Solar Industry Is Rebalanced by U.S. Pressure on China

By DIANE CARDWELL and KEITH BRADSHER   JULY 25, 2014

Even as regulators continue to wrestle with the protracted trade conflict with China over solar panels, the case has already started to reshape the industry, lifting manufacturers based outside China while also raising prices of panels for developers.

On Friday, the United States Commerce Department took another step in that direction, finding that Chinese solar companies had dumped their products on the American market at below cost, and imposing duties of 10.74 percent to 55.49 percent. The ruling follows a separate decision in June that ruled that Chinese solar panel manufacturers had benefited from unfair government subsidies and that imposed steep duties of about 19 percent to 35 percent.

Even though Friday’s ruling, like the one in June, is preliminary and could change — final rulings are expected this year — the effect of the higher tariffs imposed in June has been evident in the market. Panel prices have increased by about 10 percent since then, developers and analysts say, resulting in decreased demand for some of the large, low-cost manufacturers that have dominated the market, like Yingli and Suntech.

But it has been a boon to other companies, whose products are suddenly seen as competitive and are winning new business. American and European manufacturers that survived the fierce competition with Chinese companies have already shown glimpses of a revival.

SolarCity, the fast-growing rooftop solar power provider based in San Mateo, Calif., recently announced it would buy as much as 240 megawatts’ worth of panels from REC Solar, a Norwegian manufacturer, and acquired a start-up,
Silevo, with plans to produce panels in Buffalo. SolarWorld Industries America, the manufacturing company based in Oregon that brought the original case, has also benefited with a recent deal to sell equipment to RGS Energy, an installer.

“We’re scrambling to buy modules with solar cells made in Korea, Japan and Malaysia,” said Ocean Yuan, the president and founder of Grape Solar, a solar panel importer in Eugene, Ore. He added that the effect of the June ruling was clear at a big industry conference in San Francisco this month, where few Chinese companies even bothered to set up displays. Companies that used to take up an entire floor filled only a small corner.

“There are only a handful of Chinese manufacturers showing at the exhibition,” he said. “There used to be a lot of them.”

The United States had already imposed duties on solar panels made from Chinese solar cells — the final major parts that are assembled into modules — in 2012, but many makers avoided the duties by using cells produced elsewhere, especially in Taiwan. The current proceeding is part of an effort by SolarWorld Industries America, a subsidiary of a German company, to close that loophole. Indeed, the decision on Friday included Taiwanese cells and imposed duties on them of 27.59 percent to 44.18 percent.

Still, many issues remain in the air, injecting an unwelcome uncertainty into the solar market.

“For the industry the most important thing is access to a steady supply chain of products that are particularly priced, and not just priced today or a week from now or a month from now but really looking out to 2015 and ’16,” said Robert Petrina, managing director of Yingli Green Energy Americas. “Where is that certainty going to come from?”

As a result of higher prices on Chinese panels, companies that both make and install systems, like SunPower, which is based in San Jose, Calif., could end up in a more competitive position, said Robert Stone, an analyst at Cowen and Company, because higher-efficiency equipment could offer cost savings over the long term.

But he cautioned that the trade case was harmful to the industry as a whole, which needs to keep lowering its prices, since generous subsidies are set to diminish after 2016.

“It’s a waste of effort all around,” he said. “What will ultimately happen is it will be some other offshore manufacturing location or Mexico or something that
will end up being the next best alternative if products made in China are blocked by trade barriers.”

Although solar analysts and executives say that they do not expect development to stop, the uncertainty over pricing has already put some projects — especially new large solar farms planning to sell power to utilities — on shaky ground.

Shayle Kann of GTM Research said that the increases came at a particularly difficult time for the large-scale end of the market because developers had been signing power purchase agreements with utilities at low prices that could become difficult to fulfill if equipment costs nudged up.

In China, the looming possibility of even higher tariffs has alarmed the industry, even though its dependence on the American market has already shrunk, and is prompting at least some executives to consider shifting production elsewhere, possibly the United States. Existing tariffs have already limited sales of Chinese solar panels to the United States, to the point that they account for a little less than a tenth of the Chinese industry’s worldwide sales.

Steven Han, a solar industry analyst at SWS Research, an investment analyst based in Shanghai, said that without adding more tariffs, Chinese manufacturers would account for two to three gigawatts out of an American market of about five gigawatts this year. By contrast, Chinese manufacturers supply virtually all of China’s market, the world’s largest, which could reach 14 gigawatts this year. They also ship about five gigawatts each to the European Union and Japan each year, with smaller shipments to markets like Thailand.

But the United States market could still spell the difference between recovering profitability for Chinese manufacturers and continued losses. Steeply declining prices from 2010 through 2013 prompted some Chinese manufacturers, like Suntech, to mothball part of their factory capacity, and that has resulted in a leveling of prices since January this year.

If the United States increases the duties, that equilibrium could be disrupted with renewed pressure for discounting. “Every market is very important” for absorbing Chinese production, Mr. Han said.

One of the largest Chinese solar panel manufacturers by production, JA Solar of Shanghai, registered in the United States this month to issue up to $250 million worth of securities, without specifying the type of shares. Gary Dvorchak, a
spokesman for JA Solar, wrote in an email that the registration, “increases its financial flexibility for any opportunities that come along,” but he declined to say what was planned.

Mr. Yuan of Grape Solar said that JA Solar wanted to build a panel factory in the United States to bypass American tariffs, much as Japanese automakers did three decades ago to bypass American import restrictions. Mr. Yuan added that he had been advising the company and had shown its officials possible locations in Oregon, but, he said, they were likely to choose among other states that were offering more generous tax incentives.

Manufacturing in the United States is not necessarily more expensive for a capital-intensive business like solar panel manufacturing.

“The only higher-cost component is labor, which can be offset by a higher level of automation, and by American workers’ productivity and stable work force,” Mr. Yuan said.

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