

Chinese Trade Case Has Clear Targets, Not Obvious Goals

By KEITH BRADSHER

LIKE Detroit automakers taking on the Japanese a generation ago, the seven American solar panel makers that filed a trade case on Wednesday against China might find that a legal victory, if it comes, may not translate into business success.

In the 1970s and '80s, American car companies won a long series of trade cases to limit Japanese car imports. Japan's automakers responded by moving assembly lines to the United States, creating many new blue-collar jobs. But they kept most of the high-paying design and engineering positions back in Japan. The new factories in the United States not only shielded Japanese auto companies against most further trade protectionism but helped them stay competitive when the yen soared against the dollar.

Meanwhile, American consumers had many new, affordable choices in cars — while Detroit continued to have trouble competing with its Japanese rivals.

Don't be surprised if Chinese solar companies try to pursue a similar path, which could benefit American consumers of solar power if it helps propel the technology beyond its current niche status.

Chinese solar panel makers have already begun moving operations to the United States to avoid trade restrictions. With the new case, filed at the Commerce Department, some industry executives expect the Chinese industry to increase its American expansion. That could help the Chinese companies avoid import restrictions and insulate them from currency fluctuations as China allows the renminbi to appreciate gradually against the dollar.

The trade complaint, which accuses the Chinese industry of receiving unfair government subsidies and dumping its products in the United States at below cost, “will only accelerate the setting up of solar module and solar cell manufacturing in the United States,” said Ocean Yuan. Mr. Yuan is the president of Grape Solar, a company based in Eugene, Ore., that is a big importer of solar panels from China, Korea and Taiwan. Grape Solar has already been in discussions with big Chinese panel makers on ways to move more manufacturing to the United States.

Meanwhile, Suntech Power of Wuxi, China, the world's largest manufacturer of blue solar panels — the most commonly used type — has already moved some simple assembly tasks to the United States. Other big Chinese manufacturers like Yingli Green Energy and Trina are considering similar moves. A partial shift of Chinese production could help create some new and mostly blue-collar American jobs. But a broader move into the United States could turn Chinese solar panel manufacturers into even fiercer competitors with their American counterparts.

The steep tariffs sought in the trade complaint **could also cause China to retaliate**. The country might, for example, shift more of its hefty annual purchases of solar panel manufacturing equipment to German suppliers instead of American ones. “It would be a travesty for the solar industry,” said Tom Zarrella, a former chief executive of GT Solar, a New Hampshire supplier of the manufacturing equipment.

American companies like GT Solar ship a total of about \$1 billion worth of products a year to China, while other American firms ship an additional \$1 billion a year in raw materials to the Chinese solar companies. In the first eight months of the year, Chinese panel makers shipped \$1.6 billion of products to the United States.

China's commerce ministry still had no comment on the trade litigation on Thursday, and the state-controlled Chinese news media were still ignoring the case — signs that Chinese officials were struggling to draft a response.

The current betting by trade experts is that the American solar panel industry will win its case, which could lead to tariffs early in 2012, even if the proceedings take a year or so to play out. That is because the United States still classifies China as a nonmarket economy, which sets off special rules for the evaluation of antidumping and antisubsidy cases that heavily favor American companies. American companies have won almost all the antidumping and antisubsidy cases they have filed against Chinese companies for the last 20 years. The solar industry has clear differences from the auto industry, of course. The American solar power market totaled only \$6 billion last year, with the industry employing no more than 100,000 people and possibly considerably fewer, depending on whose estimates one believes. In contrast, the United States' auto industry in the '70s had revenue in the hundreds of billions and employed more than a million people.

But while the solar industry is in its relative infancy — solar power now contributes about one-tenth of 1 percent of the United States' electricity — it is growing fast. The new solar

wattage installed in the United States has been growing 74 percent a year since 2008, according to GTM Research, a renewable energy market analysis firm in Boston. Companies that develop solar power projects in the United States would not welcome paying tariffs on panels that might exceed 100 percent of the wholesale price.

Victory in the case could still buy the American industry time to reduce costs and improve their efficiency. That may be why shares of the biggest Chinese solar power companies, which trade in New York, fell 5 to 9 percent after the trade case was announced on Wednesday.

But setting up solar panel factories is faster and simpler than building a car assembly plant, which could allow Chinese solar power manufacturers to respond quickly.

To avoid punitive tariffs, Chinese companies would need to make solar cells in the United States and then assemble them into panels — steps that together represent only about half the cost of a solar panel. The other half of the cost consists of a series of initial steps that result in the production of a polysilicon wafer, which the Chinese industry would probably continue to find cheaper to do in China.

Mr. Yuan said that once the necessary construction permits were obtained, it took only three to six months to build a factory that did the final step of assembling solar cells into solar panels. It takes six months to a year to build a highly automated factory to make solar cells from solar wafers.

Many American cities have already been seeking Chinese solar power factory investments, which could speed the permit approval process. Chinese state-owned banks have extended nearly \$41 billion in loans and lines of credit to the country's solar panel manufacturers, according to the trade case against them. Investing even a small part of that money in factories in the United States would sharply increase capacity.

Suntech moved production of the last step in the manufacturing process from China to Goodyear, Ariz., last year. About 100 mostly blue-collar workers in Goodyear assemble panels that each have five or six dozen solar cells that were shipped in from China. The workers then add a glass cover, bolt on an aluminum frame, attach a junction box and package it for shipping.

This process has already enabled Suntech to label the solar panels as “made in U.S.A.” As a result, they now qualify for federal “Buy American” subsidies.