

Report claims China is putting the squeeze on US wind-power market

American companies are being squeezed out of the lucrative Chinese wind-power market at the same time as Dallas-based investors are bringing Chinese firms to the US via a big wind project in Texas, according to a new industry report. PES examines a potentially-damaging situation.

The Dewey & LeBouef study examines Chinese government policies promoting the development of industries producing equipment for generating electric power from renewable energy sources (hydro, wind, biomass, solar) to serve electrical grids. Those policies are transforming China into a major production base for renewable energy equipment at the watershed moment at which total global investments in renewable energy power capacity have surpassed investment in fossil fuel power capacity, the report claims. China's rapid economic growth and urbanization has been paralleled by rising energy consumption with the country now second only to the US in total primary energy consumption.

It has also emerged as a larger generator of energy-generated CO₂ emissions than the US and it faces a dilemma in that its indigenous reserves of oil and natural gas will be depleted within two decades at current rates of extraction, and coal, which accounts for about 75 per cent of China's energy production, is a source of pollution and greenhouse gas emissions. Chinese planners are addressing this challenge, in significant part, through a dramatic national

effort to promote the development of renewable energy as a larger percentage of China's total energy consumption.

The task is complicated by the fact that the growth potential for hydropower, China's principal source of renewable energy, is increasingly limited by environmental and social problems associated with the construction of large dams. As a result, the Chinese government is prioritizing the development of "new renewables" industries – wind, solar and biomass power. China imported much of the generating equipment used to construct its hydropower infrastructure, and until very recently the country relied heavily on foreign equipment and technology in the wind, solar and biomass sectors. However, Chinese planners have indicated their intention that eventually most or all of the renewable energy equipment installed in the country will be made there, will be based on Chinese-owned intellectual property, and will embody Chinese-developed standards.

This objective is being advanced through a sweeping array of laws, regulations and other measures which establish

local content requirements for renewable energy projects; equipment procurement preferences for Chinese-owned companies and Chinese-owned intellectual property; and domestic preferences with respect to subsidies, tax breaks, VAT rebates and other incentives promoting renewable energy. China is a centrally-planned economy in which the national government exercises a dominant role. Many of China's industries, including much of the energy sector, are comprised largely of state-owned enterprises (SOE) which must conform not only to the laws and regulations governing the economy, but to directives from government ministries and the supreme authority, the State Council, with respect to investments, purchasing practices, prices, mergers, R&D and market entry and exit. Since the beginning of a government program of long-run economic reform in 1978, the economy has become somewhat less centralized and the government has made greater use of incentives rather than commands to influence enterprise behavior, but the government's role in the market remains pervasive. Accordingly the priorities and goals expressed in government plans and directives are a strong indicator of what

They've used every measure you could possibly think of to enhance production of renewable energy equipment in China

enterprises will actually do, particularly SOEs. In this respect, a number of measures have been particularly important in promoting the development of the renewable energy sector by directly or indirectly stimulating demand for Chinese-made renewable energy equipment.

In the past three years China has seen a veritable explosion of new investment in wind power. In 2007, an estimated 25 companies were producing wind turbines, with another 40 or 50 planning to add facilities, but by 2009, the number of producers had grown to be in excess of 100.

Although a technological and qualitative gap has long existed between Chinese and foreign wind power equipment, Chinese producers are narrowing the gap, absorbing and adapting foreign technology while substantially reducing their dependency on imported parts and components. The development of the Chinese industry has benefited dramatically from government measures favoring procurement of domestically-made equipment, which have ensured the producers a large and growing market for their products.

US Trade Representative Ron Kirk won a pledge from the Chinese in fall 2009 to drop rules giving preference to Chinese makers of wind-power equipment. But Kirk's office had not seen any evidence that this pledge had been carried out, said a spokeswoman. Meanwhile, Chinese manufacturers are entering the US wind market under a joint venture led by Dallas investor Cappy McGarr. The report entitled: *China's Promotion of the Renewable Electric Power Equipment Industry: Hydro, Wind, Solar, Biomass*, was produced by Alan Wolff of the trade law firm Dewey & LeBoeuf LLP.

