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## Sustainable Finance News Wrap-Up

- **In focus:** *The rapidly escalating US-China trade war will have profound implications for the expansion of clean value chains in the US and China - but also the EU. In the US, the combination of Inflation Reduction Act (IRA) uncertainty and rapidly rising costs for the import of materials and technologies could be a double whammy for clean energy expansion efforts – with US still very reliant on China to date. In China, a combination of bypassing tariffs by re-locating manufacturing to less tariffed countries, doubling down on stimulating domestic demand and flooding non-US markets with products appears likely. Finally, the EU will likely try the difficult balancing act of protecting itself from a flood of Chinese products to protect its own value chain expansion efforts, while maintaining a constructive relationship with Beijing to build strength against future Trump attacks and preventing further trade war escalation.*
- **In briefs:**
  - *IAG and Microsoft strengthen partnership with largest and longest Scope 3 Sustainable Aviation Fuel agreement to date.*
  - *Deutsche Bank's asset manager DWS fined EUR25 million over greenwashing scandal.*
  - *Hafslund Celsio enters carbon dioxide removal (CDR) offtake agreement for its waste-to-energy CCS retrofit.*
  - *US threatens to retaliate against any international levy imposed on ships for their carbon emissions.*
  - *China issues its first sovereign green bonds.*
  - *March 2025 was the warmest ever in Europe and second warmest globally.*

## ***In focus: China-US trade war to make significant transition waves***

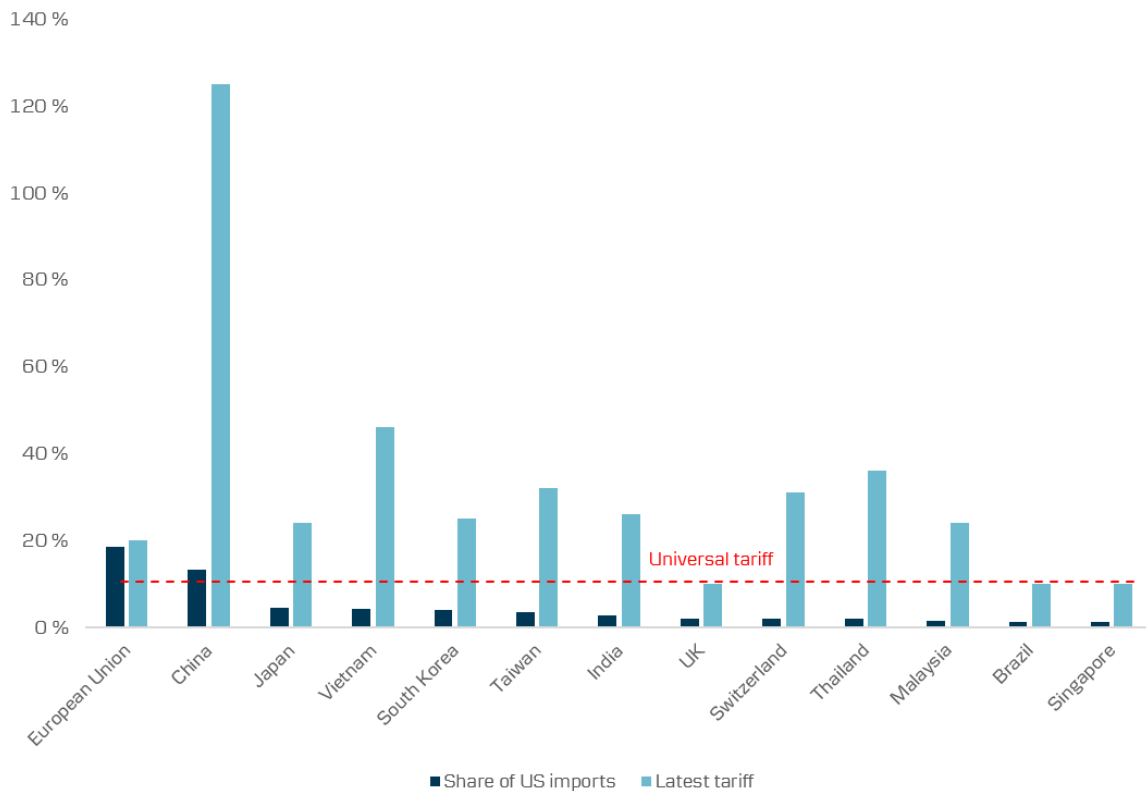
The last week and a half have been a significant rollercoaster in financial markets. Ever since taking office on January 20th, US President Donald Trump has been threatening with tariffs – with Canada, Mexico, steel, aluminium and to a certain extent China taking the brunt of his early threats and actions. The escalation was therefore significant and sudden when the White House on April 2nd announced so-called “reciprocal tariffs” on a large swathe of countries. This led to a global stock market rout, only for Trump to postpone their implementation by 90 days for “non-retaliating” countries and instead default to a universal tariff of 10% on April 9th (see graph below). This backtrack helped trigger an initial stock market rebound, although significant uncertainty and volatility persists.

