Weekly Summary

# Economics of Climate Change

**January 17, 2025**

## Uncertainty Looms over Climate Policy Rollbacks in Trump's Second Term

Uncertainty surrounds the potential impacts of Trump's second term on climate policies, which could include rollbacks of the Inflation Reduction Act, deregulation, reduced environmental sustainability funding, and weakened ESG standards. At the same time, renewable energy has proven resilient to electoral cycles, and decarbonization efforts are likely to continue, driven by states, cities, companies, and, last but not the least, geopolitical factors.

Republican Proposals on Climate and Energy: Fossil Fuels First. The Republican climate and energy agenda, Table 1, is focused on maximizing U.S. fossil fuel production and use while reducing regulations and withdrawal from global commitments, such as the Paris Agreement.

Table 1. **REPUBLICAN CLIMATE AND ENERGY-RELATED PLEDGES**

| Promise | Details |
|---|---|
| **Energy Independence and Low Cost Energy** | Promote US energy dominance by **increasing domestic production of fossil fuels**, end market-distortion restrictions on them, and **unleash energy production from all sources, including nuclear**. |
| **Regulation Rollback** | **Repeal or reduce climate-related regulations** and mandates, especially on energy sectors. |
| **Fossil Fuel Development** | **Expand drilling and exploration** of oil, coal, and natural gas, including **public lands** |
| **Electric Vehicle Mandates** | **Oppose electric vehicle mandates**, support traditional energy industries, and **prevent the importation of Chinese vehicles** |
| **Decline in Global Climate Treaties** | **Withdrawal from the Paris Climate Agreement**[1] and reject global climate pacts |

Source: BBVA Research from the Trump Republican Platform.

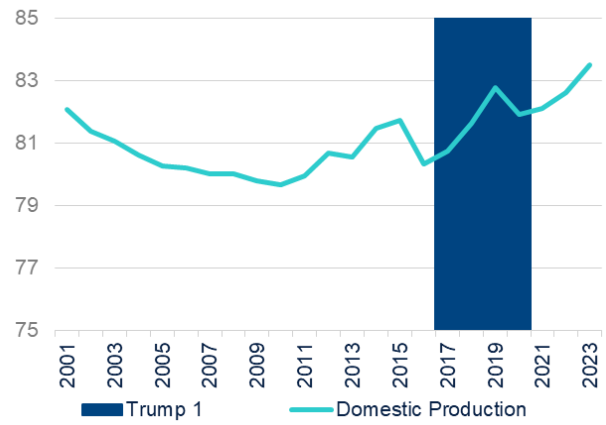
**Policy Shifts Under Trump's Presidency vs. Decarbonization Resilience.** The return of Donald Trump signals a rollback of environmental policies, including potential cuts to funding for the Inflation Reduction Act (IRA) and deregulatory efforts such as expanded hydrocarbon extraction and relaxed pollution controls.

1: See: From Trump to a 'game-changing' lawsuit: Seven big climate and nature moments coming in 2025. (BBC) Trump abandoned the Paris agreement during his first term (2017-2021) and has expressed his intention to do so again shortly.

However, the protracted growing role of renewables in domestic energy production (**Figure 1, right**) signals the resilience of a structural decarbonization trend that transcends these policy shifts.[2]

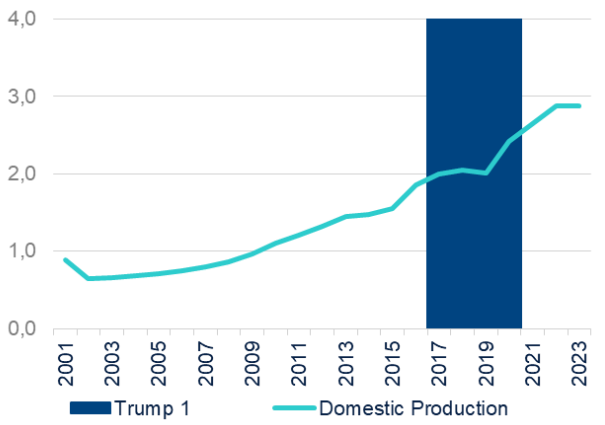
Figure 1. **UNITED STATES. DOMESTIC PRODUCTION OF ENERGY,** (% TOTAL)

