

SolarWorld President, Gordon Brinser's speech at the Conference on the Renaissance of American Manufacturing

Washington, D.C., March 27, 2012

During half time of the Super Bowl in February, Clint Eastwood starred in a commercial for a U.S. car manufacturer and proclaimed, "It's half-time in America."

For SolarWorld, and I think for many U.S. manufacturers, the ad struck a nerve. We agree with Mr. Eastwood when he says, "This country can't be knocked out by one punch. We get right back up again."

The ad did not deliver a policy prescription, but we took a clear meaning that has everything to do with U.S. policy.

The United States is sustaining a big hit from unfair competition. It's sacking our economy, and we're losing yardage – every day – for our workers, for American innovation, and for our future.

It's half-time in America all right, and it's time to reflect – not only on our mistakes, but also on our successes. And if we really want to come out a winner, we have to take a hard look at how we adjust our game plan.

First, of course – no whiners – nobody likes a whiner. When's the last time that you rooted for a whiner?

It's time to tighten our laces and chin straps and get down to business.

At this conference, we are hearing many policy prescriptions for the renaissance of American manufacturing. As the head of a manufacturing enterprise, I can tell you that I agree with much of what I have heard so far. There's no one single fix. We need a comprehensive adjustment to our game plan.

We need to streamline regulations. We need to reduce lawsuit burdens. We need to rebuild crumbling infrastructure. We need a national energy policy, one that will increase our energy security, lower our long-term costs and grow a massive American manufacturing industry around it. We need to re-assess our tax system. We need to build an educational system that produces a highly skilled work force. We need ways to better promote innovation.

But what I want to emphasize in this forum today is that we urgently need to preserve fair global markets amid dramatic geo-economic change. On this front, we need a new game plan for the remainder of this century.

Today, I would like to share the lessons that SolarWorld has learned the hard way. I hope our experience provides insights that will prompt America to adjust its policies, focusing on trade, to better fit the times.

As we see it, the most pressing question we face is clear: How can the United States continue to benefit from an open global marketplace as the vastly different system of state-sponsored capitalism in China emerges as an economic power and increasingly targets our strategic industries?

How America handles this issue will go far in defining our role in this century.

Manufacturing is the lifeblood of America's economy. It is at the center of our communities, the foundation for our largest cities and our smallest towns. It is where ideas well up from shop floors and research labs. It is where young workers become company leaders and where service industries get their business.

Manufacturing has made us who we are as a nation, and it will continue to define our future.

We at SolarWorld believe that renewable-energy manufacturing offers gains in energy security, environmental stewardship, high-tech manufacturing, economic vitality and American jobs.

But to reap those rewards, we must tackle some hard questions:

- Do our trade laws work quickly enough to respond when autocratic nations seek to unfairly dominate an industry?
- Are the trade laws sufficient to contend with centrally planned economies, the scale of their subsidies, their state-owned enterprises and their lack of transparency?
- And, more broadly, is our government fully equipped to cultivate and promote an environment in which manufacturing can thrive?

Based on our experience, we answer, NO. But because it is half-time, we can say, not yet.

I appreciate the chance to discuss how our current answers to these questions have affected SolarWorld, what we decided to do in the face of unfair competition, and how we hope to join with other U.S. manufacturers in leading this nation to sustainable growth and steadier footing.

Further, I would like to suggest some improvements to America's trade and manufacturing policy.

The timing of this conference is ideal. The Obama administration has just launched an Interagency Trade Enforcement Unit to more aggressively address unfair global trade practices. We also hear strong words from leaders across all political parties in favor of leveling the playing field for American workers.

But this manufacturing challenge confronts more than just one company or industry and more than one political season. This is a long-term national challenge, and our response will shape the future of our country.

For that reason, it is gratifying to see the diverse attendance at today's Conference on the Renaissance for American Manufacturing. But any progress we make today will require an even broader and more sustained effort. It must come from participation by all elements of our nation, especially from leadership, which is why Mr. Sperling's presence today is so welcome.