While Trump seemingly has taken his finger off the reciprocal tariff trigger for most countries (for now), he has doubled down on his trade war with China. Reciprocal tariffs on Chinese imports were hiked 3 additional times from the original 50% from April 2nd to 84%, then 104% and then (as of time of writing) to a final 125%. Following earlier tariff hikes as well, the tariff rate on Chinese imports effectively totals 145%. The flurry of hikes has been Trump’s response to Chinese retaliations to the initial 50% tariff, with Chinese tariffs on US exports now standing at 125% as well (as of time of writing).

The increasing trade tensions between the United States and China present a considerable risk of a significant decline in bilateral trade. Earlier this week, Ngozi Okonjo-Iwela, Director General of the WTO, stated that initial WTO forecasts indicate that merchandise trade between these two nations could fall by up to 80%.

Furthermore, this retaliatory stance between the world's two largest economies — whose bilateral trade comprises approximately 3% of global trade — has broader implications that could greatly harm the global economic outlook. The economic ripple effects will be many, and their impact on the dynamics of expansion and investment in clean energy sectors and value chains will be felt. These waves will also likely be strongly felt on European shores.

## Exporting country by share of US imports and reciprocal tariff

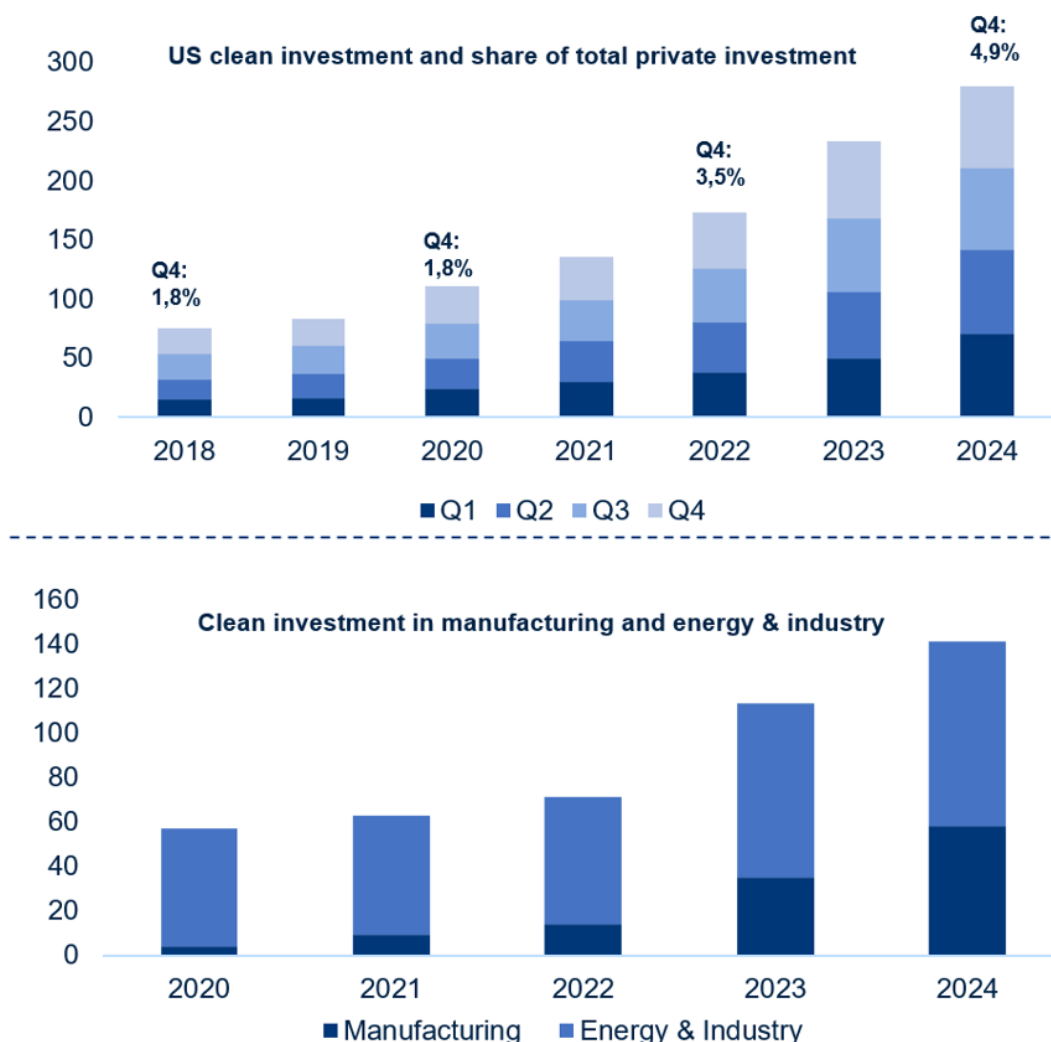


*\*Selection of countries/blocs based on those with more than 1% share of US imports. Source: The White House, BBC*

### US clean value chain expansion reeling after successive blows

If we first take a couple of steps back, Trump outlined his strong intentions to expand oil and gas production and hit the brakes on clean energy through his "Unleashing American Energy" Executive Order (EO) on January 20<sup>th</sup>. Through the EO, Trump froze any funding under the Inflation Reduction Act (IRA) for 90 days - which had allocated significant sums to the expansion of clean energy value chains under the Biden Administration (for more detail see our January newsletter). This has injected significant uncertainty for many clean manufacturing, energy and industry investments - following a rapid rise in investments under the Biden administration (see graphs below). As such, many projects have hit the pause button to wait to see what the scope of changes to existing funding programs will be.

