US Solar & Alternative Energy
Solar Wars: The Impact of Panel Import Duties
(Incl. Call Transcript)

Potential tariff reduction this summer could further bring down cost structure
We held our latest conference call with the US Solar Energy Industries Association (SEIA), to discuss trends in global trade and US tariffs on imports from panels made in China – as well as wider trends on the US solar sector. Near term the key issue is the final outcome of the First Administrator Review, due latest by June end – this will confirm or potentially change the initial January verdict which called for import tariffs on major Chinese producers to reduce from the current 23-29%, to 17.5%. Such an outcome would be positive for solar installers & developers like SUNE, but potentially negative for US manufacturers such as SolarWorld among others.

Tariffs inflate US costs by ~8c/watt vs global average according to SEIA
According to SEIA the Anti-dumping (AD) and Countervailing duties (CVD) on low cost Chinese products are adding significant costs to the US industry (~$2-3 billion); and estimates ~$500 million a year in incremental costs on ~6GW/yr installed, assuming roughly ~8c/Watt.

Is there yet a deal that can be cut around the import tariffs? Possibly
With a close eye on overall system install costs for many solar developers, we see the import tariffs as a key potential avenue for future cost compression, contributing to the broader industry expectations for continued 8-10% annual cost declines. We suspect a negotiated deal could yet be reached on the subject, or a further carving-out of positions around specific efficiency panels in an effort to limit the blunt impact of the tariffs on the wider industry, setting minimum prices for panels at each grade. SEIA had mediated negotiations early last year, but with Chinese manufacturers investing in third-country capacity, there is a growing disincentive to negotiate. A further consideration relates to the ongoing tariffs on US exports of polysilicon as well, an issue viewed as retaliatory by both sides.

Expect further downtick in pricing should revision to 17.5% be upheld in June
Based on the preliminary January decision, SEIA highlighted that some companies are already taking a risk and factoring in an 17.5% tariff in their pricings; leading to a few cents reduction in pricing for large volume (10MW+) buys from Chinese manufacturers – latest data points suggest pricing is in the upper 60c/Watt range vs early low 70c/ watt last year. However, since not all manufacturers are yet reflecting a downward revision, SEIA expects that if the 17.5% is upheld late June, there will be another down tick in market pricing by a few cents. The bias for the future annual iterations of the price reviews would suggest the case for dumping would decline as Chinese costs decline, suggesting the rate booked in 2014 is likely to be yet lower than the 17.5% contemplated for the latest 2012-2013 period. The bias remains for downward revisions, albeit recent events in the EU around dumping merit some focus.

Why do tariffs matter? It's about improving cost structure amidst ITC pressure
In the grander scheme, the import tariffs are contributing ~5% to the total build costs to the lowest cost of new utility-scale projects. With the race on to find ‘offsets’ to the ITC expiration in ‘17+ for solar developers, particularly at the larger scale, where we see tariffs rolling off as a clear potential the -20% drop in ITC value (to 10% from 30%).

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Trade cases may be benefitting other Asian countries, rather than US cos

According to SEIA, Chinese manufacturers are being incentivized to either enter into a contract manufacturing relationship or build a vertical facility in a third country to avoid the tariffs all together; it estimates Thailand, Singapore, Korea, and Malaysia are among the key beneficiaries. There are also now several non-Chinese companies which are expanding capacity in Asia, and they will be poised to bring in a tariff-free product into the US (potentially by mid this year). However, products from these countries will likely be costlier than the Chinese product, thus stabilizing prices of imports into the US; albeit still cheaper than US manufacturing.

What defines the tariff? Was limited to just China, but now includes Taiwan

The original imports contemplated strictly panels that were manufactured from cells into modules in China itself. However, as production shifted elsewhere, noticeably Taiwan, the US has shifted its imports to encompass manufacturing here too in its 2014 AD/CVD orders. The 2014 tariff level will be finalized next year, with the annual process resolved in a lagged fashion, evaluating a new gauge of the actual subsidies in each new subsequent calendar year.

So where are panel manufacturing costs and sale prices today?

Amidst the focus on tariffs, we understand costs for Chinese manufacturers appear to be in the mid to upper 50c/Watt range, versus the higher 60c/Watt range of many other international developers, mostly across Southeast Asia. We understand that even if tariffs remain in place prices in the US could yet see pressure – or at a minimum moderate with greater imports despite the meaningful build expected in 2017. In turn, we suspect a gradual shifting into the low 60c/Watt range as a selling price for systems, off the higher 60c/Watt range would appear the ultimate target between eventual tariff import rolloff and continued global influx of product.
Conference Call on Solar Trade and Tariffs with SEIA

We present below highlights from our call with John Smirnow, Vice President of Trade and Competitiveness for the Solar Energy Industries Association (SEIA), where we discussed some of the latest trends in the world of global solar trade and US tariffs on imports.

