Danske Bank

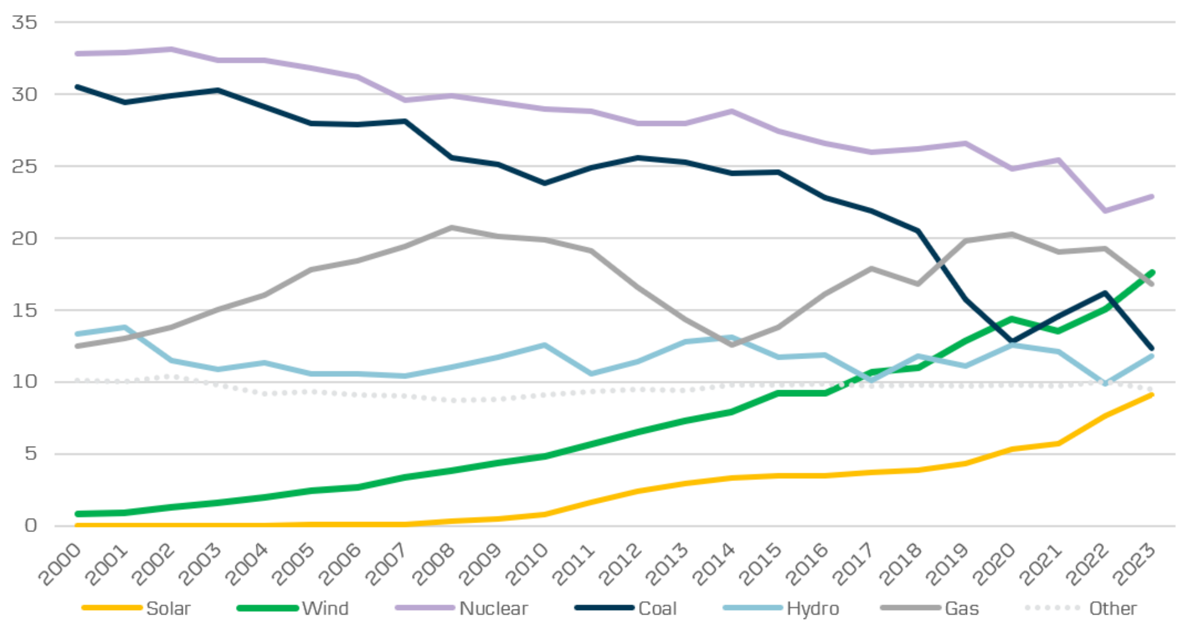
16 February 2024

- ***In focus:*** *The European wind power sector has been through some tough years, with cost inflation, financing costs and permitting delays having hit project developers and equipment manufacturers. At the same time, expansion targets for the sector have never been higher, as EU gears up to deliver on ambitious 2030 and now soon 2040 climate targets. As such, EU actions to support the sector, such as streamlined permitting, reformed auctions and improved financing access will be key in addressing the mismatch between market conditions and growth aspirations. A failure to get this right could spell trouble for Europe's wind power frontrunner status, with China eager to establish a similar global market dominance they currently enjoy in the solar sector.*
- ***In brief:***
    - *GRI launches mining sector reporting standard.*
    - *Barclays to end financing of new oil and gas fields.*
    - *JPMorgan asset management and State Street Global advisors are both leaving Climate Action 100+.*
    - *Navigating biodiversity complexities is challenging for large Nordic companies.*
    - *European Commission aims to cut EU emissions by 90% by 2040 compared to 1990 levels.*
- ***Notable sustainable bonds:*** *We give you our summary of an active Nordic sustainable bond market over the last two weeks.*

In focus: Boosting European wind sector key as climate targets and Chinese competition loom

The wind power sector has been and will remain of outsized importance in driving the European energy transition. While the first wind turbines came to the European market in the early 1980s, the sector began to incrementally grab market shares in the European power generation mix from the early 2000s – a dynamic that has accelerated over the last decade. Fast forward to 2023 and electricity generated from wind power surpassed that of natural gas for the first time (see graph below), while a total of 17 gigawatts (GW) of new wind capacity was installed – the most ever over a year.

