

Chinese solar panel maker falters as prices plunge

Keith Bradsher

Suntech Power, a Chinese manufacturer that became the world's largest producer of solar panels by 2011 only to be battered by plummeting prices, announced on Wednesday evening that its main operating subsidiary had been pushed into bankruptcy by eight Chinese banks.

Suntech was the Icarus of the solar panel industry, with production that soared year after year on heavy investment, as Western investors bought up its New York-traded shares and its international debt issues. Part of a massive Chinese government effort to dominate renewable energy industries, Suntech grew to 10,000 employees in its hometown of Wuxi on China's east coast and even set up a small factory in Arizona to do further assembly of panels there.

But a tenfold expansion of overall Chinese solar panel manufacturing capacity from 2008 to 2012 pushed down prices of solar panels about 75 percent, undermining the economics of the business. Rapid expansion of natural gas production in the United States and a curtailment of subsidies in the European Union also hurt solar panel prices, as did an American imposition last year of import tariffs totaling about 40 percent after an anti-dumping and anti-subsidy investigation.

The European Union is also completing its own trade investigation of Chinese solar panel shipments that could lead to steep tariffs there as well.

Ocean Yuan, the president of Grape Solar, an importer of solar panels that is based in Eugene, Oregon, said he foresaw a series of bankruptcies by big Chinese solar panel manufacturers, some of which have very high debt like Suntech. Chinese manufacturers lost as much as \$1 for every \$3 of sales last year as they struggled to keep factories open despite plummeting prices. "They are bleeding every day: the more they sell, the more they lose money," Mr. Yuan wrote in an e-mail.

He predicted that European and U.S. solar panel manufacturers would also face crippling financial pressures and that the long-term survivors in the industry would be manufacturers in Taiwan, who have low costs and are not subject to the American import tariffs or the likely European tariffs.

The Chinese banks quietly asked a court on Monday in Wuxi to declare the operating subsidiary, Wuxi Suntech, insolvent and begin restructuring it. The operating subsidiary notified the court on Wednesday that it did not object to the insolvency petition. Suntech Power, the parent, said that it was not filing for bankruptcy and would continue to honor warranties on the company's solar panels.

The bankruptcy filing is widely expected to lead to a takeover of the Wuxi operations by Wuxi Guolian Development Group, a financial conglomerate controlled by the city government of Wuxi.

A woman answering the phones at Wuxi Guolian's headquarters said on March 13 that her company was involved in a Suntech acquisition but declined to provide details or her name. On Tuesday, Suntech Power announced the appointment of a new president, Weiping Zhou, a longtime Wuxi Guolian executive who had previously been the chairman of the company's futures trading subsidiary.

In its statement announcing the bankruptcy of Wuxi Suntech, Suntech Power did not mention any immediate role for Wuxi Guolian. David King, the chief executive of Suntech Power, said that the company "will continue to work closely with all of our stakeholders and take the necessary steps to put Suntech back on track for growth."

Suntech Power is traded on the New York Stock Exchange, and had a market capitalization of \$16 billion at its peak. The company failed to make payments last Friday on \$541 million worth of convertible debt.

The fact that Suntech Power's Chinese subsidiary filed for bankruptcy protection without the parent also filing may cause acrimony over whether foreign creditors are being treated unfairly compared with domestic creditors in China.

It is rare for Chinese companies to file for bankruptcy, as the government has sometimes stepped in first to help them and avoid damaging the broader reputation of Chinese companies' creditworthiness.

The insolvency filing by Wuxi Suntech sets off a potentially complex legal fight that could damage international investors' faith in Chinese bonds, after many months of scandals that have already badly damaged investors' enthusiasm for the overseas-listed shares of Chinese companies.

Wuxi Suntech holds virtually all of the factories and other physical assets of Suntech Power, and these assets are in China, which makes it easier for the Chinese banks to take ownership of them. Foreign lenders to Suntech Power, like the investors who bought its convertible bonds, are "structurally subordinate" to the Chinese lenders in trying to recover their money from these assets, according to legal experts.

But most of the Suntech group's sales were in the United States and Europe, because China's renewable energy policies tended to emphasize manufacturing subsidies that would allow Chinese companies to capitalize on foreign governments' subsidies for consumers. Foreign lenders could have an advantage in seizing dollars and euros in overseas accounts, as well as the money that overseas buyers still owe Suntech, which allowed many creditors to delay paying for panels until months after they were delivered.

Another complexity is that Suntech Power is incorporated in the Cayman Islands. The bankruptcy laws there usually do not allow restructurings, with companies tending to be liquidated instead. But the convertible bonds issued by Suntech Power specified that any dispute involving the bonds would have to be resolved under New York State law.

Last week, Suntech closed its factory in Goodyear, Arizona. It was an operation of just 43 people who put aluminum frames and electrical junction boxes on solar cells from China so that they could qualify for "Buy American" programs.

In announcing the bankruptcy of Wuxi Suntech, the corporate parent did not specify the debts of its subsidiary. Xinhua, the Chinese state-run news agency, said Wuxi Suntech owed 7.1 billion renminbi, or \$1.1 billion, to nine Chinese banks; Xinhua did not explain why only eight banks joined the insolvency petition, or the extent of the loans to Wuxi Suntech by the unidentified ninth bank.

The bankruptcy of Wuxi Suntech comes after a dozen solar panel manufacturers in the United States and a dozen in Europe have either failed or cut back production considerably after finding that they were unable to cover their costs at current low prices for solar panels.

The industry's problem is that most of the cost of a solar panel lies in building the factory, not in operating the equipment. So when the industry has severe overcapacity, as it does now, each company continues running its factories so as to cover its tiny operating costs plus at least a small part of the interest on the loans it took out to buy the costly factory equipment.

But when every company pursues that strategy, the whole industry loses money and virtually no business is able to cover its full interest costs.

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