Will Chinese Solar Companies Be Able To Overcome The U.S. Tariffs?

Jan. 1, 2015 7:39 AM ET  |  17 comments  |  Includes: JASO, SPWR, TSL, YGE  by: Simple Investment Ideas

**Disclosure:** The author has no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. *(More...)*

**Summary**

- The escalating solar trade war between the U.S. and China has put increasing pressure on Chinese solar manufacturers.
- While the U.S. tariffs placed against Chinese solar panels is certainly a blow for Chinese manufacturers, these companies have highly diversified and adaptable business models.
- The solar tariffs may give U.S. companies an extra competitive boost against its Chinese rivals.
- Large Chinese solar companies have proven to be extremely resilient in the face of obstacles.
It has been a difficult year for Chinese solar manufacturers on the international stage, mainly due to the escalating solar trade war between China and the United States. The U.S. has one of the most promising solar markets, so the U.S. tariffs levied against Chinese solar manufacturers will clearly pose a problem for these firms. Upon the announcement of the most recent tariffs, Chinese leading solar manufacturers such as Yingli (NYSE: YGE), Trina Solar (NYSE: TSL), and JA Solar (NASDAQ: JASO) all experienced sharp drops in stock price.

While the U.S. markets are important to Chinese solar manufacturers, these companies have proven to be extremely resilient. Chinese solar manufacturers have suffered a brutal period of consolidations due to the recent panel supply glut, so the companies that have survived this period have proven themselves to be extremely adaptable and resilient. Although Chinese solar manufacturers will undoubtedly be harmed by the intensifying trade war with the U.S., there are many reasons to believe that the tariffs levied against them will only be of minimal consequence to these companies.

Massive Potential in Domestic Market of China

While the Chinese solar market is huge, its future potential is even more promising. Although the Chinese solar market is approximately equivalent to the U.S. solar market, the Chinese market has infinitely more potential, just based on the country’s population size alone. On top of that, the political climate for solar in China seems to be much healthier than that of the United States. Just recently, for instance, Chinese President Xi Jinping had struck an unprecedented climate deal with President Obama at the APEC summit. Unfortunately for the U.S. solar market, the famously pro-renewables President Obama will be stepping down from office in 2 years, leaving behind a Republican controlled Senate and House. China's President Xi Jinping, however, will still have a long reign ahead of him, which will allow him to enact his climate ambitions with impunity.

Climate has become an increasingly bigger issue challenging the legitimacy of the Chinese Communist Party, which makes solar power all the more important for the Chinese government. Pollution is becoming worse than ever in China, and the only real solution to the problem is massive investments into renewables like solar. While China's one party system is limited in many ways, it does have the advantage of being able to single-mindedly push an agenda without major opposition. This governmental cohesion is not found in the U.S. government, where the Democrats are constantly battling the Republicans over various issues such as renewable energies. The massive government subsidies that will undoubtedly be handed out should provide an enormous advantage to large solar companies, especially in the case of industry standouts such as Trina Solar or Yingli Solar.

In addition to China's solar friendly political environment, its electricity consumption growth may be an even bigger boon for domestic Chinese solar market. China's average per capita electricity consumption is approximately 3,297 kWh, which is about 4 times lower than that of the United States. This means that China's electricity consumption will likely skyrocket into the future, given its enormous future GDP growth projections. Naturally, as living conditions and GDP per capita grow in China, electricity consumption will grow in tandem.

Increasingly Diversified Pipelines

While the U.S. market is surely an integral customer for Chinese Solar firms, they are becoming increasingly less reliant on it due to their international diversification. Most large Chinese solar firms, including the ones listed earlier in the article, have a vast business portfolio spanning across the globe, from the developed markets of Japan, to the burgeoning markets of India, and even to the developing markets of Africa.
Trina Solar's diversified portfolio is a typical of large Chinese solar firms. Many other large Chinese solar corporations are even more spread out across the globe, oftentimes penetrating the Middle Eastern markets.

(click to enlarge)

Source: Trina Solar

Chinese companies have shown to be incredibly opportunistic in focusing on emerging markets. Many of the emerging economies of the Middle East, Africa, Southeast Asia, and South America have a naturally more conducive environments for solar than that of the developed countries. In fact, many of the top solar generating countries, such as Germany or North America, do not get all that much sunlight. Once the emerging markets around the equatorial belt mature, Chinese companies will be even less dependent upon the U.S. market. Yingli Solar, for instance, has even expanded its business to North Africa, which is perhaps one of the friendliest solar regions (in terms of environment) in the world.

