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Danske Bank

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- ***In focus:*** *This summer saw record-breaking heat globally, including unprecedented heatwaves in northern Finland, Norway, and Sweden, alongside intense rainfall, flooding, and wildfires. Major geopolitical events also unfolded, with policy uncertainty and supply disruptions weighing on near-term growth and strategic decisions. In this newsletter, we explore how recent developments from tariffs and renewable energy costs may impact Nordic corporate sustainability actions.*
- ***In brief:***
  - *China continues its initiatives to accelerate the green transition.*
  - *10 years since the adoption of the UN Sustainable Development Goals (SDGs).*
  - *The European Commission has adopted a targeted "quick fix" amendment to the first European Sustainability Reporting Standards (ESRS).*
  - *Germany received no bids in their zero-subsidy offshore wind auction.*
  - *Lyten to acquire key Northvolt assets in major battery manufacturing expansion.*
  - *ECB to consider climate and nature in monetary policy.*

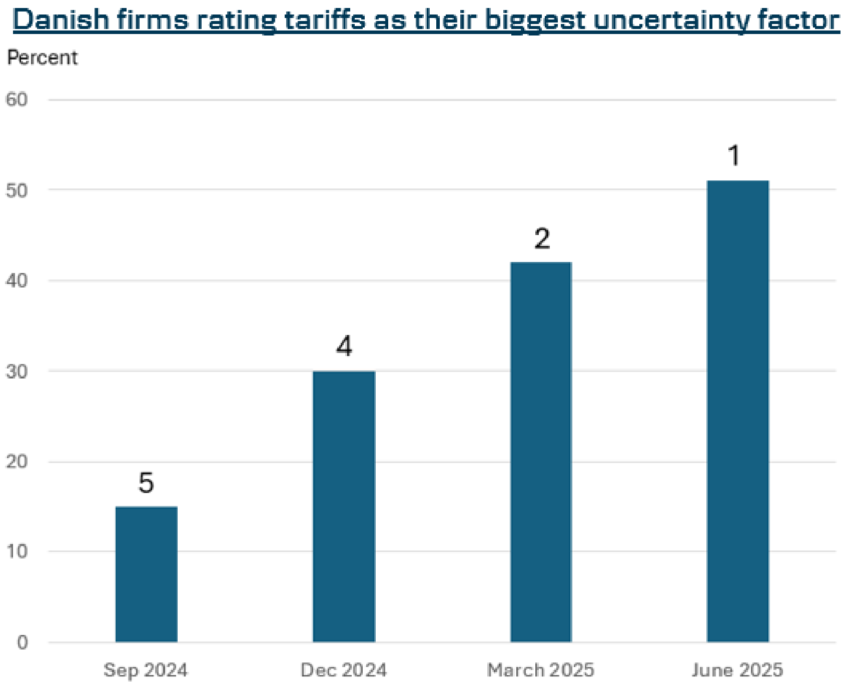
In focus: Will Trump's tariffs hamper firms' sustainability actions?

In a world of rising political tensions and economic uncertainty, businesses face the challenge of sustaining their sustainability strategies under new tariff regimes. The Trump tariffs have disrupted global markets, prompting companies to rethink supply chains, pricing, and investments.

A few key observations stand out this far:

- A global system shift is underway. The era of unquestioned free trade is ending, with Trump symbolising this change. The EU is also contributing, notably through trade barriers tied to the Green Deal.
- The hardest hit are poorer countries, which are being penalised with the highest tariffs despite their limited ability to import from the US. This has both economic and significant social repercussions.
- The tariffs are influenced not only by economic factors but also by Trump's personal preferences. The UK and Argentina enjoy more favourable terms, while Brazil is penalised for political reasons. Switzerland has also fared poorly in its negotiations with the US, now facing a tariff of nearly 40%, compared to 10–15% for most developed economies.
- Unlike earlier tariffs targeting mainly industrial goods, the current regime spans consumer products, raw materials, and even digital services. Its impact reaches businesses globally, far beyond US borders.
- The ripple effects of these tariffs vary considerably across sectors and regions, with relevance to industries largely dependent on international cooperation, technology sharing, and integrated supply chains to achieve environmental objectives.

