President Harris scenario: sustained climate ambition faces a bumpy road

We expect Vice President Kamala Harris to depart from her 2020 stance and move towards the centre. She is likely to preserve the Biden administration's most important climate legacy, emphasising a more efficient implementation of the IRA. Harris would want to strengthen environmental regulation but her ability to do so would be constrained

Harris seems to have moved away from her 2020 stance on energy and climate towards a more centre-leaning approach

Since Vice President Kamala Harris replaced Joe Biden as the Democrat Party presidential candidate, she has been strategically silent about her energy and climate policy platform. Her campaign for the 2020 presidential election indeed outlined an aggressive vision, where she proposed to spend $10 trillion to decarbonise the US economy, establish a carbon tax, and ban fracking. But this time around, her ambiguity on climate policy so far is signalling a departure from her 2020 stance and a move toward the centre.

Harris may face mounting pressure to lay out a more detailed energy and climate policy platform as we head to the elections, but either way, we would expect Harris to preserve the Biden administration's most important climate legacy – the Inflation Reduction Act (IRA) and

Infrastructure Investment and Jobs Act (IIJA).

Based on these two laws, she may propose to expand clean energy spending and put a stronger emphasis on certain aspects, such as environmental justice and affordable energy. She is also likely to toughen environmental regulations, such as on vehicles and oil and gas. But those regulations run a high risk of being struck down now that the Supreme Court has overturned the Chevron Doctrine and shifted much of government agencies' power to the judiciary branch.

Oil and gas

Harris would need to carefully handle the delicate balancing act among energy transition, energy security, and market stability. This will remain difficult given the exacerbated political polarisation, increased cost of living, as well as the US's role as the world's largest oil and gas exporter. Thus, as discussed before, we would not expect Harris to take an extreme approach toward the oil and gas industry – in fact, she has already indicated that she no longer supports a fracking ban.

US oil output would likely continue to hit record highs regardless of who is in the White House as we have seen over the last few presidencies. We would also likely see caution from Harris on new LNG export licensing bans, as the January ban has already been overturned by a federal judge and would similarly be struck down by the Supreme Court.

Instead, a Harris administration might try to implement policies asking oil and gas companies to pay more royalties for drilling on federal lands or toughening the rule of fee collection over methane emissions. Harris might even try to reduce current subsidies to oil and gas companies – as newly indicated on the Democrat Party's policy website. However, this latter policy may prove to be difficult to implement because of the stubborn existing system and the strong lobbying power of the oil and gas industry, especially if the Democrat Party does not control Congress.

IRA

The IRA will not go away, because even if Congress somehow succeeded in voting to repeal the act, the decision would be vetoed by Harris. Nevertheless, the Democrats may need to make compromises on certain IRA provisions. The compromises may be done by cutting certain clean incentives such as for electric vehicles (EVs), making more clean fossil fuel power plants eligible for clean power tax credits, and favouring blue hydrogen over green hydrogen, among others. Additionally, more compromises might be necessary if the deficit issue in the US becomes more severe.

In any case, we expect the Harris administration to work on an even better implementation of the IRA. Harris' Vice President pick of Governor of Minnesota Tim Walz has signed into law various legislation to help the state tap into the clean energy funding of the IRA and reduce emissions. While not easy to replicate at the national level, the Harris administration can leverage Walz's experience to work with federal agencies and ensure more efficient flows of funding to states.

