Strong 2010 European PV Market Growth of 169% Set to Give Way to 14% Contraction in 2011

LONDON, UK, July 21, 2011—Rapidly falling prices in 1H’11 have been unable to stimulate the faltering European PV market, according to the latest Solarbuzz® European PV Markets Report. Signs of a strengthening market in June 2011 were hit by cancellation of the anticipated mid-year incentive tariff reductions in Germany.

“For the past decade, Europe has played a dominant role in creating the demand growth that has fueled global manufacturing capacity expansion,” noted Alan Turner, Vice President of European Market Research for Solarbuzz. “This was underpinned by aggressive, uncapped feed-in tariff (FIT) programs that are now being scaled back to reduce costs. Policy adjustments are becoming more frequent, creating uncertainty for investors in PV systems.”

The downturn in European major markets in 1H’11 left module shipments from manufacturers running well ahead of end-market demand. The resulting increase in downstream inventories quickly spread to the upstream, causing production plans to be reined in. Desperate to stimulate growth, crystalline silicon module price offers from manufacturers have reached new lows of €0.75-1.00/W.

PV Incentive Tariff Policy Changes Shape Market Growth

Market growth of 169% across Europe in 2010 was led by three countries: Germany, Italy and the Czech Republic. Each country delivered gigawatt-scale markets and, combined, represented 89% of European demand. Italy’s market share is forecast to rise from 32% in 2010 to 39% in 2015 to become the largest market in Europe, while the combined share of the two largest markets, Italy and Germany, is forecast to fall to 71% in 2015 from 80% in 2010.

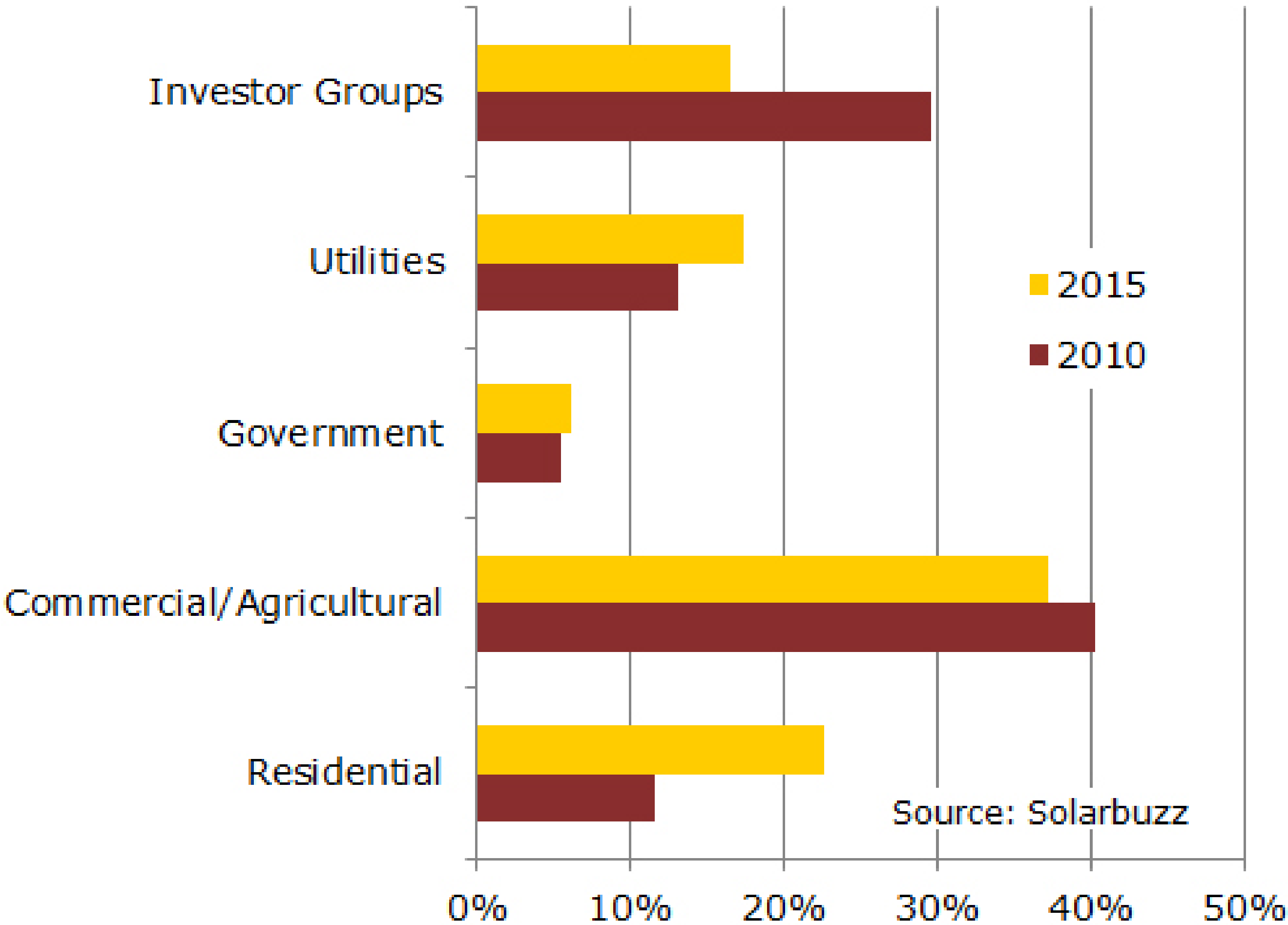
Growth of the Italian market in 2010 came despite installed system prices up to 33% higher than in Germany, depending on system size. Even with high prices, solar PV project investment returns(IRRs) up to 20% could still be realized, a clear indicator both of the generous level of incentive tariff rates and the headroom for future tariff reductions.