EU Power generation by technology share of total, 2000-2023



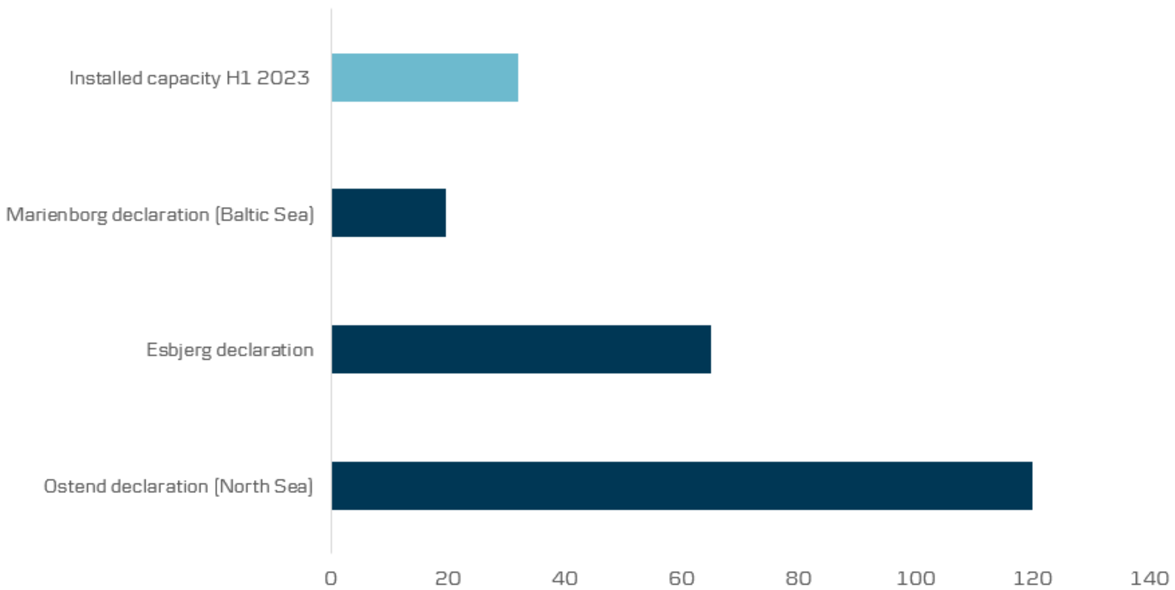
Source: Ember, Eurostat

Strong European wind sector a must to deliver on EU's climate strategy

However, it is not all rosy. While 2023 was a year of growth records, it was also one where several wind developers and original equipment manufacturers (OEMs) were under severe pressure. The Covid-19 pandemic, a global supply chain crisis and the Russian invasion of Ukraine has led to high inflation – for example the average price of seven critical minerals needed in wind power technology increased by 93% between January 2020 and Q1 2023 – with cost of wind turbines reaching decade highs in 2022. Add to this rising interest rates that increase financing costs, coupled with much discussed permitting delays – 80GW of capacity was as of April 2023 stuck in permitting procedures across Europe including projects capable of producing 65TWh per year in Sweden alone - and you get a perfect storm. As such, OEMs such as Vestas, Siemens Gamesa and General Electric have struggled with steep losses – although Vestas bucked the trend and returned to profitability over 2023 – while Ørsted announced last week that it will suspend dividends, cut jobs and exit wind markets to become a "leaner and more efficient company". The Ørsted news followed the company getting hit by significant impairments on its halted US offshore wind portfolio in 2023.

Against this challenging market backdrop, growth aspirations for the European wind power industry have never been higher. For example, as a key component of its recommended climate target for 2040 (see in-briefs), the European Commission aims for a 90% power generation mix share from renewables – with wind set to play the key role. This follows the adoption of the revised Renewable Energy Directive (REDIII) in October last year, which targets 42.5% renewable energy in EU's overall energy consumption by 2030 – a significant increase from the former 32% target. Then there are the ambitious offshore wind expansion declarations from EU and EEA countries, such as that of the Ostend declaration. It focuses on the North Sea and targets a total of 120GW of offshore wind to be installed by 2030, and 300GW by 2050. This compares to a cumulative total of 32GW of offshore wind capacity installed across all of Europe as of H1 2023 (see graph below). Across both onshore and offshore, industry association Wind Europe projects that at least 31GW of capacity must be deployed annually to deliver on a 2030 target of 420GW of wind capacity installed, almost double that of the record year of 2023.

