Chasing shadows

Trade wars | The EU-China trade row appears to be entering its swansong but its impact has been eroded and overridden by global solar market dynamics. We look at the divisive policy's future as it plays catch up

Europe and China's solar trade war is nearing an end. It has pitted different parts of the solar value chain against one another. It created fresh layers of bureaucracy for importers. It sucked money out of solar and into the pockets of lawyers. It contributed to a downturn in deployment and it failed to provide a substantial turnaround in the fortunes of Europe's remaining solar manufacturers. It even caused a rift between Brussels and Beijing that led to retaliatory trade measures on exports of other goods including European wine.

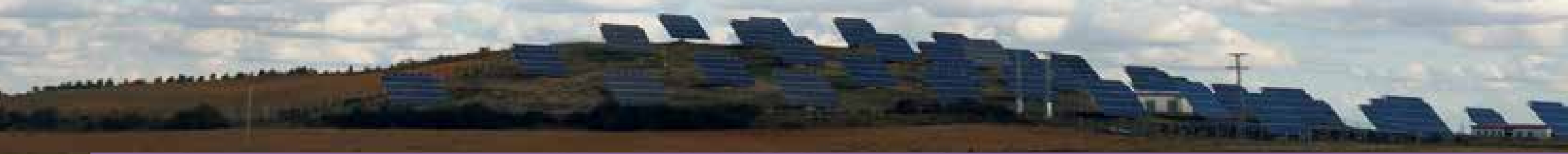
The precise shape of the conclusion was still being formulated at the time of press. But all the signs are that rather than an amicable peace, we are looking at another 18 months of debilitating stalemate.

After a lengthy and thorough investigation, the European Commission determined that there remained evidence of Chinese solar modules and cells being dumped at below market prices into the EU. By the letter of its own laws, the commission had to continue on with the punitive tariffs and the price undertaking that allows participating companies exemption from those additional duties. At the same time, the commission is wrestling with the political pressure that comes with being viewed as being the party limiting the rollout of renewable energy.

Eventually it decided to extend the duties for two years, rather than the usual five years. When voted on, member states narrowly rejected the two-year extension and in early February, an 18-month continuation was suggested instead, with plans for a degression and eventual phase-out. At the time of press there were three weeks until the 3 March deadline and the compromise on the table didn't appear to be keeping anybody happy.

EU ProSun, the original complainant in the case back in 2012, was already disappointed with a two-year extension.

"The commission made clear that the measures on cells and modules need to be extended," says Milan Nitzschke, president of EU ProSun and vice president of manufacturer SolarWorld. "This in the first instance is positive. But in order to sustainably establish fair competition and to allow further investments in manufacturing and technology a longer exten-



Mixed reviews - the industry's verdict on duties

"The MIP brought old Communist style price fixing and quantity controls to Europe – and simultaneously bankrupt hundreds of our EU customers. Who is the EU working for?"
Anonymous director, manufacturer

"The aim of solar duties failed, which in turn destroyed thousands of jobs and large parts of the EU solar market. Protectionism is always the wrong answer when it comes to global competition. On that basis the EU commission should not let duties be phased out, but should stop them entirely."
Udo Möhrstedt, CEO and founder, IBC SOLAR, Germany

"It is a sad day for all EU citizens when the European Commission, as the bastion of legality in the EU, waters down its own rules – normal procedure being to prolong measures for five years, (when review finds that dumping is still occurring) – first proposing just 24 month extension of the measures while in their latest proposal cutting that further down to only 18 months. This is not about Bisol. We have been profitable each and every year of our operation ever since our foundation. So even during the years of heaviest dumping [2010 – 2012], we operated profitably – as I am sure we will also in the future, no matter how the EC decides. It's about standing up for principles and values – but then again, I guess, EU has long ceased to represent those."
Dag Kralj, board member, Bisol, Italy

"We have been able to expand our production by 60% since the anti-dumping measures came into force. If the initial commission proposal for the extension is confirmed, we will continue this expansion and create further jobs. If the commission changes this according to current reports, this is endangered immediately. Anti-dumping is not about protectionism. It is about enabling fair competition."
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Credit: siur/Getty Images

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European trade group SolarPower Europe was none too pleased either. "This is the extension of a prison sentence for the sector, we have no view of when this will end as no mention is made of the phase-out announced by [EC] vice president [Frans] Timmermans today," said the group's CEO James Watson. "The measures will continue to stifle demand and leave Europe far behind in the annual deployment league tables for the next two years. The EU had a chance to grab global climate and international trade leadership in one go and instead has blown it."

