US election scenarios and how they'll impact energy and climate policy

A victory for former President Donald Trump over Vice President Kamala Harris in the November elections could significantly alter the path of US energy policy

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By Coco Zhang

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How the US election could impact the energy transition

No matter who becomes president, the US energy transition is expected to continue. The Inflation Reduction Act will drive clean energy development and technology onshoring will weigh more on energy and climate policymaking. Still, companies need to watch out for regulation and incentive rollbacks

There will be differences in how Harris and Trump handle energy policymaking

Be prepared for policy disruption

The US has long been subject to material policy inconsistency through presidential election cycles. Most recently, the Biden administration reversed a series of Trump-era energy and climate policies, signed into law the landmark Inflation Reduction Act (IRA), which has spurred $200bn of investment in clean energy manufacturing, strengthened regulations on several dirty economic activities, and is undergoing efforts to mandate climate data reporting.

Now, with the 2024 elections approaching and the recent confirmation of Kamala Harris as the presidential candidate for the Democrat Party, the US clean energy market is again subject to policy disruption.

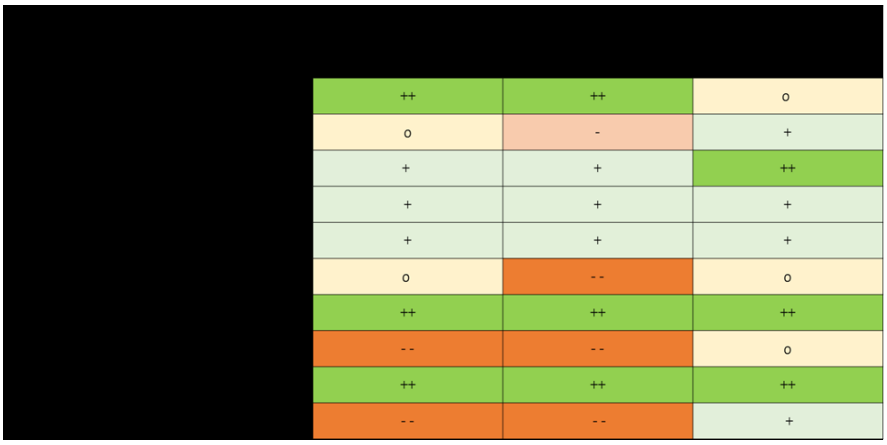
As corporates and investors seek future resiliency for their business and investment decisions, it is

important to understand what sections of the US clean energy policy may substantially change with the elections, and which may stay intact.

Regardless of who becomes president, the IRA is unlikely to be repealed and will continue to be a key piece of legislation facilitating the development of clean energy in the US. Meanwhile, onshoring key technologies and strengthening critical mineral supply chains will be a priority for both candidates. Streamlining permitting processes for energy projects will also have bipartisan support.

But there will still be differences in how Harris and Trump handle energy policymaking. We will unpack the policy differences in the four possible scenarios. In a nutshell, incentives for electric vehicles (EVs) and various clean energy loan programmes are at high risk of being scaled back under a Trump presidency, while incentives for technologies such as hydrogen and carbon capture and storage (CCS) would be less impacted. Renewable energy can get continued tax credits, though efforts toward grid modernisation would be weakened with Trump in the White House.

US elections: how supportive will policies energy and climate policies become?



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Note: + +: Supportive; +: Moderately supportive; o: Neutral; -: Moderately unsupportive; - -: Unsupportive. Source: ING research

With most parts of the economy deploying clean technology right now, the US is undergoing a structural change where it is difficult to "cancel" the energy transition. But the big question is how much election cycles will affect the speed of the transition. Understanding the policy dynamics and underlying divers can help companies future-proof their businesses.

How to contextualise the energy transition under fiscal deficit concerns and weak investment in the US

The fiscal deficit is set to exceed 6% again this year despite the economy recording robust growth with low unemployment. Neither candidate appears to be proposing policies that will return government borrowing to a more sustainable position quickly, so net interest costs look set to soar in an environment of higher interest rates. Should debt sustainability concerns come to the fore and spending cuts are required, major projects will be vulnerable.

