Chinese Solar Industry Faces Weak Sales, Price War

JOE McDONALD - AP Business Writer - Associated Press

Chinese solar panel makers that grew fast over the past decade are suffering big losses due to slumping global sales and a price war that threaten an industry seen by communist leaders as a role model for hopes to transform China into a technology leader.

Another looming challenge: Moves by the United States and Europe toward imposing possible anti-dumping tariffs on Chinese-made solar panels that might further depress sales.

Financial problems are likely to force painful changes in the Chinese industry including possible mergers, bankruptcies, factory closures or layoffs, industry analysts say.

"The next 1½ years will be very challenging," said Frank Haugwitz, a renewable energy consultant in Beijing.

Companies have been hurt by weak sales, especially in debt-crippled Europe, the leading global solar market, but also by Chinese government policies that encouraged hundreds of small companies to rush into the industry. They flooded the market and depressed prices.

Five major Chinese manufacturers, including industry leaders Suntech Power Holdings Ltd. and Yingli Green Energy Ltd., reported total losses of nearly $250 million in the latest quarter. One of them, LDK Solar Co., also reported an eye-popping loss of $588.7 million the previous quarter.

Pioneers such as Suntech, Yingli and Trina Solar Ltd. that were founded before 2005 grew to become some of their industries biggest competitors as Germany, Spain and other European countries promoted solar power with subsidies and low-cost loans.

Suntech's founder, Shi Zhengrong, a Chinese-born Australian scientist, was lauded by the communist government as a leading entrepreneur. Industry profits soared in 2007-09 as the United States and other new markets stepped up installations.

That success encouraged communist authorities who saw solar, wind and other renewable energy as a way both to curb China's growing reliance on imported oil and gas and to take the lead in an emerging industry without established competitors.

Solar power, along with such fields as biotechnology and aerospace, was declared a

"strategic emerging industry" targeted for development as part of efforts to transform China from a low-wage country of farmers and factory workers into a creator of technology.

Beijing provided grants and low-cost loans. Local leaders encouraged companies to start producing solar panels or components to make them. The field promised higher-paying jobs and a political payoff for officials who would be seen to support a key national initiative.

Producing the basic element of a solar panel — the hand-size black solar cell made of polysilicon that converts the sun's light into electricity — is relatively simple using equipment that a new company can buy as a kit from European suppliers. That allowed novices to start production quickly, while bigger manufacturers also assemble the cells into power-generating modules.

New companies still were springing up in 2011 even after Western countries that were hammered by the global crisis cut subsidies and other support. Supplies surged as sales growth stalled, forcing sellers to slash prices to unprofitable levels.

Since 2010, the price of polysilicon wafers used to make solar cells has plunged by 73 percent, according to Aaron Chew and Francesco Citro, analysts for Maxim Group, a financial firm in New York City. The price of cells has fallen by 68 percent and that of modules by 57 percent.

"The solar manufacturing industry has been wracked by a collapse in pricing," said Chew and Citro in a report.

The major Chinese manufacturers have accumulated a total of $17.5 billion in debt, leaving balance sheets "at the breaking point," they said.

Beijing is unlikely to allow major producers to go bankrupt but rescue measures might include capital injections that would dilute or wipe out the value of shares held by foreign investors who have put billions of dollars into the industry, Chew and Citro said.

Haugwitz said people in the industry have told him at least 300 smaller manufacturers have suspended production and others are producing at below 50 percent of their capacity.

The industry also faces the potential impact of U.S. and European anti-dumping measures in response to complaints Beijing improperly subsidizes companies. Foreign competitors complain that allows Chinese suppliers to sell abroad at unfairly low prices, wiping out American and European jobs abroad — an explosive issue at a time of high unemployment.

In July, a group of 25 producers of solar gear including companies from Germany, Italy and Spain filed an anti-dumping complaint with the European Union.

That alarmed Chinese companies, which warned Beijing would retaliate, possibly

triggering a trade war.

"Over 60 percent of products are exported to Europe," said Wang Shuai, a spokeswoman for Yingli. "If the anti-dumping measures really take effect in Europe, that would be a fatal blow to the industry."

Yingli is based in Baoding, a city 90 miles (150 kilometers) southwest of Beijing that promotes itself as a center for renewable energy. The local government has attracted 170 companies that produce solar, wind and other clean power equipment.

In a reflection of Chinese leaders' hopes for the industry, Baoding's city government says its clean energy industry had 45 billion yuan ($7 billion) in revenue in 2010 and that figure is forecast to grow by 30 percent a year through 2016.

The city works closely with companies, organizing job fairs, providing training and helping to recruit employees through local schools.

In the United States, the Commerce Department issued a preliminary ruling in May that Chinese producers sold solar cells and panels below fair price and hurt American producers. If that is upheld, tariffs averaging 31 percent could be imposed on Chinese solar-panel imports.

On Tuesday, Trina Solar Ltd. reported its loss widened to $92.1 million in the second quarter from $29.8 million in the previous quarter. CEO Jifan Gao blamed industry overcapacity and pressure to cut prices. He said the possible anti-dumping measures contributed to "uncertain market conditions."

Last week, Suntech said its founder, Shi, was stepping aside as CEO and would be replaced by an American, David King, who was hired last year. The company said Shi would stay on as executive chairman and chief strategy officer.

Suntech, which has shares traded on the New York Stock Exchange, suffered a $133 million loss in the first quarter of the year after losing $148.8 million the previous quarter. The company said shipments were down 22 percent from a year earlier.

LDK Solar, China's fourth-largest producer by manufacturing capacity, illustrates the industry's mix of business and politics.

The company in the southern province of Jiangxi has run up $3.8 billion in debt but analysts say it has survived thanks to support from local leaders who see it as an important source of development and encouraged state-owned banks to keep lending.

Still, local leaders might find LDK too expensive if its losses continue, according to Chew and Citro.

"LDK might be considered insolvent by traditional measures at Western banks," they said. "We believe LDK is on the cusp of failure or a major recapitalization."

Some producers might be saved by Beijing's effort to encourage domestic use of solar power, which until recently was considered too expensive for use in China.

The Communist Party's latest five-year plan initially called for installation of 5 gigawatts of solar generating capacity over the life of the plan but that target has been raised to 21 gigawatts.

At the same time, a new competitive threat is emerging: Korean companies such as industrial giant Hyundai that are pouring into the industry.

In 2010, Korea's Hanwha Chemical Corp. bought 49.9 percent of Solarfun Power Holdings, China's sixth-largest solar panel producer by volume.

"The Koreans came late to the game but have deep pockets," Haugwitz said. "They don't want to let this opportunity slip through their hands."

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AP researcher Fu Ting in Shanghai contributed.

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