One area where everyone agrees is on the need for reforms to the MIP itself. An interim review will be launched by the trade commission that could see alterations made to how the minimum price level is set.

"The commission's aim to make the MIP more transparent, predictable, more enforceable and to insert a degression rate should be positive for all market participants," says Nitzschke.

In correspondence with the Irish MEP Brian Crowley, trade commissioner Cecilia Malmström said the review would look at "the form and level of the measures to examine and, where appropriate, address a purported shortcoming of the existing measures that allegedly prevents efficiency gains and decreasing cost of production in the solar sector from being duly taken into account".

At present, the price level is based on a dollar-denominated, voluntary price index compiled by Bloomberg. Currency fluctuations when converting it into a euro amount for the MIP have been blamed for holding the price above global averages. This left products from China either subject to the punitive duties or sold into Europe at an uncompetitive price point.

It is our understanding, again, at the time of press, that a proposal to abandon use of the Bloomberg price index in favour of a degressive rate starting out at €0.46/W had been presented to member states.

Relevance

Stepping back from the technocratic issues concerning the mechanics of the system and taking a more analytical view of the solar market and the relevance of the duties, the MIP seems a little flimsy.

"During the past few years, there has been a strong build-up of cell and module capacity across Southeast Asia, including Malaysia, Indonesia, Thailand and Vietnam," says Finlay Colville, head of market research at Solar Media. "The capacity located there is now capable of serving the entire European and US markets, making the arguments for or against MIP somewhat irrelevant.

"Aside from the Southeast Asia issue, the EU has struggled with MIP pricing levels, constantly being behind the curve on global ASP declines."

This is the very issue that the commission is now seeking to address with the reported redesign of the MIP-setting mechanism. Colville suggests the real interest in trade disputes is arguably shifting.

"Given the timing of the EU entering into the made-in-China solar cell import debacle, coming after the US had laid down markers for them to follow, the attention ultimately turns to the US and any changes that may be tabled now President Trump has taken office," says Colville.

Fresh duties on Southeast Asian countries may now follow to stop cheap imports from flooding in there. If that happens, then the US will again lose access to a chunk of module capacity at the lower end of global prices, making it a premium market for manufacturers still able to supply it.

Decision time

As the commission finalises its proposal ahead of the 3 March deadline, the odds that all in the solar value chain, or indeed anyone in the value chain, will be satisfied look slim. In defence of the Eurocrats, legislating for an industry undergoing such rapid change and fluid market dynamics is a daunting task. Solar is a mainstream and mature part of the energy industry but it is has not developed to a point where it offers a degree of predictability. With so much regulatory interference in all aspects of the energy sector, stability is relative. There are very few certainties.

We can say that Europe wants to and needs to deploy more solar. We can say that Chinese manufacturers have operated at scales not possible elsewhere and in many cases with substantial state support. Beyond that we stray into opinion, interpretation and speculation. Could European solar markets have ridden out cuts to support mechanisms if ASPs in Europe had dropped at the rate they have globally? Would European PV manufacturing be flourishing at multi-gigawatt scales if Beijing had never identified solar as a strategic industry?

A more fluid MIP mechanism is to be welcomed and it could be the best result anyone can hope for, but whatever the outcome, dissatisfaction is guaranteed. The story will rumble on, but the depth of its impact is dwindling. ■

"During the first two to three years after signing the EU undertaking, the MIP led to unnecessary high margins for modules imported from China, which helped the leading Chinese manufacturers' profitability a lot, but prevented the EU market from growth due to too-high PV system costs. Then with the global market price coming down over the years the MIP at the end was 40% higher than the market price, which made most of the major Chinese suppliers step out of the price undertaking and offer non-Chinese product to the EU market at competitive global market prices, which recently stimulated EU market growth significantly and made the MIP irrelevant. Hence, at no point has MIP made any sense and made the European market consolidate while any other region of the world grew significantly."
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"Whilst in principle the EU should protect its own manufacturers from unfair competition, the MIP has for most of its duration been set significantly higher than the actual world price for solar modules available from many non-Chinese sources, including European manufacturers. This has caused significant damage to the whole European solar PV installation industry. If the MIP is to continue then measures must be taken to improve how the price is calculated to be in line with world prices."
Andy Pegg, CEO, Segen

"Since the middle of last year, we are again experiencing massive dumping from China in the solar sector. China's overcapacity is specifically directed to export and is financed by the state, which threatens investment and jobs in Europe, also in France. That is why the EU Commission initially proposed the extension of anti-dumping measures, which should not be restricted now. This would be a fatal signal to all who want to comply with rules and produce in Europe."
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