We also appreciate the work of the Committee to Support U.S. Trade Laws and its sponsors for making today's conference possible and the elected representatives, policy- and law-makers and other industry leaders who are participating.

Finally, I want to recognize America's manufacturing workers, and the more than 1,100 at SolarWorld, not only for keeping their faith in U.S. know-how but also for holding out for the restoration of fair competition.

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In meetings with investor analysts, SolarWorld hears many familiar questions. But one question never fails to annoy us. That question is, "What's your Asia strategy?"

What we're really being asked, of course, is what plans do we have to build factories in Asia to produce solar products for consumers back in the United States.

Our chief financial officer has developed the habit of turning the tables a little. He asks the investment analysts: “What is your Asia strategy? Why don’t you move to China?”

We at SolarWorld have a different strategy. Our more than 1,100 American manufacturing employees live and work in the United States. We have made solar panels here for more than 35 years.

We believe nothing makes more sense than to manufacture a clean energy product where it is sold, using U.S. workers to meet high standards that govern clean air and water, fair labor practices, worker safety and high-quality products.

As a matter of fact, we do have an Asia strategy: We combine our experience pioneering the industry, our high labor productivity, our pipeline of innovation, our advanced automation and our highly specialized work force to compete with producers from Asia and everywhere in the world.

Moreover, we expect Asian exporters to play by the rules of well-established trade law, and when they don’t, we demand that they be held accountable.

We owe nothing less to our employees who have worked hard over decades, to our shareholders who invested their money to fuel our progress, to our communities, longtime customers and supply-chain partners who have helped build our business and, most of all, to our deep solar-industry heritage.

I know we can succeed, and I’m sure that manufacturers across America can do so as well – but our new game plan must include sharpening our trade laws to the task and backing those laws with strong enforcement.

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When SolarWorld set out on its course of building new U.S. operations, we had skeptics.

It was true that the United States invented the solar industry in the 1950s and led the industry’s evolution up to the late 1990s. By that time, the U.S. industry enjoyed a global production share of about 45 percent.

Since then, manufacturing has not kept pace with economic growth. Today, U.S. solar production share is well less than 5 percent.

However, SolarWorld saw potential in manufacturing in the U.S. market where others did not.

In 2007, we began investing more than half a billion dollars of our own money to purchase and revamp an idle semiconductor plant in Oregon. We established the biggest solar operation in the Western Hemisphere.

Manufacturing solar in America makes fundamental economic sense.

In our industry, labor is just 10 percent of cost, and U.S. workers are the most productive in the world. Further, we don’t bear the expense of ocean shipping, and we have abundant supplies of manufacturing equipment and raw materials, such as polysilicon, right here in America.

As a matter of fact, China imports both of them from the United States to make solar panels over there, only to ship them back here at prices that make no economic sense.

Let's be clear: China has no comparative advantage in solar. The Department of Energy recently found that Chinese solar producers face a 5 percent cost *disadvantage* in producing and delivering solar into the U.S. market.

[Slide titled "China has no cost advantage in solar" features bar graph illustrating National Renewable Energy Laboratory research that shows China's total cost of producing and delivering crystalline silicon solar modules into the U.S. market at 98 cents per watt-peak, compared with the U.S. cost of 93 cents per watt-peak.]

By the time we were done building our manufacturing plants in America, without spending one federal dollar, SolarWorld had hired more than 1,100 Americans. And starting in 2010, we began purchasing more than \$350 million a year in goods and services from firms in more than 40 states.

How's that for economic stimulus?

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Just as we were realizing our vision to rebuild a strong and secure U.S. solar manufacturing industry, we noticed an unfamiliar phenomenon: Aggressive, Chinese competitors started selling product at unexplainably low prices.

Our employees had lived through our industry's dynamic rise, and they had witnessed annual declines in pricing averaging about 9 percent a year. But the reality of production costs made the Chinese pricing implausible.

