PV is being left to fend for itself

Europe's solar power industry continues to see strong growth despite the credit crunch and cuts to feed-in tariffs, but its future will be guaranteed only when it is driven by demand rather than government policy, says Sian Crampsie

Spain: FITs for solar have been slashed because they resulted in an unsustainable boom in large solar farms

Installed solar photovoltaic (PV) capacity in Europe is set to reach 45GW by the end of 2011 after another year of strong growth, according to the European Photovoltaic Industry Association (EPIA).

The world's largest PV industry association says that up to 16GW of new PV capacity will be added in Europe this year – up from 13GW in 2010 – and that solar power could become competitive with conventional forms of generation in some key markets as early as 2013.

Like much of the renewable industry in Europe, the past two years have brought both regulatory uncertainty and financial setbacks to the PV sector. As governments have grappled with the economic crisis and rising fuel costs, the subsidy mechanisms that help to support PV generation have been altered in many big markets, while financing has grown harder to come by.

But the lobby group says the industry is not only entering a new era of growing competitiveness, but also that it is weathering the challenging economic and regulatory conditions.

Forecast for growth

The EPIA, however, believes that the market will continue to grow in Europe, and that this growth will accelerate with 20-22GW being added in 2012. By 2015, the European Union could house 100GW of PV capacity, according to the EPIA.

"In some countries, the changes in support for solar PV have had a negative impact," says Gaetan Masson, senior economist at the EPIA. "It shows how the PV market today is policy driven rather than being driven by supply and demand. Each time a political decision is taken, it can go one way or the other."

The EPIA is most concerned about markets such as the Czech Republic, where a moratorium on new installations has been imposed by the grid operator and feed-in tariffs (FITs) have been cut. In Spain, retroactive cuts to the FITs paid to PV plants have threatened the market.

In both cases, cuts were made to FITs because their generosity led to a big bill for solar subsidy which coincided with a shrinking economy. The EPIA has praise for markets such as Germany where FITs have played an important role in stimulating the market, but have been cut gradually in line with falling PV system prices.

PV system prices in Europe have dropped by 50 per cent in the past five years, and are expected to fall a further 36-51 per cent in the coming ten years, according to the EPIA. This drop has been caused by oversupply in the market due to a rapid increase in manufacturing capacity worldwide, and makes the prospect of PV generation reaching grid parity in markets such as Italy and Germany a possibility in the next few years.

PV system prices are expected to fall by 36-51 per cent in the coming ten years

Interesting for investors

The falling prices of PV systems, alongside adjustments in subsidies, makes the PV sector an interesting prospect for investors, according to Dutch co-operative bank Rabobank.

"The PV industry is becoming less dependent on subsidies, and this is a sign that it is becoming more mature and less risky," says Pieter Plantinga, vice president of renewable energy and infrastructure finance at Rabobank.

While Rabobank believes that Europe's renewable energy targets and a continued fall in PV system prices will continue to stimulate growth in the market, policy changes are altering the structure of the PV market and this makes it "difficult to judge what's coming to market in the coming years", says Plantinga.

Rabobank has already witnessed changes in the market for utility-scale PV systems. "More risk is being borne by developers and projects are being structured more conservatively," says Plantinga. Leasing schemes are also becoming more prevalent in the market as it seeks innovative approaches to financing, says Anke Verhagen, senior associate at Rabobank.

The market is moving away from large-scale PV installations and more focus is being put on smaller plants

Small plant focus

But the market is now moving away from large-scale PV installations and more focus is being put on smaller plants, a shift caused mainly by alterations to FIT schemes in countries where governments want consumers to become generators.

The ongoing changes in the PV market are the subject of "continuous discussion" in the financial sector, says Plantinga, who adds that the unpredictable nature of the market "will remain for the time being".

These sentiments are also reflected by the EPIA, which wants to ensure that governments around Europe continue to provide a good regulatory environment for PV technology, even after grid parity is achieved, in order to ensure that PV can reach its full potential.

"The market grew in 2009, 2010 and 2011, but we are much more afraid of what could be decided in the coming months," says the EPIA's Masson. "In Spain and the Czech Republic, policy makers were hugely influenced by the large energy companies. We rely on these political decisions but we don't have the same level of influence.

"It is an uncomfortable time for the PV sector. We can see competitiveness just around the corner but we still need policy support. If this disappears then we will be concerned."