The IRA is no doubt having and will continue to have a profound impact on the energy, infrastructure, and manufacturing sectors, among others. However, the size of the IRA is not large enough to have had a meaningful impact on the general investment environment. It might take longer for the positive impact to be reflected on a larger scale.

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Trump constrained scenario: energy dominance and transition in parallel

The US energy transition is expected to slow down due to weakened regulation and funding support. However, the Inflation Reduction Act (IRA) is likely to survive because of its job creation and economic benefits. Nonetheless, without a comprehensive climate policy ecosystem, the US green agenda may become obscured

The EV industry has been a punching bag for Trump's campaign

Under a second term for Trump – even without Republican control of Congress – the speed of decarbonisation in the US will slow down due to weakened energy and environmental regulation, clean energy funding support, and international climate leadership. Nevertheless, the IRA is likely to survive given the economic benefits it can create. Still, without a comprehensive climate policy ecosystem, the US green agenda may become obscured.

Oil and gas

We could witness reinforced US energy dominance through increased oil and gas production and exports. This includes promoting LNG production, contrary to Biden's moratorium on licensing new LNG exports, which was recently halted by a federal judge. It also involves cancelling methane regulations and streamlining the authorisation process for new oil and gas exploration and

infrastructure projects.

IRA

The IRA is unlikely to be completely repealed. Only Congress can vote to repeal the IRA – or indeed any legislation – and this would be hard to achieve under a split or Democrat-controlled Congress. Plus, Republican states have been huge beneficiaries of the IRA, with about 80% of announced investment in clean energy flowing into Republication congressional districts and creating green jobs.

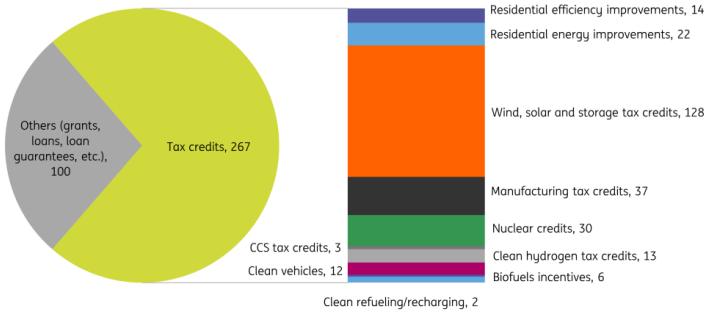
The legislation has also gained popularity among corporations and investors, and they would be reluctant to see the financial incentives go. Think about Obamacare: Trump was keen to strike it down as president, but Congress was not able to repeal it as the law gradually became more popular thanks to the public buy-in of its benefits.

However, the implementation of the IRA will become harder. The qualifying rules for certain tax credits could become stricter, especially around using domestically produced content for clean energy manufacturing. There would be little focus on equipping government staff with the know-how to review clean energy funding applications. As a result, we could see longer application timelines slowing down project development.

Moreover, while the IRA itself is likely to survive, as much as 30% of the energy and climate-related funding under the IRA is at various degrees of risk of being scaled back. Several tax credits, especially the consumer electric vehicle (EV) tax credits that have an initial spending estimate of $12bn, can be rolled back. The $100bn non-tax credit funding, including loans and loan guarantees from the Department of Energy's (DOE's) Loan Programs Office (LPO), as well as dedicated grants toward environmental justice, may also be lowered, if not stalled. The DOE has committed about $30bn of clean energy loans and loan guarantees to companies, but has only started lending around $6.5bn.

The tax credits that are likely to remain unchanged include those for carbon capture and storage (CCS), hydrogen, renewable power, nuclear, and manufacturing, among others (this will be further analysed in the following sections). It is worth noting, however, that since the tax credits under the IRA are non-capped, the actual spending can be a lot higher, potentially adding more pressure to fiscal sustainability and hence spending compromises.

