

# Is a solar trade war about to flare?

REUTERS, Eberswalde, Germany

Germany's fifth-biggest solar power park emerges as a smudge on the horizon long before you reach it on the outskirts of the small, sleepy village of Eberswalde, an hour's drive north of Berlin. "In the far distance, you can see it," Peter Kobbe says, pointing through heavy December snowfall as he steers his Citroen van along an icy road.

Kobbe, 64, works at Finow airport, where a local investment firm built the 58 million euro (\$77 million) solar park in 2009. Finow itself was built by the Nazis before World War Two and later became one of the Soviet Union's main Cold War hubs. Now the small aircraft that still use the airport share it with about 90,000 solar modules -- which together generate enough to power 6,400 households a year.

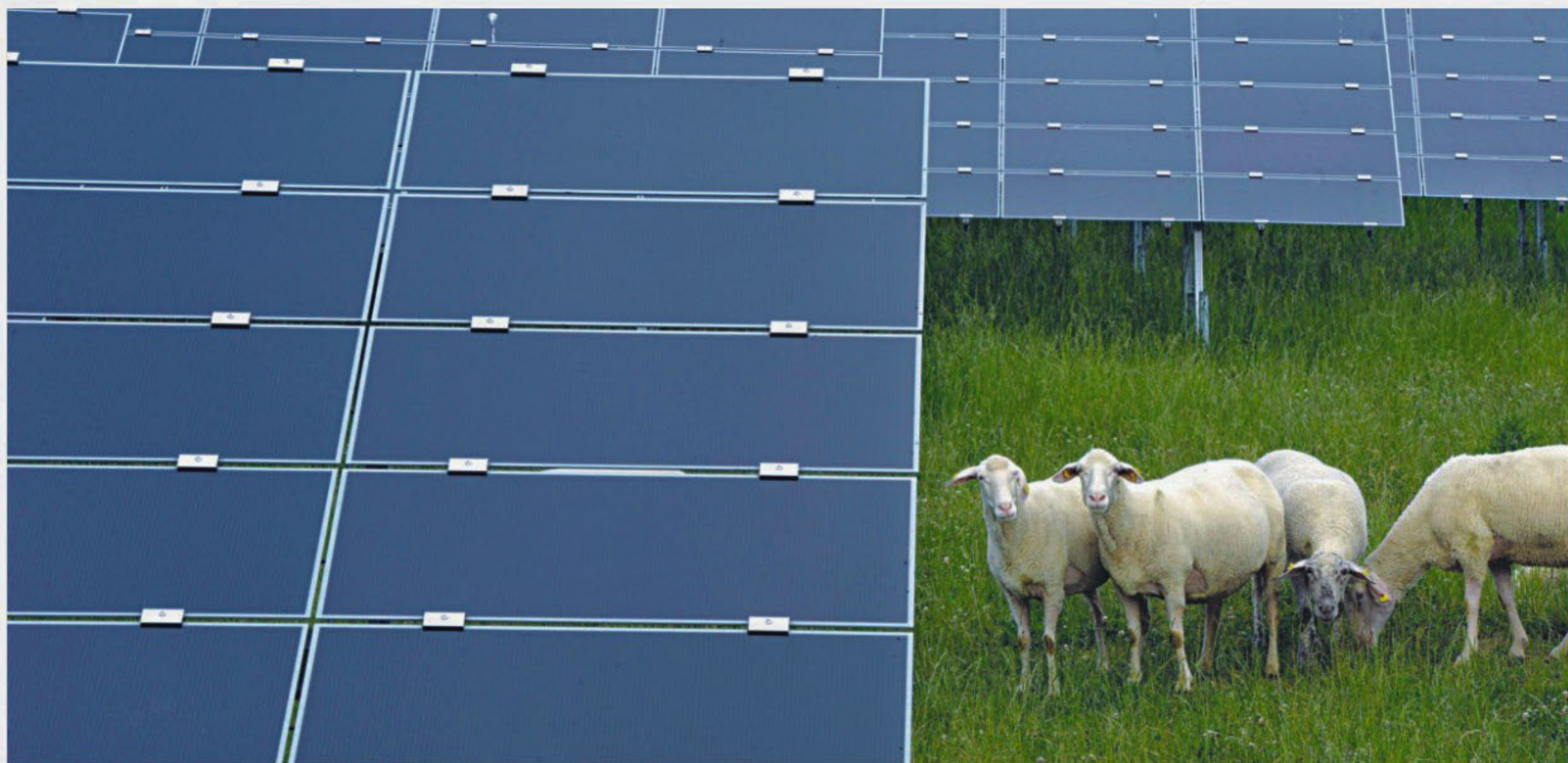
"This is where they (the Soviets) used to store their nuclear weapons," says Kobbe, who runs a small museum documenting the airport's history, guiding his van over the snow-covered landing strip.

