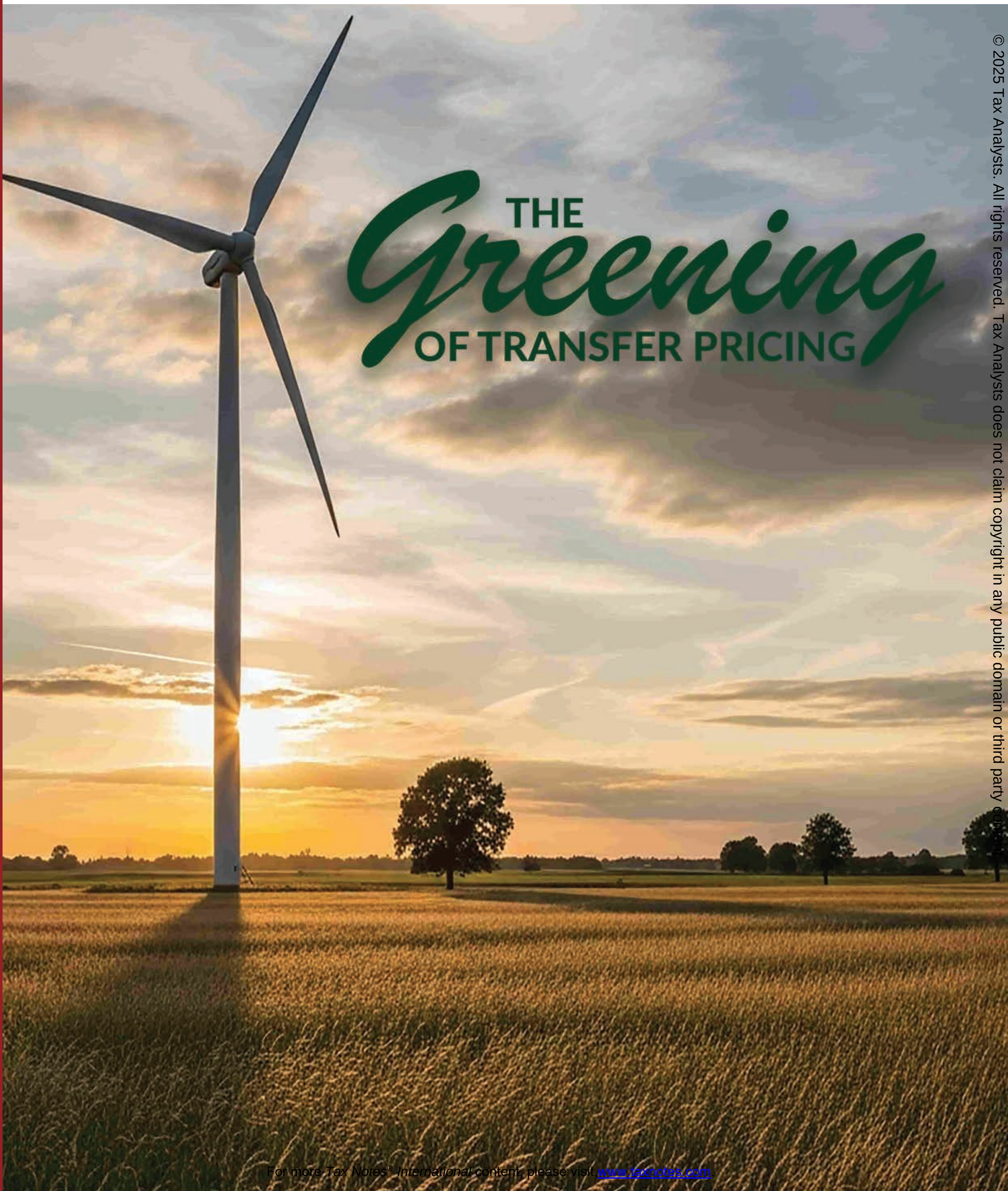
taxnotes® international
Volume 120, Number 8 ■ November 24, 2025



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Volume 120, Number 8 ■ November 24, 2025

A Transfer Pricing Perspective On the Green Transition

by Louise Blichfeldt Fjord, Katja Dyppel Weber, and Karl Berlin

Reprinted from *Tax Notes International*, November 24, 2025, p. 1205

A Transfer Pricing Perspective on the Green Transition

by Louise Blichfeldt Fjord, Katja Dyppel Weber, and Karl Berlin

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In this article, the authors examine the role of transfer pricing in the renewable energy sector and recommend best practices to support business development in renewables.

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Introduction

The tax system may play an important role in the green transition in general, and renewable energy generation in particular, not only through incentives, but also by ensuring clear and foreseeable rules regarding transfer pricing.

In general, the expected net present value after taxes of any investment should be positive if the investment is to be made. Thus, while businesses generally advocate in favor of "tax certainty," the following features of the business models deployed within the renewable energy sector arguably imply that this will be even more necessary in this industry:

- The business model consists of various (long) phases and is extremely capital-intensive, as no revenues are generated before the project has been constructed and put into operation. Furthermore, the energy market is highly volatile, and even if some of this volatility can be locked in through various agreements, projects will still be partially exposed by volatile energy prices and interest levels, urging for certainty of the tax treatment of future cash flows.
- It is a relatively new and complex industry with a value chain unfamiliar to most tax authorities, which always creates a risk of increased scrutiny and tax disputes (for example, due to a misunderstanding of the industry and its value chain).
- As the projects may potentially result in high values and revenues, this encourages investors to advance the green transition. However, it also encourages (some) tax authorities to scrutinize the tax positions for