

A SUNRISE OR SUNSET? THE IMPACT OF TRUMP'S SOLAR TARIFF ON THE INDUSTRY

By Timothy Clackett & Clark Sackschewsky

Has the sun already set on the U.S. solar industry? For those impacted by the Trump administration's solar tariff, it may feel that way—an unexpected and costly setback amidst a larger-scale trade war. Others, however, may feel the opposite, welcoming the tariff as an opportunity to invest more heavily in their own U.S. manufacturing facilities.

Either way, U.S. solar companies have not been immune to the tariff's effects since its introduction in January. The administration's 30 percent tax on solar power imports—excluding the first 2.5 gigawatts of solar cell imports following the order—is set to last for four years. It will be reduced by five percent each year, eventually dropping to 15 percent in 2021.

ROLLERCOASTER SOLAR TRENDS

Solar installations in the U.S. have grown rapidly, with the industry experiencing a notable [upward swing](#) between 2010 and 2016. As the government implemented policies to encourage the production of solar energy technology—including the introduction of tax credits, net metering, and mandates that utilities derive a certain amount of their electricity from renewable sources—demand for solar power strengthened.

But in 2017, the trend reversed: Only 10.6 gigawatts of solar capacity were installed, compared to 15.2 in 2016, according to

GTM Research and the Solar Energy Industries Association (SEIA). The drop was caused by developers completing projects ahead of schedule in the expectation that the federal solar credits (which offer a 30 percent tax credit to buyers of solar energy systems) were soon to expire. Contrary to their expectations, the credits were extended until 2021.

SOLAR INSTALLATION BUSINESSES HIT HARDEST

Trump's solar tariff added another potential obstacle to industry growth, affecting both residential solar installation companies and those working on large, utility-scale projects. While the credit extension does offset some of the tariff's negative effects, some analysts predict that it may cause as much as a 13 percent [drop](#) in U.S. solar power installations over the next five years—impacting the industry's ability to reach 2016's peak levels of 15.2 gigawatts again until 2023. Meanwhile, the tariff also led GTM Research to [reduce](#) its forecast for additional U.S. solar-generating capacity during 2018-2022 by 11 percent.

Among the hardest hit are solar installation companies with large, utility-scale solar projects, for which fluctuating solar module costs can more significantly impact overall business expenses than those focused on smaller-scale commercial or residential projects. Last year, renewable energy firms had [installed](#) over \$6.8 billion worth of utility-scale installations, according to SEIA.

Whether this year's total will be as high is questionable. Already, many businesses have announced that they will be able to only complete a fraction of the solar projects originally planned for the year. Cypress Creek Renewables, one of the U.S.' biggest utility-scale solar developers, for example, has already shelved or canceled approximately \$1.5 billion in projects in Texas, Colorado, and the Carolinas due to the new tariff, and is slashing their hiring and employment plans as a result. As of June, U.S. renewable energy companies have [canceled](#) more than \$2.5 billion in solar power installation projects overall.

Industry reactions to the tariff have been varied. Many companies, in anticipation of the tariff, had imported and stockpiled solar panels before its effective date to protect customers from potential future price increases. Meanwhile, others have increased their prices to offset the additional costs. And many have petitioned the Office of the U.S. Trade Representative for an exemption, remaining in limbo until their petition is resolved.

POTENTIAL U.S.-CHINA TRADE WAR ADDS UNCERTAINTY

All, however, are facing the uncertainty that comes with an escalating trade war, including the introduction of new events that could potentially offset the tariff's intended effect. One of the biggest unexpected developments came in May, when China decided to cut its solar subsidies and incentives. The policy decision reverberated around the world, as the consequent drop in demand for supply panels by Chinese businesses and residents led to a global oversupply and unexpected price drop.

While U.S. solar prices have largely rebounded to where they were last summer, the effect revealed how easily and quickly the global balance could be offset by an unexpected development. And even if the solar industry is not meant to be a direct target, tariffs imposed on either U.S. or Chinese manufactured equipment—or goods that the solar industry depends on—could raise the costs for U.S. solar installers and manufacturers alike.

ONE BRIGHT SPOT: INCREASED LOCAL MANUFACTURING

On the bright side, not everyone is pessimistic about the tariff's effects. In line with the outcome the Trump administration expected, the tariff may, in fact, help boost U.S. solar panel production, benefiting domestic solar manufacturers that previously had to compete with cheap imports from Asia and other foreign countries.

Some of these intended results are already materializing, for both domestic and foreign solar manufacturers. In late June, South Korea's LG Electronics announced it will open a solar module assembly plant in Alabama that's expected to produce 500 megawatts of solar panels per year and create some 160 jobs, starting in early 2019. Other companies, including First Solar, JinkoSolar, Korea's Hanwha Q CELLS, and Heliene, among others, have promised to build domestic solar plants to increase production.

Nevertheless, manufacturing accounted for just 15 percent of solar jobs in 2017, according to last year's report by the Solar Foundation. How the tariff will affect U.S. jobs over the long-term—especially in light of the solar installation project cancellations and freezes—remains to be seen.

LOOKING AHEAD

Solar companies face much uncertainty in the months ahead. Nevertheless, not all is doom-and-gloom for a sector that, outside of the recent tariff, still has a lot of positive momentum. The 30 percent tax credit, for one, was extended until 2021. And despite the tariff's effect on prices, the cost of installing solar power systems is 70 percent [lower](#) than it was in 2010, according to SEIA. Finally, the long-term cost savings solar power affords businesses and residences remains a strong driver of demand. While the tariff may not benefit all solar companies equally, the industry still has a strong chance at making a comeback.

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