

The solar trade war is getting messier

By Keith Bradsher / *New York Times News Service*

Published: October 15, 2012 4:00AM PST

HONG KONG — The solar panel manufacturing industry in the United States and Europe has begun a volley of trade cases against imports, following the same track as the steel industry before it — and for many of the same reasons.

“Back in the '60s and '70s, all over the world, governments were investing in steel mills,” said Nicholas Tolerico, a retired U.S. trade official and steel executive. “These days, they invest in solar panels, and you end up with the same overcapacity and cutthroat pricing.”

The Commerce Department issued a final ruling last week that would impose tariffs of 24 to 36 percent on solar panels imported from China. The department concluded, despite China’s denials, that manufacturers had received government subsidies and had “dumped” solar panels on the U.S. market for less than it cost to manufacture and ship them.

Solar panel manufacturers in the U.S. are now lobbying the Obama administration to broaden the tariffs to include solar panels made partly in China and partly in other places, notably Taiwan. And the U.S. industry is not ruling out more trade cases against other Asian solar panel exporters.

In Brussels, the European Union has started a trade investigation into solar panel imports from China, a case covering imports worth \$26.5 billion last year. And the European industry is seeking a second case against Chinese solar panel exports, accusing them of benefiting from government subsidies.

Shen Danyang, a spokesman for China’s commerce ministry, said in a statement Thursday that the U.S. had disregarded “the reasonable defense of the Chinese government and Chinese enterprises,” and he expressed “strong dissatisfaction” with the Commerce Department’s decision.

He also said that the U.S. decision to put import tariffs on a category of renewable energy imports was harmful to global efforts to address climate change. And he warned that the U.S. action was likely to result in reduced Chinese imports of raw materials and factory equipment for the solar panel industry.

He Weiwen, a co-director of the China-U.S.-EU Study Center at the China Association of International Trade, which is part of the Commerce Ministry, said his opinion was that China was likely to call for consultations with the U.S. to reach a settlement on the tariffs.

Such settlements have been reached in trade disputes in the past, leading to outcomes like price floors for tomatoes imported from Mexico and the so-called voluntary restraints that Japan imposed on its car exports in the 1980s, which were anything but voluntary.

But He said it was unlikely that negotiations could start quickly, given the coming presidential election in the United States, and he worried that settling a trade dispute with China might not be at the top of the agenda of whoever is sworn in as president.

“The new administration will be faced with more pressing domestic issues,” he said.

The tariffs imposed Wednesday cover about \$3 billion a year in imported solar panels and were imposed after a quasi-judicial process at the Commerce Department. U.S. law does not allow the White House to intervene in the process of calculating duties. But the duties can be replaced with a negotiated settlement that also satisfies the domestic industry.

Chinese industry

To the dismay of Chinese regulators, hundreds of solar panel manufacturers in their country have followed a pattern of using lavish loans from state-owned banks to buy and install as much foreign-made factory equipment as possible while setting aside little for research and development.

"They made quite a lot of money but did not invest," Li Junfeng, a director general for energy and climate policy at the National Development and Reform Commission, said in an interview last month in Beijing. The commission is China's top economic planning agency.

Li, who is also the president of the Chinese Renewable Energy Industries Association, also said that the solar industry's problems were the direct result of overcapacity in China and not the fault of overseas trade restrictions.

Yet he insisted that if the Chinese government could revisit past renewable energy decisions, it would not do anything differently because the business community in China is prone to overinvestment in many industries.

Asked what he was telling Chinese banks to do about their continued loans to solar panel manufacturers, he replied, "I say, 'Just stop.'"

But Frank Haugwitz, a solar industry consultant in Beijing, said last week that there were signs that Chinese banks would sharply increase lending, at least to the country's largest solar panel manufacturers, a step that could allow them to delay taking losses on previous loans to those companies.

When China began the rapid expansion of its solar industry several years ago, many in the global industry expected that technological breakthroughs would result in more cost reductions. But Chinese companies have driven costs down sharply, mainly through greater economies of scale from the construction of larger factories to produce conventional solar panels, and few industry executives foresee further cost reductions by building even larger factories.

At the same time, few new technologies have been developed. Some experts attribute that to China's rapid expansion of capacity for conventional polycrystalline solar panels, which has driven prices down so quickly that investment in newer thin-film solar technologies has faltered, particularly in Europe.

"The artificially low prices resulting from Chinese overproduction have nearly destroyed a second generation of photovoltaic technologies based on thin film," said Ken Zweibel, the director of the George Washington University Solar Institute in Washington. "This has been a huge setback for the U.S. competitive position."

But Sebastian Meyer, a partner at Azure International, a renewable energy consulting firm in Beijing, said he thought the U.S. decision on tariffs was a mistake.

The U.S. is still strong in making factory equipment for manufacturing solar panels, Meyer said, and should let China actually make the panels as long as Chinese banks and local and provincial governments refuse to admit defeat and continue covering most of the costs.

"If you buy a solar panel from China, China is paying for part of it," he said. "If I were the U.S., I would let Americans milk it."

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