OECD roundtable consultation on "Achieving a level playing field for international investment in solar and wind energy"

6 December 2013 – OECD Headquarters, Paris

Summary report

On 6 December 2013, the OECD hosted a roundtable consultation on "Achieving a level playing field for international investment in solar and wind energy", back-to-back with the 2013 Green Growth and Sustainable Development (GG-SD) Forum. The roundtable consultation gathered about 40 selected participants from the public and private sector, to address three questions[1] and discuss: the increasing use of trade and investment restrictions in solar and wind energy that may differentiate between domestic and international investment; the possible impacts of such measures across the solar photovoltaic (PV) and wind energy value chains; as well as priority areas for future work. Participants included key private sector representatives (from global manufacturers, project developers, financiers and industry associations), delegates from OECD and partner countries, as well as other experts. The roundtable consultation drew on key findings from the OECD draft interim report on "Achieving a level playing field for international investment in green energy". This report highlights an increase in the use of measures such as local content requirements, domestic trade remedies, differentiated access to financing and divergent standards, which may adversely impact international trade and investment across the solar PV and wind energy value chains.

During the roundtable consultation, participants expressed a strong interest in the initiative, and noted the increasing use of policy measures aimed at supporting domestic solar and wind equipment manufacturing, including local content requirements and domestic trade remedies. Participants stressed the need to further assess the impacts of such measures on international investment in solar and wind energy, by gathering new evidence from specific case studies, and by considering the possible impacts depending on the different segments of the value chains, respective size of each domestic market and type of investors. Participants welcomed the organisation of such policy dialogues with public and private stakeholders, with the view of fostering international co-operation, better assessing the implications of domestic measures on international investment, and identifying good practices in addressing those restrictions. The OECD Secretariat will keep participants involved in the project in 2014, including through circulating an investor survey.

1. In recent years, have you witnessed an increase of policy measures that may restrict international trade and investment in solar PV and wind energy?

Most participants noted the increasing use, since 2008, of restrictive measures in solar and wind energy aimed at supporting or protecting domestic producers, and which may distort international trade and investment. In particular, several participants stressed that local content requirements (LCRs) have been widely deployed in small and large countries alike. LCRs were referred to by one participant as "the elephant in the room". An OECD delegate also pointed out the dramatic and rapid increase of domestic trade remedies (i.e. countervailing or anti-dumping duties) in solar and wind energy since 2010. Arguably, countries have implemented such trade remedies not only to protect local firms from unfair competition, but also to support domestic industries. Rules of origin are being clarified at country level (rather than through a multilateral process), yet it is increasingly difficult

[1] 1. In recent years, have you witnessed an increase of policy measures that may restrict international trade and investment in solar PV and wind energy? 2. What are the possible implications of such policy measures on international investment across the solar PV and wind energy value chains, especially for midstream manufacturers and downstream producers? 3. What areas and policy measures should the OECD further investigate, with the view of identifying potential good practices for achieving a level playing field for international investment in solar PV and wind energy?

to determine the origin of inputs given the complex and global assembling processes, especially for solar PV panels. Several experts raised the question of the international legality of such measures *vis-à-vis* the World Trade Organization (WTO) and welcomed the WTO ruling on Ontario's LCR. Beyond LCRs and trade remedies, several private sector participants emphasised the importance of other barriers, including: the lack of transparency of government procurement; divergent standards; cumbersome certification procedures; investment rules and inadequate investment and intellectual property rights protection; research and development (R&D) subsidies and issues related to technology transfer and innovation; differentiated access to the grid; and differentiated access to financing. Participants encouraged the OECD to consider such measures and their possible implications for international investment.

Beyond the focus of the roundtable and the OECD project, several participants also noted the importance of broader investment barriers to both domestic and international investment in renewable energy, and the lack of supportive domestic policy frameworks. Such barriers are addressed in other OECD work streams, such as the OECD Policy Guidance for Investment in Clean Energy Infrastructure, and include: the lack of predictable policy support (e.g. through retroactive regulatory changes); weak carbon prices; inefficient fossil-fuel subsidies, and a failure to tackle regulatory and market design rigidities that favour incumbent fossil fuels, such as the lack of transmission and backup capacity to integrate intermittent renewable energy sources; issues related to distribution networks; the question of political acceptability; and the need for a sound underlying business climate.

2. What are the possible implications of such policy measures on international investment across the solar PV and wind energy value chains, especially for midstream manufacturers and downstream producers?

Participants focussed the discussion on the possible implications of LCRs on both international and domestic investment, with diverging views on their possible impacts.

