EQUITY RESEARCH (MARKETING MATERIAL)
Research report prepared by DNB Markets, a division of DNB Bank ASA
This report was completed and disseminated at 15:04 CET on 06 January 2025

9 January 2025

DNB Markets

ESG INSIGHT

Green Deal tracker: year-end review 2024

The EU ended 2024 by landing final details of its Green Deal policies, rather than launching new ones. We summarise recent legislative outcomes below (the last one closed as late as 19 December), and highlight those we believe will have notable market effects, as actual implementation starts now.

The key priority for the European Commission's new 2024–2029 strategy is to balance EU competitiveness with climate goals. In this context, we see new regulatory trends in 2025: resource efficiency and supply chain management/human rights, alongside the ongoing energy transition.

Of the now-sealed policies, some laws are more notable for capital markets than others. The Green Deal is a complex package of laws affecting almost every part of the economy. Of the below-listed, we find the Deforestation Regulation and Energy Performance of Buildings Directive key to watch short-term, for their potentially costly effect and for signalling which direction the EU's sustainability agenda will take.

We believe the priorities of the new five-year strategy (2024–2029) will deepen, rather than widen, ESG regulation. As discussed in our H1 Green Deal tracker (July 2024), the enactment of ESG regulations has been largely unaffected by the new European Parliament and Commission, despite fewer seats for the Greens. We see several reasons for this:

- **The EU works in cycles.** The 2019–2024 'ESG laws boom' was expected first to grow, and later to slow, once the Green Deal strategy and related regulations were launched, negotiated, and enacted into law. Notably, real implementation and market effects begin now. We thus expect a more pragmatic, action-oriented ESG focus in the EU, and fewer high ambitions and less window-dressing. ESG implementation is set to be tested starting in March 2025, when EU companies' inaugural 'Corporate Sustainability Reporting Directive' disclosures are due, enabling investors to compare ESG performance for the first time. The EU's new five-year strategy for 2024–2029 would shift focus to new important priorities, such as defence and competitiveness.
- **After becoming law, regulations are hard to retract in their entirety.** A change in the law (and even a delay – see for instance the Deforestation Regulation and Combustion Engine ban described below) would require a full legislative process from Commission proposal to approval in the European Parliament and Council. Delays and temporary setbacks are more likely, however, and in H2 2024 we saw certain member states cautioned from being first movers (e.g. Germany related to the Combustion Engine ban and Norway, related to the Energy Performance of Buildings Directive), ultimately affecting investor sentiment, even though the EU's long-term direction is still intact.
- **The 'Trump effect' on ongoing ESG regulations will be marginal, in our view.** The coming Donald Trump presidency poses notable uncertainty for ESG-related areas, such as global climate diplomacy, the investment appetite for renewables, and US climate risk disclosure requirements. However, as we have previously noted (November 2024), it is likely that the ongoing climate initiatives under the Inflation Reduction Act, with clear US economic benefits, would prevail under Donald Trump. Moreover, in terms of the EU's ongoing ESG policies, we believe the European Parliament and Commission will push forward as planned.

ANALYST
Anne Margrethe M. Platou
anne.margrethe.platou@dnb.no
+47 9036 7683

Green Deal/EU Fit for 55: Key regulatory changes, H2 2024

The table below covers key legislative changes and outcomes from H2 2024, and is best read as a supplement to our previous Green Deal and Fit for 55 publications. As always, please contact us if you would like further information on the EU's Sustainable Finance or previously passed regulations, such as the Euro 7, EU ETS Reform (including shipping), ReFuelEU and FuelEU Maritime, CBAM, Critical Raw Materials Act, Renewable Energy Directive, Energy Efficiency Directive, and Net Zero Industry Act.

CO_2 emissions standards for trucks and cars

What is new: Completed with formal adoption in April 2023. Resurfaced in H2 2024 to become 'the' law that the newly appointed European Parliament wants to repeal, or at least delay. This is likely to happen in H1 2025, in our view.

