The latest round of a trade war that started nearly three years ago over Chinese silicon solar panels imported in the United States will likely have a far more financial impact than before. In fact, prices for Chinese solar panels could go up 14% on average, said a report released Thursday.

That price hike will be hard to avoid and cause Chinese companies to lose much of the advantage they have enjoyed for years: the ability to make and sell solar panels at costs far lower than their competitors elsewhere in the world, according to an analysis by GTM Research. The report is taking stock of the ongoing trade case undertaken by the U.S. Department of Commerce, which issued a preliminary decision on June 3 that set tariffs at 19% to 35%. It plans to make a final decision in August.

China is the solar manufacturing hub of the world. It supplied 31% of the solar panels installed in the United States last year, GTM said. The vast majority of the solar panels made in China use silicon solar cells. The commerce department pegged the value of the Chinese silicon solar panels that entered the U.S. market at around $1.5 billion.

Some solar installers and project developers aren’t waiting for the government to wrap the case before figuring out its supply strategies. Two days after the commerce department handed down the provisional tariffs, SolarCity announced.
releasedetail.cfm?ReleaseID=852754) that it had agreed to buy between 100 and 240 megawatts of solar panels from Norway-based REC Group. And here is a telling quote from that press release:

“The availability of competitively priced, U.S. trade-compliant PV modules is an important development for the global solar industry,” said Tanguy Serra, chief operations officer of SolarCity (companies/solarcity/), “REC delivers high-performance modules with excellent resistance to degradation, all with a responsible environmental footprint.”

The company didn’t stop there. Earlier this week, SolarCity made a surprise announcement (http://www.forbes.com/sites/uciliawang/2014/06/17/solarcity-moves-to-become-a-solar-panel-maker/) to become a solar panel maker by buying a startup, Silevo, that has developed a hybrid solar cell technology and a manufacturing process that promises to deliver low-cost cells that can convert a higher percentage of sunlight into electricity.

Making its own solar panels — the plan is to build a giant factory in New York — will give SolarCity a greater control over its supply and protect it from price fluctuation that can vary greatly as a result of trade disputes or market forces governing supply and demand.

**The New Fight**

The latest round of trade dispute still centers on whether Chinese solar manufacturers have received unfair subsidies from the Chinese government that then allow them to sell their products at below fair market value. But the result will likely to be very different than the last go-around, GTM said.


But those tariffs from 2012 turned out to be easy to circumvent. They targeted silicon solar cells made in China, not the raw materials and components that go into making the cells or the panels in which the cells are assembled. What many Chinese manufacturers, some of whom make their own materials and components for solar cells, ended up doing was to buy silicon solar cells from Taiwan. They still used materials made in China and kept the panel assembly in-house.
The SolarWorld-led group subsequently filed a new complaint after realizing that their effort didn’t inflict the intended pain or achieve what they hoped would be fair competition. The new complaint covers the components that go into solar cells, as well as the solar panels.

**What To Do This Time?**

This time around, Chinese manufacturers could pay the tariffs and ship all-China made products, or they could build factories or hire manufacturers outside of China, GTM said.

Whatever strategies they use, they will likely have to sell their products at a higher price if the commerce department doesn’t lower the tariffs in its final decision. That price hike will likely range from 7% to 20% (average 14%), GTM said.

Developers of projects to sell electricity to utilities will feel the pinch the most. Utilities typically sign a 20- to 25-year power purchase agreement and look for low-cost options to preserve their profits. Keeping solar equipment cost low will therefore be critical for developers to preserve their own profits, too. Non-Chinese solar manufacturers that will benefit from the latest trade dispute include Arizona-based First Solar (/companies/first-solar/).

Low-cost solar panels from China have helped to boost the solar market growth over the years. That has prompted many solar installers and project developers to oppose SolarWorld’s trade petitions. The Solar Energy Industries Association, which represents manufacturers and installers based in and outside of the country, said in a statement (/Users/ucilia/Documents/Freelance/Notes/threatens%20to%20derail%20the%20rapid%20growth%20of%20the%20U.S.%20solar%20industry) earlier this month that the trade dispute “threatens to derail the rapid growth of the U.S. solar industry.”