

## To kill a promising new industry, just subsidise it

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*When it comes to the mainland's massive solar panel assistance, everyone loses, including the domestic producers facing debt defaults*

Three years ago, bosses at US company First Solar boasted that their thin film photovoltaic panel factory near Frankfurt am Oder in Germany was the world's most efficient.

With production costs of just 81 US cents for each watt of generating capacity, they claimed they could outcompete any other solar panel company in the world, including manufacturers from China.

Since then First Solar says it has extended its lead as the world's most efficient producer of solar panels, cutting its manufacturing costs to just 68 US cents per watt.

But that improvement wasn't enough to save the Frankfurt plant. First Solar closed the five-year-old factory at the end of last year. The reason: it was unable to compete with solar panel manufacturers from China.

In this case the competitiveness of Chinese companies had nothing to do with the rock bottom wages they pay their workers. Solar panel manufacturing is so heavily automated that variations in labour costs have a negligible impact on overall costs. The assembly lines are staffed by robots rather than humans.

What really matters are differences in capital costs. And there First Solar's Frankfurt factory didn't stand a chance. Between 2007 and 2012 the Chinese government lavished such generous capital subsidies on its solar panel manufacturers that factories elsewhere couldn't hope to compete.

That's ironic, because the reason First Solar opened in Frankfurt in the first place was because the local Brandenburg state government subsidised around a quarter of its initial construction costs with €27 million in cheap loans.

But that pales in comparison to the munificence of the central and local government subsidies that were available in China.

According to Usha Haley, co-author of a newly published book *Subsidies to Chinese Industry*, state banks in China were prepared to fund up to two-thirds of solar companies' investment costs, offering cut-rate loans complete with a five-year holiday on both interest and principal payments.

In 2010 alone, China Development Bank lashed out more than US\$31 billion in loans to just five solar panel companies. And that's in addition to a host of other subsidies including direct grants from local governments, tax breaks, cheap land and discounted energy costs.

With such massive state largesse on offer, it's hardly surprising that companies queued up to take

advantage. Between 2008 and 2012 China's solar panel production surged tenfold, with Chinese manufacturers capturing around 80 per cent of the international market.

With such a glut of supply, panel prices plunged. Between 2010 and 2012 - the period over which First Solar managed to cut its manufacturing costs by 16 per cent - the market price of solar panels fell 66 per cent.

Not surprisingly, panel-makers all over the world started running into financial trouble. Now their debts are coming due, even subsidised Chinese producers are beginning to default.

In a bid to protect its own domestic manufacturers, last year the United States imposed import tariffs on Chinese panel-makers for dumping - selling at below cost - and for receiving unfair subsidies.

Then this week the European Union also ordered anti-dumping duties - reported to be as high as 68 per cent - on Chinese panel imports, while threatening a separate set of countervailing tariffs against China's subsidies.

Predictably, Chinese officials complained about European protectionism, and advised the EU to proceed "cautiously".

Yet it's Beijing that should have been cautious. By offering huge subsidies in a reckless bid to win market share, China has succeeded only in eviscerating a developing global industry.

As a result, 1,200 employees from First Solar in Frankfurt are now out of work, no matter how efficient their factory.

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