

Domestic Tower Suppliers Facing Trying Times

Following a period of growth supported by a run-up in wind capacity, many domestic tower suppliers are now struggling.

BY MARK DEL FRANCO

As the wind industry grew from 2007 to 2009, tower manufacturers opened or expanded production facilities and partnered with foreign suppliers to keep pace with brisk demand.

But when the U.S. wind market fell last year to 5,500 MW of installed capacity – from a record 10,000 MW installed in 2009 – many suppliers were stuck with quiet facilities and bloated inventories. Some suppliers fled the market entirely.

Now, tower manufacturing capacity in the U.S. vastly exceeds demand. According to market research firm MAKE Consulting, there are enough towers in the pipeline to supply about 12 GW of capacity in the marketplace. However, the market demand is only about one-third of that.

Weak demand over the past year has certainly taken its toll on the tower marketplace. For example, Naperville, Ill.-based Broadwind Energy saw annual revenues for its tower division de-

crease 18% to \$76.2 million, compared with \$93.3 million in 2009. And rival supplier DMI Industries, part of Otter Tail Corp., saw annual wind tower sales fall 11% to \$143.6 million, compared with \$160.7 million in 2009.

Although manufacturers in the segment rushed to ink long-term agreements in times of prosperity, those same agreements came back to bite them when the market turned.

"When the market came tumbling down, tower manufacturers were hurt

by the existence of long-term framework agreements between turbine manufacturers and tower vendors that created a high surplus of towers in the U.S.," explains Ricky Seung, president of Los Angeles-based Kousa International, the agent for Korindo Wind, a provider of wind towers.

Seung explains that long-term production contracts became problematic for tower manufacturers because there was not a consistent, gradual downturn. He says compa-

nies that had signed such contracts benefited in the short term because they were able to continue producing towers even though there was no real demand.

"It was hard on those companies, because when their long-term contracts ended, their production dropped drastically and abruptly," Seung says. "It created a challenge for nearly all tower manufacturers in the long range,

because when demand started to come back, there was a glut of towers that needed to be pushed out of the supply pipeline. How specific companies were impacted and when depends on the individual company."

Foreign suppliers

Perhaps more troublesome than weak demand are the cold realities of global competition that many do-

mestic suppliers are facing.

The tower marketplace is burdened not only by fewer wind turbines being installed, but also by foreign suppliers that entered the U.S. market when the scene was hot.

Several domestic manufacturers say that foreign suppliers have several advantages over their U.S. counterparts – namely, access to cheaper steel and lower labor costs.

"Lower labor and raw-material costs in Asia give foreign tower manufacturers an advantage over domestic manufacturers," says Dan Shreve, a principal at MAKE Consulting.

One of those raw materials is steel, which constitutes about 70% of the cost of a tower, says Peter Duprey, president of Broadwind Energy.

And those suppliers that have access to cheaper steel – often through strategic partnerships – have been better able to weather the tower segment's turbulent times.

"Recently, our clients and potential customers have inquired more about our steel sourcing capabilities in order to understand further the optimum steel pricing opportunities that the global market has to offer," explains Scott Viciano, vice president at Monroe, Mich.-based Ventower Industries.

In other words, that in these challenging times, collaborative efforts and relationships mean a lot.

"Sourcing opportunities and pricing of raw materials are being discussed more than ever," says Viciano.

Then there's the issue of support given to foreign suppliers from their government.

Although none of the domestic suppliers interviewed for this story would comment publicly, they claim foreign suppliers are often propped up by their governments, giving them a further advantage.

Incentives could take many forms, including loans from state banks to purchase steel at below-market prices or even free land from the government.

However, Indonesia-based Korindo Wind is not one of them, explains Seung.

"Korindo Wind does not receive any incentives from the government in Indonesia," he says.

U.S. manufacturers also benefitted from government incentives, such as the Section 48C tax credit introduced as part of the American Recovery and Reinvestment Act of 2009, which doled out more than \$70 million to active and prospective tower manufacturers, helping to further inflate capacity.

Of course, other macroeconomic

conditions are at play, explains MAKE Consulting's Shreve.

"Weak demand has resulted in price pressure for turbine providers, who, in turn, are seeking lower-cost imported steel towers from Asian tower manufacturers to aid profitability," Shreve says. "Soft demand and increased competition will put continued downward pressure on costs. This will force some suppliers to sell at cost in order to stay in production."

entry into those markets, specifically Ontario and Quebec, carries its own set of challenges.

"Canada is challenging because of local-content requirements and the fact that there are many local tower vendors to handle the demand," says Seung.

For example, local-content requirements add a level of difficulty for suppliers that are not already established. For example, manufactur-

Some tower suppliers are looking elsewhere for new markets and opportunities.

Even relative newcomers, such as Korindo, which came into the U.S. market in 2007, experienced challenges last year.

"Last year was a tough year for most tower manufacturers, with a significant reduction in new tower orders," explains Seung. "Most installations used towers already in inventory. Fortunately, Korindo Wind was able to enter into agreements that kept our plant near or at capacity."

Future opportunities?

Amid the challenges, some suppliers are looking elsewhere for new markets and opportunities.

For starters, the promise of North American offshore wind development provides a glimmer of hope. And there are a few areas beyond U.S. borders where wind development is active, such as in Canada. However,

ers such as DMI and Marmen already have facilities in those provinces. Specifically, the provinces of Quebec and Ontario offer the most promise, but local-content requirements add a layer of difficulty. For example, in Ontario, 25% of products used in wind projects must be sourced locally, and, in 2012, that figure increases to 50%; in Quebec, 25% of components must be sourced locally.

Despite the emergence of new markets, trouble will likely persist for some U.S. tower manufacturers, Shreve warns.

"If new technologies, such as cement hybrids, take off in response to the demand for taller towers," he says, "then traditional tower manufacturers will be even more disadvantaged unless they embrace the opportunity to partner with some of these new technology providers." ■