European offshore wind: Installed capacity and expansion declaration targets, GW



Source: Country declarations, Wind Europe

EU is taking steps to reinvigorate struggling sector

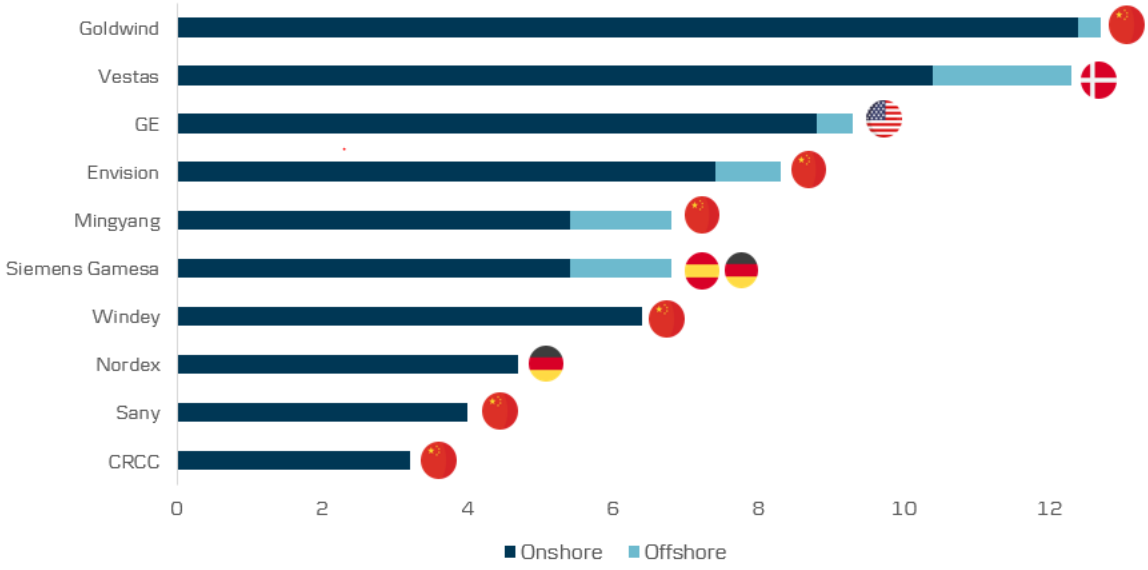
It is thus of key importance to the EU to close the apparent mismatch in current wind market conditions and those needed to deliver on high growth aspirations, and the bloc made several moves over 2023 to improve the situation. In terms of permitting, the European Commission introduced emergency permitting rules for renewable energy cases at the end of 2022 for 12 months – which again was renewed by another 12 months in the end-2023. The rules helped increase permitting in Germany and Italy by 70% over 2023 compared to 2022 levels – but still at a rate too slow to achieve EU targets. The adopted REDIII will also help, as it clearly states that permits must be provided within 24 months, or within 12 months in so-called renewables acceleration areas, and otherwise sets out to streamline permitting procedures through measures such as increased digitalization.

Another key measure from the European Commission was that of the European Wind Power Action Plan, announced in October 2023. The plan reiterates the importance of permitting, boosting access to finance through measures such as credit risk guarantees, addressing unfair trade practices from international competitors and ensure access to the right skills. It also looks into auction design – with the recently finalized Net Zero Industry Act for example calling for governments to apply price indexation in auctions to better factor in possible increases in input costs, which has proven a key challenge for the industry the last couple of years. While China is not mentioned overtly, it is assumed that the offer of EU money to wind firms that meet select sustainability, cybersecurity and labor standards would be likely contribute to curbing its access to the European market.

As Chinese wind sector steams ahead, competition is firmly on EU policymakers' minds

While delivering on renewable energy targets is a key aim of EU measures to support the wind sector, staving off competition from the Chinese wind industry is clearly another key objective. The Chinese wind sector benefits from cheap-state backed loans and can according to BNEF produce a wind turbine at half the cost of European counterparts and could become competitive in the EU in the second half of the 2020s. It is also estimated that China were to add a total of 230GW new wind and solar capacity domestically over 2023 – showcasing Beijing's huge push to strengthen its role as the renewable energy powerhouse globally. Highlighting this aspiration, clean energy investments in China reportedly increased by 40% year-on-year in 2023, totaling USD890bn – in turn enabling significant economies of scale. As such, as six of the top 10 wind turbine manufacturers globally over 2022 were Chinese (see graph below), a dynamic likely further cemented over 2023.