Sure enough, in an interview with The New York Times in 2009, the head of one Chinese manufacturer admitted that his company was selling below cost to buy U.S. market share.

Today, that company, Suntech, is the world's largest solar manufacturer, and last year, it lost \$1 billion as oversupply and artificially low pricing from Chinese manufacturers drove down prices 50 percent in about a year.

Their prices are now so low that even they admit these prices can't last.

[Slide titled "Suntech: Prices will rationalize" shows the following quote from Suntech Chairman Zhedrong Shi, March 8, 2012, commenting on 2011 results, including \$1 billion in losses: "Modules are not sustainable at current (pricing) levels, and we expect that as the weaker players exit the industry, prices will rationalize (to) allow the efficient module producers to generate a low-teen gross margin."]

"Modules are not sustainable at current (pricing) levels, and we expect that as the weaker players exit the industry, prices will rationalize (to) allow the efficient module producers to generate a low-teen gross margin."

By "rationalize," we interpret the Suntech chairman to mean that after the Chinese drive so-called weaker players out of business, they will jack up prices to recoup their anti-competitive investment.

As part of its five-year plan, China has targeted seven strategic industries, including the solar industry.

So, this problem is not just a challenge to the solar industry or to SolarWorld. It is one that threatens all of our manufacturers and our economic system itself.

I'm talking about China's state-driven economic model, which is designed to gut and own our key industries.

The Chinese government is the largest shareholder in the country's 150 biggest companies and finances them with its state-owned banks. It uses state-owned enterprises to provide cut-rate raw materials and manufacturing equipment. It writes no-bid contracts for individual producers. It bars foreign access to its own market and subsidies. Any company desperate enough to outsource even one production step to Chinese plants puts its intellectual property at risk.

By contrast, the U.S. market remains wide open to state-owned and state-sponsored Chinese manufacturers. Chinese solar panels are even being installed on our military bases. How does that support our national security?

Further, Chinese manufacturers register in the Cayman Islands and raise capital on the New York Stock Exchange while refusing to answer questions from U.S. securities regulators.

In short, China is proceeding step by step to fulfill its plan to dominate key industries across the globe.

For solar, Chinese manufacturing capacity exceeds its domestic demand by a factor of at least 32. As a result, more than 95 percent of Chinese production is shipped overseas. From 2008 to 2011, China drove up U.S. solar exports by 1,000 percent.

Bottom line: Starting with little industry experience, China's share of the U.S. market rose from single digits to more than 50 percent in just a few years.

[Slide titled "Chinese imports into U.S. market have surged" shows year-by-year bar graph of U.S. imports of Chinese solar cells and panels from 2008 to 2011, totaling a 1,745 percent increase by quantity and a 1,116 percent increase by value.]

And let no one say the U.S. has a net surplus in solar trade. We lost that in one year.

Between 2010 and 2011, the U.S. solar industry went from a small surplus with China to a \$1.6 billion deficit.

[Slide titled "Net U.S.-China solar trade from 2010 to 2011" shows bar graph illustrating change in balance of solar-industry trade between U.S. and China from U.S. export surplus estimated between \$247 million and \$539 million in 2010 to a trade deficit of \$1.635 million in 2011.]

As planned, China's campaign swamped the U.S. and global markets with prices that no one could sustain without the full backing of a central government.

Since 2010, employees of at least 12 U.S. solar manufacturing companies – in Arizona, California, Florida, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Texas and Wisconsin – have become road kill along China's five-year planning superhighway.

It became clear to SolarWorld that if China's trade aggression were left unchecked, the U.S. solar industry would disappear.

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China's artificially low prices and excess manufacturing might provide higher short-term profits for some, but long term they are unsustainable.

For all of these reasons, SolarWorld, along with six other U.S. solar manufacturers, filed cases seeking anti-dumping and anti-subsidy duties to offset the effects of illegal Chinese trade practices.

We have secured some early victories, along with some underwhelming results. But five months after we filed our trade cases, we are not even at half-time yet. We still have a long way to go.