Let us know if you would like to see slides used on the call.

Julien Dumoulin Smith: Good afternoon everyone, and thanks for joining us on our latest call as we continue to focus on the solar sector. We’re joined today by John Smirnow, Vice President of Trade and Competitiveness for the Solar Energy Industries Association (SEIA). We’re going to dig into the world of solar trade and Anti-dumping (AD) and Countervailing duties (CVD) against the backdrop of the First Administrator Review.

With that I’ll turn it over to John for his commentary.

John Smirnow: Great. Thank you Julien and thanks everybody for joining the call today - on Friday the 13th of all days. Seems somewhat appropriate for what we’ve been through over the last three or four years in the solar industry on this trade conflict. So what I’d like to do today - I’m going to give a very high level overview of the key administrative proceedings. Then I’m going to talk about the ongoing proceeding, which is known as the First Administrator Review.

We’re going to talk about some of the market implications of that, what we could expect to see when a final decision is issued in June. Then we’re going to touch briefly on negotiations. Very much a long shot, but nonetheless still a possibility.

And then very briefly I’m going to talk about some potential increase in enforcement activity that we could see from US Customs, based on what is happening in the EU and some of the anti-circumvention proceedings that the EU is looking into, regarding the settlement agreement between the European Commission and China. The first investigation was the one in 2012. We call it very generally as Solar One 2012 - that investigation focused on unfair trade practices in China, and crystalline silicon cells specifically. After a year and a
half of investigating the Government issued what are called Antidumping and Countervailing Duty Orders.

Those orders apply for the 2012 investigation to any module being imported into the US that includes Chinese origin cell. And the key trigger for whether the cell is Chinese origin is when the PN Junction is formed. So at that point in time where the PN Junction is formed on the crystalline silicon cell, that then means it’s a Chinese - or if that happens in China, that’s a Chinese origin product. For the most part, that’s going to cover modules coming from China with Chinese cells, but certainly there were modules coming from other countries that also included Chinese cells.

Now one thing to keep in mind with respect to Antidumping and Countervailing Duty Orders, those are merely estimates or cash deposits, so the rates that you hear about in the market ranging from 23 to 29%, that’s the amount that the importer has to pay at the time of entry, but that’s just an estimate. There’s an Administrative Review Process that I’m going to go into that establishes the definitive rates on a yearly basis.

We think litigation is bad, but we support the global rules based trading system and we weren’t actively opposed at that point. What we did see though over the course of that investigation is that given the broad solar supply chain, the global nature of the supply chain, litigation really was not the way to go; that we needed to move towards a negotiated solution.

Accordingly, when the 2014 investigations came around, we took a more aggressive position and explicitly opposed the new litigation. And there were a variety of reasons for that. The biggest one is the ADCVD duties are adding significant costs to the US industry - a reasonable back of the envelope estimate is $2 to $3 billion in both indirect and direct results of the 2014 litigation. And so we were actively against that investigation.

Now in that investigation, what SolarWorld was attempting to do is broaden the Antidumping and Countervailing Duty tariffs to include any module coming out of China, regardless of whether it had a
Chinese origin cell or not. They also targeted Taiwan and so any module coming from anywhere that has Taiwanese cell was also something that SolarWorld was looking to target.

And when we said that we opposed it, we weren’t saying that there should be no repercussions and that you should just drop all the trade rules and just let Chinese product enter the US market unfettered. We’ve never said that. We’ve always said we support a rules based trading system, but that trading system isn’t just based on litigation. Negotiations are also an important part of that and so our opposition to it was really not supporting unfair trade practices, it was really about better solution, the better path forward.

We said that there would be significant adverse implication for the US market and there would be little benefit to SolarWorld because of the 2014 and indeed that’s what we’ve seen. Earlier this year we heard Hemlock Semiconductor announce plans to shutter their brand new $1.3 billion polysilicon plant. And the reason for that is because of the US trade litigation the Chinese polysilicon industry brought a case against US polysilicon exports and in an environment of heated litigation, obviously, the Chinese government is going to be more amenable to a trade action against US products when its producer’s products are being targeted in the United States. So it’s fair to say, that that $1.3 billion loss was directly attributable to the litigation.

We also are seeing somewhere in the area of $500 million a year in added cost to consumers because pricing in the US market is being forced up by the tariffs on average probably eight cents per watt. You apply that to the more than six gigawatts of PV that were installed in the US market last year and you’re looking at four or $500 million each year, year after year.

