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Record-low solar PV prices risk EU's open strategic autonomy

CC: EU Commission Executive Vice Presidents Maroš Šefčovič and Valdis Dombrovskis, and Commissioners Kadri Simson and Thierry Breton

SolarPower Europe, the European association representing the full solar PV value chain, wants to urgently draw your attention to the latest dynamics in the global solar PV sector, marked by steep reductions in solar module prices in Europe in recent months.

While declining costs is typically welcome news for accelerating a cost-effective energy transition, it is also **creating a deeply precarious situation for European solar PV manufacturers which were building up their manufacturing capacities encouraged by the broad political support for reshoring a European PV value chain.**

Since the start of the year, prices of PV modules have dropped by over 25% down to less than 0.15 EUR/W for low-cost products, now even submerging pre-Covid levels, making it extremely difficult for European manufacturing companies to sell their products. This is creating concrete risks for companies to go into insolvency as their significant stock will need to be devalued. We have already witnessed the ingot producer Norwegian Crystals filing for bankruptcy on 21 August 2023.

If no immediate action is taken, this situation will render the European ambition to create Open Strategic Autonomy, in key sectors like solar PV, extremely hard to reach.

The EU goal of reshoring 30 GW of the solar PV supply chain, as stated in the Net Zero Industry Act and adopted by the European Solar Industry Alliance, is at serious risk.

The recent decreases in solar PV module prices can be explained by a 'perfect storm' in the global solar PV sector. The combination of strong global demand signals during the pandemic (a demand-induced bullwhip effect) has led to new, large investment in solar PV supply chains with fierce competition between Chinese suppliers to gain market shares. This has resulted in large overcapacities across the value chain – thus leading to quickly dropping prices for silicon to modules, inverters and batteries. This is exacerbated by a slight, temporary, slowing down of the European solar market in Q3, compared to the energy crisis induced strong demand in 2022. The combined impacts of faster than expected power price decline, interest rate increases, and tightening bottlenecks around grid connections and project permitting all contributed to the slowing down of demand and were underestimated by wholesalers and developers ordering high quantities of PV equipment. Attached to this letter, please find a more detailed analysis of the market dynamics.

While these market dynamics are not unknown to global commodity markets, **the situation does require urgent action if EU leaders want to materialise the European Open Strategic Autonomy agenda and the rebirth of European solar manufacturing.**

SolarPower Europe, therefore, asks the European Commission and the Member States to take the following actions:

1. **Swift emergency acquisition of European PV manufacturer's module inventories.** This could be procured through an EU level special-purpose-vehicle, and/or by elaborating the Ukraine Facility for the green reconstruction of Ukraine. Such emergency measures are essential in the immediate term as the only effective way to tackle the issue of looming depreciation of inventories and ensure the survival of many European manufacturing companies.

2. **Set up a Solar Manufacturing Bank at EU level**, similar to the Hydrogen Bank under the Innovation Fund. Based on a system of two-sided competitive auctioning, the Bank will bring together the cheapest

European solar production projects with the highest willingness to pay from solar project developers backed up with a contract for difference from the state. Such Solar Manufacturing Bank can be set up in a matter of weeks and would give the much-needed short-term financial impetus in rebuilding solar supply chains in Europe.

3. **Address the inadequacies of the Temporary Transition and Crisis Framework (TCTF) for State Aid, in particular point 86** which is presented as a clause to allow for matching aid vis-à-vis Europe's global competitors, but does not adequately allow for aid for operational expenditure in compensation for structural energy cost disadvantages.

4. **Accelerate the adoption of the Net Zero Industry Act, including strong sustainability and resilience non-price criteria in specific auctions.** Member States should be allowed to set up 'resilience auctions', rewarding solar PV systems with the highest shares of production in the EU. This will secure a stable market for European manufacturers in the years to come, which is essential in that phase of industrial scaling-up.

5. **Advance the effects of the EU Forced Labour Regulation by backing the Solar Stewardship Initiative (SSI)**. The SSI, as a value chain assurance program, with third-party audits, ensures that companies can independently demonstrate commitment to upholding sustainability best practices in their production. With the support and recognition from the European Commission and national governments, we will see expedited market adoption of the SSI, enabling project developers to focus on the import of SSI-compliant PV modules, potentially creating an upward effect on PV module import prices.

6. **Enable collaboration between Member States programs** to support the build up of PV manufacturing value chains in Europe and ensure that significant pan-national clusters of PV manufacturing emerge. Only by leveraging the full market and technological ecosystem power of the EU will European Manufacturers become competitive players in the global PV market.

7. **Boost demand for solar PV in Europe.** This can be done in the short-term, for example, by landing a rooftop solar mandate as part of the ongoing European Building Performance Directive, or by pushing Member States to implement the December 2022 EU emergency regulation to accelerate renewable energy. EU leaders should also deal with inflationary effects that are currently delaying solar projects, for example by collaborating with the European Central Bank (ECB). Ultimately, the only structural way to deal with supply overcapacity is to boost demand. That is a win for all players in the solar industry, as well as for Europe's economic, security and climate goals.

Inaction will jeopardise the implementation of the Green Deal Industry Plan. Right now, we risk losing a key strategic industry in Europe, precisely at the moment when energy transition geo-politics require supply chain diversification, and a revival of the European solar manufacturing sector.

SolarPower Europe is grateful for your consideration of the above points and stands ready to discuss this important topic with you as soon as possible.

Yours sincerely,

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