



EU clean-tech companies face a tough choice



January 2024

Is the EU, often seen as a pioneer in leading the sustainable transition, at risk of losing ground?



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Meyer Burger is a Swiss company that designs premium solar modules and manufactures them in Germany. In 2021, the company announced its target to expand capacity from 0.4 GW to 6.9 GW by 2026, targeting both the residential and utility sectors in the EU and the United States. Addressing both these regions creates the tough choice between the US's Inflation Reduction Act (IRA) and the EU's Green Deal Industrial Plan as it maps out its business for the next decade.

I | What happened

Meyer Burger announced in a press release on January 17th 2024 that it has decided to move its manufacturing base to the United States and close its manufacturing plant in Germany in absence of government support. This strategic shift is primarily due to significant market distortion in Europe, including both an oversupply of solar panels by Chinese state-subsidized over-production and import restrictions by the U.S and India. The company anticipates an **EBITDA loss of at least CHF 126m for the 2023 fiscal year**. Meyer Burger's decision to prioritize its U.S. operations is also influenced by the country's favorable industry policies, including potential tax credits and governmental support schemes like the IRA. According to the company, **this act alone could render Meyer Burger eligible for up to \$1.4 billion in tax credits from 2024 to 2032**. The CEO stated that: "[...] in the absence of long-time announced firm commitments by lawmakers on measures to create a level playing field [with the United States], we are prepared to execute our restructuring plan in Germany".

The closure of Meyer Burger's manufacturing site in Germany, which might occur as early as April 2024, would affect approximately 500 employees and reduce European domestic capacity for some of the most advanced technologies in solar energy – which is one of the EU's strategic industrial policy priorities.

II | Why it happened

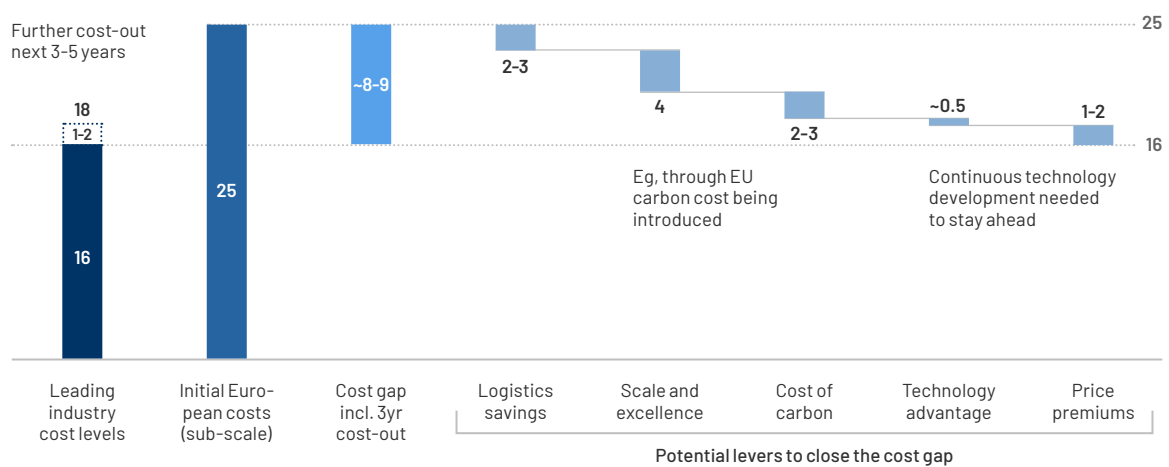
At present, **two factors** are exerting pressure on EU clean-tech companies.

First, **Chinese imports** are distorting the European market because they are much cheaper and more abundant than European-made solar panels. This

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drags down market prices to below the cost of production for European companies. Photovoltaic (PV) manufacturing **costs in Europe are predicted to be 20-25% higher as compared to the lowest cost levels** in China (see figure 1). This is for several reasons, including massive government subsidies, as well as the impressive scale of Chinese players. China has a dominant position in the solar-PV supply chain, **producing almost 95% of the world's wafers** and benefits from economies of scale, specialized companies, purchasing power on raw materials. This makes it hard for European manufacturers to compete, especially when customers (both large utilities and households) are more sensitive than ever to equipment costs in the light of higher interest rates. As a result, Europe must rely on imports from China to meet its renewable energy targets, creating potential supply chain risks and ethical concerns.

Figure 1 | Manufacturing costs comparison - EU and imports from China



Source: BNEF, Eurostat, McKinsey & Co. (Data as at 13.12.2022)

Second, **European subsidies** are no match for the equivalent US incentives (let alone for the Chinese state intervention). To bolster their supply chain independence and their lead in the global clean-tech race, both the EU and US have introduced legislation to support the renewable energy transition. The counterpart to the US's **IRA** is the the EU's **Green Deal Industrial Plan**, and although they have similar goals, the two legislations differ significantly in their approach.