And what has been the benefit? We heard about SolarWorld announcing plans to invest $10 million in its Hillsboro facility. We also heard about a $12.5 million investment by Suniva in a module plant in Michigan. Important investments - great for the US - great for US solar manufacturing, but you weigh $22 million on the one hand versus ~$2 to $3 billion and growing on the other hand, it seems pretty clear to us that the cost -
benefit analysis there significantly outweighs the solution other than continuing forward with the litigation.

The next proceeding is the First Administrator Review of the 2012 orders. So as I said before the government imposes ADCVD orders - that’s a cash deposit or estimate – which is then applied going forward. And every year, whether it’s petitioners or respondents, have the ability to go to the US government and say, hey I want you to look at those specific imports that entered last year and do a separate calculation for what the ADCVD duties are to determine the definitive rates and that happens every year.

If no review is requested, what will happen is the cash deposit rates then in effect become the definitive rate. In addition, you could have a review where only a few companies are subject to the review so whatever the review results are those companies that are participating in that get the results of that review - those are their definitive rates for that one-year period. But if you don’t participate, it’s the same result as if there was no investigation - the cash deposit rates become effectively the definitive rates.

And so here we have the very first Annual Review or Administrator Review Preliminary Decision issued in late January and the results of that preliminary decision is that for most of the major Chinese producers the tariff rate ranging from 23 to 29 percent is estimated to go down to 17.5%.

The rates will go down to that level if the preliminary determination issued in January is affirmed when commerce issues its final determination in the First Administrator Review. For the First Administrator Review the period is often times more than a year (maybe a year and a half) because it’s picking up the months that were left over from when the order was issued.

But going forward the Second Administrator Review, the Third Administrator Review, each of those will cover a one-year period. And, again, the US government is looking back to that specific period. So here effectively for merchandise entered during 2013, they pick a
couple of companies that they get specific data from - and in this case they picked Yingli and Suntech for the Countervailing Duty Analysis. And then they picked BYD and Lightway for the CVD and then they basically do a full deep dive on each of those companies that are known as mandatory respondents.

Those specific companies get the rate that they received individually. But everyone else who’s participating in the review gets the average of the separate rate of the mandatory respondent companies. And so what we have here is a preliminary determination that in effect would reduce the 29% rate down to 17.5%.

The final determination is likely to be issued on June 30. It could be issued in late April too, but the Department of Commerce has the authority to extend the decision to June. June 30 would be the last date that they would be able to extend it to and given a lot of the interesting dynamics and a lot of the complex issues in this review we do expect that the final determination will be issued on June 30 fully extended.

Just to repeat, an important part of an Administrator Review is that not only does it set the definitive rate for that specific one year period for those specific companies that participate. Whatever the rate is determined to be definitive for that period that rate then becomes the cash deposit rate going forward.

And so here if the 17.5% rate was upheld for Yingli for example, then anything that they entered into the US during that one and a half year period, they would probably get a refund because they would have already tendered it at higher rates and would get refunded the difference. And then anything they entered from the date of when that final’s published in the Federal Register - sometime in early July - all their merchandise then would be subject to a 17.5% rate going forward.

But then again, we’re going to go through this whole one year cycle year-after-year where the government looks back. And that creates a lot of uncertainty. So even if the rates are going down - even if Yingli for example see their rate drop potentially from
29 to 17.5% - there is uncertainty because of the potential that they’re going to be subject to another review where the rates could either go up or certainly they could go down.

And I think that uncertainty is one of the main reasons why the Chinese companies would still be interested in a negotiating solution, and our understanding is that no one has said that a negotiated solution is off the table. It is getting increasingly difficult to see how a negotiated solution could be achieved, but we do believe that a potential for a negotiated solution does exist and I’m going to talk a little bit more about that towards the end of this discussion.

So what are we seeing as the impacts from the First Administrator Review? I really want to underscore that that’s a **preliminary** decision that was issued in late January. The first thing we’re seeing is there are **some companies that are taking a calculated business risk by assuming that the 17.5% is going to be upheld on the final.**

It’s possible that it could be upheld certainly that’s something we’d like to see because certainly the lower ADCVD rates are better for the US market. But it is possible that that 17.5% could go up - it’s possible it could go down and so the companies that are making that assumption are to some extent taking the risk that it could go up.

