

# Downstream is up, upstream is down – what does the credit crisis mean for the PV industry?

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## ABSTRACT

News of credit crunch woes filtering down the lines over the past few months has instilled a sense of frugality in all industry sectors. While the credit crisis has indeed affected the PV industry, German banks, investors and creditors have claimed that the financing of small PV systems in the private sector seems not to be endangered. Downstream players are still optimistic, but the upstream sector is anticipating severe damage as a result of the economic situation. An interactive workshop-style discussion, hosted by market researcher EuPD Research and the CleanTech consultancy 360Consult, invited top-level executives to contribute their experiences of the current financial situation, as discussed in this paper.

The effects of the international financial crisis clearly affect all industrial sectors around the globe, including greentech companies and the photovoltaics sector. Whereas the segment of small systems for the private end-customer seems not to have been affected by the credit crunch, the cost-intensive segment of large-scale PV plants is expecting stormy weather.

“Due to a very comfortable situation in the German banking sector, financing of small systems for private end-customers should not be affected by these global turbulences in the first place. Besides the KfW (Kreditanstalt für Wiederaufbau), comparable to a state bank who [sic] is granting private loans for reconstruction and modernization in the housing sector, the Umweltbank as well as the cooperative banks have not withdrawn funds to finance these projects,” explained Markus Wackerbeck, Senior Consultant at the German cleantech consultancy 360Consult, part of Hoehner Research & Consulting Group. This comment leads one to the assumption that it is mainly the upstream players – the manufacturers – that are going to be affected by the current situation, whereas the downstream players – such as installers or wholesalers – might get off cheaply. “According to our clients, investors and planning companies in particular in the league of megawatt plants are expecting difficulties when it comes to financing,” Wackerbeck states, adding that the same applies for all photovoltaic companies with ambitious expansion plans in 2009, and, as a result, high cash needs.

## Where might the crisis lead?

Within the framework of a recently held workshop in Germany’s finance metropolis of Frankfurt on the Main, more than 80 top-level executives from the photovoltaics sector exchanged their

thoughts on the issue of the outlook for the future of the industry. One main concern of the delegates from various nations was the potential for difficulties emerging in taking up debt capital in the forefront of project planning. Due to the current financial situation, venture capital is becoming more and more expensive. But on the other hand, the crisis may even lead to desperately needed market consolidation, which might turn out to be very healthy for the PV industry as a whole. Other factors that need consideration in this discussion are the market stimulation packages that are being adopted by governments all across the globe. “These enormous financial aids granted by most international administrations will clearly show a positive effect on the whole cleantech industry, including the PV sector,” Markus Wackerbeck points out.

In addition to these ad hoc measures, the solar industry benefits from long-term promotion schemes such as feed-in-tariffs (FIT), which should keep the demand

from plummeting in the short term. “Nevertheless, our consultants presume that the recession at hand clearly has a negative impact on purchase power and investment abilities as well as the energy demand in general. In the scope of an international downturn, the overall energy demand is going to decrease and the whole climate debate could partly become a luxury problem compared to accumulated insolvencies, unemployment and political instability,” warns Wackerbeck.

## ‘Downstream is up, upstream is down’

Based on recent surveys conducted by market researcher EuPD Research, 360Consult concludes that downstream players such as wholesalers and installers will profit slightly from the upcoming changes in the market. While in the past photovoltaic products and PV components have practically sold themselves due to robust subsidies and incentives as well as a level of demand far

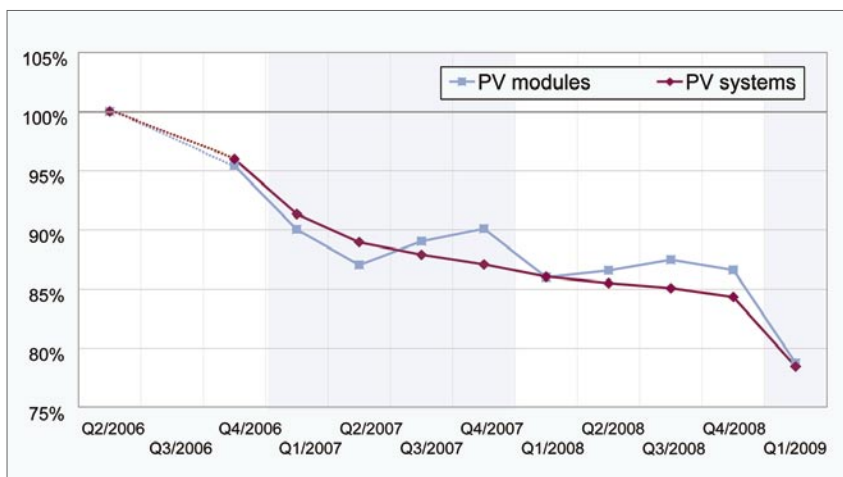


Figure 1. German module and system prices point downward.

above the available supply, the future will bring more challenges and competition. "The oversupply scenario has come true", states market expert Markus A.W. Hoehner, CEO of Hoehner Research & Consulting Group, which has been actively surveying the global energy markets for nearly a decade now. "The industry finds itself in the considerable shadow of the global financial crisis, and a worldwide recession is hindering the investment plans of some upstream companies. According to our analysts from 360Consult, the industry is facing a time of thorough upheaval unlike anything it has faced in the past," said Mr. Hoehner.

Such a hindrance for the producers may come in handy for the installers and wholesalers and, last but not least, for the end customer. Within the 'Price Index for PV Modules', conducted by EuPD Research on behalf of the German solar industry association BSW-Solar, the market experts from Bonn are clearly spotting a significant decline in prices, illustrated in Figure 2. Compared to the previous quarter, prices for solar modules in Germany, one of the leading PV markets worldwide, showed a near-double-digit fall. Consequently, investment in PV installations has become increasingly attractive for private investors – the end of the year might even see the surviving downstream players stronger than they were before this global issue.