Breakdown of initial energy and climate related spending estimates under the IRA



Source: ING Research, Joint Committee on Taxation, Senate Democrats

EVs

The EV industry has been a punching bag of Trump's campaign, with his team declaring on the Republican policy platform to reverse Biden's EV policy and scrap the nationwide EV production and sales targets.

As such, EV tax credits are highly likely to be scaled back. Plus, these tax credits are consumer-based, not manufacturer-based, and may be repealed more easily with softer business pushback. This can be done through tightening tax credit eligibility guidelines. It can also be done by putting a cap on the number of EVs allowed to receive EV tax credits.

Moreover, the funding for developing the National Electric Vehicle Infrastructure (NEVI) programme under the Infrastructure Investment and Jobs Act (IIJA) will likely be lowered because of the unpopularity of EVs among Republicans and the slow speed of funding being distributed to projects.

Lastly, the Environmental Protection Agency's (EPA's) strictest-ever proposed rule on vehicle emissions standards, aimed at boosting EV demand, is also likely to be reversed, even though car manufacturers may have already made investment decisions to reduce tailpipe emissions.

Car manufacturers remain committed to electrifying their fleet, despite some recent delay in EV production targets. However, a lack of direct EV support, especially from the infrastructure side, would mean a slower deployment rate overall.

Renewable power

The centrepiece policies that have led to massive development in renewable technologies and project finance are the renewable power Production Tax Credits (PTCs) and Investment Tax Credits (ITCs). Enacted in 1992 and 2005, respectively, the PTCs and ITCs have been extended under the IRA until 2032, but starting in 2025, these credits will become "technology-neutral" as long as a project can demonstrate it has zero or negative emissions.

This means that a wider range of technologies – including solar, wind, hydropower, geothermal, marine, nuclear, and waste energy recovery – will become eligible. Notably, combustion and gasification (C&G) facilities can also potentially qualify for the credits. The technology-neutral tax credits are set to start phasing out after 2032, or when emissions from the US power sector have dropped to below 25% of 2022's emissions level, whichever comes later.

The technology-neutral tax credits will likely survive if Trump wins but Republicans fail to control Congress. This is because even under the first Trump administration, the technology-specific ITCs and PTCs were not repealed and solar and wind continued to develop steadily. Furthermore, the expansion of eligibility under the technology-neutral tax credits can benefit non-renewable zero-emission projects, a provision that may be welcomed by Republicans.

These positive spins do not mean that the industry will get sufficient support to accelerate clean power development. We would expect less effort to re-train government staff, build transmission lines, or reform the grid. There could also be more gas-fired power plants approved to support increasing electricity demand.

Hydrogen and CCS

Hydrogen (especially blue hydrogen) and carbon capture and storage (CCS) will gain continued support, as these technologies can provide business opportunities to oil and gas companies and heavier industries. Hydrogen and CCS hubs would continue to develop in this case, with permitting reforms potentially improving the regulatory conditions for CCS project development. A potential downside risk is that any cuts in the DOE's Loan Program Office's (LPO's) loans or loan guarantees would affect the funding for these projects.

Critical minerals

For Trump, onshoring manufacturing and protecting key sectors would be a priority. This means enhanced protectionist efforts such as import tariffs in favour of batteries and critical minerals. Trump is now proposing to impose a 10% tariff on all goods and a 60% tariff on all Chinese goods.

Less competition in the US could strengthen domestic clean energy supply chains, but questions remain as to how fast they can be built up. China's absolute dominance in critical minerals means that the US may face sourcing challenges and need to accelerate partnerships with other suppliers. Thus, the US could in the short to medium term bear higher costs in the energy transition.

Regulation

There would be substantial rollbacks of punitive regulations that limit dirty economic activities. For instance, there could be cancellations on Biden's effort to charge a fee on methane emissions from the oil and gas industry. The EPA's rule on vehicle emissions standards is also likely to be reversed.

