THE DAILY CALLER

Report: US green energy subsidies jeopardize American companies, global markets

By: Michael Bastasch - October 9th, 2012

With China and the U.S. now embroiled in a trade skirmish over green energy subsidies, questions have been raised about the overall economic benefits of this taxpayer expense. The trade fight is "indicative of the broader U.S. subsidy debate" which leaves U.S. manufacturers open to retaliation by other nations, creates uncertainty in global, and wastes government money, writes Scott Lincicome, an international trade attorney with White & Case, LLP and author of a new study published by the libertarian Cato Institute. "The U.S. government's subsidization of specific companies and enterprises subjects U.S. exports—and U.S. trade and subsidy policy more broadly—to scrutiny and potential retaliation by other WTO members in the form of CVDs or suspended concessions via a WTO dispute," writes Lincicome.

The Congressional Budget Office (CBO) estimates $24 billion was spent in 2011 to subsidize fuels and energy technologies, with $20.5 billion in tax preferences and $3.5 billion in Department of Energy spending programs.

Seventy-eight percent of all tax subsidies and 54 percent of DOE subsidies went to alternative energy projects. The Institute for Energy Research calculated that wind subsidies were $56.29 and solar were $775.64 for every megawatt-hour of energy produced.

Conflict between China and the U.S. over solar cells and polysilicon — a key component of solar panels — affects billions of dollars in trade between the two countries. More than $3 billion worth of merchandise in 2011 trade in the case of solar, according to

Lincicome. The U.S. exported $397 million in polysilicon to China in the first five months of this year.

“Such responses undermine U.S. efforts to promote trade and to discourage other countries’ use of trade-distorting subsidies on the national, bilateral, and multilateral levels. They also inject uncertainty into U.S. and global markets, while wasting finite government resources on long legal battles and tit-for-tat trade disputes,” he continues.

The U.S. government launched investigations of Chinese solar panels and wind turbines, one of which led to a WTO complaint against Chinese subsidies to wind-power equipment manufacturers.

The DOC has already announced preliminary findings on countervailing duty and antidumping determinations, to which the Chinese government responded by pointing out rampant U.S. and launched its own investigations of U.S. renewable-energy subsidies.

China’s first of two investigations resulted in a final report showing instances of “prohibited subsidies” granted by U.S. states, and they are now mulling over bringing formal charges to the World Trade Organization or take other “necessary action.” The Chinese solar industry is in dire straits, with big manufacturers losing $1 for every $3 of sales and blame U.S. tariffs for their woes.
According to Lincicome, China also initiated an investigation into U.S. imports of polysilicon, alleging that U.S. state and federal subsidies have hurt Chinese competitors. This comes after the Obama administration slapped tariffs of up to 250 percent on U.S. imports of imported Chinese solar cells.

More importantly, besides the manufacturers who are already being affected by investigations, others are left open to future anti-subsidy measures.

The Department of Commerce is set to make its final determination on tariffs on Chinese solar cells on Wednesday, and the U.S. International Trade Commission is expected to rule in November whether or not China’s trade practices hurt U.S. companies, meaning the tariffs will stand.
“The United States — a rampant subsidizer of domestic solar panel manufacturers — will very likely impose final anti-subsidy (and antidumping) duties on Chinese solar panel manufacturers,” writes Lincicome in a blog post.
Also, China’s Ministry of Commerce is expected to make preliminary findings in November about U.S. manufacturers dumping polysilicon.

Lincicome notes that Department of Energy loan guarantees that have gone to U.S. solar manufacturers could also come under fire.

“The Section 1705 program is very likely a countervailable subsidy,” Lincicome writes. “Ironically, the only thing likely preventing a [countervailing duty] case against U.S. solar panel exports is the green subsidy programs’ failure.”

In other words, U.S. solar panel companies remain uncompetitive, thus can’t cause “injury” in the global market.

“U.S. biofuels and polysilicon producers, however, have met with more success, and thus more backlash,” Lincicome notes.
The solution to these problem, according to Lincicome, is to curb federal subsidies to favored industries, like solar and wind, and to also reform countervailing duty procedures.

“By curtailing federal subsidies to favored industries and by reforming CVD procedures to ensure that they serve the rule of international trade law—rather than protectionist objectives — the U.S. government can reduce market distortions, restore some faith in free markets, and lead national and international subsidy reform initiatives,” Lincicome concludes.