
Renewable Energy – Tilting at Windmills

It is common knowledge that President Trump has a strong dislike of wind farms. This sentiment reportedly began almost 20 years ago when he fought-and-lost-against the construction of an offshore wind farm near his golf course in Scotland. That dispute sparked his ongoing campaign against wind power. His core arguments are that wind farms are ugly, harmful to people (cancer), damaging to wildlife (birds killed and whales stranded), and uneconomic (he claims they are the most expensive energy source in the world). All these arguments, except the subjective first one, have been refuted by most experts.

Trump also campaigned on shutting down the US wind industry if elected. It was thus not a huge surprise that he banned new offshore leases on inauguration day. Still, most pundits, including us, assumed that projects with all federal permits would be allowed to proceed. We believed it would be legally difficult and potentially expensive to halt already-permitted projects. Additionally, electricity from offshore wind along the US East Coast is sorely needed, and since Trump promised on the campaign trail to halve energy costs, we assumed he would not halt incremental electricity production at great cost to private enterprises.

Well, we were wrong. In April, the Trump administration halted the permit for Equinor's 810 Megawatt (MW) Empire Wind project off the coast of New York. The Department of the Interior concluded, after a permit review, that the federal approval had been rushed through by the Biden administration and lacked sufficient analysis and consultation. **Equinor (EQNR)** was ordered to halt construction until further review is completed to address serious deficiencies.

Three weeks later, the project remains halted, and the government has not provided any further reasons for the stop order. **EQNR** views this as an "extraordinary, unprecedented, and unlawful act" and is considering appropriate legal action. The longer the development is halted, the more at risk is the projected capex of USD 7bn. Although only USD 2.5bn had been invested by the end of last year, offshore wind developers typically lock up most of the supply chain at FID (final investment decision). While some suppliers might be able to reduce their costs and use capacity on other projects, it is expected that **EQNR**, as the developer, must carry at least 50%, and likely much more, of the remaining capex. To make matters worse, even if the government allows construction to proceed within weeks, the project might have incurred a year's delay at significant additional cost. The seasonal window for installing offshore wind turbines is short, and delays multiply quickly and are costly.

We will follow developments closely but believe this has negative implications for other US offshore wind developers and their supply chains.

First, the reasoning for the permit delay seems arbitrary as the permitting process for Empire Wind started in 2016 and is the second longest of all US offshore wind permit processes. This argument could therefore be used against all permitted projects under construction.

Second, there is little difference between this project and, for example, **Orsted's (ORSTED DC)** 924 MW Sunrise Wind (100% owned) development north of Empire Wind. Both projects received permits within months of each other and are at the same stage of development, with onshore construction commenced but no offshore work yet. In addition, **Orsted** has another project, 704 MW Revolution Wind (50% owned) off Rhode Island and Connecticut, which is about six months ahead of Sunrise, with foundations already installed and expected start-up in late 2026. Total capex for these two developments is about DKK 65bn, with about half still to be invested.

Third, this is clearly negative for the supply chain, even though turbine manufacturers like **Vestas (VWS)**, supplier to **EQNR's** Empire Wind, and Siemens Gamesa, supplier to Orsted's two projects, as well as cable manufacturers like **Nexans(NEX)** (supplier to all three projects), claim to be contractually well covered. We believe this is the case, but there are always indirect costs to rescheduling large orders, especially when manufacturing hundreds of turbines, each the size of the Eiffel Tower.

We are not involved in **Vestas**, but we own **Siemens Energy (ENR)**, not because of its ownership in Siemens Gamesa, but because of its booming power and transmission businesses. The fund also owns **Nexans (NEX)**, but see the US offshore wind risk as manageable as it constitutes less than 3% of its transmission backlog, a subset of the whole business. **NEX** has completed production of the Empire cables, and if the project is cancelled, the company claims it would receive termination fees to cover the remaining margin. Moreover, **Nexans'** work on Revolution Wind is largely complete and was recognized in the first quarter, while **Nexans** claims the potential loss from a cancelled Sunrise is minimal. Overall, we are comfortable with **NEX's** US offshore wind exposure, although it is suboptimal to have manufacturing capacity for subsea cables in the US if EU imposes tariffs on US imports.

We are also involved in **Cadeler (CADLR)**, the leading installer of offshore wind turbines, which has exposure to the US through one vessel working currently on Orsted's Revolution and contracted to work on Sunrise until at least the end of 2026. If Orsted is forced to cancel or delay one or both projects, **CADLR** is expected to receive termination fees covering nearly all the remaining EBITDA. Compared to the other suppliers' US offshore wind exposure, this is the one position that concerns us the least.

All in all, we are comfortable with our limited exposure to the US offshore wind sector but see significant risk to developers like **Orsted** if projects are cancelled or delayed. It is too harsh to assume that the company will be on the hook for 100% of remaining capex of about DKK 30-35bn, but when **Orsted** cancelled its Ocean Wind project last autumn, it ended up having to cover 75% of the remaining capex. Assuming the same ratio for Sunrise and Revolution would mean DKK 22-24bn, or about 20% of the market value of the company.

In addition to the risk of higher capex, lower earnings and cash flow from the US operations, Orsted faces several issues. First, farming down Sunrise was likely part of Orsted's ambitious but necessary plan to raise cash as the balance sheet is strained and committed capex is high. Second, Orsted will have to pay tariff on imports to the US with no chance of reimbursement from customers. Third, Orsted is budgeting with the Inflation Reduction Act (IRA) Investment Tax Credit (ITC) of 30% and a 10% bonus adder ('energy community'). We have argued that the 30% tax credit should be safe, but the bonus adder has little support among Republican representatives, making it an easy target in budget reconciliation. This would mean another significant impairment. However, considering the Trump administration's deliberate sabotage of **EQNR's** offshore wind project, is the 30% ITC on already committed offshore wind capex safe?

We are concerned about the recent developments in the US. The Republican party, once known as the party of business and defender of the rule of law, has shifted direction. Under President Trump, longstanding rules and norms, respected by both Democratic and Republican governments for decades, are being challenged or disregarded. While this may aim to deregulate and streamline government, the resulting uncertainty discourages business investments, at least in the short term. This heightened risk also raises the risk premium on US equities, lowers valuation multiples and makes US stocks less attractive to investors.

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