

Greece mustn't waste its second chance

HUGO DIXON

Greece mustn't waste its second chance. Athens looks like it will receive enough bailout cash to see it through to end-2013. But if it veers off track again, as is all too possible, any third chance might come with such extreme conditions that a messy default and a humiliating exit from the euro wouldn't be far away.

The euro zone and International Monetary Fund are willing to provide more cash partly because the European Central Bank has scared Athens' saviours into believing that a Greek default now would trigger a nightmarish set of domino collapses across the continent. In return, Greece has promised to raise the equivalent of 22 percent of GDP through privatisation by 2015, as well as squeezing another 10 percent of GDP from its fiscal deficit. There is also a plan to bail in private-sector creditors, albeit on a "voluntary" basis. That could cut the amount of new bailout money to perhaps 30 billion euros, out of a total funding hole of 65 billion euros.

Even if Athens keeps to its new promises, it won't be out of woods. At the end of 2013, it will still be overloaded with debt, equivalent to around 150 percent of GDP, and face yet another funding gap. The best case scenario is that its budget will be in surplus before interest payments -- a so-called primary surplus -- making it strong enough to negotiate a savage haircut with its creditors.

But there are three reasons why Athens may disappoint again.

First, although George Papandreou is likeable and honest, the Greek prime minister hasn't yet put in place a team able to wrestle effectively with a monstrously inefficient public sector. He needs to do this immediately. Nor has he managed adequately to carry the people with him partly because he hasn't apologised sufficiently for his own errors and partly because corrupt politicians and tax-evaders have been slow to be punished.

Second, although bank capital is being shored up as part of the new plan, liquidity is tight and depositors have been fleeing,

according to bankers and government officials. The ECB has funded Greek banks to the tune of 95 billion euros. But it is trying to get them to reduce their borrowing in the medium term a process hardly calculated to keep credit flowing through the economy.

Finally, the fiscal squeeze will put a brake on the economy. The next instalment, equivalent to 2.8 percent of GDP, will be crammed into the second half of this year. That's 5.6 percent of GDP on an annualised basis. Exports are already picking up as unit labour costs fall; and there are high hopes for tourism, partly because people are being diverted by the Arab Spring from North Africa to the Mediterranean's other coast for their holidays. Still, it is touch and go whether Greece can really stop its recession by year-end as envisaged under the troika's old plan. And, without growth, its promises could easily fall by the wayside.

If Athens flunks it, its saviours will have to decide whether to keep providing cash as each quarterly tranche comes due. Their willingness to play hardball will largely depend on whether they now put strong firewalls between Greece and other countries. It would be criminally foolish not to.

In such a situation, Athens might still be given a last chance. But the conditions imposed might be so tough that Greece would feel it was being turned into a protectorate, with outsiders running the machinery of government and imposing yet more austerity. At that point, the already febrile Greek public might revolt. And, if the threat to cut Athens loose was really credible, a messy default would follow and the country might feel its only way of saving its banking system was to reintroduce the drachma.

The governor of the Greek central bank, George Provopoulos, recently said that the government should over-deliver on its promises. Papandreou should heed his advice. If he falls behind the curve again, history will damn him.

The author is a Reuters Breakingviews columnist. The opinions expressed are his own.



A huge banner, unfurled by members of the communist-affiliated Pame workers union calling for a general strike hangs from the finance ministry building in central Athens on Friday.

AFP

Solar trade: view from China

REUTERS, Eberswalde, Germany

Western companies also argue that Beijing's subsidy regime discourages the use of solar panels in China. Unlike Germany, China refuses to introduce tariff incentives that would drive domestic demand for solar energy. Even with its dominant share of solar cell and panel production, and even as the country scrambles to generate more power, analysts estimate China installed less than 500 MW of solar power inside its own borders in 2010.

With no incentive to sell at home, it's no wonder that Chinese companies prefer to export their hardware. Some of China's leading exporters shunned a Chinese government tender for solar projects in the third quarter, saying they could not earn a profit.

"The (Chinese) government does not want to be purchasing or installing PV at the current prices. It wants to use the Western market to create volume to drive down the cost and, when the cost is lower, then China will start buying," says Michael Eckhart, president of the trade group American Council on Renewable Energy.

The result, western companies complain, is that they suffer while the Chinese prosper. Just up the road from Finow airport's solar park, Conergy, once Europe's largest solar player, was rescued from insolvency by hedge funds in late December, as it struggled to service a mounting debt pile. In the United States, many small solar companies have gone bust; earlier this month, publicly listed Evergreen Solar Inc said it would shut its plant in Massachusetts and concentrate on manufacturing in Wuhan, China -- where it is the minority partner in a factory sponsored by the provincial Hubei government.

