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# China, U.S. offer no quick boost to solar slump

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By Nichola Groom and Leonora Walet - Analysis

LOS ANGELES/HONG KONG (Reuters) - Investors are banking on fresh government incentives in the United States and China to help pull the solar sector out of its slump, but it will be next year before demand from those markets even begins to make a dent in the global glut of solar panels.

Washington and Beijing have both rolled out programs this year aimed at stimulating their fledgling solar power industries and, in turn, boosting growth in their economies.

That promise of a spike in solar demand from both the biggest and third biggest economies has fueled optimism among solar investors, but the market for solar panels is still mired in a deep oversupply and financing for renewable energy projects has yet to rebound from the financial crisis.

"The solar environment remains difficult and an oversupply of modules is likely to continue despite increased incentives in the market, which won't likely stimulate demand until maybe the latter part of this year or early next year," HSBC analyst Christine Wang said in an interview.

Shares of Chinese solar companies including Suntech Power Holdings Co Ltd, Yingli Green Energy Holding Co Ltd, JA Solar Holdings Co Ltd and LDK Solar Co Ltd have risen 90 percent or more since the Chinese government in late March announced a solar incentive program that was followed by a second, larger program in July.

Meanwhile, U.S. solar companies SunPower Corp, First Solar Inc and Energy Conversion Devices Inc are trading up 67 percent, 50 percent, and 24 percent, respectively, from their 2009 lows.

The United States and China are expected to drive the building of at least 5 gigawatts (GW) of new solar installations between 2009 and 2011, according to a report by CLSA analyst Charles Yonts.

Even with new incentives, Germany will remain the world's biggest solar market until 2013, when the U.S. is forecast to equal Germany, with China slightly behind, according to emerging technologies research firm Lux Research.

In addition, analysts say the Chinese and U.S. programs may not even start to alleviate the oversupply of solar panels until late next year, while equilibrium between supply and demand is still three years away.

"China and a resurgent U.S. market will still not be sufficient to bring demand up to capacity before 2012," CLSA analyst Charles Yonts said.

MASSIVE GLUT

The solar sector is suffering from a massive oversupply of panels after governments such as Spain pared back incentives and the credit crunch dried up funding for new projects.

Nevertheless, solar module demand will grow 76 percent to 10.5 GW globally next year with the U.S. contributing 1.5 GW and China 0.5 GW, a UBS report said.

Still, the bank anticipates 5.2 GW of polysilicon oversupply, and nearly double that for modules.

That glut has halved solar module prices since January, while prices of the industry's key raw material, polysilicon, stand at $65 a kilogram after peaking at around $500 last year.

The rapid price drop has wreaked havoc on the profits of panel and polysilicon makers alike, and analysts say they will need to see signs of an end to the global recession before silicon and panel prices hit bottom.

But while the U.S. and Chinese support of solar will unleash a flood of demand, analysts say the programs are simply not big enough to revive the industry in the near term.

In China, the government's newly announced "Golden Sun Project" targets 500 MW to a maximum of 680 MW of solar projects to be deployed through 2011, with the government subsidizing between 50 percent and 70 percent of the projects. Many say the program, while positive, is small.

"The Chinese subsidies are intended to drive volume, but not necessarily profitability ... the rates are not high enough," said Lux Research analyst Ted Sullivan. "They are targeted at Chinese domestic producers, typically the second and third tier players that are having a difficult time selling for export. It's just to get them back producing again."

The U.S. program, meanwhile, has been criticized for the sluggishness with which it is being implemented. Government loans and grants for renewable energy companies were included in the Obama Administration's economic stimulus plan passed in February, but the Department of Energy only released rules for applying for those programs last month.

J.P. Morgan analyst Christopher Blansett said it would be "2010 at the earliest" before the government loans boost demand for renewable energy projects in the United States.

"Unfortunately, this means the beleaguered renewable energy sector is unlikely to get a helping hand from the federal government any time soon," he wrote in a client note.

(Editing by Phil Berlowitz)

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