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Clean Energy Trade Dispute With China Is Amplified in Political Season

By JOEL KIRKLAND of

Small business coalitions are blaming the Senate for American job losses resulting from a failure to embrace climate legislation that would build up U.S. markets for clean energy technology. Further, the political stalemate opens the door to costly U.S.-China trade disputes as China steams ahead to expand its green technology manufacturing base.

"So long as you have industries propped up by government subsidies, you're going to have these fights," said Tim Greeff, political director of the Clean Economy Network, which joins energy financiers and environmental groups.

Companies working on wind and solar power projects, advanced batteries and cutting-edge technology for generating cleaner electricity aim to produce their products cheaply enough to compete in energy markets dominated by oil and coal. For the most part, the United States, Europe and China subsidize nascent technologies through loans and grants to companies and tax breaks for consumers.

But China is now under fire from U.S. labor unions for being too heavy-handed and using unfair trade practices that benefit Chinese companies at the expense of U.S. manufacturing jobs.

The United Steelworkers last week filed a 5,800-page petition with the Office of the U.S. Trade Representative (USTR) that called on the Obama administration to launch a formal investigation into whether China has ignored international trade agreements to help its clean energy technology sector. It cited a fleet of government export subsidies, including low interest rates and access to cheap land, that allegedly give China's lower-cost manufacturers an unfair advantage.

A fight over China's role in luring away U.S. clean energy jobs to a cheaper labor market and a growing Asian consumer base places the White House on the hot seat just ahead of congressional elections in November.

If Congress passes legislation putting a price on greenhouse gas emissions, contends Greeff of the Clean Economy Network, capital would stay in the United States to fund domestic manufacturers of low-emissions technology. It would dampen the political pressure to battle China's energy policy at the World Trade Organization (WTO).

"The real question is, when those markets are created for new emerging technologies, will we be able to capitalize?" he said.

Does China gain jobs from climate bill's fall?

Greeff's group and others, including the Small Business Majority, American Businesses for Clean Energy and the Main Street Alliance, issued a report yesterday claiming China and other countries "gained more than \$11 billion in job-creating clean energy investments" in the two months since the U.S. Senate abandoned climate legislation in July. According to modeling data, the groups say nearly 2 million jobs have been lost because of the Senate's inaction.

The trade union's claims about China's trade practices are grabbing some attention on Capitol Hill.

In a statement yesterday, Sen. Kirsten Gillibrand (D-N.Y.) warned that China is positioned to corner alternative energy markets in their early stages through illegal trade practices. The senator called on the USTR to investigate whether China's system of propping up domestic industries violates WTO rules. China's economic powerhouse is the fastest-growing new member of the WTO.

"Over the past decade, China is accused of providing its local firms with assistance ranging from export subsidies for Chinese alternative energy firms to export restrictions on key components and resources needed to develop green technologies," Gillibrand said.

She cited China's practice of working with U.S. and other foreign companies on joint ventures under the assumption that Chinese companies can adopt Western technologies. "This potentially undermines years of American investments in research into clean energy technology and makes America less competitive," she said.

The WTO prohibits export subsidies that give domestic companies an advantage when they sell into the global market. It also restricts tariffs and subsidies that could thwart foreign competition.

According to the union's complaint, China subsidizes companies based on export performance or on the use of Chinese-made goods during the manufacturing process. It notes that one program, called "Ride the Wind," grants access to loan benefits and connections to the power grid if a wind power project can show it uses Chinese-made equipment. China gives preferential treatment to foreign companies that use Chinese-built products, according to the petition.

Export restrictions and 'local content' rules

The union also asserts that China has imposed export restrictions on rare earth minerals needed to build wind turbines, solar panels and advanced batteries. China is rich in those resources, the petition notes, and export restrictions increase prices for companies outside of China and create a new incentive for U.S. companies to build factories in China, closer to the minerals supply. China uses export quotas, taxes and a complicated licensing process to restrict mineral exports.

The complaint also asserts that China rigs bidding processes for wind power projects by forcing consideration of "local content" in the project. Much of this is done through power purchase agreements with local governments, which the union asserts don't fall under a WTO exemption allowing "local content" discrimination for government procurement.

The politics of clean energy jobs played out Monday, as President Obama called and congratulated the executives of A123Systems Inc. for opening North America's largest lithium-ion auto battery manufacturing plant in Linovia, Mich.

The plant was funded through a \$249 million federal stimulus grant and a host of state incentives. China also has a big share in the battery manufacturing, but analysts say the giant U.S. car market and the cost of shipping batteries are major incentives for building factories in North America.

Academic observers and trade attorneys are taking a wait-and-see attitude about the merits of a potential WTO case against China and the Obama administration's willingness to pursue it. But with the economy and job creation dominating the midterm election season, the union's petition has stirred up discussions among labor unions, environmental groups and foreign policy experts trying to get a handle on China's impact on the U.S. economy.

The BlueGreen Alliance unites nine labor unions, including the USW, the Sierra Club and Natural Resources Defense Council. "Every day America delays action is another day that China capitalizes on jobs created in the production of clean energy technologies that could and should be developed, manufactured and installed in the United States," it said.

Who wins and who loses?

But not everyone agrees that, without China's heavy-handed clean energy subsidies, the United States would build thousands of new factories to assemble wind turbines and solar panels. American science and high-tech ingenuity are positioned to profit on their role at the start of the supply chain -- for example, a U.S. company with a patent for a low-cost solar wafer or silicon technology.

Michael Levi, an energy expert at the Council on Foreign Relations, challenged the union's underlying assumptions. "Indeed if the United States were to insist that all parts of the solar value chain stay in the United States, the result might not be more jobs, it might be less," he wrote in a Sept. 9 blog post. "Unable to reduce the cost of cell and module manufacturing, the cost of solar might stay too high, reducing the overall solar market, and with its jobs in wafer and silicon production, too."

Other sectors work the same way, he said. "China assembles computers that used to be made in the United States. Does anyone think that this means America is losing from the computer and IT revolutions? Of course not."

If China and the United States focus on their strengths, Levi contends it's a win-win for solar power.

Still, on his blog yesterday, Levi challenged the notion that the United States automatically wins if Chinese manufacturing enables cheaper clean energy. Producing cheaper electricity made by Chinese-made solar panels would stimulate areas of the U.S. economy that use solar power, but it would hurt U.S.-based solar producers. Whether China's position in the solar market is a net positive for the U.S. economy "is an open question," he said.

"Chinese industrial policy may give us nice cheap solar panels in the near term," Levi said, "but if it drives competitors out of the market, and China then withdraws its supports, things could be much uglier in the long term."

China's dominance in silicon-based photovoltaic panels could damage a rising U.S. thin film solar industry, Levi said for example, which could make solar more expensive in the longer term.

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