Boom and Bust for China’s Wind Power Industry

Alexander Pan, February 23, 2010
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Over the past several years China has proven to be a world leader in renewable energy production with heavy investment into the hydro, solar and wind power industries. The growth of China’s wind power sector has been particularly impressive with a twenty fold increase in total wind power capacity of over the past five years. Now, however, the industry seems to have become a victim of its own success and lack of prior planning as an over abundance of obsolete technology and competition from abroad has sent prices for wind power technology plummeting.

The current “bust” of the wind power bubble can be largely attributed to the rapid, yet irresponsible growth of the industry from 2004 through 2009. In 2004 there were only six wind turbine producers in China, this number has expanded to nearly 70 producers in 2009. As these firms rushed into the industry, many of them lacked any prior knowledge of wind power technology and began producing what was in demand at the time with out planning or consideration for future demand. These firms also paid little to no attention to the research and develop of new more efficient technologies.

Take turbine blades for example. During the height of the wind power boom, 37.5 meter blades were considered to be the most efficient blades available and nearly 75% of all blades produced were of this length. However recent research has shown that a 40.3 meter blade is dramatically more efficient than the smaller blade. This sent demand for the shorter blades crashing and left the firms with a large surplus of blades that had to be sold off at dramatically reduced prices.

In addition Chinese firms are now facing more intense competition from the international market. The Chinese wind power industry had previously been protected by strict trade laws that’s required 70% of all wind turbines used in the country to be produced domestically. The Chinese government recently abandoned these measures leaving the market open to free competition.

While these recent developments may have hurt some of the smaller and less efficient producers of wind turbines, It has provided an opportunity for dramatic growth to those
producers who have poured resourced into R&D and have managed to stay ahead of the curve. One such company is the Sinovel Wind Group Co which currently holds the largest share of the domestic wind power product market. Companies like Sinovel and other leading manufactures will no doubt look to acquire the assets and holdings of other smaller firms who have not fared as well during this boom bust cycle. Experts predict that the industry will enter a so called “consolidation phase” and we should expect to see a wave of mergers and acquisitions taking place.

Edward Lehman, managing director of Lehman Lee and Xu commented that “What we are current seeing is the bust of a once booming industry. As in any period of bust we can now expect to see the rapid and dramatic reorganization of this industry. We at Lehman Lee and Xu look forward to assisting this industry reorganize and get back on its feet as quickly as possible so that China can continue on its path to becoming a world leader in renewable energy production.”

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