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U.S. International Trade Commission Report Cites Local Content Requirements as Significant Barriers to Trade in a Growing Global Market for Renewable Energy and Related Services

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A comprehensive new report from the U.S. International Trade Commission (USITC), titled Renewable Energy and Related Services: Recent Developments, examines the rapid growth of solar, wind, and other renewable energies, and identifies key barriers to growth in these industries.

With a particular emphasis on solar and wind energy services, the report summarizes trends in both the U.S. and global markets from 2007 to 2011, finding significant growth as the application of renewable energy technologies has increased worldwide. Favorable government policies have played a key role in driving demand for renewable energy technologies and, thus, renewable energy services. While international trade and investment in renewable energy services has grown, barriers remain in the form of local content requirements and broader horizontal restrictions on commercial presence and the movement of people.

The market for solar and wind energy services grew substantially from 2007 to 2012, as both developed and developing countries installed greater solar and wind energy capacity. According to the USITC, solar photovoltaic (PV) energy was the fastest growing renewable energy source during this period, with annual installations increasing more than ten-fold worldwide, from approximately 2.5 gigawatts (GW) in 2007 to 29.1 GW in 2012. In 2012, the largest

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markets for new PV installations were Germany (26%), China (12%), Italy (12%), and the United States (11%). Services accounted for approximately $34 billion of a global PV installation market worth approximately $92 billion in 2011, up from an estimated $10 billion of a $20.3 billion market in 2007.

Annual installations of wind energy capacity worldwide more than quintupled over the last decade, from approximately 8.1 GW in 2003 to 44.8 GW in 2012. In 2012, the largest markets for new wind installations were the United States (29.3%), China (28.9%), Germany (5.4%), India (5.2%), and the United Kingdom (4.2%). In 2011, services accounted for approximately $23 billion of a global wind installation market worth approximately $71.5 billion, up from an estimated $9.6 billion of a $30.1 billion market in 2007. Since 2007, the composition of the wind energy market has shifted substantially, with China's share of cumulative installed capacity increasing from 6% to 27%, and the share of major European countries decreasing substantially.

According to the USITC's surveys, local-content requirements, which mandate local sourcing of a portion of the goods or services associated with a given project, are the most prominent obstacles to trade and investment in foreign solar PV and wind energy services markets. Because many providers of solar PV and wind energy equipment also provide related services, local-content requirements present a significant barrier to services exports even when they apply only to the provision of equipment.

Additionally, most exports of renewable energy services occur through the establishment of a commercial presence abroad, or through the temporary movement of service providers into a foreign country. As a result, broader horizontal, or non-sector-specific, restrictions on commercial presence or the movement of people present a barrier to renewable energy services trade. Multilateral efforts to address such barriers to trade in renewable energy services have stalled, but regional and bilateral efforts through the Asia-Pacific Economic Cooperation forum and the Trans-Pacific Partnership negotiations have made greater progress.

While the report does not discuss solar PV or wind energy trade cases, the USITC in recent years has found that dumped and subsidized imports of solar PV and wind energy equipment have harmed the U.S. industries. On December 5, 2012, the USITC issued a unanimous final determination that dumped and subsidized imports of solar cells and modules from China materially injured U.S. solar cell and module producers, and the U.S. Department of Commerce (DOC) issued antidumping (AD) duty orders up to 249.96% and countervailing duty (CVD) orders up to 15.97% on the subject imports. On January 18, 2013, the USITC issued a final determination that imports of utility scale wind towers from China and Vietnam were a significant cause of material injury or threat thereof to U.S. wind tower producers. DOC imposed AD orders from 44.99% to 70.63% and CVD orders from 21.86% to 34.81% on wind tower imports from China. On wind tower imports from Vietnam, DOC imposed AD orders from 51.50% to 58.49%.

According to the USITC, government policies incentivizing the use of renewable energy technologies and declining equipment prices were among the key drivers of increasing demand for solar PV and wind energy installations and, as a result, demand for solar PV and wind energy services. Particularly in the solar PV market, the lower cost of installations has led to greater demand in both the United States and globally. The median price of PV installations in the United States declined by more than 40% from 2002 to 2011, and by

66% in Germany from 2006 to 2011. The primary government policies incentivizing solar PV and wind installations include:

- **Feed-in Tariffs (FIT)**: FITs guarantee the purchase of renewable energy at a set price for a specific period of time;
- **Renewable Portfolio Standards (RPS)**: RPS programs require electric utility providers to derive a portion of their energy from renewable energy sources;
- **Production Tax Credits (PTC)**: PTCs provide a tax credit to renewable energy producers for each unit of energy produced, effectively reducing the production cost of renewable energy; and
- **Investment Tax Credits (ITC)**: ITCs provide a tax credit equivalent to a certain percentage of the cost of a renewable energy installation.

In the wake of the global financial crisis, the expiration of or uncertainty surrounding renewable energy incentives has led to decreased demand for new solar PV and wind installations in many western markets, particularly in Europe.

As the global market has grown, U.S. solar PV and wind services firms have increasingly focused on servicing foreign markets, but barriers remain in the form of local content requirements and broader restrictions on commercial presence and the movement of people. The solar PV services market, in particular, remains dominated by domestic firms, whose efforts to expand globally have seen only limited gains. According to the USITC's estimates, in the United States, domestic firms performed nearly all residential solar PV installations, approximately 90% of nonresidential installations, and a majority of utility-scale installations. Despite limited expansion into Canada and some emerging markets, U.S. firms account for only a small share of the global PV services market. In recent years, however, several foreign equipment providers, including Japan-based Sharp and China-based LDK Solar, have acquired U.S. project developers, reflecting a desire by foreign equipment providers to expand vertically into the U.S. solar PV services market.

While there is greater international trade and investment in wind energy services, the market is dominated by the subsidiaries of major European multinationals, reflecting the trend toward large exporters of wind energy equipment becoming the largest suppliers of wind energy services. Likewise, Chinese exports of wind energy services have increased as Chinese original equipment manufacturers increase their global presence. Conversely, the United States, the largest importer of wind-powered generating sets, is also a net importer of wind energy services.

The report is available at www.usitc.gov/publications/332/pub4421.pdf.

For additional background on the solar and wind tower trade cases, please see:

- Wiley Rein International Trade Practice Wins Largest Trade Remedy Case Ever Against China: Commerce, ITC Rulings Conclude High-Profile Solar Trade Case;

- International Trade Commission Makes Affirmative Final Determination to Impose Dumping and Subsidy Duties on Utility Scale Wind Tower Imports from China and Vietnam.