Now there's a different foreign presence in Finow. When the first solar modules arrived for installation they came not from a local manufacturer -- German solar company Conergy runs a factory just 45 minutes away in Frankfurt an der Oder, for instance -- but from China's Suntech Power Holdings, now the world's largest maker of photovoltaic (PV) solar modules. "We were quite surprised when the trucks brought Chinese modules, and not German ones," Kobbe says. "But they were probably cheaper." Solarhybrid, which spearheaded construction of the park, says reductions in Germany's renewable subsidies meant it had to use Suntech modules to stay competitive.

Germany has long been the global solar industry's engine. Europe's biggest economy consumed more than half the solar panels produced around the world in 2010. Solar accounts for just two percent of Germany's power production, but the country added a record 8,000 megawatts (MW) of solar modules last year -- equal to the capacity of eight nuclear reactors -- far outpacing Italy, Japan and the United States.

So why are China's solar companies benefitting at the expense of renewable energy manufacturers in Europe and the United States? Virtually non-existent a decade ago, Chinese solar companies now control two thirds of solar cell production in the \$39 billion global PV market. Critics say this is mostly because the generous subsidies they receive at home give them an advantage over other countries' manufacturers and restrictions keep foreign companies from competing for China's domestic projects. European and US subsidies are designed to boost solar usage no matter who builds the hardware. Chinese subsidies, western firms complain, help Chinese solar manufacturers alone.

Resentment in western capitals is building. Beijing is currently considering plans to spend up to \$1.5 trillion over five years to back strategic industries, including alternative energy, a source



Sheep stand next to solar cell panels near Zusamaltheim, southern Germany. The country laid out plans yesterday on how it intends to abandon nuclear power in the next decade while still keeping its economy competitive and achieving its climate goals.

with ties to the leadership and direct knowledge of the proposal told Reuters in December.

The Obama administration, prompted by a complaint by the United Steelworkers union in September, is now considering taking a case against China to the World Trade Organization (WTO) regarding Beijing's support of its solar companies. Last month, the US government complained to the WTO that China illegally helped its wind power manufacturers. The issue of trade will be under discussion when Chinese President Hu Jintao visits Washington. Could a green trade war be brewing?

"I think we're always afraid of a trade war so we don't act. The Chinese are never afraid of a trade war so they do act. And that's why they're beating us in too many cases on clean energy and other industrial concerns," said U.S. Senator Sherrod Brown, a Democrat whose home state of Ohio is a hub of solar panel production for companies such as First Solar Inc, which still ranks as the world's top solar maker by market value and is one of the largest producers.

"For 10 years we've always stepped back because we're afraid, we don't want to upset anybody. Every other country practices trade according to its national interest. We practice trade according to an economic text book that is 10 years out of print."

So far, Berlin's response has been more restrained, relying on European Union discussions with China to overcome the trade disputes. But "if such talks remain unsuccessful, the launch of a WTO dispute settlement can be considered," Jochen Homann, deputy German Economy Minister, said in a statement to a member of the Ger-

man parliament who then passed it on to Reuters.

Every solar company in the world relies on some form of subsidy to build or sell its products. That's because solar electricity is still about eight times more expensive than power generated by coal-fired plants. The global solar industry only really began to take off when, about a decade ago, governments introduced subsidies for clean energy systems in an effort to trim their carbon dioxide output and reduce dependence on fossil fuels.

Germany's supports are generous -- an estimated 7.3 billion euros this year -- and have been so successful that Berlin started reducing payments for new solar plants last year, bringing forward by more than a year a decrease it already planned. The support comes indirectly, through so-called feed-in tariffs. Berlin doesn't pay solar panel makers directly, but forces larger utilities to pay the generators of solar power, including homeowners, more for each watt that comes from the sun. In the end, the cost for solar power -- currently about 28.74 euro cents per kilowatt hour (KWh), which is down about 27 percent since the beginning of 2010 -- is borne by all consumers. Because the subsidy goes to the person or company generating power, the issue of where the equipment is made is ignored.

The United States, too, subsidizes its solar industry. Last month Washington extended for a year a popular cash grant program that pays 30 percent of the development costs to build power plants that use solar modules. Crucially, that help is available to anyone building a solar power plant, irrespective of where the panels come from. U.S. companies also earn manufacturing tax credits for production facilities, and states and

cities often waive taxes to lure manufacturers to set up operations.

The big difference with China, its solar critics say, is that Beijing helps only its own manufacturers -- who then send their panels around the globe to reap additional subsidies in other countries. Western companies also complain that foreign solar firms are locked out of bidding for projects inside China.

"While foreign manufacturers find the German market open, the Chinese domestic market has so far been walled off. Therefore, we're watching the (WTO) initiatives in the U.S. very carefully," says Carsten Koernig, managing director of BSW, the German solar industry association.