The EPA's newly finalised regulation to reduce emissions from coal and gas-fired power plants in the 2030s unless they can demonstrate deep emissions reduction is also at a high risk of being overturned.

Climate leadership

Regardless of which party controls Congress under a second Trump administration, we would see the US retreat from international climate leadership. This features a second withdrawal from the Paris Agreement, withdrawal from potential commitments such as a recent one (under discussion) to the UN Treaty to End Plastic Pollution, stalled or even cancelled efforts to mandate climate data disclosure, and less clean energy technology innovation, among others.

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Trump clean sweep scenario: unleashed energy dominance sets back green agenda

While several clean energy incentives under the IRA may find a lifeline, the US's green agenda could be set back for years. We would expect a much stronger focus on enhancing oil and gas production with substantial environmental regulation swipe-outs and weakened roles on green technology innovation

The EV industry has been a punching bag for Trump's campaign

A Republican president and Congress would trigger substantial disruption to climate policymaking. While certain existing incentives under the IRA may find a lifeline, a lack of comprehensive policy support could create problems for longer-term clean energy deployment. We could see a stronger focus on cheap oil and gas production with significant environmental regulation swipe-outs. Meanwhile, the US is likely to cede to China on the development of green technologies.

Oil and gas

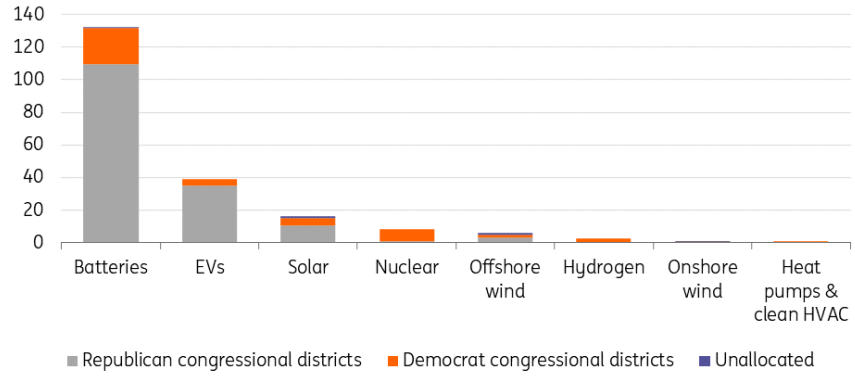
Republicans would put much emphasis on US fossil fuel energy dominance, strongly pushing for increased oil and gas production. In addition to deregulation, easy project authorisation, and more

exports, we can potentially see Congress passing legislation facilitating accelerated production.

IRA

As in our "Trump constrained" scenario, the IRA is unlikely to be entirely repealed. Even if Congress is controlled by the Republican party, it would be difficult to ignore the extra revenue and job creation under the IRA (and the IIJA). As noted, 80% of the more than $200bn in clean energy manufacturing investment flows into Republican congressional districts, with those in North Carolina, Georgia, Nevada, and Michigan being some of the largest recipients.

Clean energy manufacturing investment announcement since 2021



Source: US Department of Energy, Bloomberg News, ING Research

Nevertheless, the 30% of IRA likely to be impacted, as identified in the "Trump constrained" scenario, would suffer from a higher degree of disruption. Congress would try to pass additional legislation to undo provisions such as electric vehicle (EV) consumer tax credits, clean recharging tax credits, and clean energy funding under the Department of Energy (DoE).

A Republican Congress would also be emboldened to lower the requirements for IRA technology-neutral clean power tax credits or even set an earlier sunset date for these credits. Finally, the implementation of the IRA would become significantly harder and slower.

EVs

There would be visible slowdowns of EV development, with internal combustion engine (ICE) cars back in vogue. Biden's EV production targets would be thrown out; the vehicle tailpipe emissions standard would be discarded. EV tax credits would likely be cancelled and the funding for EV charging infrastructure might also be completely scrapped. We can also see lowered clean energy loans and loan guarantees from the DOE under the IRA, much of which has so far flown to battery manufacturing. This would create a much tougher environment for the US EV industry, one that has only recently taken off due to Biden's supportive policies.