Certainly, the current trade war has become a major uncertainty for export-driven Nordic economies. For example, Sweden now has a Customs Hotline advising firms on US trade tariffs, Norwegian industry leaders increasingly warn of supply disruptions in seafood and energy, Finnish firms called for quick EU countermeasures, and Danish companies expressed tariffs as their top concern.



Notes: The columns indicate the proportion of companies responding to the escalation of trade wars among their biggest uncertainty factors. The number above the bar indicates the escalation of trade war ranking among all uncertainty factors.
Source: Dansk Industri

It is no wonder that tariffs have emerged as a new concern in the sky for Nordic companies. Their impact is both direct and significant. And this does not mean that other areas are less relevant. Climate is not a passing shock, it's a structural, long-term challenge and recent data supports conclusions that sustainability continues to be in the interest of firms and investors.

In that sense, the tariff shift may present an opportunity for companies to reassess, reimagine, and advance their sustainability strategies. Instead of simply avoiding tariffs, firms can reconfigure supply chains through a sustainability lens, for instance, by developing regional manufacturing clusters to cut emissions or diversifying suppliers with shared environmental goals. Rising material costs could also encourage investments in waste-reducing technologies and resource-efficient designs, aligning cost savings with environmental benefits.

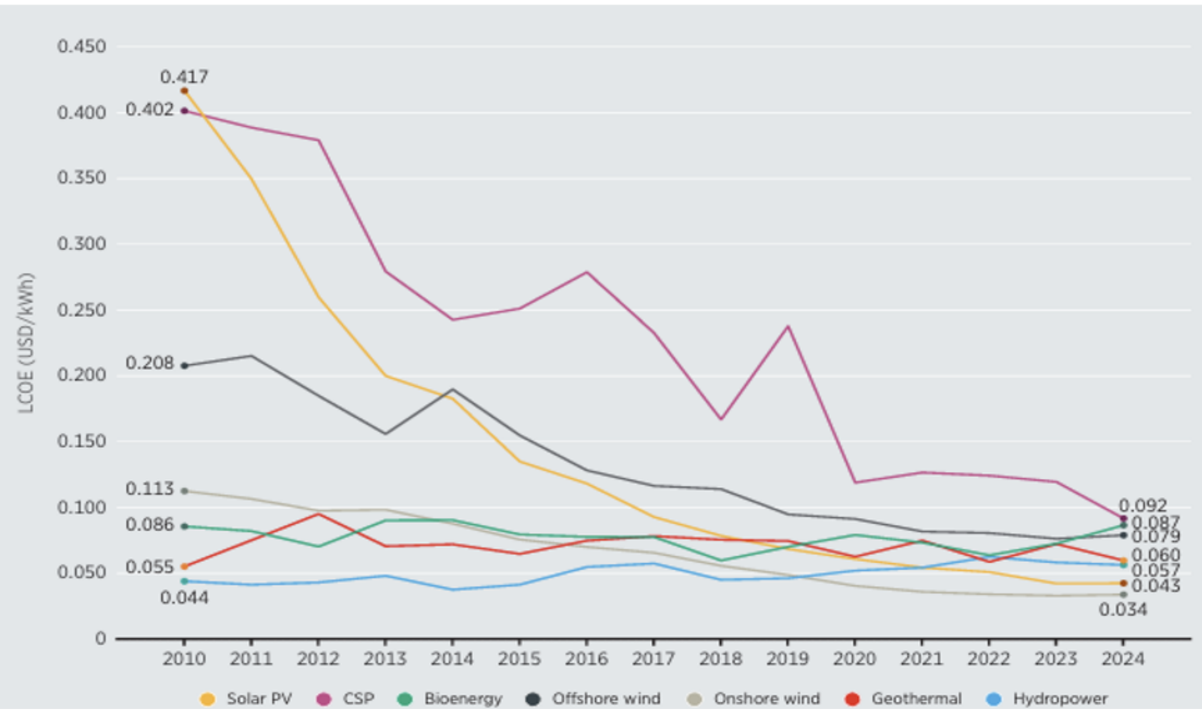
The tariff shift may also reframe sustainability as a competitive advantage. Firms that demonstrate how environmental initiatives reduce costs and increase resilience can stand out in a tariff-pressured market. Globally recognised sustainability metrics may further strengthen their appeal to customers and investors, making tariffs not just a challenge but a driver for sustainable innovation.

