

EU-China Solar Panels Trade Dispute: Settlement and challenges to the EU

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The solar panel dispute is by far the biggest trade controversy between the EU and China. Under the Climate and Energy Package 2020, the EU became the largest market for solar panel products, reflecting growing demand for renewable energy consumption. China, meanwhile, has surpassed the EU as the largest solar panel manufacturer in the world. The lower prices of Chinese solar panels have encouraged installation of the solar system in EU Member States. A group of European manufacturers who felt marginalised by the pricing of Chinese exporters, however, lodged a petition to the European Commission against alleged unfair competition. After an investigation, the EU imposed tariffs on solar panels imported from China, prompting the latter to immediately launch an anti-dumping probe on European wine. Since the EU is China's largest trading partner and China is the EU's second largest partner, both parties decided to settle the dispute through negotiations instead of starting a trade war. In July 2013, the EU and China settled the solar panel dispute.

This paper analyses the settlement of the trade dispute between the EU and China. The author addresses the challenges for the EU and argues that a less divided EU would be more effective for future trade negotiations as both sides recognize that it is important to maintain good trade relations with China.

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This paper expresses the view of the authors and not the European Institute for Asian Studies

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Introduction: Overview of the EU-China solar panel dispute

In 2012, the European Commission launched an anti-dumping and anti-subsidy investigation on solar panels imported from China after a petition was filed by Prosun, the association for European solar manufacturers. As solar panel imports from China in 2011 were valued at more than EUR 20 billion, the probe became the EU's largest trade investigation and the solar panel case by far the largest EU-China trade dispute².

Solar panels, which refer to either a photovoltaic (PV) module or a set of solar PV modules, can directly convert solar energy into electricity and can be used in commercial and residential applications. The demand for solar panels in the EU market has been increasing in the past decade, with solar energy becoming an important source of renewable energy. Under the climate and energy package, the EU energy consumption produced from renewable resources would be raised to 20 per cent of total consumption by 2020 (the current share is about 13 per cent).³ At the time of the investigation, the EU had the largest market demand for solar panels.⁴ Member States have adopted their own energy policies to raise the share of renewable energy in their energy consumption by 2020, with different targets ranging from 10 per cent in Malta to 49 per cent in Sweden.⁵

Meanwhile, China's solar manufacturing industry has been experiencing rapid growth since the year 2000. In the 1990s solar manufacturing had depended largely on the central government, as growth of solar energy production had been slow, due to the lack of government incentives for the production of and innovation in solar energy. After its accession to the World Trade Organization (WTO) in 2001, China's rise in the world economy influenced global trade by lowering prices in the manufacturing sector.⁶ In a decade's time, China became the world's largest producer of solar panels. More than 90 per cent of Chinese production are exported, and of this, about 80 per cent goes to the EU market.⁷

The influx of Chinese solar panel products to the EU market was an issue for local competitors. The European solar manufacturers contended that Chinese manufacturers were receiving heavy subsidies from the government and banks. Many EU manufacturers felt crowded out of the market. Solarworld, the largest German manufacturer, lodged a petition to the European Commission asking for an anti-dumping and anti-subsidy investigation. Based on the investigation, the European Commission concluded that "the fair value of a Chinese solar panel sold in Europe should be 88 per cent higher than the price at which it is sold"⁸. Thus, from August 2013 the duty on Chinese exports was increased from an initial 11.8 per cent to 47.6 per cent. In response, China immediately decided to launch an anti-dumping and anti-subsidy probe into wine imports from the EU

² Chaffin, J. (2013): EU and China settle Trade fight over solar panels, *Financial Times*. Retrieved from: <http://www.ft.com/cms/s/0/4e468c26-f6ab-11e2-8620-00144feabdc0.html#axzz3D8BQbpKv>

³ European Commission. (2015). The 2020 climate and energy package. Retrieved from http://ec.europa.eu/clima/policies/package/index_en.htm.

⁴ Coville, F. (2013, Feb 18). The 10 solar trends to watch in 2013. *Business Spectator*. Retrieved from <http://www.businessspectator.com.au/article/2013/2/7/cleantech/10-solar-trends-watch-2013>

⁵ European Commission. (2015). The 2020 climate and energy package.

⁶ Giovannetti, G., and Sanfilippo, M. (2012). China's competition and the export price strategies of developed countries. FIW Working paper. Retrieved from http://www.fiw.ac.at/fileadmin/Documents/Publikationen/Working_Paper/N_102-GiovannettiSanfilippo.pdf

⁷ EU Prosun. (2015). Fact Sheets. Retrieved from <http://www.prosun.org/en/about/fact-sheet.html>.