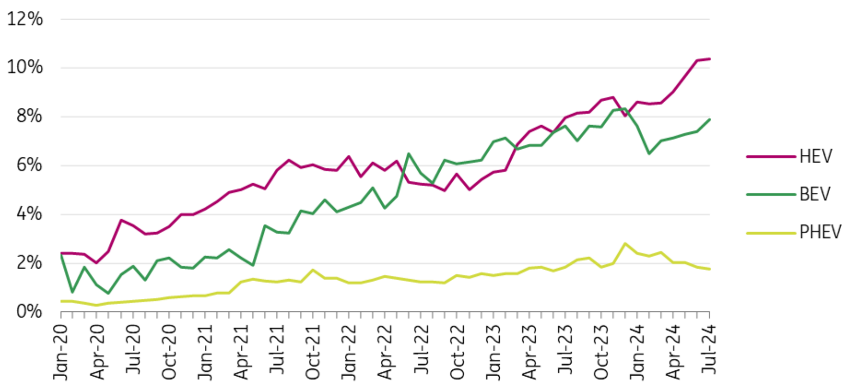
EVs

If Democrats do not control Congress, the US EV policy would remain vulnerable, even with Harris winning the White House. Harris would want to support the EV industry even more, but any EV provisions under the IRA – tax credits, charging network funding – would be first in line to be sacrificed for a compromise. Nevertheless, we can still expect the Harris administration to push for educational programmes and work with car manufacturers to upskill the industry's workforce and promote the adoption of EVs.

Again, the segment of the industry that can get more support is batteries and critical minerals to counter the influence of countries like China. While car manufacturers will remain committed to electrification in the long run, market conditions will weigh on car manufacturers' short-to-medium EV strategies, with hybrid vehicles becoming a more popular intermediate option.

EV and hybrid vehicle sales as a percentage of total light-duty vehicles

Hybrid electric vehicle without plug: HEV, battery electric vehicle: BEV, plug-in hybrid electric vehicle: PHEV



Source: Argonne National Laboratory, ING Research

Renewable power

Supportive policies on renewable power would stay largely intact with possible additional efforts to reform the transmission lines and shorten permitting timelines. The renewable industry in the US would continue to develop steadily, further driving down the cost of production.

Hydrogen and CCS

The hydrogen and CCS tax credits have the highest chances of staying among all incentives provided under the IRA. However, without Democratic control of Congress, we would still see pressure to make the tax credit eligibility requirements looser for both hydrogen and CCS. And since the Department of Energy's LPO's funding does not differentiate among technologies, it is likely to be cut in this scenario, too. Efforts from corporates to develop pipelines will continue, though support from the government will not be high.

Critical minerals

Onshoring key technologies (such as batteries) and securing the critical mineral supply chain would also be a priority for Harris. But as opposed to Trump's comprehensive tariff proposal, Harris might target tariff hikes on strategic goods, including batteries, graphite, and permanent magnets, among others, with existing/further exemptions or delays in implementation.

And if the EV tax credits stay under the IRA, we could potentially see a further tightening of the domestic content requirement to lower China's influence. Again, all these measures would enhance US domestic clean energy supply chain in the long term but could cause short-to-medium-term pain from cost increases as companies work to adjust to the new policies.

Regulation

Harris may put a strong emphasis on strengthening environmental regulation to push the US to a cleaner economy faster. But there is a strong resistance force – the Supreme Court.

In recent years, the conservative Supreme Court has made several decisions limiting the EPA's regulatory power. In 2022, it ruled that the EPA does not have the authority to limit emissions from power plants by taking a broad view of the Clean Air Act (CAA) and forcing them to switch from one source of generation to another. Power plants must instead be regulated based on the best system of emissions reduction (BSER) method authorised under the CAA.

In June this year, the Supreme Court overturned the 40-year-old "Chevron doctrine" under which lower courts needed to defer to federal agencies to implement legislation that was ambiguous in interpretation. Moreover, the Supreme Court recently temporarily blocked the EPA's "Good Neighbour" rule to regulate power plant nitrogen oxide emissions from upwind states.

These decisions have shifted more power of interpreting federal law from the executive branch to the judiciary branch. This means that despite Harris' will, the EPA's newly finalised vehicle tailpipe emissions rule, its new regulations on coal and gas power plants (following the 2022 Supreme Court guidance on using BSER), and any new regulations could all be at risk. Consequently, the US may need to rely even more on carrots than sticks to drive the energy transition.

Climate leadership

A Harris administration would advance climate leadership through continued engagement in the United Nations Conference of the Parties on climate change. But the US's climate credibility may be hard to enhance given its lack of a comprehensive climate policy ecosystem, its lagging progress in mandating sustainability disclosure, as well as potential clean energy funding pullbacks.

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