In focus: Most new renewable energy now cheaper than fossils

Renewable energy continues to dominate global power markets by cost, with solar and wind maintaining their lead over fossil fuel sources. This summer, both the World Economic Forum and the International Renewable Energy Agency (IRENA) released reports indicating an acceleration in global production and growing cost advantages of renewable energy. A few highlights from the IRENA report:

- In 2024, global renewable energy capacity grew by a record 582 GW, reflecting a strong push for renewables in electricity generation.
- Renewables now rival fossil fuels in installed capacity, but achieving the COP28 goal of tripling capacity by 2030 will require faster deployment and major investments in grids and energy storage.
- Renewables are highly cost-competitive, with 91% of new projects in 2024 cheaper than fossil fuels. Solar PV averaged USD 0.043/kWh (41% cheaper), and onshore wind was 53% cheaper at USD 0.034/kWh.
- The electricity mix is evolving, with solar generation in the EU surpassing coal for the first time in 2024.
- Renewables reduced reliance on e.g. fossil fuel infrastructure, saving USD 467 billion in avoided fuel costs in 2024.

Renewable energy LCOE, 2010-2024



Source: IRENA

Recent developments highlight the growing cost-effectiveness and adoption of renewables, yet new challenges are emerging. Negative electricity prices are becoming more frequent in Europe and the Nordics, driven by unregulated renewable supply, policy uncertainties, and grid inflexibility. These prices arise when supply exceeds demand, often during periods of low consumption, reflecting the electricity system's struggle to balance production and usage. While negative prices offer industrial users access to cheap energy, their increasing frequency risks discouraging investment in renewables, potentially hampering progress towards climate goals.

At the core of the issue is the inflexibility of the power system. Solar and wind energy, while cost-efficient, are intermittent and lack the dispatchability of fossil fuels. As their share of the energy mix grows, they no longer just displace conventional power but begin to erode their own market prices. This creates complexities for integrating additional renewable capacity, as the stability provided by conventional power diminishes. A stable electricity system requires both flexible production that can adjust to demand and demand-side flexibility, where users can adapt their consumption based on grid needs and price signals.

To address these challenges and maintain momentum in renewable energy integration, three key strategies are essential:

- **Enhance grid flexibility**: Investments in energy storage systems, such as batteries and hydrogen, can store excess electricity during low demand and release it when needed. Expanding national grids and strengthening cross-border connections can also help export surplus electricity to regions with higher demand.
- **Accelerate electrification**: Encouraging electricity use in transport, heating, and industry can absorb surplus renewable energy. For example, electric vehicles and industrial processes can be optimised to increase energy consumption during periods of high renewable generation.
- **Refine market design and policies**: Improved forecasting and real-time pricing models can better balance supply and demand. Policy adjustments, including revising subsidies, introducing capacity payments, and promoting long-term power purchase agreements (PPAs), can provide financial stability for producers and align incentives with market conditions.

By addressing these challenges through collaboration between energy producers, grid operators, policymakers, and consumers, Europe can limit the occurrence of negative power prices while advancing its renewable energy transition and maintaining a stable and efficient electricity system.

