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REPORT Trade

U.S. Solar Energy Sector Threatened by Government Proposal to Jack Up Prices

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SUMMARY

The U.S. International Trade Commission will have the opportunity to reject the type of government favoritism that plagues Washington. Acquiescing to Suniva and SolarWorld Americas' petition for more tariffs would do deep damage to the rest of the U.S. solar industry and add yet another layer of federal subsidies to one of the most heavily subsidized energy technologies in America today.

KEY TAKEAWAYS

Suniva and SolarWorld Americas have petitioned the International Trade Commission (ITC) for tariffs on solar-related imports that would jack up materials costs.

Both companies have received tens of millions of dollars in federal subsidies since 2010. These are in addition to policies that favor renewable energy sources.

Special-interest tariffs for solar-panel manufacturers, or any other sector of the solar industry, harm the U.S. solar industry, and the ITC should reject them.

The U.S. International Trade Commission (ITC) is considering a case that could undermine the entire U.S. solar energy industry. The case involves a request by two U.S. manufacturers of solar cells and panels, the basic building blocks of solar power, for tariffs that would nearly double costs for materials. Unlike for previous country-specific tariffs, this petition seeks to increase prices on imports from every country, including NAFTA trading partners.

The U.S. solar industry would benefit from more free-market policies, not fewer. The federal government has inappropriately subsidized solar technology with generous subsidies, grants, loan programs, and research and development. However, it makes even less sense to at once subsidize the solar industry while threatening its very existence with protectionist policies that block access to inexpensive materials.

Rather, the solar industry should succeed or fail on its own merits, free from federal policies that threaten its competitiveness. President Donald Trump and the ITC should decline the petition for higher tariffs on solar-technology imports, and Congress should work to remove targeted subsidies for all energy technologies and resources.

The Petition for Protectionism

Suniva and SolarWorld Americas are two American companies that manufacture crystalline silicon photovoltaic (CSPV) cells and panels (also known as modules), the most common technology for commercial and residential solar panels.[1]

Suniva and SolarWorld have petitioned the ITC to investigate the effects of solar cell and panel imports under Section 201 of the Trade Act of 1974, also known as a safeguard investigation. They allege that inexpensive Chinese imports have caused "serious injury," such that domestic solar cell and panel manufacturing "cannot survive" without federal intervention.[2]

The ITC must determine if imports are causing harm or injury to a corresponding domestic industry.[3]

To determine injury, the ITC uses measures like "declining sales, market share, profits, employment, productivity, and access to capital."[4]

This is a relatively low threshold for government action compared to other measures, like anti-dumping and countervailing duties (AD/CVD), which require a finding that harm is being caused by unfair trading practices.

The ITC announced it will make a determination on the petition by September 22.[5]

If the ITC finds there has been injury, it must recommend a remedy by November 13 to President Trump, who then will make a final decision on whether and what remedy should be used.

Suniva and SolarWorld have requested a globally applicable duty of $0.40 per watt on CSPV cells, and a floor price of $0.78 per watt on panels.[6]

Currently, solar cells sell for roughly $0.27 per watt, and panels for $0.37 per watt.[7]

The companies further request that previous AD/CVD against China and Taiwan be distributed to domestic manufacturers, and to a fund to subsidize idle and new manufacturing of CSPV cells and panels. Finally, Suniva has requested international negotiations to address the global oversupply of panels.[8]

A successful Section 201 petition can impact all imports of a product or category of products, unlike the one-product/one-country approach of AD/CVD. Countries with free trade agreements require unique Section 201 findings.[9]

However, the Suniva and SolarWorld case is even more contentious because the petitioners request that measures imposed under the action apply to Canada and Mexico, America's NAFTA partners.

This rarely used measure has led to negative consequences in the past. Ruling in favor of Suniva and SolarWorld would be a classic case of the government picking winners and losers in the market, and would set a dangerous precedent for companies in other industries to attempt.

History Is No Friend to Suniva and SolarWorld's Case

The intent of the Trade Act's Section 201 is to enable the domestic industry "to compete successfully with imports" or complete "an orderly transfer of resources [and workers] to other productive pursuits."[10]

But experience has shown that similar safeguard measures do not work.