And so we are seeing that in the US market, just based on anecdotal information and talking with industry analysts and companies about the pricing - **we have seen a few cents reduction** (when I’m talking about pricing I’m referring to really large scale buys - the ten MWs and above volume; the wholesale price of Tier One Chinese manufacturers which continue to be the price leaders in the US market). So we are hearing of pricing that was in the low 70s the end of last year to now starting to fall into the high 60s (cents per watt) so that preliminary decision although preliminary is impacting the market. And there are some companies that are probably saying, I’m not willing to take that risk. I’m not going to start quoting lower prices until I see that that 17.5% number holds up.
Now once that number’s issued let’s assume that it stays at 17.5% so we’re already seeing overall a couple of cents reduction. I think we would expect to see an additional reduction of pricing and this is consistent with our recent report that Greentech Media has put out. Their new pricing report is indicating that if the 17.5% is upheld late June, that you would see another down tick in pricing.

And we think that that’s probably right because the companies who are being more conservative now would then be more comfortable and you would see an additional number of large manufacturers starting to move towards something that’s more akin to the 17.5% price versus the 29%.

What the January decision is also doing is we think it’s having some of the Chinese manufacturers that were contemplating investments in third countries to either enter into a contract manufacturing relationship or build a vertical facility in a third country to avoid the tariffs all together. We think that the January decision has caused at least a few of the large Chinese manufacturers to pause making the definitive investment. We are seeing though that some Chinese manufacturers are still none the less going ahead with the third country model.

Talesun for example - we heard that they’re investing in a large - I think a 500MW solar cell/module plant in Thailand; Jinko has noted that they’re prepared or in the process of making a large investment in Southeast Asia. And if the numbers that come out in late June go back up - back to the 29% or higher, then potentially we would expect to see even more Chinese manufacturers looking to develop supply channels outside of China that would have no relationship to any ADCVD duties so they wouldn’t be either Chinese or Taiwanese product.

In addition - in the context of all of this trade conflict that’s going on - we have seen a lot of new investments in third countries. We think of Q Cells in Malaysia putting up an 800 MW module assembly plant to match their one gigawatt cell capacity there. So regardless of what the Chinese manufacturers do we are seeing other companies which are non-Chinese headquartered, expanding capacity in third countries in Southeast Asia largely, but also in Asia.
more broadly, bringing in a tariff free product. And we expect that there’s going to be considerable capacity becoming available for the US market from these new facilities beginning in the middle of this year.

Some companies are accelerating their plans so we could see some of that start coming in the second quarter of this year. But certainly by the third - fourth quarter there’s going to be significantly more third country product available for sale in the US market. Now even though you’re still in Southeast Asia, any country outside of China still has somewhat higher costs. So you won’t expect to see these third country products coming in priced below where Chinese manufacturers could price.

So even today regardless of what happens with the decision in June on the China product - you could have enough product from other countries that could act as a stabilizer. And maybe you’d see under a worst case scenario a few cents uptick in price - but perhaps today we’re seeing pricing where there’s very little chance of it could make any significant improvement upwards.

And then potentially we could see increase imports from the EU because of the exchange rate issues - the minimum import price - settlement agreement there has fallen. It’s unclear whether it’s going to continue to fall or go up, but because the ADCVD duties have made the US market the highest price market in the world - it gives EU companies an incentive to sell in the US at a higher price than they can get in the EU. And so we could expect to see even SolarWorld - for example - increasingly target the US market for all of the new capacity that they’re talking about.

So finally I want to turn to negotiated solution. Beginning in March of last year SEIA brought together representatives from SolarWorld and Chinese manufacturers to try to develop a consensus agreement that we could then take to our governments. And the idea there is that the industry could provide a recommendation to the governments that could serve as the basis of government negotiations. At the end of day any deal has to be negotiated between the governments not the industry. But we spent a lot of time getting both the US and Chinese governments
behind this idea of the industry maybe taking a lead and then the governments could carry the ball forward from there.

SEIA acted not as a mediator, but really acting as an independent facilitator to bring the parties together. We did that several times over the course of last year and effectively that led to three weeks of very intensive government to government negotiations.

Those negotiations even included almost a week of senior US officials in Beijing negotiating with their counterparts - China’s Ministry of Commerce, but unfortunately they were never able to bridge the gap on minimum price. And our understanding is that that was the focus of the government negotiations - to put in place a similar regime to what you see in the EU where you’d have a minimum price at which the Chinese product could not be sold in the US without prohibitive penalties and some quota.

We also heard that there was some discussion of a variety or multiple minimum price levels based on the efficiency of the PV modules - so for example; for 60 cell which is about 265 watt modules - everything up to 265 and above would be at a higher minimum price - everything below 265 at a lower price. And the idea there is really to try price the product category for a high minimum price that is consistent with what SolarWorld produces in the US market.

From SEIA’s perspective, however, we think that’s very much the wrong approach and ends up picking winners and losers not only among consumers, but also among third country imports. And there’s certainly a ripple effect there that we think would have negative implications for the market similar to what we’ve seen in just the cases themselves where you’d have a ripple effect through the polysilicon manufacturers.