Top 10 wind turbine manufacturers of commissioned capacity, 2022



Source: BNEF

Against this backdrop, there are rising concerns that - should the EU not get its wind power act together – an industry in which Europe long has been the global frontrunner could end up being dominated by Beijing over time. This would then be an unfortunate recurrence of the solar power sector narrative, with China today completely dominating global solar panel production. While the EU tried to fight solar competition with anti-dumping measures, it had to in the end back down due to a lack of EU member consensus and concerns over retaliation. This time, continuous deterioration in Sino-Western relations, coupled with the importance of the European wind sector in terms of delivering value, boosting energy security and enabling decarbonization will ensure a stronger push-back from the EU. While this for now seems to fall short of outright protectionism and centers on boosting a struggling industry, it is also clearly intended to stave off Chinese competition. Chances are that a failure to get this right could be a significant threat to a strong European wind sector in the long run, which in turn could pose a significant risk to a key industry, energy security and climate targets.

In brief:

- **GRI launches mining sector reporting standard.** On February 6, the Global Reporting Initiative (GRI) launched its new reporting standard for the mining sector which encompasses disclosure guidance on a broad range of sustainability impacts for what traditionally has been considered a sector with a number of ESG challenges. In order to help identify, disclose and improve on such issues, the standard focuses on mining, quarrying, exploration & extraction, primary processing and related support services – and defines a total of 25 topics that are of high materiality for the sector. Crucially, the extraction and processing of minerals will play a crucial role in the green transition, with the roll-out of transition enabling technology such as wind, solar and batteries depending on significant volumes of critical raw materials.

- **Barclays to end financing of new oil and gas fields.** The move entails stopping direct financing of new oil and gas fields as well as restricting lending more broadly for companies that expand fossil fuel production. The move accompanies Barclays publishing its Transition Finance Framework in February, which defines criteria for 110 transition activities for transition use-of-proceeds financing under 11 categories of high-emitting and hard to abate sectors. According to Rainforest Action Network, Barclays was the biggest funder of the fossil fuel sector in Europe between 2016 and 2021.

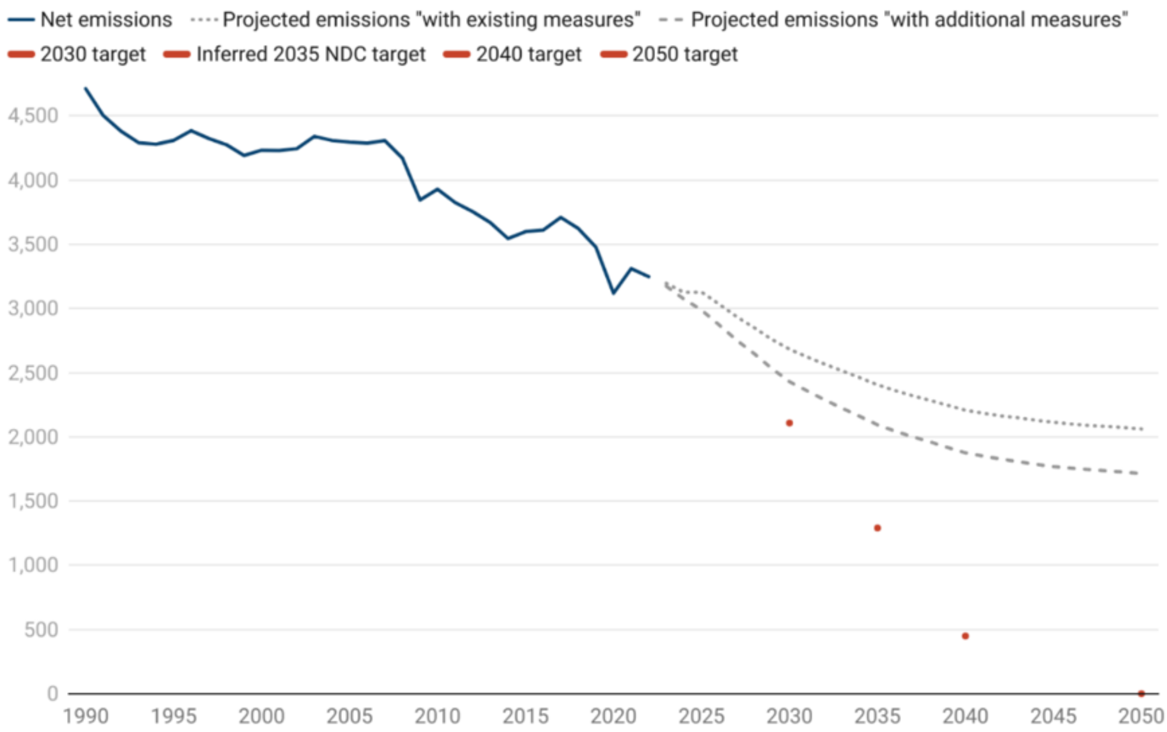
- **JPMorgan asset management and State Street Global advisors are both leaving Climate Action 100+.** It happens at a time when the asset management industry is under pressure from US republicans over efforts to reduce carbon emissions and news of for example activist investor Bluebell pushing BP to drop green commitments. According to the article in Financial Times, the two departures leave Blackrock as the only top five manager in the initiative.