Unintended Consequences. The proposed tariffs may temporarily protect Suniva and SolarWorld, but they would also effectively remove choices for inexpensive, often imported, solar components from American solar companies downstream.[11]

A study by the Solar Energy Industries Association (SEIA) found that 88,000 jobs in the solar industry would be lost,[12]

and Goldman Sachs opined that it would "expect solar installations would fall precipitously in the U.S." given the experience of similar price floors in Europe from 2013 to 2016.[13]

Experience has shown similar effects in the steel industry. In 2002, President George W. Bush imposed tariffs of up to 30 percent under Section 201 on a variety of steel imports.[14]

The World Trade Organization eventually ruled against the tariffs and threatened to impose $2 billion in sanctions, leading President Bush to remove them in December 2003.[15]

However, this was not before 200,000 workers in steel-consuming industries lost their jobs because of higher steel prices, amounting to about $4 billion in lost wages, according to a study by the Consuming Industries Trade Action Coalition.[16]

The tariffs provided minimal relief to steel producers, and resulted in higher steel prices for American companies that relied on steel. The cost of higher steel prices was not only borne by the companies, but by every American family that purchased any product made from steel.

Even the Petitioners Are Unlikely to Be Winners. SolarWorld has successfully requested AD/CVD tariffs in the past on certain CSPV cells and components from China and Taiwan. Two of the five current orders were imposed on China in 2012 and are scheduled to begin the sunset review process in November.[17]

The remaining orders were imposed on China and Taiwan in 2015 and will be reviewed in 2020.[18]

The measures clearly have not worked: Suniva abruptly filed for bankruptcy in April 2017, and SolarWorld Americas has faced financial challenges as its German parent company, one of the largest solar companies in Europe, filed for bankruptcy in May. And yet, SolarWorld Americas is again requesting government intervention. Similar protectionist measures for other American industries also have been ineffective, as shown by a review of the impact years after their use.[19]

Compounding the offense, Suniva and SolarWorld Americas have a history of collecting federal subsidies. Both companies have been awarded tens of millions of dollars in federal funding since 2010.[20]

This is in addition to years of federal policies that favor renewable energy sources, like the solar investment tax credit and state-level electricity requirements that essentially mandate a market for renewable energy through portfolio standards.[21]

These measures may have temporarily protected a few jobs and enabled domestic manufacturing companies like Suniva and SolarWorld Americas to subsist. However, it is at the expense of others in the U.S. solar industry. The solar trade war that has ensued since the 2012 tariffs and threatens to continue through Suniva and SolarWorld's recent petition has made the U.S. less desirable for solar companies seeking to invest in America,[22]

and made it more difficult for U.S. solar companies to compete to provide energy to Americans.[23]

The petition before the ITC takes too narrow a view of the solar industry in America. As Heritage Foundation senior trade policy analyst Bryan Riley writes, "Trade—like technology—destroys some jobs but creates others.... The dollars that Americans save by importing products are spent and invested elsewhere in the U.S. economy, creating new jobs; the dollars that foreign businesses earn from selling their goods to Americans are spent on U.S. exports or invested in the U.S. economy, also creating new American jobs."[24]

International competition for domestic solar panel companies could result in employment losses—in fact, both Suniva and SolarWorld Americas have laid off employees in the past two quarters. The diverse solar-energy producers and service providers in America could see greater opportunity when their inputs are more competitively priced.

What the market needs are more solar companies that are not dependent on federal policies and taxpayers in order to succeed. Such dependence means that the broader U.S. solar industry is less competitive both at home and abroad. Protectionist policies, such as tariffs, remove the incentive for companies to innovate and build better business models that actually reduce the costs of solar energy.

Solar Industry Needs Free Trade, Not Favoritism

The ITC will have the opportunity to reject the type of government favoritism that plagues Washington. Acquiescing to Suniva and SolarWorld Americas' petition for more tariffs would do deep damage to the rest of the U.S. solar industry and add yet another layer of federal subsidies to one of the most heavily subsidized energy technologies in America today.

The ITC should reject special-interest tariffs for solar-panel manufacturers, or any other sector of the solar industry, and not renew the AD/CVD tariffs on solar panels next year. The Trump Administration should also work with Congress to ensure the end of all targeted subsidies for energy technologies and companies, and to reduce the regulatory burdens that make investing in any energy infrastructure unduly difficult.[25]

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