## US: Clean investment in manufacturing, energy/industry and retail, USDbn



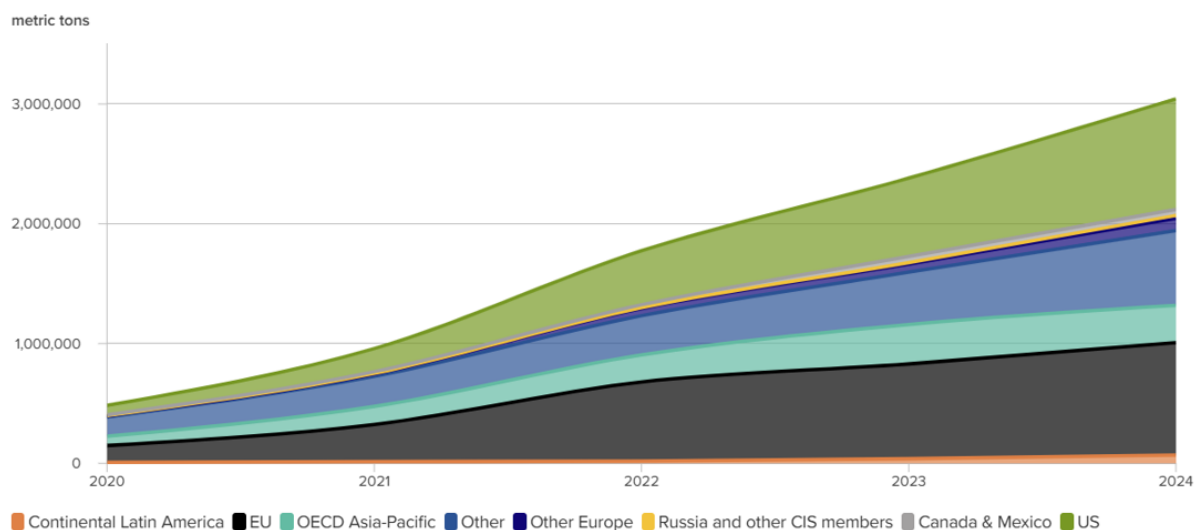
Source: Rhodium Group/MIT-CEEPR Clean Investment Monitor

Trump is decidedly pro-fossil fuels, and a lot less pro clean energy. That said, there are expectations that a significant portion of the IRA funding will eventually reach its intended destination, as a lot of it is earmarked for Republican states. Hence it seemed feasible that the clean energy momentum in the US would not slow as much as one might expect given Trump's rhetoric. But now, there appears to be a rapidly escalating tit-for-tat trade war with China – with China set to refuse to back down. This could ultimately prove to be a significant challenge to the US clean value chain push, particularly when seen in combination over IRA support uncertainty.

The IRA in the first place was arguably more than anything the US strategy to reduce its very heavy reliance on China for sourcing almost anything in clean energy, from raw and refined