-Powered Rooftops Plan."

Initially the Solar-Powered Rooftops Plan will be a demonstration project in selected towns and counties, a formula that has been successfully used by Chinese policy-makers over the years with respect to countless initiatives. The Solar-Powered Rooftops Plan seeks to develop demonstration projects for building integrated solar power (including solar power rooftop units and PV curtain walls) in large and mid-sized cities that are relatively well developed economically.

The plan also supports the development of PV systems in villages and remote areas that are outside the reach of the power grid.

The central feature of the Interim Measures is a financial stimulus for the Chinese solar power industry: the Ministry of Finance has earmarked a special fund to provide subsidies for PV systems that are at least 50 kilowatts (kW) in size and have 16% efficiency for mono-crystalline PV products, 14% efficiency for multi-crystalline PV products and 6% efficiency for thin-film applications; for 2009 the subsidy is now set at up to 20 Yuan/watt [US \$2.93/watt]. It is estimated that the new subsidy will cover the approximate cost of the equipment or perhaps one-half to 60% of the total cost of an installed system.

With the exception of the solar power systems subsidies set out in the Interim Measures, the plan is, for the most part, merely suggestive of what needs to be done to develop a thriving solar industry in China. Though the Chinese usually do a good job in filling in the interstices of plans as time goes on, at present this plan appears improvised to address the dire condition of the Chinese PV industry.

In this sector as in countless others, the Chinese have much work ahead to reorient their industries from an excessively large reliance on foreign trade to one that is more balanced, but in order to accomplish that objective, the Chinese must create and deploy a domestic technology development, legal, marketing, administrative and human infrastructure to match the manufacturing and export prowess of the Chinese solar industry. The Interim Measures are one important, though tentative, step in that direction.

null

Copyright © 1999-2009 RenewableEnergyWorld.com
All rights reserved.

**RENEWABLE
ENERGY**
WORLD.COM