New rules imply: The law bans the sale of new combustion cars by 2035. However, this past year, several member states, led by Germany, have called for a repeal or backtrack, citing consumer costs and impaired competitiveness for Europe's ailing automotive sector. While keeping the phase-out of combustion engines alive (as transportation accounts for 40% of the EU's total emissions), implementation of the law is likely to be delayed, especially as competitiveness is a key focus of the EU's new strategic agenda.

Market effect: We believe this ban will affect consumers more than the already transitioning sector of car suppliers and manufacturers. Although EV demand in general will continue to grow, in our opinion, the expected delay to the 2035 ban (likely to pass, in our view) could put potential negative pressure on EV producers' target markets. Hence, we have seen producers backtracking their targets. For example, **Volvo Cars** abandoned its target to produce only fully electric cars by 2030, citing changing market conditions.

Deforestation Regulation

What is new: Completed, but delayed. On 17 and 18 December, the European Parliament and Council formally approved a one-year delay in the EU Deforestation Regulation (EUDR). The affected businesses (see examples below) expressed relief after months of complaining that the new oversight rules to prevent products driving deforestation from entering the EU market would be too difficult to implement in 2024.

In our view, the delay was expected and driven by compliance and administrative burdens, rather than a change in sentiment of the incoming Parliament, which has underlined the importance of biodiversity and deforestation priorities. The law text was not watered-down.

Recap: The regulation was first completed and adopted in June 2023. Member states, operators, and traders have until 30 December **2025** (delayed from 2024) to implement new deforestation oversight standards before the new rules kick in.

Content of the rules set to begin on 30 December 2025 (delayed from 2024)

Products from palm oil, soya, wood, cocoa, coffee, cattle, and rubber may be placed or made available on the EU market, or exported from the EU, only if they meet the following requirements:

- Deforestation-free: Relevant products must be traceable to the plot of land where the relevant commodities were produced/harvested, and such plot of land must not have been subject to deforestation or to forest degradation after 31 December 2020.
- Legality: Production/harvesting of the relevant commodities on the respective plot of land must be compliant with relevant legislation of the country of production.

- Due diligence statement (DDS): Each batch of relevant products must be covered by a DDS and submitted/approved into the EU Information System. EU companies that import these commodities would need to improve supply-chain transparency by end-2025 (delayed from 2024).

Market effect:

In short, we believe there is more downside potential for companies that fail to comply than there is upside potential for those that do comply. In terms of downside risk, scrutiny and costs could be significant for companies with a large share of imported commodities, especially from ‘high risk’ geolocations that are yet to be determined. The bureaucracy related to compliance is substantial. Affected sectors and companies include: tyre companies (**Nokian**), food (**AAK**), seafood (e.g. **Mowi, Bakkafrost**), and retail (e.g. **Orkla, Axfood**), which are all ahead of the compliance curve, in our view, with a high rate of suppliers audited/certified and regulated product traceability. The Nordic forestry sector (e.g. **Norske Skog, SCA, Stora Enso,** and **UPM**) are also relatively well-positioned due to existing strict deforestation and traceability policies. The laws will likely disproportionally affect small and private forestry companies. However, on the upside, we believe compliance would not be likely to constitute a material competitive edge in the broader picture.

‘E’ versus ‘S’ dilemma: We see that responsible importers of commodities from less-developed countries face the dilemma of, on one hand, sourcing from compliant mass-producers, or on the other hand, training and helping transition less-compliant local producers.

For more details, see our Market Comment published 14 November 2024

Energy Performance in Buildings Directive (EPBD)

What is new: On track. At the EU level, not much is new after the EPBD was completed and published in the Official Journal on 8 May 2024. However, at the member-states level, the two-year timeline has started to incorporate the rules into national legislation. In practice, this means that all local laws and standards must be updated to mirror those of the EU. Thus, we see changes in the Nordic countries, where Sweden leads.