- **Navigating biodiversity complexities is challenging for large Nordic companies.** According to a white paper from Danske Bank Asset Management that assesses how 100 of the largest companies in the Nordics manage their biodiversity impacts and dependencies, 73% are having issues with the complexities of addressing biodiversity risks and establishing appropriate targets and governance. The 100 companies are all identified to have either high or very high impact and/or dependency on nature, and the study finds that most companies recognize biodiversity as a relevant risk or opportunity and are committed to addressing it. That said, many of the companies assessed have not communicated credible plans and or targets to minimize biodiversity impacts to date, with Danish companies scoring on average lower than Nordic peers.

- **European Commission aims to cut EU emissions by 90% by 2040 compared to 1990 levels.** The EC roadmap and the impact assessment forming its basis were released on February 6, and is intended to be aligned with the EU commitments under the Paris Agreement. Notably, delivering on the target would require a significantly expanded but also fossil free power system by 2040, as well as a reduction in fossil fuel use in energy of at least 80%. The target is a "net target", which means that removing carbon from the atmosphere – with up to 400MtCO_2e to be removed through either CCS or land-based solutions, i.e., bound up in forests. The recommendation is meant to kickstart discussions around the 2040 target, with a legislative proposal from the EC not due until after the European Parliament elections scheduled for June this year.

Graph to note:

Proposed EU 2040 goal: Past, projected and targeted emissions, $MtCO_2e$



Source: Eurostat, Carbon Brief analysis

Nordic sustainable bond market update

In our review period, spanning from 2nd to 15th February, there was a strong current of sustainable bonds being priced in the Nordic market.

During the first half of our review period, between 2nd - 8th February, our radar detected 13 new issues and 3 taps coming to the market. All of these sustainable deals were conducted in green format and apart from Svenska Handelsbanken's EUR 750 Senior Non-preferred, issued in local currencies, i.e. in Swedish and Norwegian kroners.

Majority of these local currency deals were also private placements and many of the issuers utilised the market more than once. These issuers included Swedish Export Credit (Export/import bank, SE), Svensk Fastighets Financiering (Diversified Financial Services, SE), Vasakronan (Real Estate, SE) and Willhem (Real Estate, SE). In addition, Norwegian distribution system operator (DSO), Arva, issued its inaugural green dual-tranche with a total size of NOK 600m under its June 2023 updated Green Financing Framework.

Then during this week, the number of issues were lower, but the tilt was more on the publicly syndicated side. During the week, Danske Bank had the pleasure to be a bookrunner in three Nordic publicly syndicated deals including Statnett, Norske Tog and NP3 Fastigheter green bonds.

On Monday, Statnett - which is a Norwegian transmission system operator (TSO) and 100% owned by the state of Norway - issued a highly successful EUR 500m 12yr senior unsecured green bond issue. The bond was priced at MS + 68bps and based on the estimates also 2bps inside fair value on the back of an almost 4x covered orderbook. Part of the success can be explained by the value the bond offers to impact investors as Statnett plays a key role in the realisation of Norway's climate goals. With the green transition significantly increasing the demand for electricity, Statnett is investing heavily in the transmission grid, and through interconnectors, Statnett furthermore supports a more renewable European power generation mix.

On Tuesday, Norske Tog, which is owned by the Norwegian Ministry of Transport and Communications and has a mandate to procure, manage, and lease out passenger train rolling stock to train operators in Norway, issued a NOK 1.2bn 10yr senior unsecured green bond. The bond attracted broad and large investor demand and was priced at 4.660%. Similar to Statnett, the final price was deemed to be below fair value curve. The proceeds of the bond will be allocated towards investments in new or renewed electric train sets and renovation or improvements of the existing electric rolling stock

On Wednesday, Swedish high yield issuer, NP3 Fastigheter, of which real estate portfolio properties include categories such as retail, industrial, logistics and office, returned to the bond market by issuing a SEK 300m 3.5yr senior unsecured green bond. The bond issue was second in order after NP3 Fastigheter updated its framework in September 2023.

