PROGRESSIVE Investor

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Welcome to The Green Investor/ June 2012

The overall market tone was set by the happenings in Europe where the debt challenges of its southern members is looming large, and the U.S. jobs data which, with 69,000 jobs added, was not what investors were looking for.

For the month since our last issue, most markets have been down, except for Treasury bonds. The S&P 500 is resisting best of all major indexes with a loss of 6.27%.

We are entering a seasonally weak period for the stock market with plenty of uncertainty to unnerve investors. We have trimmed our portfolio, boosted our cash position, and we will not recommend new positions this month as we prefer to wait for the correction to work itself out. Be sure to read **"Green Bear Market"** and **"The Art of Selling"** to help you manage your portfolio risk.

Table of Contents

We've been producing *Progressive Investor* since 2002 and have merged with our sister newsletter, **The Green Investor** to widen the scope of what we offer you.

If you subscribe, you'll receive:

- 12 monthly issues a year devoted to green investments (up from our current 10 issues/year)
- a mid-month update every month
- a Green Portfolio, which has an annualized return of 22.82% since inception

If you subscribe from this website, you will get a significant discount: $185 (one year) or $333 (2 years), over 30% off the regular price.

If you want to renew your *Progressive Investor* subscription, please subscribe to our merged newsletter. Please subscribe here.

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PROGRESSIVE Investor

Green Bear Market

The broad stock market has been in a solid bull market since the lows set in early 2009. Despite a couple of corrections along the way (-15.99% and -19.39% respectively), and the current pullback, the uptrend remains intact.

While broad global stock markets tend to remain well correlated, certain regions or sectors can fall out of sync for prolonged periods of time. For example, European stock markets have turned down sharply and are lower today than they were at the end of 2009. Of more direct concern to us green investors is the fact that the market segment to which we are totally dedicated has been in a severe bear market for years.

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back to table of contents

The Art of Selling

The value of your current portfolio is but virtual value and, until you actually sell stocks, you only have paper gains (or losses) which are imaginary and can disappear unless you lock them in by pulling the sell trigger and complete the trade you started when you bought the shares in the first place.

As an investment newsletter most of our writings are about the sectors and companies we want to invest in, the buying and the holding phases of investing. While identifying the right sectors and stocks to invest in and when to do so is important, ultimately, all the money is made (or lost) when you sell.

When to sell depends greatly on ones investment strategy. In our case, we are long-term investors and we look for stocks which have the potential of at least doubling over the next few years. Generally, we like to let the winners run and cut the losers early. The ideal scenario is a stock which performs well and reaches our initial price target for profit taking. At that time we ask ourselves if the stock has mostly run its course, in which case we sell our entire position, or if we deem that enough upside is left we consider selling only half the shares, letting the rest run some more.

back to table of contents

PROGRESSIVE Investor

Commerce Puts Hefty Tariffs on Chinese Solar Imports

by Rona Fried, Ph.D., Contributing Editor

There's no shortage of opinions on the Commerce Department's decision to impose tariffs on imports of Chinese solar panels into the U.S. Since then, solar stocks have crashed to new lows and there are discussions of at least one Chinese company, LDK Solar (LDK), going bankrupt.

And this week, the [Commerce Department slapped a tariff on imports of wind towers from China](#).

On May 18, The Department ruled that Chinese solar manufacturers did indeed flood the U.S. with panels at prices below production costs, making it hard for U.S. manufacturers to compete.

It set hefty tariffs of 31-250% on Chinese solar imports: 31.2% for Suntech, Trina Solar, Yingli Green and 59 other companies that agreed to be investigated. All other companies have tariffs of a whopping 250%.

The tariffs are much higher than the anticipated 10-12%. In light of the massive surge of imports ahead of the determination, the duties apply retroactively for 90 days.

But that could change when the Department issues a final ruling in October. And the tariffs apply solely to crystalline silicon photovoltaic cells, not the final solar panels if they are made with cells from another country.

In March, Commerce ruled "Because China is unfairly subsidizing solar production" tariffs will be set at 2.90%-4.73%. Rates vary depending on the subsidies the company receives from China's government. The two tariffs combined could raise the price by about $1.10 per watt, about 17% higher than the current spot price of non-Chinese panels, says Bloomberg New Energy Finance.

Commerce will now initiate a final, more in-depth phase of its investigation, including examinations of solar operations and financial records in China. The International Trade Commission will come to its own conclusion, probably in July.

The Center for American Progress says that one reason the tariffs are so high is that "the Chinese market is not transparent. When China's local government officials support local enterprises, that support is often off the books, and that makes it very hard for Commerce Department investigators to identify and measure exactly what type and level of subsidy Chinese companies are receiving. This is precisely why the World Trade Organization includes a second-stage determination, on dumping practices, specifically designed to address nonmarket economies such as China's."

SolarWorld's Reaction

A SolarWorld-led group, Coalition for Solar Manufacturing (CASM), initiated the trade complaint in October 2011, asking for 100% tariffs.