In Sweden, the Swedish National Board of Housing, Building and Planning (Boverket) plans to integrate the EPBD into Swedish law by 29 May 2026. In October 2024, it issued the preliminary calculations of Minimum Energy Performance Standards (MEPS). This means that Sweden now has an indicative threshold above which commercial buildings need to be renovated to improve energy performance. For example, Boverket estimates that of more than 87 000 commercial buildings, c7.8% would need renovation by 2030 and c15% by 2033.

In Norway, the government has not yet confirmed that EPBD will be implemented by the 29 May 2026 deadline. In 2024, the Ministry of Energy issued an official public hearing on the updated Norwegian energy standards (i.e. how to rate, scale, and disclose building energy performance), which are set to apply from 1 January 2025. However, no other calculations have been set, leaving significant uncertainty in Norway’s ability to implement the EPBD at the same speed as the EU.

What the new rules imply: To speed up building renovation rates, benefiting construction companies and increasing capex for real estate companies:

- Minimum energy performance standards must be met, leading to renovations of the worst-performing 16% of buildings by 2030 and 26% of buildings by 2033.
- Each member state is to adopt its own national trajectory to reduce the average primary energy use of residential buildings by 16% (by 2030) and 20–22% by 2035.

- National measures will have to ensure that >55% of the decrease of the average primary energy use is achieved through renovation of the worst-performing buildings.
- Member states will have to set out specific measures on the phase-out of fossil fuels in heating and cooling, with the aim to completely phase out fossil-fuelled boilers by 2040.
- Zero-emissions buildings will be the new standard for new buildings (zero on-site emissions from fossil fuels of publicly owned buildings as of 1 January 2028, and of all other buildings as of 1 January 2030).
- All new buildings must be solar-ready, meaning they must be capable of supporting rooftop PVs or solar thermal installations.
- Some buildings are exempt from targets, e.g. historic and certain residential and holiday homes, as specified by each member state.

Market effect: In our view, the EPBD is among the most concrete dossiers coming out of the EU Green Deal and should have a broad effect on the European real estate, construction, and energy-efficiency sectors in increased capex and revenues. Thus, the real estate sector needs to increase capex (where asset owners with new property such as **Wallenstam, Castellum, Catena,** and **Entra** would be better positioned than those in need of renovation such as **SBB** and **Hufvudstaden**), while parts of the construction and consulting sectors are likely to benefit (e.g. **Norconsult, Sweco, Multiconsult, NCC,** and **Veidekke**). We also view suppliers and providers of energy-efficiency solutions as 'winners' (e.g. **Alfa Laval, Rockwool, Systemair,** and **Beijer Ref**). In **Norway**, implementation depends on the EEA process, and thus the timeline is unclear and probably delayed, which in our view, creates an unpredictable sentiment among issuers and investors.

EU's 2040 climate plan

What is new: On track, after initially launched in February 2024. The 2040 climate plan needs to be approved by the Council (EU members) and newly appointed European Parliament before it can be formalised into law. In December 2024, the Council discussed the plan, with clear support from major member states for a carbon emissions cut of 90% by 2040. The newly published EU carbon emissions show a cut of 8% in 2023.

What new 2040 climate plan implies and why it is relevant: Although not a Fit for 55 regulation, the new 2040 plan is meant to serve as a stepping stone between the EU's 2050 climate neutrality goal and its 2030 emissions reduction target of 55%. The plan is a communication (meaning no hard law for now), but is relevant, as it could be a foundation for future climate policies by the new European Commission in 2024–2029.

Potential market effect of main provisions: As no hard law has been passed, we do not expect a new market effect beyond existing Green Deal regulation in the short term.

- **90% cut.** The plan suggests a net emissions cut of 90% by 2040, compared to 1990 levels. This target is no surprise, as it is in line with scientific advice and the EU's 2050 climate-neutrality goals, and is a continuation of the EU's 2030 Green Deal targets.
- **Heavy focus on decarbonisation technologies.** In parallel with the 2040 target, the EU has launched a substantial industrial carbon infrastructure roadmap to boost carbon capture storage sites, capture technologies, transportation, and utilisation. This is not a legislative proposal, but it shapes a plan to capture 280m tons of CO_2 by 2040 and c450m tons by 2050 (a sizeable scale-up from today, not the least due to the significant energy needs for CCUS).

