

The day after the Charpin report

A severe and not always justified report on the solar sector

Published on September 3rd, 2010, the Charpin report drew up a severe and not always justified description of the whole solar sector.

In 2009, the explosion of requests for the purchase of photovoltaic energy has led to the creation of a "line" of requests for contracts with EDF Obligation d'Achat (OA EDF), which reached a power peak of 4,8 GW. The number of finalized requests has apparently been multiplied by more than four between 2008 and 2009, passing from 18,000 to 80,000 according to the report. The alarm bell was pulled.

There are two main factors which can explain this strong increase of requests: on the one hand, the very attractive photovoltaic's sector profitability, due to the increase in 2006 of the purchase price followed by a reduction of the price of the solar panels; on the other hand, the rather long term between the announcement of the reduction of the purchase price (in November 2008) and its entry into force (in January 2010), which allowed the actors of the market to anticipate this term by an increase of the projects.

According to the Charpin report, the situation is alarming:

- The source of solar electricity will represent in the medium term in France a limited stake: at the beginning of 2020, the solar energy will represent less than 0.4 % of the objective of 23 % of the energy produced from renewable resources;
- The photovoltaic electricity is the most expensive renewable resource of electricity considering today's technological advance: it seems to represent the highest production costs (€200 / MWh) among the renewable

resources (hydro power: € 60/ MWh or wind energy: €70 / MWh);

- The French photovoltaic industrial production has apparently been very limited and has caused a deficit of the balance of trade in the sector of €800M in 2009 (that is 2 % of the French trade deficit). A tendency which continues in 2010: according to the Charpin report, the deficit has reached more than €400M during the first quarter of the year;
- Final blow with a club: the job creation is not sufficient. In 2009, approximately 8,500 posts were created according to the ADEME.

In order to answer such issues, the Charpin report recommends a two steps action: an immediate decrease of the purchase price and the implementation of a global plan at the beginning of 2011 for the development of the solar electricity.

The effects of the Charpin report

The effects of the Charpin report were immediately felt on three segments of the solar energy sector:

- First segment: individuals.

The Charpin report suggested to cancel the tax credit on sustainable development for the photovoltaic projects in the next annual budget. In order for such suppression to be accepted more smoothly, the report proposes that it be spread over two years, by reducing, for instance, the rate of the tax credit from 50 % to 25 % the first year, and so on...

As promised: according to article 13 of the proposed annual budget for 2011 presented on September 29th, 2010, it is suggested to decrease from 50 % to 25 % the tax credit rate (which may be deducted from the income tax)

granted for expenses related to photovoltaic plants paid as of September 29th, 2010. Therefore, this decision will be retroactive. The objective is to avoid an increase of requests until January 1st, 2011, as it happened last year before the announced purchase price reduction.

Consequently, it should not be a surprise if, next year, the government decides to reduce the tax credit in the 2012 budget to nothing...

The new contemplated decision for 2011 could have a negative effect, i.e. to endanger the stability of this segment in which many local small firms of roofers, electricians etc. are the main actors.

- Second segment: the big industrial roofs.

The Charpin report recommended a reduction of more than 10 % of the purchase price of the photovoltaic electricity as compared to the prices fixed by a decision of January 12th, 2010. In order for such decision to be clear and to be taken rapidly, the report suggested keeping the prices established in the above mentioned decision and to reduce all such prices in a homogeneous way.

From September 1st, a new decision provided for a homogeneous decline of the purchase price of 12 %.

One question arises: which companies are going to be able to continue under such conditions? Certainly not the SMEs. As of now, their requests on this segment represent 88 % of the total power requested: in other words, the quasi-totality of the solar sector is killed.

- Third segment: the big solar parks on the ground.

In spite of these purchase price reductions, it is certainly the only segment where there is no risk asserting that the projects will keep an interesting rate of return. Indeed, the actors on

this segment are companies of a certain size, which benefit from economies of scale.

The end of the tax advantages in connexion with the ISF-PME plan for photovoltaic projects

Following the recommendations of the Commission for the regulation of the electricity - "*Commission de régulation de l'électricité*" - (decision of August 31st, 2010), the Charpin report suggests excluding the photovoltaic projects from the exemption of the wealth tax plan ("*dispositif ISF-PME*")... The annual budget has straightaway suppressed such exemptions with the back of its hand!

It is indeed suggested to exclude from the scope of the tax advantages established in order to assist overseas investments, those concerning photovoltaic electricity production facilities as of September 29th, 2010. It should also allow directing the invested funds benefiting from the mechanism of tax exemption towards other areas which also require a financial support in these territories, such as economic development and social housing.

As for the investments realized within the share capital of companies producing electricity from solar energy, they would also be excluded from the scope of the tax reductions from wealth tax and from income tax.

As a result, despite of the unpopularity of the report among the solar energy market actors, the Charpin report achieved its revolution on the political stage. It still has beautiful days in front of it!

16th November 2010

By Frédéric Ichay, Marta Paczkowska and Fanny Morraglia , Avocats à la Cour, Corporate Department of the law firm Ichay & Mullenex Avocats.

Ichay & Mullenex Avocats is a French law firm focusing on all legal issues related to the new technologies, the green business and the sustainable development in France and abroad. They are considered experts in intellectual property and Internet law, e-commerce, online gaming, data protection. Ichay & Mullenex Avocats also assists its clients on all issues related to financing, mergers & acquisitions, restructuring, etc. and advises them on their litigation and arbitration procedures.

5, rue de Monceau 75008 Paris - France

Tel : +33 1 42 89 19 80

Fax : + 33 1 42 89 14 99

www.ichay-mullenex.fr