

Asian competitors shadow German solar industry

18 August 2009, by Richard Carter



A field with solar cells made by German manufacturer Q-Cells. The company produces silicon-based photovoltaic cells and supplies manufacturers of solar modules. Germany's solar power industry, until recently the world leader in the technology, is facing an unprecedented crisis, analysts say, outshone by cheaper competitors from Asia, most notably Chinese firms.

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Q-Cells, the world's biggest solar cell producer, last week issued a far from glowing set of results, with losses of 700 million euros (984 million dollars) in the first half of the year.

As a result, the German firm said it would cut 500 jobs from its workforce of 2,600 and put others on part-time working arrangements.

The crisis in the German solar industry is affecting small companies as well as giants such as Q-Cells.

Only three months ago, start-up Sunline declared bankruptcy with the loss of all its 78 employees.

A glance at the TecDax, Germany's tech-heavy [stock market](#) index, nicknamed "SunDax" for the predominance of solar firms, tells the story, with some companies losing around 30 percent of their value since the start of 2008.

"The fact is that [Germany](#) is losing more and more of its market leading position in [renewable energy](#) production to the United States and China," said Matthias Fawer from Swiss bank Sarasin, quoted in German weekly Die Zeit.

"Asian cell and module producers are going to squeeze out the Germans," Anne Kreutzmann, the chief editor of solar trade newspaper Photon, told the Financial Times Deutschland.

The main reason is simple: Chinese [solar power](#) companies are able to produce cells much more cheaply, due to lower labour costs and also the plummeting price for silicon, the raw material for solar cell manufacture.

Whereas German firms are tied in to long-term contracts for silicon deliveries, Chinese firms have been sourcing it from the spot market, where the price has dropped by around 70 percent in the past few months.

According to a survey from Photon Consulting, while it costs a German firm such as Ersol 1.01 dollars per watt to produce a solar cell, Chinese company Suntech can manufacture the same cell for 35 cents per watt.

All in all, production costs for the solar industry are as much as 30 percent lower in China than in Germany, according to a UBS study.

Chinese firms also benefit from state support and the effect has been to push prices for solar cells

down significantly in the past few years.

Adding to its troubles, the German solar industry's export market, which accounts for over 40 percent of turnover, is beginning to dry up in key areas.

For example, following the decision by the Spanish government to stop subsidies for installing solar panels, the market there, which had previously enjoyed 200-percent growth rates, has crashed.

The consequences could be severe for the industry, which in 2008 employed around 75,000 people and turned over approximately seven billion euros, according to the latest data from industry association BSW.

"A large proportion of German solar cell and solar module producers will not survive," Patrick Hummel, an analyst from UBS, told the Financial Times Deutschland.

China's market share for solar cells is already on the increase, with around one in three cells already produced there, according to industry estimates.

And faced with this competition from the east, the attitude of many firms has been: if you can't beat them, join them.

Q-Cells is shipping [solar cells](#) to [China](#) to transform them into solar modules and recently announced a tie-up with Chinese solar wafer firm LDK Solar. The firm has also opened a production line in Malaysia.

Another German firm, Solarworld, has already built a factory in South Korea.

Kreutzmann, from Photon magazine, said German industry will be pushed out of the way "unless the Germans in future also shift their production to Asia."

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