They argue that Chinese companies benefit from massive government subsidies, which allow them to sell solar products below cost - at artificially low prices - to seize U.S. market share. That means its Hillsboro, Oregon-based manufacturing plant can't compete without tariffs.

Prices don't drop 50% in two years because of product improvements.

"The decision sends a clear signal: free trade does not mean there are no rules," Frank Asbeck, SolarWorld CEO, told Reuters.

Tariffs could begin to restore legal and fair global competition and revive growth in U.S. solar industry manufacturing and jobs, says SolarWorld in a statement.

Imposing tariffs "gives rise to the possibility that domestic solar manufacturing, environmentally sustainable solar production and robust global competition might one day soon return, boosting U.S. manufacturing jobs," says Gordon Brinser, President of SolarWorld Industries America.

SolarWorld says that CASM started with six manufacturers and has since grown to 210 employers representing over 17,000 employees, about 85% operating in downstream businesses such as solar system installation.

SolarWorld contends the Chinese government, in "showering manufacturers" with subsidies that cover costs spurred them to massively overbuild production capacity, export over 90% of production and sell solar products at dumped prices in the U.S. market.

The National Renewable Energy Lab (NREL) estimates that without such sponsorship, Chinese producers would have a 5% cost disadvantage in producing and delivering solar into the U.S. market, compared with domestic producers.

Solarworld AG (SWV.DE), Germany's biggest solar manufacturer, plans to bring the same anti-dumping complaint in Europe soon.

But "While the tariff may help SolarWorld in the U.S., Chinese modules will be sold into other markets, increasing price pressure there, so we see no huge fundamental improvement for SolarWorld," DZ Bank analyst Sven Kuerten told Reuters.

Chinese solar companies have a 60% share of the global market; the U.S. market accounts for 20% of their sales.

They are already looking to shift beyond U.S. and Europe markets, especially to Japan, which now has aggressive solar incentives.

The Center for American Progress argues, "Once Chinese companies drive out competition, they will immediately start raising prices to increase their profits and wean off government subsidies. We are seeing a similar pricing pattern in the global rare earths market. China has a third of the world's rare earth supplies but controls 90% of the global market, primarily because lax regulatory oversight enabled Chinese companies to mine cheaply and price everyone else out of the market."

The Other Side of the Coin

As we've written before, the case has divided the solar industry because low panel prices have been a boon for solar installers and developers.

Their concern is that tariffs will raise prices and stunt industry growth, saying that free global competition is good for American workers and end-users of the technology.

And it's widely acknowledged that Chinese manufacturers will be able to avoid paying the tariff by buying solar cells and wafers in Taiwan and assembling them there - a boon to those manufacturers.

"Today SolarWorld received one of its biggest subsidies yet - an average 31% tax on its competitors. What's worse, it will ultimately come right out of the paychecks of American solar workers. This decision will increase solar electricity prices in the U.S. precisely at the moment solar power is becoming competitive with fossil fuel generated electricity and the artificial tax will undermine the success of the

U.S. solar industry," says Jigar Shah, President of the Coalition for Affordable Solar Energy, which formed to oppose the SolarWorld-led complaint.

The solar industry isn't alone is asking for tariffs. The U.S. has placed punitive duties for unfairly low prices on steel pipe, pencils, electric blankets and bedspring imports from China, and is investigating imports of stainless steel sinks.

Latest Impact of Solar Tariff

There likely will be short term impacts from the tariff. Chinese solar manufacturers are suspending shipments - as much as 1.5 gigawatts (GW) or 45% of the total U.S. market in 2012 - while they modify business plans to absorb or avoid the tariff.

U.S. imports of Chinese solar panels could drop by half this year, says market research firm, IHS, Inc. That would raise prices, quickly deplete inventories and impact project timelines, they say in the report, IHS iSuppli PV Perspectives.

Even if Chinese manufacturers choose to sidestep the tariff, their costs will rise 10-12% by outsourcing component manufacturing or assembly to Taiwan.

But when you take into account that solar panels are 20% of the system price, the return on investment for solar installations is expected to decline by 1.5-2.5% if they outsource, which wouldn't deter most investors.

And the point of the tariff is to level the playing field for American solar manufacturers, which will likely fill in any gaps.

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*Rona Fried, Ph.D. is CEO of SustainableBusiness.com, which published Progressive Investor for eight years before merging with **The Green Investor** in November 2010.*

back to table of contents

PROGRESSIVE Investor

Green Fundamentals

Looking at the green industry from an investment perspective over the last few years one might get the impression of a sector going out of business. Most price charts, be they of individual stocks, sub-sectors or even the entire industry, look like Enron charts did during the collapse. The key difference to remember is that Enron would have gone bankrupt much sooner had the books not been cooked and bears no resemblance with the green sector which is made of multiple rich and productive industries such as Bio Chemicals, Fuels and Materials, Efficient Transportation, Energy Efficiency, Water, Natural Foods, not to mention Solar and Wind Energy, none of which are going away anytime soon.

In fact the clean energy sector has been booming and the action in the stock market belies the following realities:

back to table of contents

PROGRESSIVE Investor

Our Green Portfolio Update

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back to table of contents