Long-Term Risks

The U.S. market does not represent such a large portion of the global solar market that decreased access to this market will devastate Chinese solar companies. While losing access to the U.S. markets due to the tariffs is certainly a blow to Chinese solar companies, it is certainly surmountable. Despite this, the biggest risk for Chinese companies won't be directly related from the tariffs, but rather the effect these tariffs will have on U.S. solar companies.

Chinese upstream manufacturing businesses have been notoriously competitive with U.S. solar manufacturers, so much so that the Department of Commerce felt the need to impose these protectionist tariffs. With these tariffs severely easing the competitive pressures from China solar firms, the U.S. solar companies should be able to significantly push the technological frontiers and eventually even outcompete the Chinese companies without tariffs. The U.S. solar manufacturing
industry has largely been stunted by the sudden arrival of the ultra-competitive and low-cost Chinese manufacturers. With the imposition of these tariffs, the U.S. solar companies may actually extend their lead once again, and take global market share away from Chinese manufacturers.

This fear though, may also be overblown as Chinese companies are even starting to catch up to their U.S. counterparts in terms of technological innovation. In fact, JA Solar boasts some of the highest efficiency panels in the world, with efficiencies comparable even to efficiency leader SunPower (NASDAQ:SPWR).

Conclusion

Chinese solar companies have proven themselves to be extremely adaptable in the past. In fact, the very survival of the largest Chinese solar companies is proof of their resilience. Only the most competitive and well-managed firms could have made it out alive from the past decade, a chaotic period characterized by overcapacity and bankruptcies.

While these tariffs will certainly cause some damage to Chinese solar companies, this has already been factored into Chinese solar company valuations. In fact, investors may have overcalculated the potential damage of these tariffs, giving leading Chinese solar firms valuations such as Trina Solar, Yingli Solar, and JA Solar even more upside in the long-run.

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China by itself would keep its solar industry on going for the foreseeable future. It is questionable whether US solar will become competitive in the international stage.

1 Jan, 08:23 AM Reply! Report AbuseLike2

These tariffs are bad news for companies like SolarCity that still use Chinese made solar panels in their installations. It will be years before any domestic gigafactories come on line, so in the mean time, this will bite into their profits.

1 Jan, 02:33 PM Reply! Report AbuseLike0

I really don't know how the solar panels from China actually compare to those of the U.S. companies. When I hear that they are now as efficient, I immediately wonder if some of their recent "breakthroughs" were borrowed. I can only speak for myself, I am currently looking into solar for my house. when i read the words, "Made in China" currently it does NOT give me a warm cushy feeling inside. With something as important, and that i want to last as long as Solar Panels being out in the elements year round, is the reason i've contacted SolarCity. I also like what I've read about SunPower. I wonder, when folks from China see the "Made In China" sticker, Do they also question its Longevity?

1 Jan, 09:07 AM Reply! Report AbuseLike0
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Looks like about 1/2 of SolarCity's panels are made in China, Not sure about SunPower? both companies having plans to make them in the U.S. Just can't seem to ever escape that cheap China Labor>>>>&...
1 Jan, 09:15 AMReply! Report AbuseLike0

CT Programmer
, contributor
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My rooftop solar is about a year old and we went with SunPower panels. At the time, they were the most efficient but also commanded a premium over the others. Long-term, they made more sense. All the solars are evolving as far as efficiency, but SunPower still has a slight lead. But like everything, there are lots of variables involved in every financial equation. Obviously, there has to be one model car that is the most efficient on MPG, yet we still see hundreds of different models of cars on the road. Lots of factors, and efficiency is just one aspect especially when you mix price in.
1 Jan, 10:01 AMReply! Report AbuseLike0

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BTW, I am long TSL and JKS. Just because I put SunPower panels on the roof doesn't mean I think SunPower is the better stock to hold --- although I did own them previously and sold to Total ;--).
1 Jan, 10:02 AMReply! Report AbuseLike0

Solarbroker4
, contributor
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We have traditionally seen more failures with the U.S. made panels that we've sold over the past 16 years than with the Chinese and Japanese made units that we've sold.

And if that is a concern for you, then why have you contacted SolarCity? They still offer Chinese made solar panels in their systems and most of SunPower's solar panels are made in the Philippines? And SunPower systems are far more expensive than other solar systems that offer higher performance.
1 Jan, 02:42 PMReply! Report AbuseLike2

Solarbroker4
There are now lower cost bifacial solar panels available that offer up to 22% efficiency. Why would you think that SunPower still has a lead?

