



Wednesday, January 11, 2012

Solar Photovoltaics: Price is NOT the only issue in solar trade/competitive practices discussion

We believe that price should not be the sole focus of the solar trade/competitive practices discussion as the crux of the issue is about rules of engagement on trade given sovereign intervention from China. In addressing the industry concerns, we note that while a U.S. policy response in terms of import tariffs or local content requirements can be a near-term drag, we believe the industry/companies will adjust to the altered dynamic as they have with the reduction of subsidies every year.

Background: Jigar Shah, President, Coalition of Affordable Solar Energy (CASE), and founder of SunEdison on December 20, 2011 publicly asked Gordon Brinser, President of SolarWorld Industries Americas, and the Coalition for American Solar Manufacturing (CASM) to withdraw their petition to the U.S. ITC/DOC against Chinese solar imports for dumping solar panels in the U.S. below cost and receiving unfair subsidies which threaten the U.S. solar manufacturing industry.

Focusing exclusively on price brings neither legitimacy nor clarity

The U.S solar industry - be it at a trading desk or a roof top - is looking for a sensible national energy policy, particularly the downstream portion where most of the jobs reside and get created. Absent that, the parochial interests of the downstream seem to overwhelm any reasonable economic discussion with a focus on nothing else but price.

The sole focus on low solar panel prices - irrespective of how they have come about and the consequences there from - misses the point.

The broad contours of the issue as it pertains to solar PV industry are:

- Substitution of market mechanism with state sponsored capitalism by China
- Policy framework that leads to asymmetric and below cost pricing that destroys innovation/competition.
- Adhering to agreed and acceptable principles that enable free and fair trade/competition.

The crux of the issue is about rules of engagement on solar PV trade/policy given sovereign intervention from China, and when practiced in extreme form as seen with solar PV industry, it has led to structural imbalances within an industry with ramifications far more than just cheap prices. **Individual industries and companies can compete against each other but cannot compete against a sovereign which has currency, capital, taxation, and policy levers at its disposal.**

We believe the China dynamic is key to solar PV industry outlook for 2012 and beyond - if Chinese downstream solar installations are encouraged by policy in a meaningful way then it will be a major positive for the industry/companies as it will correct the supply side imbalance. On the other hand, if supply side support for local solar PV companies continues unabated, and should the U.S. policy (and possibly other countries) response be an imposition of import tariffs or local content requirements, the drag on the industry will continue with negative implications for stocks. We expect the industry/companies will eventually adjust to this altered dynamic as they have with the reduction of subsidies every year, but without the benefit of a market mechanism for price discovery.

Solar PV industry challenges currently are not necessarily from cost and technology as both these metrics are charting a commendable progress path (even without the consequences of capacity driven excesses from China). Building a strategic industry, more so one that impacts energy, and from a resource that free and plentiful faces far bigger and complex challenges in terms of sensible/sustainable policy framework and financing.

Rules of engagement are extremely important on matters relating to trade. Defining them is very complex, abiding by them even more so as countries evolve, and defending them when they are flagrantly violated needs unmistakable evidence. No wonder, the



decade-old Doha round of world trade talks stalled as much wider societal interests at stake polarized the world in terms of developed versus developing countries, industrial countries versus agricultural countries, and trade/capital movements versus market access/labor movement. A global power shift is clearly underway, and given that globalization has winners and losers, defining, abiding and enforcing rules of engagement is no easy task.

Supply side flood (with its attendant positives as well as negatives) is what China has delivered so far in solar PV without touching the demand element that it can unleash in its own backyard even as it imports a rising percentage of primary energy. We expect China to either rationalize its state-sponsored supply side excesses or create domestic demand to address some of the structural imbalances that pervade the industry. **The point is a trade/industry policy cannot be sustained with free market capitalism at one end of the trade while retaining totalitarian control to engage in economic warfare from the other side.**

On the other hand, demand element is largely what the U.S. has, and unfortunately it still does not have a national energy policy that can sensibly match that with competitively fair supply. A valid defense from the U.S on an issue that has a vital bearing at many levels of its society is not a protectionist trade war, but a message that free trade does not mean trade that is free of rules to prompt China to rethink its approach and look for a way that is a win-win for everyone. Today it is solar panels; tomorrow it will be about downstream installations, and beyond that it can be anything else. **If unchecked, extreme trade will be an end in itself and is nothing but the doctrine of Unrestricted Warfare in practice** (a concept advocated by PLA Colonels Qiao Liang and Wang Xiangsui in a book by the same name).

