State funding fuels China's global push in wind, sun

Reuters

HONG KONG (Reuters) - When A-Power Energy Generation Systems secured a deal to supply turbines for a U.S. wind farm project in October, the little-known Chinese firm had an ace up its sleeve to help it clinch the deal.

A-Power was armed with $1.5 billion in financing from state-run Chinese banks to fund the 600 megawatt project in Texas.

While global peers have limited access to cheap state loans, Chinese renewable energy firms are getting a boost from Beijing as they win clean technology projects around the world [ID:nHKG361180]. Much of that is via low-interest loans from big state banks for their clients to finance their purchases.

This support is giving China's renewable energy firms an edge over Asian rivals such as India's Suzlon Energy, Japan Wind Development and Australia's Infigen Energy, as well as heavyweights like German polysilicon firm Wacker Chemie and Danish wind energy firm Vestas Wind.

"I don't think A-Power could have done this deal without access to cheap financing," said Jacob Kirkregaard, a research fellow at the Peterson Institute for International Economics in Washington D.C, who recently published a paper on wind energy.

"China is clearly the big kid on the block, no doubt about that," he said, referring to the state support for renewable energy. "That's not something many Asian countries can emulate."

Shares of A-Power, which only entered the wind business in 2008, hit a 15-month high last Friday after it said it will supply wind turbines for the Texas project.

Such deals are unfolding as China aggressively develops its renewable energy sector and as its companies play catch-up with bigger, global peers including German solar cell producer Q-Cells AG and Spanish wind farm operator Iberdrola, which have built up solid track records, also with help from more than a decade of government subsidies.

For a Graphic on China's wind power market share, click:

here [1]

LOAN BOOST

Most of China's alternative energy makers, including solar firms Yingli Energy

Holdings and Suntech Power Holdings, and wind gear maker China High Speed Transmission, already have access to low-interest financing from state-run banks to fund their growth as well as client purchases.

Interest rates on loans for wind power generator China Longyuan Power Group, for example, are 10 percent below the prevailing benchmark rate set by the Peoples' Bank of China (PBOC), said Morgan Stanley in a report.

"Chinese banks are motivated by the mandate from the government to develop renewable energy as a national priority," said Zhao Feng at Denmark-based BTM Consult ApS, a consultancy that specializes in renewable energy.

"In Europe, the banks, when they offer loans, tend to assess the project and look at it more closely from a risk perspective."

Such state-backed financing is a common policy tool for governments globally trying to support industries they want to develop. China also provides similar strong support for its energy firms for overseas acquisitions, and its telecoms equipment makers as they try to expand abroad.

Beijing's support comes as Chinese players attempt to create new markets as the cost of developing renewable energy falls and competition intensifies for projects at home.

For a Graphic on global wind power producers, click:

here [2]

China's $300 billion sovereign wealth fund, China Investment Corp (CIC), is also helping to bolster the industry.

In the last several months, the fund has pumped about $1.1 billion into the sector, buying stakes in solar firm GCL-Poly Energy, the world's No.3 polysilicon company by capacity, and China Longyuan, the world's fifth-largest wind power company.

But analysts say access to cheap money will only get China's alternate energy firms so far.

"Essentially, you need to get the product right," said Felix Lam, analyst with CCB International. "Cheap loans can't guarantee a project's success, you've got to have the technology.

"It's the technology that will give you that advantage long-term."

(Editing by Doug Young [3] and Ian Geoghegan [4])

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