In terms of reaching a solution now - I think the biggest challenge is if the parties just stick to a minimum price. We don’t believe that it’s possible for them to find common ground on a minimum price. There has to be some other factor to bridge the gap. The reason for that is that production in China is
just more cost effective in China than it is in the US. And so where SolarWorld’s US price needs to be is always going to be lower than where the Chinese are able to sell their product.

In addition we’re seeing a growing volume of third country imports that we believe are more cost effective - more cost efficient at least until recently than where SolarWorld is able to produce the product. And so SolarWorld’s not going to agree to a price that’s below where it needs to be to make money and the Chinese companies are not going to agree to a price that would allow other countries to undercut them. And so it’s really difficult if not impossible to bridge that gap without some other mechanism.

One of the things that they thought about was this two tiered pricing. Again, we don’t think that’s the right approach. We continue to believe that SIEA’s proposal which would get rid of all this litigation is the right way forward, and that the Chinese manufacturers would agree to a few cents per watt as a tax on their product - that tax would then go into a solar manufacturing fund that would benefit SolarWorld. And indeed if SolarWorld would have taken that deal a long time ago they probably would have had several hundred million dollars in support by now, whether direct or indirect to bolster their US manufacturing facility.

Any settlement would also be expected to help US polysilicon manufacturing. The US government has made clear to China that the two cases really are linked in that their expectations that if there is a deal on their module cell side, then there would be a related deal on polysilicon. Indeed during the government negotiations there were negotiations on polysilicon that were paused to let the module case be resolved; but because the module case wasn’t resolved, the polysilicon case never moved forward given the linkage.

Finally, let’s take a look at the difficulties of finding a negotiated solution. One of the challenges is that as Chinese manufacturers start to make hundreds of millions of dollars in investments in third countries at higher costs than what they would be selling in China, I think that there’s a growing disincentive for the Chinese industry to enter into a settlement agreement because they’re making the investments to get around it.
If they then make hundreds of millions of dollars in investment and the case goes away then their competitors in China that have lower cost operations would then be able to sell at a lower price. So I think as you see - I'm not sure we've crossed over that threshold yet where the Chinese industry as a whole has really adopted this strategy, but if that does happen I think you would be expected to see it increasingly challenging to find a settlement agreement.

And then lastly I just want to touch briefly on some of the enforcement issues we’re seeing in the EU. If you look at PV-Tech today - pvtech.org - they had a couple of really good articles about allegations that product coming into the European Union from China is being improperly entered to evade the minimum prices or to offset the minimum prices. A few companies in particular have been identified through the press. I don’t believe anything official has been announced yet, but that type of customs related enforcement would potentially migrate to the US too, one should expect.

And so if the European Commission is finding evidence or what it believes to be evidence of attempts to evade the settlement agreement, then often times that gets US Customs and boarder protection on high alert and they start becoming more aggressive in investigating potential circumvention in the US. For example; someone brings in a product claiming that it’s not subject to the duties where potentially it could be.

And so we are going to do more from SEIA’s perspective to start educating our members on our customs compliance issues - just more as a safety measure than anything; and that we could expect to see increased enforcement activities from customs which would mean more requests for information by the government - more inquiries and potentially audits on behalf the US Customs. So Julien I know that’s a lot to pack into 25 minutes, but I’ll stop there and happy to take any questions.

Julien Dumoulin Smith: Great - well thank you very much John. Perhaps just to kick it off here let’s talk dollars and cents real quickly. To summarize if you will - what is the selling price with the current tariff in place and where would it go under the
17.5%? And perhaps let’s just talk about what it would be in a truly free market now or just give people the sense of how significant of an impact it is. I know you mentioned the two to three billion dollars before and maybe you can unpackage that as well – a sense of how you derived that number?

John Smirnow: Yes so the two to three billion in cost - that number is $1.3 billion right off from Hemlock to closing that factory; and then about a couple of years of the $500 million tax - which we think is on average about eight cents higher than global pricing. And the lowest pricing that we’re seeing around the world is somewhere in the 50 cent range and we didn’t use that.

We thought it was better to try and get an average of where the US was relative to others and it does seem that on average - currently US prices are about eight cents per watt higher than what a global average would be. Again, that’s back of the envelope, but we think that’s at least in the ball park and so currently.

Julien Dumoulin Smith: And where do you see the US at today?

John Smirnow: Yes so high 60s to low 70s cents. The end of last year it was very low 70s - but now that you have this preliminary decision you are starting to see more product being quoted with a six in front of it.

And that is an all China module that they’re bringing in and actually paying the 29% duty. When they do that they are probably not making a ton of profit; the end of their profit margin gets picked up by the duties.