IMPORTANT DISCLOSURES

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by AURIGA USA, LLC:

Companies Mentioned in this Report that Are Not Covered by AURIGA USA, LLC:

Stock Prices as of January 11, 2012:

Price Target and Rating History (See Rating Definitions for Explanation)

Auriga USA, LLC disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

Contact Auriga for the charts containing rating and price target information of covered companies.

Rating Distributions

Auriga USA, LLC rating distribution by percentage (as of December 31, 2011):

All companies under coverage: All companies under coverage to which it has provided investment banking services in the previous 12 months:

Buy	69%	Buy	0%
Hold	29%	Hold	0%
Sell	2%	Sell	0%

Explanation of Ratings

Buy: Expected to produce a total return of 15% or better in the next 12 months.

Hold: Fairly valued; total return in the next 12 months expected to be \pm 15%.

Sell: Stock is expected to decline by 15% or more in the next 12 months.

Auriga USA, LLC Equity Research Disclosures as of January 11, 2012

Company	Disclosure

Auriga USA, LLC Equity Research Disclosure Legend

1. Auriga USA, LLC makes a market in the securities of the subject company.
2. The analyst serves as an officer, director, or advisory board member of the subject company.
3. The analyst or a member of the analyst's household has a financial interest in the securities of the subject company (this interest may include, without limitation, whether it consists of any option, right, warrant, future, long or short position).
4. Auriga USA, LLC or an affiliate of Auriga USA, LLC has managed or co-managed a public offering of securities for the subject company in the last 12 months.
5. Auriga USA, LLC or an affiliate of Auriga USA, LLC has received compensation for investment banking services from the subject company in the last 12 months.
6. Auriga USA, LLC expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
7. Auriga USA, LLC or its affiliates beneficially own 1% or more of the common stock of the subject company as calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934.
8. The subject company is, or during the past 12 months was, a client of Auriga USA, LLC, which provided non-investment banking, securities-related services to, and received compensation from, the subject company for such services. The analyst or employees of Auriga USA, LLC with the ability to influence the substance of this report knows the foregoing facts.
9. An affiliate of Auriga USA, LLC received compensation from the subject company for products or services other than investment banking services during the past 12 months. The analyst or employees of Auriga USA, LLC with the ability to influence the substance of this report know or have reason to know the foregoing facts.

Analyst Certification

I, Hari Chandra Polavarapu, was principally responsible for the preparation of this research report, and I hereby certify that the recommendations and opinions expressed in this publication accurately reflect my personal views about the company and securities that are mentioned in this report and that I have not received and will not receive direct or indirect compensation in exchange for the specific recommendations or views expressed in this report.

Disclaimers

This report has been prepared by AURIGA USA, LLC in New York. It may not be reproduced, redistributed or copied in whole or in part for any purpose.

This report is published for informational purposes and does not constitute an offer or solicitation to buy or sell any securities, products or services or participate in any trading strategy referred to herein. Investors should consider this report as only a single factor in making any investment decisions. This report does not provide individually tailored investment advice. The information and opinions provided in this report take no account of the individual client risk and return requirements. The securities discussed in this report may not be suitable for all investors. AURIGA USA, LLC accepts no liability for any direct or consequential loss or damage arising from the use of all or part of this publication. The information in this report has been obtained from sources that AURIGA USA, LLC believes to be reliable and accurate. However, no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. The information or opinions are provided as of the date of this report and are subject to change without notice.

AURIGA USA, LLC is fully disclosed with its clearing firm, Pershing LLC, is not a market maker and does not sell to or buy from customers on a principle basis.

We, our affiliates, any officer, director or stockholder or any other member of their family may from time to time purchase or sell any of the above mentioned or related securities. The Analyst(s) principally responsible for the preparation of this research report are prohibited from buying or selling securities issued by the companies that the Analyst(s) has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then the Analyst(s) may sell such securities after obtaining express written permission from the Director of Research or the Chief Compliance Officer.

Additional information on recommended securities is available on request

AURIGA USA LLC.

546 Fifth Avenue, 9th Floor, New York, NY 10036

Toll free: +1-877-8-AURIGA (+1-877-828-7442) email: research.disclosures@aurigausallc.com

Member SIPC and FINRA

© 2012 AURIGA USA. All rights reserved.