materials to manufactured technologies. Despite the initial IRA efforts since it was launched in 2022, the US is still very dependent on China. For example, take batteries, the US remains a big importer of Chinese

lithium-ion batteries (see graph below) and 90% of lithium-ion batteries deployed in the US over 2024 originated from China. American manufacturing is also still dependent on importing several key battery inputs, such as cathode active material. With a local supply chain unable to meet demand and tariffs making imports prohibitively expensive, the US-China trade war could therefore hurt the battery expansion significantly. Similar risks are set to be significant in other clean value chains as well.

### Chinese Lithium-ion battery exports by destination



Source: Atlantic Council based on General Administration of Customs of the People's Republic of China (GACC) data.

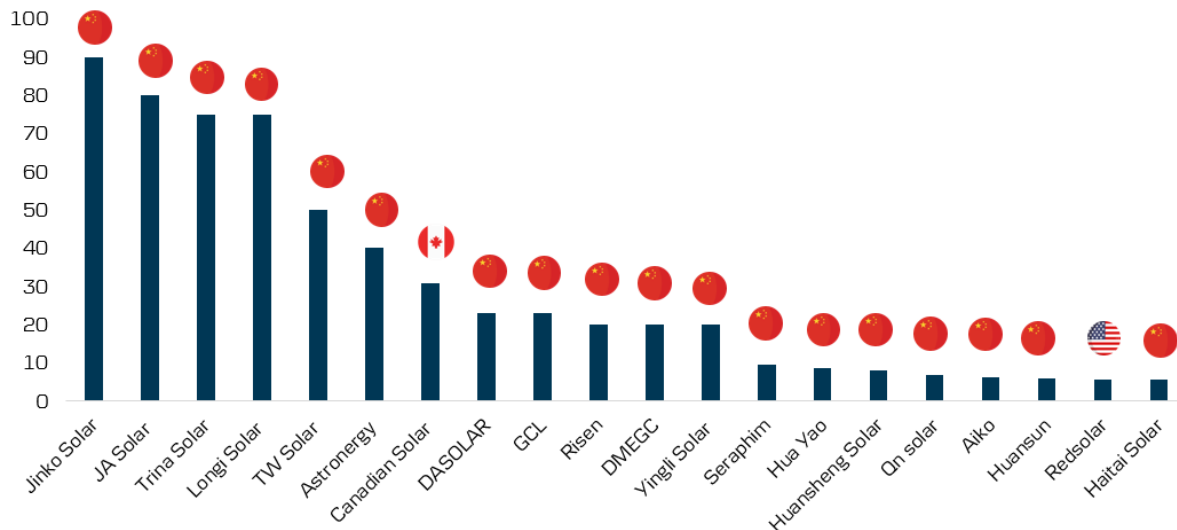
### China: Cat and mouse, domestic stimulus or flood the global market, or all at once?

