The problem: Clean energy does not have enough profitable projects

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OECD research shows that general industrial investment creates demand for infrastructure, not the other way around. At the moment we are in a global excess supply situation, so the demand that would drive infrastructure investment is not at all what it could be.

There is no shortage of funds for investment—the world is awash with pension, insurance and mutual funds. Any profitable project always finds finance.

LET’S STOP TALKING ABOUT SHORTAGE OF FINANCE AND FOCUS ON THE REAL PROBLEM

The real problem is at the clean energy project level—there is a lack of returns compared to the cost of equity. In our study of 10 000 companies (equal to one third of world GDP) we look at the clean energy sector. We see the ROE is line ball with the cost of equity in the United States, but negative on average everywhere else—it is the worst value creation proposition of all the sectors in our study—see Figure.

The problem is the insufficient supply of profitable clean energy projects: there are profitable companies, but too few of them to meet the demand. This is caused by policy misalignments including, amongst others:

- the lack of a carbon price;
- divergent technical standards;
- trade distorting and profit destroying subsidies and dumping;
- lack of a level playing field with fossil fuels subsidies;
- local content requirements that raise costs for downstream producers that do not get the benefit of cheaper intermediate inputs via trade (job loss in downstream SMEs as well);
- cross-border investment impediments that raise the cost of capital; and
- unstable regulatory policies, retroactive withdrawal of feed-in tariffs.

Figure - Clean energy ROE minus the cost of equity: Four regions

Note: Europe refers to the European Union and Switzerland
Source: Bloomberg. OECD calculations. Based on a Bloomberg index of 10 000 companies in 75 countries.
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