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## The impact of European Energy Intervention policies on Chinese suppliers

Gas and electricity prices have reached record levels in 2022 and hit all-time highs following the Russian invasion of Ukraine. The dramatic increase in electricity prices is putting pressure on households, small and medium enterprises and risks causing wider social and economic harm. This coming winter, low and even middle-income households as well as smaller businesses may face the risk of not being able to pay their energy bills. Many will have to cut on other essential spendings to keep warm.

To put things in perspective and using Goldman Sachs' estimates, at current forward prices energy bills are expected to peak early next year. That's when a typical European household will have to pay EUR500/month for its gas and electricity bill, a 200% increase vs 2021. For Europe as a whole, this implies an EUR2 trillion surge in bills, or around 15% of GDP, a staggering number.

Europe's increase in energy costs calculation (TWh, €/MWh and € bn)

| | Power | Gas | Energy |
|---|---|---|---|
| Consumption *TWh* | 3,300 | 5,500 | - |
| Consumption adj for CCGTs *TWh* | 3,300 | 4,125 | - |
| Energy price in 2021 *€/MWh* | 75 | 27 | - |
| Current energy price *€/MWh* | 450 | 200 | - |
| Energy bills increase 2021-now *€ bn* | 1,238 | 714 | **1,951** |

(Source: Goldman Sachs Global Investment Research)

On 14th September the European Commission proposed an integrated and interdependent package of measures to be introduced immediately, which includes a reduction of European energy consumption with the aim to cut overall electricity demand by 10%, alongside the introduction of a windfall tax on incremental profits collected by energy companies (both renewables and fossil fuels).

A group of Chinese companies are watching closely the development of the European energy crisis as Europe is one of their major markets.

**Implications for Chinese energy storage players**

For Chinese energy storage players (e.g. Sungrow Power and Ginlong Technologies, among others, with an aggregate market capitalization of USD100bn), Europe is approximately 40% of their business. The European Commission put a temporary revenue cap on low-cost electricity producers (renewables, nuclear and lignite) at EUR 180/MWh. Each European Union government will be entitled to collect (to confiscate is probably a more appropriate description) all revenues earned by companies under its jurisdiction beyond this cap from the power generation companies to subsidize downstream consumers. The measure should help relieve the financial burden of electricity users; however, when the consumers will receive the subsidies remains uncertain. The grants are also likely to be temporary. ***Therefore, we expect the demand for household energy storage systems produced by Chinese companies to remain robust. An average European household can still expect a 4 to 5-year payback cycle for purchasing an energy storage system, which remains an interesting financial proposal.***

**Implications for Chinese solar module makers**

Chinese solar module makers comprise 70-80% of the world's capacity. Half of their revenues comes from exports. From January to August 2022, out of 91 GW worth of Chinese solar module exports, 41 GW were sold in Europe, a 90% growth year-over-year. The European Commission's cap of EUR 180/MWh is still higher than the current average renewable energy tariff level of EUR 150/MWh. In other words, the price cap should not prevent renewable energy generation companies from expanding capacity.

***We expect the willingness to develop new energy projects in Europe to remain strong as they are instrumental in solving the present energy crisis and in preventing future***

***ones from happening. Solar module exports to Europe in 2022 and 2023 will remain strong: China Photovoltaic Industry Association estimates it will grow by 78% in 2022 (growth was 89% over the first eight months) and by 40% in 2023.***