- **Agriculture omitted.** As agriculture is responsible for more than half of the EU's methane emissions, we have seen a growing push for requirements for this sector. The EU wants a 30% emissions cut in 2040 versus 2015, but this decision is delayed.
- **EU ETS leads the way.** The EU relies on the recent Reform of the Emissions Trading System (ETS) (came into force on 1 January 2024 – see previous notes) to gradually increase the price of carbon and provide further incentives for decarbonisation. Although some member states have pushed for a delay (e.g. Poland and the Czech Republic), we believe the EU ETS reform will remain untouched. A task force on Carbon Market Diplomacy is set be launched to further promote a global carbon market.
- **Fossil fuels use phased down.** There is no specific date set to phase out fossil fuels production or consumption (which some expected), but the 2040 target is to phase down fossil fuels consumption by 80% versus 2021 levels. This puts pressure on consumers and the demand side as much as on producers. Coal is set to be phased out.

Although the climate goal does not dictate the EU's energy policy, they are interlinked. The newly appointed energy commissioner is similarly working on a 2040 bloc-wide target for renewable energy that might include a section on **nuclear energy**, which would be a first.

Forced labour regulation: prohibiting products made with forced labour in the EU market

What is new: Completed on 19 November 2024. Final law text published in the Official Journal on 14 December 2024 and applies as of 14 December 2027 as EU member states have three years to implement.

What the new rules imply: Originally not an EU Fit for 55 policy, this regulation forbids the sale, import, and export of goods made using forced labour in an effort to reduce the c27.6m people working in forced labour conditions around the world. The Commission would create a database of specific economic sectors and regions at risk of using forced labour.

If non-EU countries are involved, the Commission is responsible for investigation; if only EU countries are involved, the member states are responsible. When a case is confirmed, authorities could demand that goods be withdrawn from sale in the EU and confiscated at the border.

Potential market effect: This regulation would not directly require more due diligence by companies (as the Corporate Sustainability Due Diligence Directive does), but instead focuses on products. Thus, this is a regulation directed at the manufacturers of goods rather than the importers of goods. Moreover, although not stated in the law text, we believe this regulation would be targeting China's higher-risk regions of forced labour, such as Xinjiang. The practical effect in the short-to-medium term would be more supply-chain surveillance and administration expected from EU companies with supply chains linked to higher-risk regions. For example, the **manufacturing of raw chemical materials and products** (e.g. used for technology and vehicles) and of **textile products** are leading industry sectors in Xinjiang.

Packaging and Packaging Waste Regulation (PPWR): introducing a ban on single-use plastics and more

What is new: Completed on 19 December 2024. Final law text is set to be published in the Official Journal and entered into force. The member states have 18 months to implement.

The PPWR is linked to the similar, but ongoing, Waste Framework Directive: textiles and food waste. In this, it is proposed that by 1 January 2025, member states should ensure the separate collection of textiles for re-use, preparation for re-use, and recycling and for food, legally binding food waste reduction targets by 2030 would be set by member states.

What new rules imply: Originally not an EU Fit for 55 policy, the PPWR aims to reduce the EU's annual packaging waste of c190kg per capita, with reduction targets of 5% by 2030, 10% by 2025, and 15% by 2040. Even though recycling rates are increasing in the EU, the amount of waste generated from packaging is growing faster than the amount recycled.

The new law requirements: From 2029, a depository return system for single-use plastics and metal cans (flexibility for countries with >80% collection rates); from 2030, all packaging must be recyclable and several single-use plastics would be banned; from 2035, recyclable packaging would need to be recycled at scale.

Potential market effect: While the regulation should be no surprise to the EUR370bn packaging and recycling industry (we find the upside potential largely priced in), the law signals that circularity, waste, and resource-efficiency are fast climbing the regulatory agenda.

