Chinese Solar Manufacturers Face Blowback As Trade War Escalates

[1]China's headlong rush into solar-energy equipment for export to the West has stirred global trade tensions. In May the U.S. Commerce Department said it would subject Chinese exporters to anti-dumping tariffs of up to 250% on solar panels. Last week, in an apparent retort, China said it was investigating [2] U.S. and South Korean suppliers of polysilicon, a key ingredient in solar cells. China had sharply criticised the U.S. ruling as a protectionist measure. While the full effect of the U.S. tariffs won't be felt until 2013, China's solar industry is already in trouble. Oversupply of solar equipment and polysilicon in China means that companies are desperate for sales. Europe's financial woes are already throttling government subsidies for installation of solar panels. China exports nearly $2 billion of solar panels annually to the U.S., and while not all companies will be hit by huge tariffs, it's hard to see much upside. U.S.-listed Chinese solar firms have had a terrible year. Shares in Suntech Power (STP) are down 79%. JA Solar Holdings (JASO) is trading below 1$, down 30%.

Photo: Nellis Air Force Base, Nev.

Bad timing, then, for Hi-Min Solar Power, a solar water-heater company that grew on the back of close political ties in its home province of Shandong. After a third attempt [3] to list shares in Shanghai was rejected, founder Huang Ming lashed out at the news media for linking him to a disgraced politician in the province. He is particularly incensed at reports that former vice-governor Huang Sheng is a relative who helped him obtain cheap land in Dezhou for his solar factories and real-estate projects. Not so, claims Hi-Min's chairman, though he admits that Huang Sheng was his friend and "benefactor". The disgraced Huang was expelled last month from the ruling party for accepting bribes and being "morally corrupt". The suspicion is that Hi-Min's application for an IPO was denied because of its association with him. During a stormy press conference on July 20, Chairman Huang Ming claimed that

the reason was that Hi-Min had non-performing assets. The company has tried for years to go public, all to no avail. Chinese media reports that the corruption probe that brought down the vice-governor involved land transactions to clean energy companies in Dezhou. No wonder Huang Ming is feeling the heat.

In southern Jiangxi province, solar power is also proving a headache for local authorities. Indebted LDK Solar, the world's second-largest solar wafer manufacturer, has seen its ADRs drop 15% after losing $185m [4] in the first quarter. One major drag is that its cost of producing polysilicon is well below the spot price. Now it's turned to city authorities and Chinese bank creditors for help. Caixin reports [5] that LDK owes over RMB30 billion ($4.75 billion) to domestic banks and the city of Xinyu has had to provide emergency funding while it tries to restructure, possibly by selling a stake to a state company, though that could be a stretch, according to Caixin.

So much for China's claim that it doesn't subsidise its solar-energy companies. Yet there are plenty of hidden subsidies found elsewhere, including government support to the solar market in the name of clean energy. LDK is likely to keep pumping out its panels, even at a loss, given its 28,000 workforce [6] and China's slowing economy. Of course, falling prices for solar inputs and equipment are good for consumers who want to switch to solar, as well as utilities that want to up their renewable energy share. U.S. installation of solar panels is likely to double [7] this year, helped by – what else? – government subsidies.

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