Lastly, we also witnessed one social bond coming to the market when Finnish municipal financier, Kuntarahoitus, issued a NOK 2.0bn 5yr senior unsecured social bond. Under its social bond framework, Kuntarahoitus can finance projects within social housing, welfare and education.

Week 7

Date	Issuer	Country	Type	Volume (m)	Currency	Coupon (%)	Tenor	Industry group	Issuer type
14-02	NP3 FASTIGHETER	SE	GREEN	300	SEK	3mS + 375 bps	3.5	REAL ESTATE	CORPORATE
13-02	KUNTARAHOITUS OYJ	FI	SOCIAL	2000	NOK	3mN + 25 bps	5.0	REGIONAL(STATE/ PROVNC)	SUPRANATIONAL/ GVT. AGENCY
13-02	NORSKE TOG AS	NO	GREEN	1200	NOK	4.66%	10.0	TRANSPORTATION	CORPORATE
12-02	SPAREBANK 1 SOROST-NORGE	NO	GREEN (Tap)	100	NOK	3mN + 126 bps	2.8	BANKS	FINANCIAL
12-02	STATNETT SF	NO	GREEN	500	EUR	MS + 68 bps	12.0	ELECTRIC	CORPORATE
12-02	SPARBANKEN SKARABORG AB	SE	GREEN	500	SEK	3mS + 125 bps	2.0	BANKS	FINANCIAL

Week 6

Date	Issuer	Country	Type	Volume (m)	Currency	Yield	Tenor	Industry group	Issuer type
08-02	WILLHEM AB	SE	GREEN	300	SEK	3mS + 52 bps	2.0	REAL ESTATE	CORPORATE
08-02	SVENSKA HANDELSBANKEN AB	SE	GREEN	750	EUR	MS + 110 bps	10.0	BANKS	FINANCIAL
07-02	SPAREBANK 1 SOROST-NORGE	NO	GREEN (Tap)	200	NOK	3mN + 51 bps	2.8	BANKS	FINANCIAL
07-02	ARVA AS	NO	GREEN	300	NOK	3mN + 110 bps	5.0	ELECTRIC	CORPORATE
07-02	ARVA AS	NO	GREEN	300	NOK	4.796%	5.0	ELECTRIC	CORPORATE
07-02	WILLHEM AB	SE	GREEN	170	SEK	MS + 110 bps	5.0	REAL ESTATE	CORPORATE
06-02	SVENSK FASTIGHETS FIN	SE	GREEN (Tap)	414	SEK	3mS + 135 bps	2.0	DIVERSIFIED FINAN SERV	FINANCIAL
06-02	CITY OF MALMO SWEDEN	SE	GREEN (Tap)	1200	SEK	3mS + 22 bps	3.6	MUNICIPAL	SUB-SOVEREIGN/MUNIC IPALITY
06-02	VASAKRONAN AB	SE	GREEN	250	SEK	MS + 107 bps	5.0	REAL ESTATE	CORPORATE
06-02	SWEDISH EXPORT CREDIT	SE	GREEN	500	SEK	MS + 21 bps	2.0	SOVEREIGN	SUPRANATIONAL/ GVT. AGENCY
06-02	VASAKRONAN AB	SE	GREEN	450	SEK	3mS + 107 bps	5.0	REAL ESTATE	CORPORATE
05-02	SWEDISH EXPORT CREDIT	SE	GREEN	500	SEK	3mS + 22 bps	2.0	SOVEREIGN	SUPRANATIONAL/ GVT. AGENCY
05-02	HEMSO FASTIGHETS AB	SE	GREEN	300	SEK	MS + 111 bps	5.0	REAL ESTATE	CORPORATE
05-02	SVENSK FASTIGHETS FIN	SE	GREEN	574	SEK	3mS + 135 bps	2.0	DIVERSIFIED FINAN SERV	FINANCIAL
02-02	SWEDISH EXPORT CREDIT	SE	GREEN	1000	SEK	3.018%	3.5	SOVEREIGN	SUPRANATIONAL/ GVT. AGENCY
02-02	ATRIUM LJUNGBERG AB	SE	GREEN	600	SEK	3mS + 150 bps	3.0	REAL ESTATE	CORPORATE

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