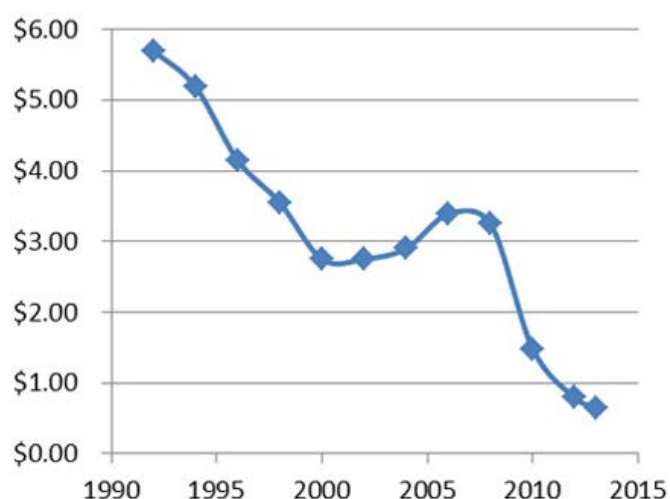
⁸ European Commission. (2013). Memo: EU imposes provisional anti-dumping duties on Chinese solar panels. Retrieved from http://europa.eu/rapid/press-release_MEMO-13-497_en.htm

and threatened to conduct another probe against luxury cars.⁹ The trade relationship was marred in tension.

Settlement on Solar Panel dispute

In the solar panel case, the main dispute was pricing. Chinese exports of solar panels enjoyed lower prices in the EU market, which, according to the EU solar industry, resulted from cheap loans and government subsidies. Following the introduction of the Five-Year Solar Plan by the Chinese government, the price of a Chinese solar module fell dramatically from EUR 3 per watt peak (Wp) in 2008 to as low as EUR 0.40 per Wp in 2011.¹⁰ Elsewhere, production costs of solar energy, a novel field, were also experiencing a market decline in production costs. Meanwhile, the manufacturing capacity of China's solar-panel industry grew tenfold, and the surge in exports contributed to a 75 per cent drop in world prices.¹¹

Graph 1: World Prices of Solar PV Module Per Watt¹²



The EU's decision to impose duties on Chinese solar panel products drew the attention of the Chinese government. China denied the dumping and subsidy claim and Premier Li Keqiang expressed strong opposition to the "protectionist trade measures" (Xinhua, 2013).¹³ However, as the EU was China's largest trade partner and China was the EU's second largest trading partner – and China and the EU trade is valued at EUR 1 billion a day – both parties agreed to settle the heated dispute through negotiations rather than starting a trade war.

⁹ Chaffin, J (2013, Jul. 27): EU and China settle Trade fight over solar panels, Financial Times, Retrieved from: <http://www.ft.com/cms/s/0/4e468c26-f6ab-11e2-8620-00144feabdc0.html#axzz3D8BQbpKv>

¹⁰ Prosun. (2015). Fact Sheets. Retrieved from: <http://www.prosun.org/de/ueber/fact-sheet.html>

¹¹ Haley, U. and Haley, G. (2013, Apr. 25). How Chinese subsidies changed the world. Harvard Business Review, Retrieved from : <https://hbr.org/2013/04/how-chinese-subsidies-changed>

¹² Solar Cell Center. (2015). Solar Markets : recent overcapacity issues. Retrieved from : http://solarcellcentral.com/markets_page.html

¹³ Xinhua. (2013). Li slams EU's trade measures against Chinese products. Xinhua News Report. Retrieved from: http://news.xinhuanet.com/english/china/2013-05/24/c_132406678.htm



Graph2 : European Union, Trade with China. Total goods: EU Trade flows and balance, annual data 2005 - 2014 ¹⁴



In July 2013, a settlement was reached between the EU and China. The agreement consisted of a minimum price of EUR 0.56 per Wp for panels until the end of 2015 and of a limitation of the export volume. Chinese companies were also allowed to export to the EU up to 7 gigawatts per year of solar products without paying duties. About 90 per cent of Chinese solar manufacturers signed up to the minimum price. According to Karel De Gucht, the EU trade commissioner, the price undertaking would “stabilise the European solar panel market and remove the injury that the dumping practices have caused to the European industry”. Prosun, however, felt that the settlement was “not a solution but a capitulation”, and that the “EU commission decided to sell the European solar industry to China under the pressure”.¹⁵

The dispute with the EU was not the only trade feud that Chinese solar panel industry faced. In December 2014, Chinese solar panel exporters and producers were meted a whopping final dumping margin of 165.04 per cent in the US market¹⁶; Canada also imposed tariffs on imported Chinese solar equipment in 2015.¹⁷ Australia likewise ruled that China was dumping solar panels in the market, although no duties were imposed.¹⁸ However, none of the investigations sparked as large a trade controversy as it did in the EU market due to a small market share.

