

China's green tech revolution

Reuters

HONG KONG (Reuters) - Targeting mainland China with his energy-saving inventions, Peter Fung and executives like him have their eye on the hottest competitive advantage around: an ambitious government with deep pockets.

"State support is the thing that drives companies like us to seek our luck in China," said Fung, a Hong Kong-based investment banker turned entrepreneur as he extolled the virtues of his company's air conditioner-cum-water heater, which promises energy savings to the more than 1.3 billion people who endure China's long, fierce winters and harsh summers.

Looking to capitalize on the billions the government is pouring into green technologies, low production costs and an easy attitude to regulation, he is just one of thousands who are helping drive China toward its ambition as the clean tech factory to the world.

Tao Wang, a climate policy expert with WWF China, said the country would this year develop its next five-year development plan to run from the start of 2011: this is likely to contain new steps to boost alternative energy.

Fung, who is executive director at Coolpoint Energy Ltd, hopes to pick up some of the country's financial support through a manufacturing partnership with Chinese firms.

But far more significant in terms of China's aims at the moment is its ability to produce cheap solar and wind equipment.

"China is practically throwing money at the sector," said Fung. "I won't be surprised if it eventually becomes the biggest clean-tech producer."

Helped by state subsidies, the costs of solar and wind energy have more than halved in recent years. They remain more expensive than coal-generated electricity, but China is uniquely placed to scale up, and undercut its rivals' costs.

Low-cost labor, cheap money and plenty of raw materials -- the formula that made China the global manufacturing giant it is today -- have easily replicated in green technology, an industry that for decades was hobbled by high costs.

AS CHEAP AS COAL?

"China may be one of the problems as it is the world's heaviest polluter, but it can also be part of the solution," said Philippe Delhaise, CEO of CIS Carbon Rating, a global rating company for carbon-related environmental projects.

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China already has over 50 percent of the global market for solar panels. Its companies are now looking to export their wind turbines.

Analysts say as technologies advance and a wider market for these systems develops, the costs of wind and solar power will come down to the point where they match that of coal-powered electricity on a grid. At that point, solar and energy producers could sell electricity without state aid.

In China, this could soon be happening.

Yingli Green Energy Holdings and Suntech Power Holdings -- two of the world's largest solar panel makers, which are based in the mainland -- produce among the cheapest solar panels in the world.

They have been able to cut their prices more aggressively than German and U.S. manufacturers because they procure polysilicon, a raw material for solar panels, at cheap prices from manufacturers who have lower electricity and labor costs.

Chinese manufacturers undercut their European peers' prices by around 40 percent, according to a recent report from UBS: Chinese companies sell modules at about 1.20 euros per watt, while European panels sell at nearly 2 euros per watt.

Chinese companies have contributed to a rough decline of 40 percent in global solar energy prices.

GCL-Poly Energy Holdings, which became the world's third-largest polysilicon maker following its \$3.4 billion acquisition of solar assets in China last year, expects to sell the solar raw material at \$45 per kilogram in 2011, down from over \$50 per kg now, said the UBS report.

Outside China, manufacturers sell polysilicon at \$60 on average.

Another reason China can develop its clean technology so cheaply and fast is that Chinese companies can deliver projects without having to bother with cumbersome regulations, analysts say. State loans are available at cheap rates. Solar power stations and wind farms are built with ease, meeting none of the public resistance that dogs western developers.

Policies also favor domestic suppliers against foreign rivals, allowing local companies to thrive, analysts and their rivals say.

But the Chinese are not unstoppable.

Technological innovation is a weak spot for a country so focused on cutting costs, and the easy money that has inflated markets and spawned the feeding frenzy of companies like Fung's has created excess capacity, depressing prices further.

Polysilicon has collapsed from a peak of \$400 per kg in 2008, and analysts expect prices to fall a further 10 percent this year, yet more polysilicon manufacturers are

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ramping up production.

"When you throw too much money at anything, something's bound to go to waste," said Fung.

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