On the other side of the trade war is China. China is the world's hub for clean technology manufacturing and produces a vast majority of the clean tech components the world uses. Put simply, China has been able to achieve this through supporting a domestic manufacturing boom, helped by creating strong domestic demand. This has enabled significant economies of scale and innovation, enabling China to export cost-competitive products to the rest of the world.

American tariffs on clean technology are not news for Chinese manufacturers, however. Looking at solar panels specifically, tariffs were already implemented under Obama in 2012. The Chinese manufacturers responded by moving production to southeast Asia, resulting in direct US solar panel imports from China ceasing. Instead, about three quarters of US solar panel imports at present come from Cambodia, Malaysia, Thailand and Vietnam. In response to this, President Biden introduced new import tariffs accordingly, only leading to China again moving manufacturing to unaffected countries such as Laos and Indonesia over 2024. This cat and mouse game will likely continue, also outside the solar sector, especially if

reciprocal tariffs are put on the backburner and Trump focuses his efforts exclusively on China.

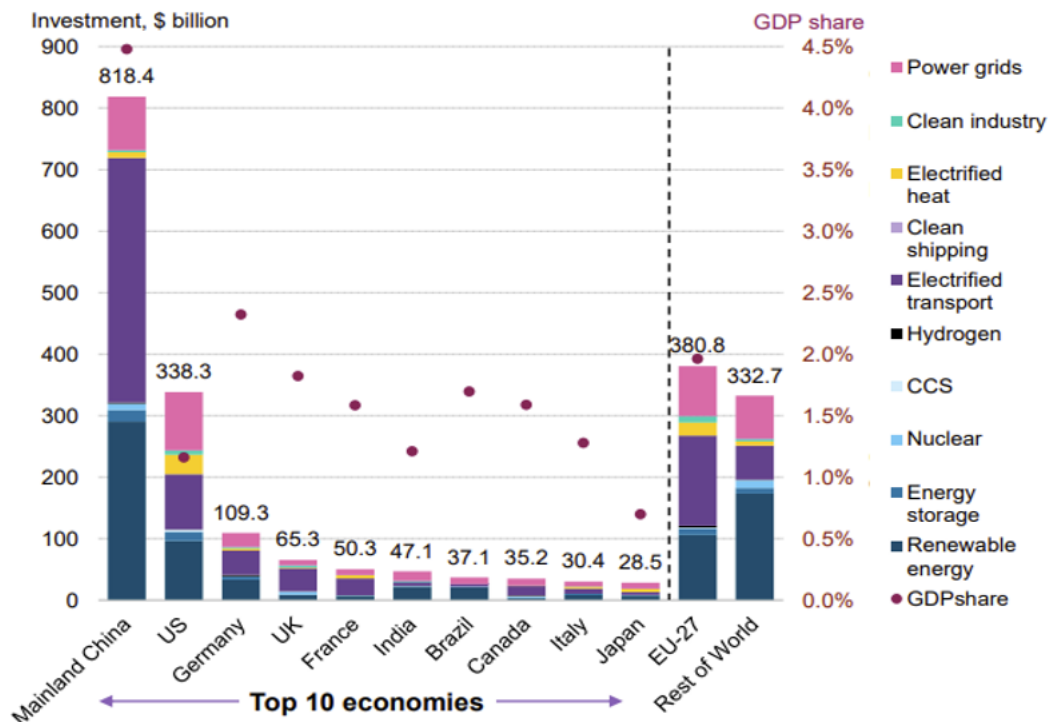
### Top 20 solar panel manufacturers 2024, GW shipped