Despite the 2013 settlement, Chinese manufacturers continue to face challenges in the

¹⁴ European Commission. (2015). European Union, trade in goods with China. Retrieved from : http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf

¹⁵ Chaffin, J. (2013, Jul. 27): EU and China settle Trade fight over solar panels

¹⁶ Runyon, J. (2014, Dec. 17). Big News : more tariffs on solar panels from China. Renewable Energy World. Retrieved from : <http://www.renewableenergyworld.com/rea/news/article/2014/12/big-news-more-tariffs-on-solar-panels-from-china>

¹⁷ Doom, J. (2015, Mar. 6) Canada imposes tarriff on imported Chinese solar equipment. Bloomberg Business. Retrieved from : <http://www.bloomberg.com/news/articles/2015-03-06/canada-imposes-tariff-on-imported-chinese-solar-equipment>

¹⁸ Blackwell, R. (2015, Apr. 7). Australia rules Chinese solar panel dumping not harming local industry. The Global and Mail. Retrieved from: <http://www.theglobeandmail.com/report-on-business/australia-rules-chinese-solar-panel-dumping-not-harming-local-industry/article23824511/>

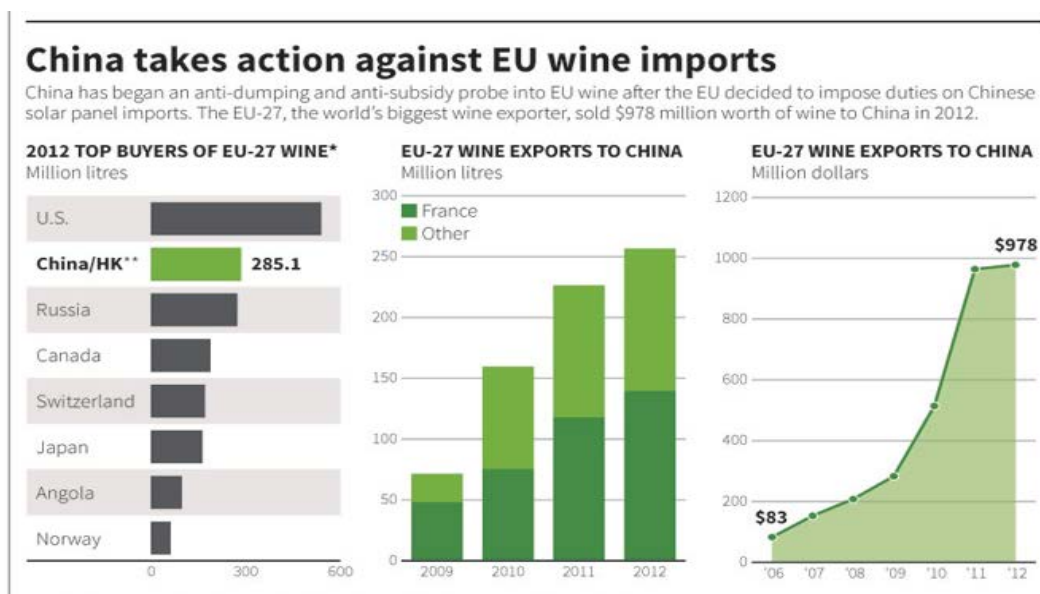
EU market. In 2015, the European Commission proposed denying three Chinese solar panel producers' duty-free access to the EU markets for violating the agreement to respect the minimum selling price.¹⁹

The challenges to the EU in the solar panel case

Several challenges also remain for the EU, including the increasing bargaining power of China; a divided union and conflicts of interest between solar panel consumers and manufacturers.

EU Member States that enjoy large trade volumes with China had been against the imposition of tariffs on solar panel imports originating from the Asian powerhouse. Wine exporters in the EU would also be hurt by China's counter-move, since China was the region's second largest wine importer in 2012, buying EUR 285.1 million of the product. Half of this was supplied by France.

Graph 3: EU wine exports to China and other countries in 2012²⁰



Moreover, China also threatened to conduct another probe on the imports of European luxury cars, many of which were produced by German companies. The positioning of France and Germany, two strong economies in the EU, gave China leverage during the negotiations for the solar panel dispute. In the end, a minimum price was imposed instead of an initial call for anti-dumping tariffs.

Thus, the EU-China solar panel dispute also revealed a divided EU. EU trade policy is a contentious issue resulting from different trading patterns and policies of various Member States. China observed the shortcomings of the EU and took advantage of these during the trade negotiations.