"They've used every measure you could possibly think of to enhance production of renewable energy equipment in China," he said.

Together with Cielo Wind Power LP of Austin and China's Shenyang Power Group, McGarr's US Renewable Energy Group is planning a \$1.5bn, 600-megawatt wind farm on 36,000 acres in West Texas. Several senators have complained that the West Texas project would use hundreds of millions of dollars in US economic stimulus funds for wind turbines built in China. They introduced a bill in March that would halt federal funding of renewable energy projects until "buy American" requirements are written into law. Recently McGarr's Chinese partners announced plans to build a wind turbine factory in Nevada, and McGarr said most of the jobs for the West Texas project would be American.

"A minimum of 70 per cent of each wind turbine in the project, including the massive towers and blades, will be wholly manufactured in the United States and made entirely of American steel," McGarr said. Dewey & LeBoeuf's report on China's renewable energy equipment market was commissioned by a US industry group, the National Foreign Trade Council, where concern about China's market restrictions and treatment of foreign firms is growing.

"If you're not operating under a rule-of-law country, if you have no place to adjudicate, and there are places where the country has stacked the deck against you, you may look for somewhere else to do business," said trade council president Bill Reinsch. Some wind power advocates are urging everyone to calm down and are particularly concerned about the Senate's "Buy American" bill.

"This proposal would torpedo one of the most successful job creation efforts of the Recovery Act, which has already preserved half of the 85,000 American jobs in the US wind industry," said Denise Bode, president of the American Wind Energy Association. "Rather than adopt policies that will kill American jobs, Congress should enact policies that will create jobs by encouraging manufacturers to invest in US plants," she said.

In 2004, foreign wind turbine manufacturers held 82 per cent of the Chinese market, but they now have a 10 per cent share,

according to the Dewey & LeBoeuf study. Because of off-and-on incentives for wind power in the US, foreign manufacturers have dominated here as well, said the American Wind Energy Association (AWEA). Even so, the US is the largest wind-power producer, with Texas leading the states in wind-generated electricity. Once a national market evolves, equipment suppliers tend to build manufacturing plants closer to wind farms to avoid shipping expenses for the large machines, said Lutz Weischer, a research analyst with the Washington-based World Resources Institute.

"Putting a moratorium on wind projects could have the unintended consequence of making your market less stable and slowing the growth in employment," he said. Citing Chinese press reports, Weischer also argued that China was living up to its pledge to drop local content rules for wind energy equipment. GE, the largest US-based wind turbine company, reached a deal in January to sell 88 turbines to three smaller Chinese wind farms. Weischer said he and his colleagues found no evidence that China was reopening its market. In August, the Chinese announced they would build a series of enormous wind farms, each designed to generate 20 times as much electricity as McGarr's West Texas project, with preferences for local equipment manufacturers.

"Some of those projects will reportedly have towers 30 storeys high. They're building them in valleys, in deserts, they're really taking advantage of their resource," said Dewey & LeBoeuf attorney Tom Howell. Foreign manufacturers haven't won any of the equipment contracts for those jobs or any others developed by the Chinese central government since 2005, Howell said. Ohio-based Democrat senator, Sherrod Brown, is one of the sponsors of legislation that would add "Buy American" requirements for wind projects built with government stimulus funding. He said: "We cannot sit idly by while China races to the forefront of clean energy production at the expense of US manufacturing, US jobs and US energy independence." By choosing to build a turbine factory in Nevada, the Chinese at the very least may have slowed Brown's bill. The turbine plant provides an economic boost to Nevada, where Senate Majority Leader Harry Reid is facing a tough re-election challenge later this year. ■



© topfoto/photocase.com

Save the Date: HUSUM WindEnergy, September 21–25, 2010

Husum, Germany will be the center of the wind energy world once again September 21–25. With 800 exhibitors and 31,000 experts from 70 nations, 2010 will reaffirm HUSUM WindEnergy's position as the world's leading wind

energy trade fair. Be there when decision makers from all segments of the industry come together. Plan your visit to HUSUM WindEnergy 2010 now.

A co-operation between



www.husumwindenergy.com



HUSUM WindEnergy

The Leading
Wind Energy Trade Fair