We continue to spend huge amounts of money and energy waging a legal and PR battle, yet we are vastly outspent by the manufacturers from China and the Chinese government. In 2011, seven of the world's 10 biggest solar manufacturers were Chinese, up from just one five years earlier.

In the meantime, China has moved on to its next solar-industry targets, including silicon refinement and manufacturing equipment.

[Slide titled “Decreased U.S. domestic exports to China of PV capital equipment and PV polysilicon, 2010-2011” shows marked declines in U.S. exports of photovoltaic polysilicon and capital equipment to China between 2010 and 2011.]

These industries may be next to weigh whether to launch cases of their own.

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The very attributes that make our system strong – our deliberative process, our transparency, our free-market orientation – make us vulnerable to aggression from China's autocratic, closed, state-controlled economy.

As Clyde Prestowitz, president of the Economic Strategy Institute, recently wrote, the issue we face is not a matter of leveling the field of trade play; we're not playing the same game. We're playing baseball, he said, and the Chinese are playing football.

So far, I'd say it ain't a pretty sight.

Few U.S. industries could survive the speed and force of China's tactics as they manipulate our trade-remedy system. Maybe that's why Suntech's chairman suggested last year that the United States suffers from too much democracy.

So what is the real problem, other than having too much democracy?

U.S. companies are not dealing with a lack of industrial expertise or innovation. U.S. workers, from the shop floor up, pioneered modern industry and the world's greatest inventions.

But we face systemic problems that are long overdue for change.

Of vital importance, we need our government to better work with industry to respond when a foreign government mounts a land grab to dominate one of our nation's key industries.

Otherwise, we can only expect more American manufacturing and jobs to vanish, along with the innovation that has been at the heart of our nation's economic growth and leadership.

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We can do better. And we must do better.

But first, we must take a stand.

For SolarWorld, this stand means persevering in its trade cases. If the factual evidence is allowed to speak for itself, we have little doubt we will secure remedies to offset China's illegal practices.

Our Chinese competitors appear to have little doubt either. They already are making plans to circumvent these remedies.

But for SolarWorld and U.S. manufacturing to truly succeed, we must revise our game plan.

America must hone its practice of identifying, investigating and remedying trade violations.

It's unreasonable to expect that targeted industries, especially small- and medium-sized enterprises, can withstand massive illegal trade aggression, not to mention the time and expense of mounting a case, over a period of 13 months.

Moreover, the U.S. government must develop a better strategy to address foreign state-owned enterprises and how they affect our industries and markets.

Specifically, we recommend several improvements:

- The administration's new trade unit should closely monitor import data for early signs of market distortions spurred by foreign governments.
- Our trade agencies must look hard at ways to preserve an open, transparent process for trade cases but in fewer steps and less time.
- They also must, in conjunction with U.S. Customs, aggressively find ways to anticipate and stop circumvention of trade remedies and theft of intellectual property.
- The government should bring legitimate cases for industries that are too small or injured to afford them.
- The government must shed light on foreign companies that raise capital on U.S. exchanges and then withhold audit information from securities regulators.

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These are just a few key ideas.

With such measures, SolarWorld and other manufacturers will continue producing here in America. But our work is only part of a mission that goes to the heart of trade law and policy.

It's a steppingstone to re-igniting a stronger manufacturing base that produces more exports and innovations, a stronger economy with a lighter debt burden, and a better balance in global economic growth and trade.

The aim is nothing less than to restore growth in domestic manufacturing.

Why?

BECAUSE manufacturing offers sustainable jobs and economic security.

BECAUSE leadership in manufacturing and innovation go hand in hand.

BECAUSE manufacturing pays unparalleled economic dividends, not just to pull us out of an economic slump but to spur growth in related service and supply industries for decades.

Finally, BECAUSE a U.S. manufacturing base, driven by fair international competition, is our BEST Asia strategy.

It's half-time, America. What IS our game plan?

Thank you.