¹⁹ Stearns, J. (2015, Mar. 7). Three China Solar-Panel Groups May Lose EU Duty Exemption. Bloomberg Business. Retrieved from: <http://www.bloomberg.com/news/articles/2015-03-12/three-china-solar-panel-groups-may-lose-eu-duty-exemption>

²⁰ Bendini, R. (2014). Trade and economic relations with China 2014. European Parliament. Retrieved from : [http://www.europarl.europa.eu/RegData/etudes/briefing_note/join/2014/522342/EXPO-INTA_SP\(2014\)522342_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/briefing_note/join/2014/522342/EXPO-INTA_SP(2014)522342_EN.pdf)

For instance, China used the strategy to talk to individual Member States and exert pressure on the EU commission. Premier Li, who strongly opposed the “protectionist trade measures”, sought support from China’s largest trading partner in the EU during his inaugural trip to Europe. After meeting with Li, German chancellor Angela Merkel promised that Germany would work to make sure that no permanent import duties would be placed on Chinese solar panels.²¹ German Economic Minister Philipp Rösler also rejected the heavy trade duties on the solar panels, saying it was “a grave mistake” and would harm bilateral trade and lead to a trade conflict.²² Similarly, the UK, the Netherlands, France and other Member States opposed the duty in considering the trade relations with China. The growing trade relations of Member States with China weakened the Commission’s role of representing an integrated EU in negotiations.

And while European solar manufacturers filed the complaint on the basis of China’s non-competitive pricing, the low costs of solar panels redounded to the benefit of the EU’s renewable energy policy. As the EU sought to be a global model for using renewable energy, solar power, being an important renewable energy source to meet the 20 percent EU renewable energy consumption by 2020, witnessed a booming growth.

Under the 2020 package, Member States have taken on binding national targets for raising the share of renewable energy in their energy consumption. The feed-in-tariff²³, has been adopted by many countries to promote the installation of solar panel products. In particular, EU countries subsidise solar customers while the Chinese government subsidises producers. Subsequently, the heavy budgetary burden forced EU Member States to drastically curtail their subsidies to consumers of solar panels. The decreasing prices of solar panel products imported from China have relieved the European countries of the financial burden from subsidies. Moreover, the Chinese products have also been considered by some as an important factor for making solar power “cheap enough to revolutionise Germany’s energy sector”.²⁴ However, the EU solar manufactures’ interest also needs to be considered under the WTO framework. There is also a challenge for the EU to balance the conflict between its solar manufacturing industry and the consumers.

Conclusion

Facing the challenges of growing energy consumption and climate change, the EU launched the climate and energy package as a set of binding legislation for its targets for 2020. The solar panel industry has thus witnessed a growing demand in the EU market. China, on the other hand, seized the opportunity to develop the solar PV manufacturing in its coastal provinces. As the Chinese solar panel products gradually dominated the EU market and crowded out the EU manufactures, the EU launched the anti-dumping and anti-subsidy investigation on solar panels imported from China on the request of EU manufactures, which later gave rise to the largest trade dispute between the EU and China.

²¹ Parker, J. (2013, May 28). The China-EU Trade Spat. The Diplomat. Retrieved from: <http://thediplomat.com/pacific-money/2013/05/28/the-china-eu-trade-spat/>

²² Domínguez, G. (2013). EU-China trade 'too big to fail'. Deutsche Welle. Retrieved from: <http://www.dw.de/eu-china-trade-too-big-to-fail/a-17035965>

²³ Feed-in-tariff is an explicit monetary reward for producing PV electricity, at a rate per kWh somewhat higher than retail electricity rates being paid by consumers

²⁴ China Economic Review (2014). How China plans to rewrite the rules of solar energy. Retrieved from: <http://www.chinaeconomicreview.com/how-china-plans-rewrite-rules-solar-energy>

Since the trade relationship between the EU and China is admittedly too big to fail, settling the solar panel dispute can be considered successful for having avoided a trade war. It is crucial for both the EU and China to maintain good trade relations based on mutual benefit. However, differing trade interests with China of Member States have divided the EU in the negotiations. In facing the increasing bargaining power of China, a joint effort among the EU Member States is advisable.

For the solar manufacturing industry, global competition has resulted in reduced prices. The lower solar panel prices bring benefit to the customers, as well as the Member States that are promoting the adoption of renewable energy consumption by subsidizing the installation of solar panels.

Meanwhile, fair competition should be guaranteed under the WTO and other legal frameworks. Competition should be more geared toward productivity increases rather than gearing price advantages. In this sense, the settlement by way of a minimum price agreement is a reasonable way to protect the manufacturers from further price wars.