France, Spain, Belgium and Greece constituted a strong second-tier of markets in the 100-1000 MW size range in 2010. Here, forecast project Internal Rate of Returns (IRRs) will generally meet or exceed customer expectations in most major market segments in 2011. However, by 2012, only in Greece will this be the case for large ground-mounted installations. Smaller markets offering growth potential include Slovakia, Bulgaria, Ukraine and the UK.

Based on an assessment of countries over the next 18 months, incentive tariffs for residential systems are set to fall by at least an average 17%, with commercial roof-mounted systems of 100 kW falling by 23% and ground-mounted 1 MW installations falling by 34%. Residential tariffs in Greece and the UK show the least reduction among the major markets in Europe through 2012, according to current policy plans, while tariffs for large ground-mounted systems fall to the lowest levels in Belgium, Spain and France.

Over the next five years, customer segmentation changes across Europe will see the residential segment double its share. In addition, investor groups' share will fall by almost half, while commercial (including agricultural) customers remain the dominant market segment.

Figure 1: Forecast Changes to Customer Segmentation in Europe 2010 vs. 2015 Green World Scenario



Source: Solarbuzz 2011 European PV Markets

By June 2011, average distributor prices for crystalline silicon modules from Chinese producers had fallen to an average €1.28/W. This is 20% down from average distributor prices of €1.60/W at the end of 2010, following relatively stable pricing through 2010 with a slight upturn during the second half of the year. By contrast, their European and Japanese counterparts saw prices start to decline in July 2010 and have continued ever since, reducing their price premiums of 20-25% for most of Q1'10 to 10-15% for most of Q1'11.

Module sales in 2010 were split 38% from manufacturers/brokers to installers, 37% via the wholesaler channel and 25% direct.

Downstream PV Companies Prepare for Lower Market Growth Expectations

Tightening of PV incentive policies across Europe is creating an extremely challenging time for downstream companies. Many are now facing over-valued inventories, weaker sales and potential cash flow problems. Sales channel positioning, geographical diversification and acquisition activity feature strongly in the current re-assessment of business models, but so too does differentiation by the larger wholesalers through a relentless pursuit of higher module quality.

Longer term, major regulatory challenges lie ahead before grid parity can stimulate self-sustaining markets, despite fast reducing solar electricity costs. Over the short term, German utilities are concerned that PV generation capacity is creating unacceptable risks for its overall grid stability. As a result, utilities are placing intense focus on electricity storage and smart-metering technology, which will add costs, complexity and cause delay to PV deployment.

Turner added, “The uncertainty over the path of European incentives, industry pricing and regulatory constraints will ensure that this region is now entering a very challenging period. Business models that worked based on a limited number of high growth European markets together with high prices will be sorely tested as this region changes to a more fragmented market structure with considerably tighter downstream margins.”