Private sector participants noted that the impact of LCRs depends on the respective segment of the value chains, respective market size and type of investors. They recognised that policy measures supporting domestic manufacturing could have a significant impact on investment patterns across the whole value chain. However, they diverged on their precise effects depending on the size of markets and investors, as well as on the value chain segment. On the one hand, a few large-scale manufacturers argued that LCRs can help to attract international and domestic investment in large markets or regional hubs, especially when they are backed by large tenders and ambitious development goals; LCRs may also support technology transfer. On the other hand, other manufacturers recognised that LCRs are not sustainable in the long-run and are not suited for small- and medium-sized countries. In addition, representatives from the downstream segment argued that LCRs and trade defence measures may result in lower cost-competitiveness, distorted competition between firms and between countries, and reduced technology transfer and innovation, thereby hampering the competitiveness of the entire value chain and leading to suboptimal levels of investment. A representative from a firm operating across the entire value chain referred to LCRs as a "double-edged sword", with a potential to drive investment up in manufacturing and down in power generation – at least in the short run.

Several private and public sector participants highlighted the need to differentiate between short-term and long-term effects of LCRs. While all participants acknowledged the importance of short-run support to renewable energy, some disagreed on the effectiveness of policy support to domestic manufacturing in accelerating renewable energy deployment in the long-run. Participants discussed the trade-offs faced by policy-makers between short-term priorities (e.g. effectiveness of LCRs in creating a critical quantum of investment by developing sizeable domestic manufacturing industries, as market volume is an important driver of cost reduction) and long-term goals (e.g. reducing transaction costs and achieving cost-effectiveness). While a few manufacturers and public sector delegates argued in favour of short-term priorities, some project developers and policymakers stressed that the overarching priority was to make solar and wind energy cost-competitive *vis-à-vis* fossil-fuel energy in the long run, through open and competitive markets.

Several participants also discussed the efficiency of LCRs in creating value locally, as well as their effectiveness in achieving potentially conflicting policy goals such as value addition, job creation and climate change mitigation. A few delegates emphasised that many countries implemented LCRs to create political acceptability of state support to renewable energy, by creating jobs locally and ensuring technology transfers. While some manufacturers noted that the presence of renewable energy manufacturing in a country can help deploy renewable energy by increasing the political pressure on governments to maintain those jobs and giving policymakers the confidence to adopt ambitious renewable energy targets, other private and public participants stressed that the value addition and employment generation resulting from LCRs were neither sustainable nor optimal. LCRs could even adversely impact manufacturing competitiveness in the long run by making the segment reliant on discriminatory measures.

Participants agreed on the need to further monitor and assess the impacts of policy measures such as LCRs on international investment from a global value chain perspective, including through quantitative analysis, case studies, and further assessment of the policy trade-offs faced by governments. It is necessary to better assess the policies in place, as well as their possible impacts across the value chains. Participants agreed that the lack of reliable statistics on value addition and employment was a critical knowledge gap to move the research forward. Nonetheless, the OECD Secretariat noted that existing statistics indicate that a large share of value and jobs may be located downstream rather than in midstream manufacturing. A private sector participant emphasised that solar PV manufacturing is no longer a key value-adding segment in certain countries.

3. What areas and policy measures should the OECD further investigate, with the view of identifying potential good practices for achieving a level playing field for international investment in solar PV and wind energy?

Participants concurred on the need to pursue policy dialogues between public and private stakeholders, with the view of better assessing impacts, promoting good practices and fostering international co-operation.

Most participants suggested that OECD further analyse the impact of policy measures such as LCRs, although the task has been recognised as challenging. Experts suggested breaking down the impact analysis by segment of the value chain, by country and by type of energy. However, impacts are far from obvious, and little research has been carried out to disentangle the different channels through which measures such as local content requirements impact investment and value addition.

Several participants encouraged the OECD to better assess the policy trade-offs faced by governments implementing measures in support of domestic manufacturing. The OECD Secretariat acknowledged the relevance of such policy trade-offs, while stressing the importance of designing effective policy support to renewable energy across the solar and wind energy value chains, without hampering international trade and investment. Several participants emphasised that the real issue is to ensure that renewable energy is competitive against fossil fuels.

Experts and country delegates would also welcome clarifications and refinements to the methodology. A precise methodology to assess the impact of policies on investment decisions would need to include cash-flow considerations of investing in renewable energy vs. fossil fuel projects. One OECD country delegate suggested that the terminology be clarified, especially for words such as “distortive” or “barriers”. Finally, adopting an investor’s risk management perspective may provide a better understanding of the impact of measures on the investment decision-making process.

Finally, participants were keen to have the final report provide recommendations in order to achieve a level playing field for international investment in solar and wind energy. In particular, several participants emphasised the need to: foster international co-ordination and co-operation in order to better delineate and harmonise investment policies across countries (including general investment-related issues and issues specific to green investment); and to strengthen governments’ long-term commitment to renewable energy deployment, including through setting a stable and predictable policy framework for investment in renewable energy.