Source: Solarbe global

It seems likely, however, that such re-location tactics will be on Washington's radar. And with China already facing significant oversupply in key clean technology sectors such as batteries and solar power, Beijing will likely have to double down on stimulating domestic demand. As of 2024, BNEF estimates that China invested more than USD800bn in clean energy sectors, more than EU and US combined. Further, BNEF estimates that this constituted 4.5% of GDP for China – with clean energy also being Beijing's way to offset an ongoing real estate slump – compared to about 2% in the EU and a bit more than 1% in the US (see graph below). Some analysts have even estimated clean technology to have made up 10% of the Chinese economy over 2024, with sales and investments worth USD1.9 trillion. Hence, an additional increase in Chinese clean tech stimulus would further cement China's status as the global clean energy giant.

## Energy transition investment and GDP share in 2024 by market



Source: BNEF

On the other hand, no matter size of the domestic Chinese stimulus, it appears very likely that there will be a significant oversupply of clean technology products. According to the [World Bank](#), China produces about 30% of the world's manufactured products yet only represents about 13% of global consumption. This might pose a big problem for other markets where there are ambitions to establish clean energy value chains to reduce reliance on China and ensure more value is created at home – markets such as the EU.

### EU to face tough choices to protect its clean value chain expansion

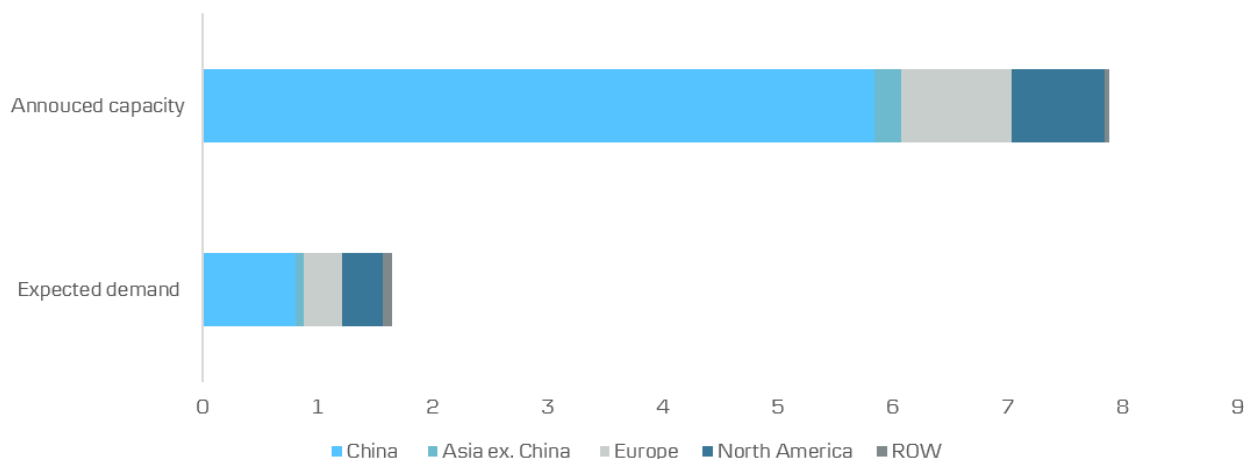
It is not easy to be the EU and be lodged in between the US and China. During a China-US trade war, these challenges will be amplified. The EU has for real begun its own efforts to establish clean energy value chains, including the sourcing and refining of raw materials and manufacturing of technology – notably through the [Green Deal Industrial Plan](#) which sets ambitious self-sufficiency targets. While this plan clearly has China in mind, it was arguably even more so a response to concerns that the US IRA would absorb European investments due to more money being on offer. This concern will likely have faded the last few months, only to be replaced by the concern that a flood of cheap Chinese goods will pull the rug out from under the EU clean value chain building efforts.