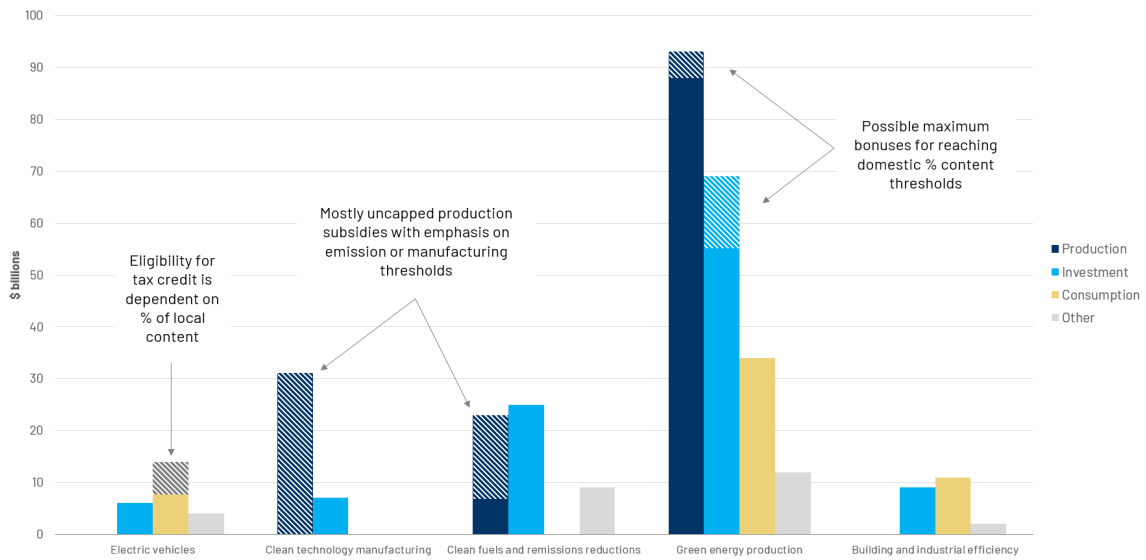
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The EU's Industrial Plan focuses on setting production targets and subsidizes new plant CapEx to meet these targets. For instance, it targets **40% of green technology to be domestically produced by 2030** (see Exhibit 1) and has recently approved an almost €1bn subsidy for Swedish battery maker Northvolt. While these targets and subsidies are well-intentioned – they aim to reassure the markets by providing clear guidance – they can lead to inefficient investment, by leaving companies without continued baseline support (as in the case of Meyer Burger), leading to disinvestment all together.

Conversely, the IRA doesn't win by brute force. It doesn't set broad production targets or solely subsidize firms' upfront capital costs. Instead, it offers incentives through a production tax credit, conditional on certain commitments. This fosters more innovation, less government intervention, and does not hang firms out to dry. For instance, **energy projects that use 100% US steel qualify for an additional 10% production**

tax credit. Additionally, **EV manufacturers receive a price rebate if the vehicle was domestically produced** (see figure 2). These policies show how the IRA supports actual production, creating jobs and ultimately boosting the country’s economic growth.

Figure 2 | Breakdown of IRA subsidies



Source: Algebris Investments, EU Commission, US IRA Legislation (Data as at 24.01.2024)



III | Why it matters

As part of the REPowerEU plan, in May 2022 the Commission adopted an EU solar energy strategy identifying remaining barriers and challenges in the solar energy sector and outlining initiatives to overcome them. It aims to deploy over **320 GW of solar PV by 2025 and almost 600 GW by 2030**. The Green Deal Industrial Plan claims to be creating a more supportive environment for scaling up the EU’s manufacturing capacity for the net-zero technologies needed to meet Europe’s ambitious climate targets and reduce its dependency on the Chinese solar supply chain.

Yet, Meyer Burger’s dilemma highlights the plight of EU clean-tech companies and the challenges for EU governments. On January 23rd, the German government called for amendments to the EU plan to add further support for local solar producers. This sudden U-turn **leaves companies questioning their future business plans even more in the coming years**. The case of Meyer Burger exemplifies the power of incentives and tax credits in attracting foreign companies to the US market. While understandably not wanting to engage in a trade war with the US by matching the latter’s protectionist approach, the EU – often seen as a pioneer in leading the sustainable transition – risks losing ground.

Additional Material

Exhibit 1 | Comparing the EU Industrial Plan with the US's IRA

						
NZIA: Manufacturing Capacity Targets		CRMA: Strategic Raw Materials Value Chain		IRA: Domestic Content and Manufacturing Requirements		
Total Net Zero Manufacturing Capacity	40% of EU annual deployment needs to meet RePowerEU and Green Deal objectives	Extraction Capacity	Minimum threshold: 10% of extracted minerals, concentrates and ores needed for EU annual consumption	Energy Projects Within this the IRA includes solar energy facilities, fuel cell production and refueling facilities, LFG facilities, energy storage technology and production recycling facilities	Manufactured Products	40% of the total cost of manufactured products must be in the US (will rise to 55% min. threshold by 2026)
Solar Photovoltaics (PV)	40% of annual deployment needs					
Wind Turbines	85% of annual deployment needs	Processing capacity including all intermediates	Minimum production threshold of 40% of EU annual consumption		Iron and Steel	For new project construction, 100% of the iron and steel used must come from the US
Heat Pumps	60% of annual deployment needs					
Batteries	85% of EU battery demand	EU recycling capacity	Minimum threshold of 15% of EU annual consumption per material	Electric Vehicles	Assembly	The final assembly of the EV must occur in NA
Electrolysers	50% of renewable and fossil free hydrogen annual deployment need				Critical mineral content	Min. of critical minerals found in batteries either extracted in the US, in a country with an FTA, or recycled in NA is 40% by FoY 2023 (to be 80% in 2027)
Diversification	Increase manufacturing capacity for net-zero technologies (65% lower threshold)	Diversification	Cannot depend on any third country for ≥ 65% of strategic raw materials		Battery manufacture and assembly	More than half of the battery's value must come from NA (subject to increase to the total value of the battery by 2029)

Source: Algebris Investments, EU Commission, US IRA Legislation, (Data as at 24.01.2024)

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