And one of the reasons that’s coming down is the Chinese manufacturers’ efficiencies continue to increase - continue to improve and as their costs of production come down you start to see their pricing come down. But we think there’s been a few cents acceleration because of the expectation stemming on the final decision in the Second Quarter.

Now if that 17.5 percent is upheld, again, you’d expect to see another two - three cents decline and the large volume product coming from China is getting you down into the mid sixties.
Julien Dumoulin Smith: Right so mid sixties in a 17.5% environment – and if you were to truly repeal the whole thing you’d end up at a low sixties number - is that a good way to think about it?

John Smirnow: Yes, I think so - I think that’s fair. There are certainly some companies that could get in the fifties, but probably not a ton of profit margin there.

Julien Dumoulin Smith: When you’re thinking about the impact on the US here can you elaborate on the SolarWorld argument?

John Smirnow: SolarWorld represents a segment of the US industry. Publicly they like to rep themselves as representing the US industry, but they represent I think less than one half of one percent of total US industry jobs.

And it’s another one of our criticisms – that you have one company (those are important jobs so don’t get me wrong), but there are several other companies that are impacted as well – and you’d have to think at some stage whether an installer’s job is any less important? We think all jobs are of equal importance.

And the impact is $25 million in recent investments because of this new case, but billions of dollars in cost and just a wrong approach. But they believe that their competitors or Chinese manufacturers are selling unfairly - selling product in the US and pursuant to US law they certainly have every right to litigate. But in litigating without really seriously moving towards a negotiated solution we don’t see them benefiting significantly.

Indeed in all their recent announcements of the real investments that they’re making are all taking place in Germany not in the United States. And so let’s get to a negotiated solution where they’re actually going to get something out it and we’ve always said that no negotiated solution addresses competitiveness concerns. We’re not saying let’s go to an absolute pure free trade environment - that doesn’t help anyone that’s not what we’re saying. It’s just let’s use the negotiated mechanism to find a better path forward.

Julien Dumoulin Smith: If you did have a bifurcated tariff structure - what would that mean in terms of pricing here? You’d have the higher quality panel products remaining with some
tariffs so there’d be a much more material price discrepancy - is that the right way to think about it?

John Smirnow: I think so yes. Let’s just take that 60 cell example and then 265MW and above modules would be subject to a higher minimum price. The Chinese are making a lot of advancements on multi crystalline to get the efficiencies up; I think the expectation is that it will be a much higher efficiency product.

And the more mainstream product would come in under 265 and would be at a lower minimum price I don’t know what that price would be, but significantly lower than what the high efficiency price would. And the idea there at least from the US government’s perspective is that the higher minimum price on where SolarWorld’s really competing is for the higher efficiency product. That is really a niche market; but the bread and butter product that would come into the US would be for the lower priced product and significantly reduce the minimum price.

Julien Dumoulin Smith: Right and then any negotiated solution would work for SolarWorld?

John Smirnow: I don’t see how just a minimum price alone gets SolarWorld where they need to be. They need to make money so they can only go so far. Chinese companies are only going to go up so high because they’re limited by their third country competitors and they don’t want to block themselves from the US market and basically turn over the US market to third country suppliers.

So there has to be something else whether it’s a two tiered pricing regime that really focuses the minimum price on a small segment of the market. That’s one solution - again we do think that’s the wrong approach from SEIA’s prospective. Or some minimum price that acts more as a safety valve so very low minimum price with some cash contribution like the tax.

Again, the SEIA position is a cash tax of sorts - a few cents per watt that goes into a settlement fund; and the reasonable minimum price, and no quota – this would mean SolarWorld and all US manufacturers will be the
beneficiary of what we believe would be hundreds of millions of dollars in a cash fund that either could be paid out to them directly or used to leverage billions of dollars in investment in US manufacturing.

Julien Dumoulin Smith: Any sense as far as you’re concerned about the likelihood of the 17.5% to be upheld final June review?

John Smirnow: We don’t have a good read on that. We’re cautiously optimistic. And I think right now I would stick with cautious. I’m not sure I want to use the word optimistic until we’ve had time to review the parties submissions; once that decision is issued both the Chinese manufacturers and SolarWorld are able to dig into commerce’s decision and then file legal briefs addressing any inaccuracies or anything they disagree with on how the Department of Commerce got to the 17.5 percent.

Those briefs were just filed this week - we haven’t yet read them. Rebuttal briefs I think are due next week and so after we’ve looked into that had some conversations with the trade attorneys I think we’d be in a better sense to see if there really are some game changing issues out there and the strength of those arguments. At the end of the day the strength of the argument is determined by the Department of Commerce but we can certainly do our best in order to guesstimate where we think the landing could be and what are some of the key issues are in the case going forward.