To this end, if we again take the solar power example, it can serve as a precautionary tale for Europe. The Europeans were the initial solar technology

pioneers, but the EU was unable to set up sufficient protections against cheap Chinese solar panels in the 2010s, hurting the industry. Fast forward to 2024-2025, an oversupply of cheap Chinese solar panels has led to a wave of bankruptcies and insolvencies in the European solar manufacturing sector. Instead of scaling up, European solar manufacturing is scaling down. While solar panel end-use is thriving for the same reason, it is today firmly a China controlled sector.

With the US market all but closed for Chinese products, additional oversupply challenges will likely hit the EU hard and fast across sectors. Chinese batteries and electric vehicles appears to be first in line, and while the EU has implemented tariffs on Chinese EVs (see June newsletter from 2024) it may not be enough to account for the combination of Chinese oversupply and cost-advantages (see graph below). The EU hence finds itself having to make difficult decisions. Either to significantly raise its own trade barriers against China – or to deepen collaboration to prevent a further escalation of the trade war and build strength against further Trump policy that could hit the EU. Striking the balance on tariffs to ensure a constructive relationship with China, while not destroying EU’s own work to build clean value chains will likely prove very difficult task indeed.

### Projected battery production capacity and demand for 2025, TWh



Source: BNEF

## ***In brief:***

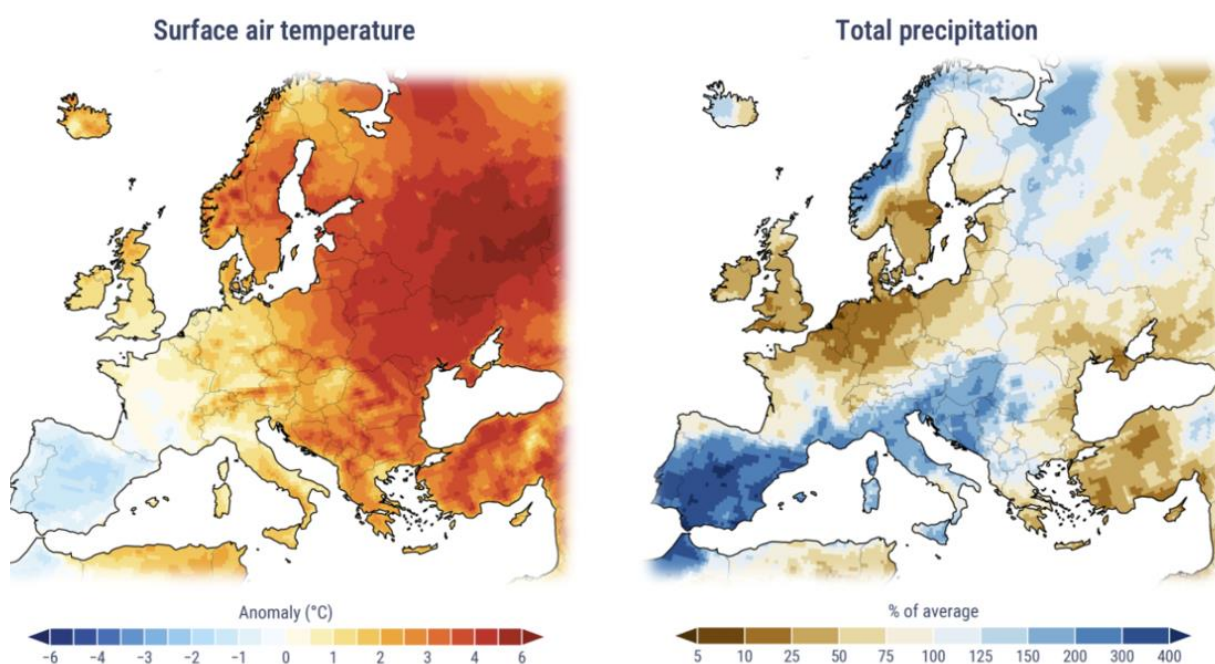
- **IAG and Microsoft strengthen partnership with largest and longest Scope 3 Sustainable Aviation Fuel agreement to date.** The agreement is in line with Microsoft's goal to reduce scope 3 emissions and is an extension to a purchase agreement from 2023 by 5 years. The agreement means that Microsoft will co-fund an additional 39,000 tonnes of sustainable aviation fuel that is estimated to reduce lifecycle carbon emissions by approx. 113,000 tonnes.
- **Deutsche Bank's asset manager DWS fined EUR 25 million over greenwashing scandal.** Following long-running investigations in the US and Germany, prosecutors stated that the company misled investors about its green credentials and concluded that the asset manager used "aggressive" advertising that "did not reflect reality", citing the claim that ESG was "part of our DNA" and that the firm was a "leader" in the field. Additionally, DWS paid a total of USD 25 million in penalties in 2023 to settle charges by the SEC of anti-money laundering violations and misstatements regarding ESG investments.