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rogerenroute

Isn't it ironic that while the US slaps tariffs on China it allows government subsidies for the new plants in the US. China is a lower cost producer of panels mainly because it has lower supply of components. For those of you who don't believe the Chinese have the capacity to do innovation well..... I guess you dont believe in the North American education system because that's where the wealthy send their kids for education.

---

Moshe Ben-Reuven

Dear Roger,
You nailed it. The Chinese send to the US a very large number of bright graduate students, to get superior education and, after a PhD, get into high tech industry and soak up all the know how and innovation. This is a very smart investment on their part.

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piatonicbomb

The tariffs affect products only if they were not already subject to the 2012 tariffs. Not sure whether we can draw any conclusions until we understand which products the 2014 tariffs touch... which may be *none* of the products by JASO, JKS and other big manufacturers. Need more info.

Some US solar companies assemble some part of their product in China. Those products will now be subject to an anti-dumping tariff. Don't expect this latest development either to harm major Chinese producers or help most US producers. Insofar as it does affect Chinese producers, it will also undermine the projects of US developers who depend on cheap Chinese product.
Tariffs are such a bad idea it makes your head spin. Number one, in China there is a (rather corrupt) vertically integrated system which will keep the "public companies" liquid no matter what levy is imposed— to get market share. From local NGOs, through local and state officials, and including banks, all have a stake in this game. So Tariffs are a silly tool for ostensibly curbing their aggressive penetration of US markets. The reason for the amazing survivability of the Chinese TSO, JASO, YGE is not their dynamic adaptability, but their relentless financial backing.

Number two, if they make it so cheap, let US order millions of them for domestic use! stock up by making very large discounted orders. This is a good strategy to give China a taste of their own porridge: if the PV panels are undervalued, load up on the underlying and drop the equity. We do need solar PV panels in huge quantities, as long as electric power from coal must be stopped, and natural gas reserves are, in reality, insufficient.

What we do not need is investment in the TSL, JASO, and YGE. Money is collected from US investors, and goes to China to "re-invest", or purchase equity in similar vertical ventures. Shareholders, especially foreign, have absolute zero control. Namely, investor's money drops into a fair-size black hole.

1 Jan, 01:38 PMReply! Report AbuseLike0

Hey everyone, Solar City acquired "Silevo" in June of 2014.

Silevo (an American company) has silicon solar cells that deliver several percentage points of efficiency higher than Sunpower. The technology/physics that produces this higher efficiency is patented.

It's true that Silevo's panels are untested in high volume production. There may be problems when they try to scale this at Solar City.

I read that Solar City is building a large factory (I don't like the word Gigafactory) in New York to fabricate these panels.
This whole thing will shake up the status quo of this industry (probably) and likely be good for the U.S.A.

rlowell
1 Jan, 02:59 PMReply! Report AbuseLike0

• Solarbroker4
  , contributor
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@elowell <"Silevo (an American company) has silicon solar cells that deliver several percentage points of efficiency higher than Sunpower."

That's totally false. Silevo was a Chinese company until SolarCity bought them. And they do not deliver efficiency that's "several percentage points of efficiency higher than Sunpower."

You are confusing cell efficiency with module efficiency. Silevo only offers a module efficiency rating of only 18.3%. Visit their website and read their spec sheet for yourself.

Their "patented" technology won't be shaking up the status quo because newer, low cost, higher efficiency bifacial technology has already hit the market that outperforms Silevo's offerings by a long shot. Up to 22% MODULE efficiency.
1 Jan, 04:10 PMReply! Report AbuseLike1

• 8985311
  , contributor
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You apparently don't know much about this Industry at all.
2 Jan, 07:52 AMReply! Report AbuseLike0

• 12351321
  , contributor
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We installed a 6kW PV system in 2014 using 22 panels produced by Solar World, a German-owned company that produces its panels in Oregon. I used to own SPWR and FSLR, but I sold those shares and now own CSIQ. The solar sector has great promise moving forward, both in the US and globally.

1 Jan, 04:28 PMReply! Report AbuseLike0

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Here's yet another utility that is going to tack on fees for solar users. It's the beginning of the end for the expensive solar lease/PPA companies. http://bit.ly/1D8yWAU

1 Jan, 04:28 PMReply! Report AbuseLike0

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