Julien Dumoulin Smith: And just to be clear in terms of the refund – are you literally doing the delta between the 29% and the 17.5% on how many megawatts they may have sold in the first half of the year. Typically call it at about a 70 cent rate - is that effectively the math that we’re talking about?

John Smirnow: So again, it applies just to those specific imports that came in during that period of review. If you go to Slide Number Four - those are the two periods: for the Antidumping Order it’s May - and even entered into the customs territory of the US it’s subject to the 2012 order for May 25, 2012 through number 30th - so that’s your bucket for the ADCVD. And the Chinese companies - Trina was paying 23 some odd cents - everybody else
was paying 29 and let’s use Trina as an example - so Trina would then get assuming that 17.5 percent upheld so everything entered during that period they paid 23 and half percent.

They will get refunded the difference 23 and half minus 17.5. Yingli would get a bigger refund plus interest. They get some modest interest for the monies they tendered for the imports that filled that bucket during that period.

Conversely if the rates were to go up above 29% as to say hypothetically that 17 is reversed and it becomes, 34 then when the government looks back it’s going to say, hey I see you only tendered 23 so you owe us the difference and then they’re going to have to make the payments for that.

Julien Dumoulin Smith: Right. So you’ve got the first review here - you’ve got subsequent reviews that will take place. Is it your expectation that as prices come down that you’ll see a lower percentage or how do you see this iterating through subsequent years and subsequent review process?

John Smirnow: It really depends. You would expect that in the next Administrator Review the margins would be even more favorable to the Chinese manufacturers. Let’s just take the Antidumping Duty for example. The next Administrator Review will cover 2014. And we saw a lot of product coming in from China over that year - paying mostly the 29%.

And if you look at any pricing study over 2014, prices were stable - they didn’t change much. We saw our prices go up towards the end of 2013, some uptick in early 2014, but then again for the big volume/large wholesale stuff, prices generally stayed stable over the course of 2014. But at the same time Chinese manufacturers were reducing their costs so you would expect that as their costs go down that the prices that they’re getting in the US remain the same - the delta is better for them and that there would be even lower or no evidence of dumping.
But it just depends on a lot of different dynamics that are in play here. The Department of Commerce could pick companies that for whatever reason didn’t do a good job of keeping their accounting and so rather than Yingli or Trina they pick some company that hasn’t participated in one of these reviews before. These companies may not do a great job of getting a good number during the Administrator Review and then that translates to the rest of the people who are not those specifically identified companies, but who are subject to those rates.

Those types of complexities could arise in an Administrator Review going forward. So if you just think of it in a vacuum you would expect the numbers to get better. But there are factors such as who is subject to review - how do they keep their records - did they pass verification - does the Department of Commerce punish them because they think they’re hiding something. And therefore they get a very punitive rate – which then gets applied across the other people who are part of the review, but not directly involved.

Julien Dumoulin Smith: Assuming the market comes out of here at 17.5 - what would be the investment implications? If you can reiterate, what are the decisions that people are making or not making today that would subsequently change?

John Smirnow: The bigger the project the more the impact. So the bigger the project their equipment costs are going to be a bigger contributor to the overall project costs (and as we know that the bigger the project, often times the tighter the margins). And so a swaying in a few cents - even one or two cents in equipment costs can really mean the difference between whether a big project goes forward or not.

It also could be the difference on how they price out a project their ability to price out the PPA so that’s where you’d see the biggest impact is on big utility scale certainly and possibly even some of the really big commercial projects.
Julien Dumoulin Smith: Got you – and how about in terms of manufacturing?

John Smirnow: Because of the trade case SolarWorld invested tens of millions of dollars. Suniva has said they explicitly invested 12.5 million because of the trade case and there’s been some discussion about Missions Solar. I believe in San Antonio that investment was also tied to the trade case to some extent (but it also had more to do with an agreement with a captive supply agreement with a local utility).

You also have the large solar plant out in New York I leave it to SolarCity to discuss whether the trade case had anything to do with that, but I haven’t heard them say that. But certainly indirectly there are benefits the trade case does provide benefits for US manufacturing. I don’t think there’s any doubt about that. But I’m not sure we’ve seen major investments in US manufacturing - a game changing a shift in a complete mind set of investing in the US because of the trade cases.

I think more than anything we’ve seen that type of shift or those types of investment being made in third countries. We heard about Thailand, Singapore, Korea, Malaysia. That’s where we’re seeing the trade case - really at the end of the day it’s benefiting third country suppliers. In the first trade case Taiwanese manufacturers were the primary beneficiaries of the litigation and in this case it does appear to be the third countries where all those new investments are going to avoid the tariffs that those are the primary beneficiaries on the manufacturing side.