The USW complaint blames China's aid to its solar industry for a creating a supply glut which drove down panel prices by 40 percent in 2009 and pushed US competitors out of the market. China's solar shipments to Europe grew eightfold from 2006 to 2009, the USW complaint says, faster than the rise in overall European demand.

The USW also accuses Beijing of direct violations of China's agreement with the WTO. According to the steelworkers' complaint, Sinosure, China's official export credit insurance agency, provided \$1.25 billion in insurance for photovoltaic exports from China, covering nearly half of all Chinese exports of the product. The USW claims Sinosure ran a cumulative loss of 1.4 billion yuan (\$212 million) between 2002 and 2008. Those losses, a USW lawyer claims, indicate the subsidy was a violation of trade rules. Chinese companies reject the idea they are helped more than their western rivals.

TO BE CONTINUED

**So why are China's solar companies benefitting at the expense of renewable energy manufacturers in Europe and the United States? Virtually non-existent a decade ago, Chinese solar companies now control two thirds of solar cell production in the \$39 billion global PV market**

# Fine line between slowdown and stall

REUTERS, Singapore

The world economy appears headed for several months of sub-par growth, and there is no clear source of strength to lead it back to health.

After a week filled with disappointing economic data, the debate is no longer over whether the economy has hit a soft patch but how long it will last.

Friday's poor US employment figures suggest demand will remain subdued in the world's biggest economy. Europe is still struggling to put an end to its sovereign debt troubles.

As for the big emerging economies, their inflation-fighting efforts appear to have succeeded in cooling growth. Although that was the intended result, it means they are not in a position to grow as fast as they did last year.

Ironically, the country with the brightest near-term prospects may be Japan as it recovers from the March earthquake and tsunami. Still, even a strong rebound there may not be enough to lift the global economic clouds.

Lena Komileva, a strategist with Brown Brothers Harriman in London, said the weak US jobs data meant the Federal Reserve would not "close the door" on purchasing more assets once its \$600 billion bond-buying program wraps up later this month. Talk of another Fed buying spree intensified last week.

"I expect these noises will only get louder as the summer progresses," Komileva said.

Figures due this week will probably provide even more evidence that demand world-wide has faded.

China reports its May trade figures on Friday, and the only real question is how sharply the pace of growth slowed.



Anabella Maldonadon, 5, attends a protest against education budget cuts with her mother Linda (not shown) who was laid off from her teaching job after eight years, in Los Angeles, California.

Economists polled by Reuters expect the report to show exports rose 21 percent from a year earlier, still solid but a big step down from April's torrid 29.9 percent pace.

Even in April, there were signs that demand was cooling.

US retail sales were lackluster, and figures due on Tuesday are expected to show euro zone April sales were tepid as well. That means businesses may be stuck with more inventory than they would like, and orders may stay weak.

Taiwan's May export figures, sched-

uled for release on Wednesday, are expected to show an even sharper decline than in China. Economists are looking for just 8.7 percent growth in exports, down from 24.6 percent in the prior month's report.

The United States and Germany are also due to release their trade figures this week, although the data covers April, not May, making it less valuable as a guide to what is happening to the economy now.

For central bankers, the cool-down takes away some of the rate-hiking

impetus. The European Central Bank and Bank of England both hold policy-setting meetings on Thursday, and both are widely expected to keep short-term borrowing costs steady.

HOWLONG?

Underneath all the doom and gloom, there are a couple of reasons to feel more upbeat about the second half of the year. Commodity prices have come down in recent weeks, which will eventually ease pressure on household budgets.

In addition, the Institute for Supply Management said on Friday that the

pace of growth in the US services sector picked up modestly in May, with its measures of new orders and employment higher. The services sector accounts for about 70 percent of the economy.

"It is a little ray of hope in an area of gray data," said Rudy Narvas, senior economist at Societe Generale in New York. "We still view this soft patch of data as temporary."

While Japan's recovery will provide at least a modest boost, Friday's US employment report does not bode well for consumption, and therefore global trade.

"With households worried about high gas and grocery prices, and the slow pace of wage gains, spending could even slow a little more this summer," said Kathy Bostjancic, director for macroeconomic analysis at the Conference Board in New York.

She said businesses spent the past couple of years cutting costs and won't be keen to boost spending -- or hiring -- unless they are certain that the economy is perking up.

"This degree of caution could remain in evidence right through Labor Day" in September, Bostjancic said.

If there is good news in all the bad economic news, it's that it won't take much to pleasantly surprise investors.

Barclays Capital economists said the recent wave of "growth panic" was overdone and emerging markets in particular stood to benefit once those worries fade.

"Forecasting surprises sounds like an oxymoron. However, when expectations are sufficiently negative, it is not difficult to envision positive surprises in the making," said Barclays economist Donato Guarino.

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