In brief:

- **China continues its initiatives to accelerate the green transition.**
  - *Introducing renewable power targets for industry*: China's National Development and Reform Commission (NDRC) and the National Energy Administration (NEA) have introduced its first renewable power consumption targets for energy-intensive industries, including steel, cement, polysilicon, electrolytic aluminium and data centres. Green electricity certificates (GECs) will be used as the primary mechanism to meet average renewable energy consumption targets of just below 40%. While the policy builds on a March announcement by the NEA to boost renewable energy use, it does not specify penalties for failing to meet these goals.
  - *Zero-carbon industrial parks:* China's NDRC, MIIT, and NEA have announced plans to develop zero-carbon industrial parks to accelerate carbon neutrality. By August 2025, local governments will propose candidates based on renewable energy potential and carbon reduction capacity. Key focuses include energy transition, efficiency upgrades, infrastructure modernisation, and technological innovation. Financial support and talent will aid implementation, with selected parks undergoing phased evaluations to become "National Zero-Carbon Industrial Parks." The initiative aims to create scalable models for industrial decarbonisation.

- **10 years since the adoption of the UN Sustainable Development Goals (SDGs) with the Nordic countries in the lead.** A decade after the adoption of the 17 Sustainable Development Goals (SDGs), progress is significantly behind schedule, with fewer than 20% of targets expected to be met by 2030. However, global averages conceal notable disparities in SDG progress across different regions and countries. Most UN Member States remain strongly committed and the Nordic countries continue to lead the SDG Index, according to the 10th edition of the Sustainable Development Report (SDR), published in June 2025. While the SDGs were originally formulated by and for governments, businesses are recognised as key in achieving and profiting from these goals. According to the Business and Sustainable Development Commission, $12 trillion worth of market opportunities could result from accomplishing the United Nation's SDGs by 2030.

- **Germany received no bids in their zero-subsidy offshore wind auction.** Critics argue the auction design forces developers to bear excessive risks without protection, making the market unappealing to investors. The German Offshore Wind Energy Association (BWO) viewed this result as "an alarming signal" and urged the German government to reform the auction design. The failed auction marks the latest challenge for offshore wind in Europe, which has seen its growth prospects reduced by rising costs.

- **Lyten to acquire key Northvolt assets in major battery manufacturing expansion.** This follows the company's earlier announcement of plans to acquire three additional Northvolt assets. The latest acquisition includes 16 GWh of existing battery manufacturing capacity, more than 15 GWh of capacity under construction, and infrastructure and plans to scale more than 100 GWh. Lyten intends to restart operations upon close of the transaction and to continue expanding capacity, exploring opportunities beyond electric vehicles, such as energy solutions for data centers.

- **The European Commission has adopted a targeted "quick fix" amendment to the first European Sustainability Reporting Standards (ESRS).** Effective from financial year 2025, the amendment will allow "wave one" companies, those reporting under the CSRD regime for the first time for financial year 2024, to omit certain disclosures on the financial effects of sustainability-related risks until 2026. The measure addresses a gap left by the "stop-the-clock" directive, which delayed reporting for later waves. This will reduce the burden and increase certainty for companies that had to start reporting for the financial year 2024.

- **ECB to consider climate and nature in monetary policy.** Ahead of the audit of ECB's monetary policy strategy, last reviewed in 2021, various organisations and experts urged the ECB to take further operational action to support the green transition. As expected, The ECB's 2025 strategy reaffirms a 2% inflation target, a data-driven approach, and readiness to address inflation uncertainty and shocks. It also emphasises climate and nature degradation as a significant risk factor that needs to be further monitored, analysed, and considered in monetary policy. Opinions seem to differ on what this really says and will mean in terms of changes, but statements from delegates of the ECB's executive board suggest that the inclusion of the phrase "and nature degradation" is an important step forward.