(Question): Hi John thanks for the time. Could you talk a little bit about the possibilities based on outcomes from the review, for the Taiwanese cell manufacturers?

John Smirnow: So the Taiwanese are unfortunately in a tough spot because in some ways they’re an innocent bystander. I think SolarWorld would take issue with that description, but similar to the polysilicon folks they’re getting pulled into what really is a grudge match between SolarWorld and the Chinese manufacturers. And there is definitive duties on product cells from Taiwan a - I don’t off the top of my head remember the specific rates, but at least I think Motech had a decent rate and so Motech is
probably still able to access the US market or sell their cells to other suppliers that eventually end up in the US.

But for the Taiwanese it’s probably just a short term issue where they have to figure out whether they want to modify their business channels or supply channels to continue to access the US market or are they just going to focus on supplying third country markets. The US is a very much an important market, but so too is China and potential growth we’re seeing all over the world. I think eventually the Taiwanese are going to be just fine. But I would expect in the short term they’re going to be under some pressure to the extent that they were weighted towards supplying product that ended up in the US.

(Question): My question was about some talk about the Chinese manufacturers and that the duty will be applicable only if the two steps are in China - can you share something on the number of steps that make the duty applicable?

John Smirnow: Yes so that issue has gone away. It was if you had the Ingot and Wafer and cell module - so if you had moduling plus one I think was the step. Commerce decided not to go with that analysis. What they decided in the most recent cases that it was about moduling - period. So if you're moduling in China you're either subject to the new case - the 2014 case or the old case. It all depends on which cell you're using. So if you're moduling in China with the Chinese cell that's going to be covered by the 2012 case. Everything else - modules or cells from Taiwan - Malaysia - Korea all those cells if there moduled in China there going to be subject to the new - the 2015 ADCVD orders - so that whole two step criteria is irrelevant and in the past.

(Question): So if they set up new special facilities outside of China and they get the cells and they just make modules then the duty is not applicable?

John Smirnow: Let's say a company is setting up a facility in Thailand for module assembly. If they use a Chinese cell in that facility then that product will be subject to the 2012 orders. If they use a Taiwanese cell in that facility it would be subject to the 2015 Taiwan order. If they use
a cell anywhere else no duties apply - no ADCVD duties apply.

There are three separate scope decisions that determine which order applies or whether the order applies. The 2012 case on China - the key question is where was that cell manufactured? Government doesn’t care where the module was put together. If that module’s coming into the US and it has the Chinese cell, then the 2012 order applies. Alternatively if the module is coming from China with another cell - a non-Chinese cell and it was moduled in China it's covered by this new 2015 case.

And then if a module has a Taiwanese cell then that similar rule that you saw in the 2012 China case where the cell is really all that matters that module is going to be subject the 2015 Taiwan AD order.

(Question): I guess my question is if these companies are setting up manufacturing in Thailand and they’re still using Chinese cells do they get any advantage of doing it in Thailand? They will still be applicable to some duty of the 17 or 30 percent?

John Smirnow: Yes it would be the new 2012 rate. Again if you’re using a Taiwanese cell it doesn’t matter where you are manufacturing it. But my understanding is these investments are not going to use Chinese or Taiwanese they’re going to use cells that are made in those very countries.

Julien Dumoulin Smith: Great. Well one last question - have tariffs helped reduce the installation cost since product costs essentially have a lower price? Do we miss risk less competitive installation prices if installers can make higher margins on product costs in their environment without tariffs?

John Smirnow: I don’t think so. I think if you see the equipment cost come down certainly there are going to be some suppliers that aren’t going to pass those on, but I think there certainly will be companies that do. And let’s just look at it historically: the reduction in equipment costs has been directly attributable to the overall installation
or cost of the product, so I would expect that to continue.

But we’re also going to see equally important reducing the balance of system costs - the investment cost - financing cost, but absolutely lower module prices will lead to lowering the cost solar overall.

Julien Dumoulin Smith: Got you - great. Well I think with that we’re slightly past the hour here so we should probably call it a day. So John thank you very much for the time.

John Smirnow: Thanks, Julien. Take care.

Julien Dumoulin Smith: Thank you.

END

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<th>IB Services2</th>
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<td>Buy</td>
<td>FSR is &gt; 6% above the MRA.</td>
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<td>37%</td>
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<th>Short-Term Rating</th>
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<tr>
<td>Buy</td>
<td>Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.</td>
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<tr>
<td>Sell</td>
<td>Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.</td>
<td>less than 1%</td>
<td>less than 1%</td>
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