Car companies would still set long-term strategies to produce more EVs, as it would be hard for them to walk away from their sustainability targets under investor and stakeholder pressure. EV development in Europe and China will also encourage US car manufacturers to keep producing EVs.

However, without favourable policies, the burden is higher on manufacturers to innovate, reduce costs, make their EV fleet more profitable, and even advance their charging infrastructure. Nevertheless, one positive spin that can help the EV industry is the priority to strengthen domestic battery supply chains.

Renewable power

A Republican White House and Congress would not go out of their way to stifle the industry but would not provide sufficient support either. Over the past two decades, the US renewable power industry has experienced rapid growth and entered a more mature stage thanks to tax credits (which survived the first Trump administration). This has led to a much lower cost of renewable power generation which in several cases has become lower than that of coal. Texas, a Republican state home to ample sunshine and infrastructure, surpassed California last year to have the largest solar capacity in the country.

Therefore, we expect a Republican White House and Congress to accept the economic benefit of the US renewables market. But there could still be modifications, such as an earlier sunset date for the technology-neutral tax credits under a more difficult budget situation. The industry should be able to absorb the change but may still suffer from an initial period of adjustment. Meanwhile, we would not expect much improvement in modernising the grid to be more suitable for renewables. There may even be more restrictions on new offshore wind project authorisation.

Finally, from a power generation perspective, we would expect more natural gas power plants to come online as part of the Republican push to unleash oil and gas production. The increase in gas-fired power generation would also be used to meet rising electricity demand from extreme weather conditions and the energy transition.

Hydrogen and CCS

This scenario will see continued bipartisan support for hydrogen and CCS. But under a clean Republican sweep, there might be revisions towards looser IRA tax credit eligibility standards. These include lowering the required carbon capture rate for blue hydrogen tax credits and loosening the renewable generation temporal or geographical matching criteria for green hydrogen tax credits. A possibly lower level of clean energy funding from the DOE can also weaken the support hydrogen and CCS projects can get from the federal government.

Critical minerals

Same as the "Trump constrained" scenario.

Regulation

A re-elected Trump would move fast to reverse the environmental regulations finalised under the Biden administration (power plants, electric vehicles, methane emissions). And with Republican control of Congress, it would be hard to impossible for the Democrats in Congress to use the Congressional Review Act as a legislative tool to overturn any reversal of regulations. The US would be in a smaller-carrot, no-stick mode for clean energy policymaking.

Climate leadership

The almost certain scrapping of Biden's climate targets and retreat from the Paris Agreement would further set the scene for a structural change to the US energy policy and climate diplomacy.

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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

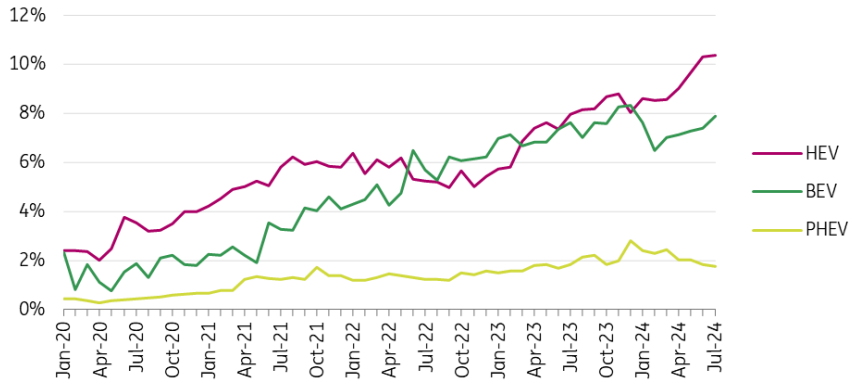
If Democrats do not control Congress, the US EV policy would remain vulnerable, even with Harris winning the White House. Harris would want to support the EV industry even more, but any EV provisions under the IRA – tax credits, charging network funding – would be first in line to be sacrificed for a 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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