“Such an economic turndown as this we are currently facing also provides the opportunity to boost the transformation process from a seller’s into a buyer’s market – in the long-term, a really positive development.”

### Point of view: different perceptions of the crisis

The perception of the PV manufacturers of the crisis differs from the perception of the installers and wholesalers (see Figure 3). While producers and equipment vendors in the field of crystalline and thin-film modules can expect mostly negative capital procurement outcomes from the financial crisis, the downstream players – German installers in particular – tend to lean more towards a neutral or positive assessment – a tendency Markus Wackerbeck strongly supports. “Such an economic turndown as this we are currently facing also provides the opportunity to boost the transformation process from a seller’s into a buyer’s market – in the long-term, a really positive development.”

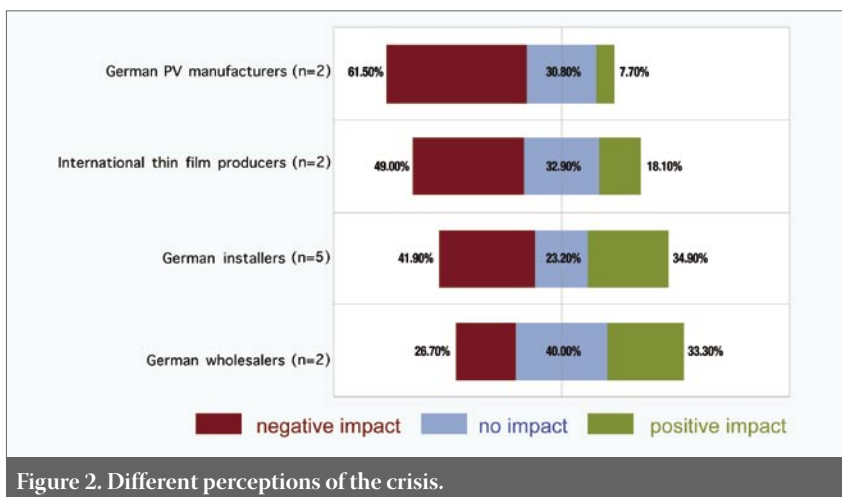


Figure 2. Different perceptions of the crisis.

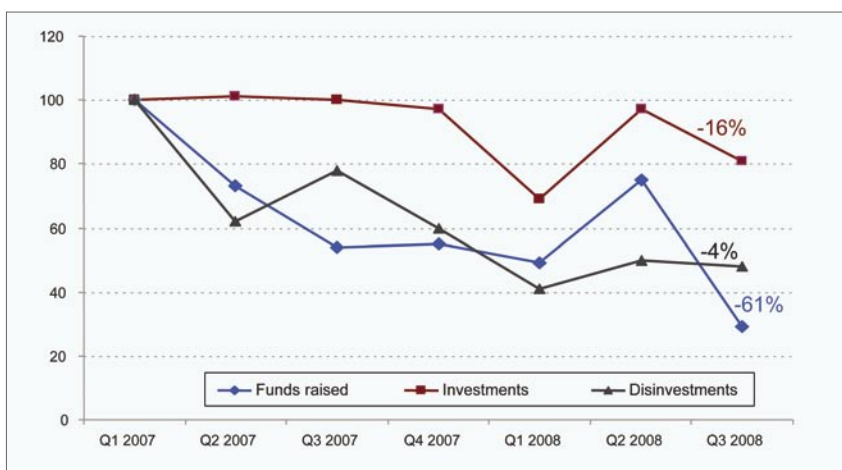


Figure 3. Financing from venture capital – indicators point downward.

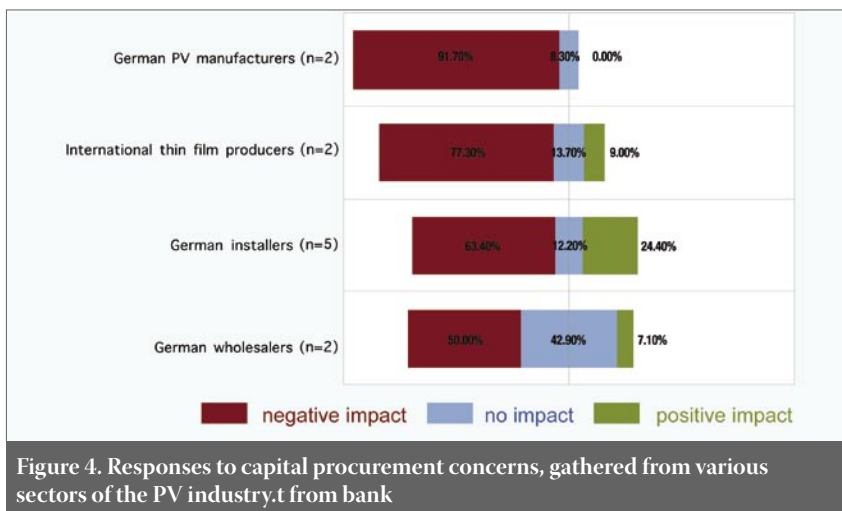


Figure 4. Responses to capital procurement concerns, gathered from various sectors of the PV industry.

### About the Author



**Daniel Pohl** graduated with an M.A. in North American studies, literature and political science from the University of Bonn and the University Paris-Sorbonne.

He has been working as an editor and media consultant in the field of economics and renewable energies and is now heading the corporate communications department at EuPD Research and 360Consult in Bonn. Throughout his career, he has published numerous articles on diverse energy topics

in national and international special-interest magazines. He has also worked for national newspapers, broadcasting stations and a TV production company.

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