Still, we see tailwinds for some Nordic names and sectors. Specifically, we believe the food packaging (where paper wins) would positively affect names such as **Huhtamaki, Billerud,** and **Elopak**, and companies ahead of the packaging recycling requirements, such as **Orkla**. The regulation's recycling rate provisions could also be positive for **Tomra** and chemical recycling company, **Agilyx**.

Important Information

This note (the "Note") must be read in conjunction with published research notes and/or DNB Analyst Communication of DNB Markets. The Note must be seen as marketing material and not as an investment recommendation within the meaning of Regulation (EU) NO 596/2014 on market abuse (Market Abuse Regulation) and associated rules, implemented in the relevant jurisdiction.

The Note has been prepared by DNB Markets, a division of DNB Bank ASA. DNB Bank ASA is a part of the DNB Group. The Note is based on information obtained from public sources that DNB Markets believes to be reliable but which DNB Markets has not independently verified, and DNB Markets makes no guarantee, representation or warranty as to its accuracy or completeness. Any opinions expressed herein reflect DNB Markets' judgement at the time the Note was prepared and are subject to change without notice. The Note should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. No DNB Party is acting as fiduciary or investment advisor in connection with the dissemination of the Note.

Any use of non-DNB logos in this Note is solely for the purpose of assisting in identifying the relevant issuer. DNB is not affiliated with any such issuer.

The Note is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets.

The Note is the property of DNB Markets. DNB Markets retains all intellectual property rights (including, but not limited to, copyright) relating to the Note Sell-side investment firms are not allowed any commercial use (including, but not limited to, reproduction and redistribution) of the Note contents, either partially or in full, without DNB Markets' explicit and prior written consent. However, buy-side investment firms may use the Note when making investment decisions, and may also base investment advice given to clients on the Note. Such use is dependent on the buy-side investment firm citing DNB Markets as the source.

The Note shall not be used for any unlawful or unauthorized purposes. The Bank, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (individually, each a "DNB Party"; collectively, "DNB Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Note. DNB Parties are not responsible for any errors or omissions, regardless of the cause, nor for the results obtained from the use of the Note, nor for the security or maintenance of any data input by the user. The Note is provided on an "as is" basis. DNB PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE NOTE'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE NOTE WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall DNB Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Note, even if advised of the possibility of such damages.

Confidentiality rules and internal rules restrict the exchange of information between different parts of the Bank and this may prevent employees of DNB Markets who are preparing the Note from utilizing or being aware of information available in DNB Markets/the Bank that may be relevant to the recipients of the Note. Please see DNB Markets' website (dnb.no/disclaimer/MAR) for information in accordance with Market Abuse Regulation (MAR). This website contains information about our published investment recommendations and potential conflicts of interest. Please contact DNB Markets at 08940 (+47 915 08940) for further information and inquiries regarding this Note.

The Note is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. Distribution of material like the Note is in certain jurisdictions restricted by law. Persons in possession of the Note should seek further guidance regarding such restrictions before distributing the Note.

The Note has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway and under supervision by the Norwegian Financial Supervisory Authority, The Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request.

Information about DNB Markets can be found at www.dnb.no/markets.

Additional information for clients in Singapore

The Note has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the Note, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product.

You have received a copy of the Note because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities.

Please contact the Singapore Branch of DNB Bank ASA at +65 6212 6144 in respect of any matters arising from, or in connection with, the Note.

The Note is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 6144.

We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the Note by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the Note.

Additional Information, including for Recipients in the United States:

The Note does not constitute an offer to sell or buy any financial instrument and does not provide opinions, or recommendations with respect to securities of an issuer or an analysis of a security or an issuer. This Note is intended solely for Major U.S. Institutional Investors within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934 and to such other U.S. Institutional Investors as DNB Markets, Inc. may determine. Distribution to non-Major U.S. Institutional Investors will be made only by DNB Markets, Inc., a separately incorporated subsidiary of DNB Bank that is a U.S. broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). Any U.S. recipient of this Note seeking to obtain additional information or to effect any transaction in any security discussed herein or any related instrument or investment should contact DNB Markets, Inc., 30 Hudson Yards, 81st Floor, New York, NY 10001, telephone number +1 212-551-9800.