- **Hafslund Celsio enters carbon dioxide removal (CDR) offtake agreement for its waste-to-energy CCS retrofit.** It was announced on April 1st that the company had entered agreement with Frontier Climate Group – including companies such as Stripe, Google, Mckinsey Sustainability, H&M and Salesforce - for the removal of 100,000 tons of CO<sub>2</sub> between 2029 and 2030. The removal is valued at USD31.6mn. The announcement follows the news that Stockholm Exergi had taken final investment decision on its large-scale bioenergy CCS (BECSS) facility at the end of March. Stockholm Exergi takes aim at removing 800,000 CO<sub>2</sub> annually by capturing and storing biogenic CO<sub>2</sub>. Microsoft and the Frontier Group are the main offtakers of the CDR credits for the project.
- **US threatens to retaliate against any international levy imposed on ships for their carbon emissions.** By today, countries meeting at the UN's International Maritime Organisation (IMO) 83rd Marine Environment Protection Committee (MEPC83) are expected to agree on an economic measure that could include the first global price for an industry's carbon emissions. As an IMO member state, the US was committed to a 2023 agreement to achieve net zero shipping emissions "by or around" 2050, as well as to set an economic measure to achieve this goal. The US is reportedly opposing such plans, on the apparent basis they would "impose substantial economic burden", "drive inflation", and be "blatantly unfair" and "inconsistent" with current international law of the sea. A note from Washington stated that the government will consider reciprocal measures to offset any fees charges to US ships to compensate for any adopted GHG emissions measures.
- **China issues its first sovereign green bonds.** Issuing 3-year and 5-year maturity bonds equivalent to approx. \$825 million, the transaction was significantly oversubscribed. Use of proceeds are to support projects and

initiatives aimed at achieving objectives, ranging from climate change mitigation and adaptation to natural resource and biodiversity conservation.

- **March 2025 was the warmest ever in Europe and second warmest globally.** The temperature was 0.65 degrees celsius above the average from 1991 to 2020 according to Copernicus. It was also a month with contrasting rainfall extremes across Europe with many areas experiencing their driest and other their wettest March on record for at least 47 years (see graph of the month below). This was the 20th month in the last 21 months for which the global-average surface air temperature was more than 1.5 degrees above pre-industrial level. Additionally, arctic sea ice reached its lowest monthly extent for the same month in the 47-year satellite record, at 6% below average.

## ***Graph of the month:***

### Climate anomalies in Europe in March 2025



*Source: \* Anomalies in surface air temperature and precipitation for March 2025 with respect to March averages for the period 1991-2020. Source: C3S/ECMWF based on ERA5 data.*

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