China's Suntech, on the other hand, is booming. Founded in Wuxi in the southeast of Jiangsu province in 2001, Suntech is now the largest solar company by output in the world. After starting with just \$6 million in state money in 2001 it now turns over \$1.5 billion a year. In 2002 it produced 10 MW of solar panels. It expects to ship 2,200 MW this year.

It's had some help. Where Germany's Conergy struggled to get credit last year, Suntech signed an agreement

with China Development Bank in April that gives it access to up to 50 billion yuan (\$7.3 billion) to help finance its expansion.

Beijing does not disclose the total amount it has put behind its solar sector, but Chinese solar executives say credit lines to domestic solar firms from state-owned China Development Bank alone totaled over \$30 billion in 2010. Suntech and Jiangxi-based LDK Solar Co, which is five years old, have been the biggest beneficiaries, accounting for over half those credits, which run up to six years. The lines of credit are on top of cash grants, tax benefits and low-interest loans Beijing has put behind the industry -- funds that backstop the young companies' balance sheets and are the envy of their Western competitors.

Suntech has also benefited from provincial government support. Like most companies building a business within China's specified high-tech zone, Suntech was exempt from the usual rate of 33 percent corporate tax for its first two profitable years, and subsequently paid 7.5 percent, rising to 15 percent in 2008. As it has grown, the company has also been given value

added tax (VAT) rebates on goods sold overseas and exempted from paying VAT on the raw materials it imports. Renewable energy companies like Suntech can also secure loans at a discount of around 50 basis points on the headline rate, currently 5.81 percent.

All that support helped Suntech win the contract for the hardware installed at Finow, a fact that "is certainly pretty frustrating for German manufacturers," says Marc Lohoff, head of Asian business at Conergy.

China's solar manufacturers deny they have an edge over their foreign rivals, arguing that companies the world over receive help from national governments.

"(The) Chinese government really does not do much for solar energy not as much support like you see in Germany and the US," LDK chairman and chief executive Peng Xiaofeng, one of the world's youngest billionaires, told Reuters in an interview. "Every country, every government subsidises its solar sector. China is not alone in giving subsidies," agrees Terry Wang, chief financial officer of Jiangsu-based Trina Solar, China's third-largest solar mod-

ule company.

Wang believes the WTO will reject any complaint about solar subsidies. "I don't believe a US trade complaint before the WTO will have a solid case against Chinese module makers," he said.

On the charge that foreign solar manufacturers are shut out of China, Beijing can point to U.S. firm First Solar, which has won tentative approval to install its panels for a power-producing plant in China. First Solar produces thin-film solar panels at the lowest cost in the world. In 2009, it became the first -- and so far only -- foreign company to win a contract in China, signing a memorandum of understanding to develop the world's largest photovoltaic power plant, a 2,000 MW solar project in the city of Ordos, Inner Mongolia.

Earlier this month, First Solar sealed a partnership with China Guangdong Nuclear Solar Energy Development Co. that would see the Chinese company take a majority stake in the pilot project, though no start date for construction has been announced. Plans for a 30 MW pilot project at Ordos have been delayed. And First Solar's hopes of

cracking the Chinese market pale in comparison to the advances its competitors are making on its home turf. In August, Suntech opened its first U.S. manufacturing plant in Goodyear, Arizona, just up the road from First Solar's headquarters in Tempe.

"First Solar is a leader in the industry. We want to make sure our first step in there is at a set of economics that make this project viable, and define viable economics in the future," says First Solar board member TK Kallenbach, who heads up the company's business development in China.

With costs for solar modules falling fast, some industry experts have speculated that China could simply drag out any WTO process until its companies are strong enough to stand on their own.

It's a risky game -- for all concerned. If the United States lodges a complaint and proves that China wrongly boosted its companies, Washington could "retaliate to the extent of the damage that we allege they have caused," says Carla Hills, a former U.S. Trade Representative who battled with Japan, Brazil and India over trade and led negotiations that led to the NAFTA trade treaty. But a formal complaint could trigger a trade war that the Chinese government has said would hit an industry crucial to tackling climate change. "If the U.S. closes the door for trading with the rest of the world, including China, in renewable energy products, the U.S. may significantly delay the already long struggle for developing alternative energy sources, if not entirely destroy this opportunity for humankind," China said in a written response to the USW complaint.

That sort of rhetoric does not sit well in Finow, where German workers saw few benefits from the huge solar plant. "Economically, this (plant) had no impact on our region," one of the owners of Finow airport said on condition of anonymity, because of the sensitivity of the topic. "No jobs were created as the installation work was mainly done by eastern Europeans." The park is set for expansion this year. But, says Kobbe, "I doubt that they'll use German modules this time."



REUTERS

Construction workers fix solar panels for a new solar power plant near Olching-Esting west of Munich.

With no incentive to sell at home, it's no wonder that Chinese companies prefer to export their hardware. Some of China's leading exporters shunned a Chinese government tender for solar projects in the third quarter, saying they could not earn a profit