**FOSSIL: COAL, CRUDE OIL, NATURAL GAS**




Source: Vero eros et accumsan

**WIND, SOLAR**



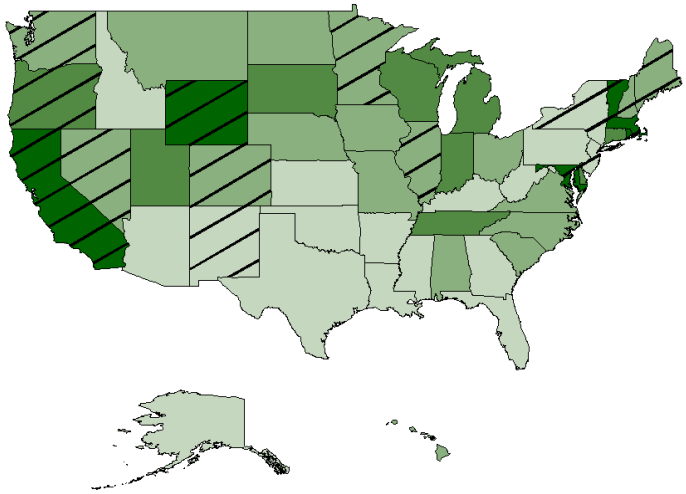

Source: Vero eros et accumsan

**Clean energy jobs—it doesn't matter much whether it's a Republican or Democratic state**. The share of clean energy jobs by state in the U.S. does not appear to be highly correlated with the political affiliation of the administration (**Figure 2**), with Republican states showing above-average shares and Democratic states below average. In addition to the role of federal public subsidies—applied for regardless of the state's political leaning—[3] the availability of natural resources and productive capital are key factors in determining the extent of renewable penetration and related employment.

**Environmental and Sustainability Measures: Awaiting the fine print.** Key environmental regulations, including the SEC's climate disclosure rule, are likely to be repealed, which could prevent U.S. companies from aligning with global ESG standards. In addition, climate and environmental laws are expected to shift to local governments, which could lead to increased litigation across the country.

2: These numbers may differ from those presented below, since Figure 1 shows energy production (which may have deficits or surpluses to meet national demand, depending on many factors), while Figure 3 refers to total primary energy consumption (which also includes energy used to produce other energy, such as electricity). In this sense, Figure 4 clarifies these differences and even shows the divergent paths between energy consumption and production in the US.
3: In this vein, renewable energy deployment continues to meet rising demand, benefiting predominantly Republican districts. At the same time, States like California and Vermont are advancing independent climate measures, but federal rollbacks could limit their impact.

Figure 2. **CLEAN ENERGY JOBS PER 1,000 JOBS, BY US STATE**



Source: BBVA Research with data from Clean Jobs America 2024

**Impacts on formal bank commitments to net-zero, such as Net Zero Banking Alliance (NZBA).** Several major U.S. banks have recently announced their withdrawal from the NZBA.[4] Notably, those banks continue to publicly support decarbonization, citing client interests as their primary responsibility. However, the anticipated changes in U.S. climate policies, along with concerns about litigation related to anti-competitive practices in fossil fuel financing, suggest withdrawing from these alliances. All in all, the banks withdrawing ensure greater flexibility in meeting decarbonization targets in a currently more uncertain political environment.[5]

**Trump and Paris Agreement Withdrawal**. The potential U.S. withdrawal from the Paris Agreement would delay global climate efforts, undermine coordinated leadership by Europe and China, and depend on whether other nations reinforce their roles.

**For European companies**, the impact will hinge on protectionism levels and regulatory bias toward China, especially in EV subsidies and renewable energy policies. Meanwhile, lifting LNG export restrictions could enhance Europe's energy security.

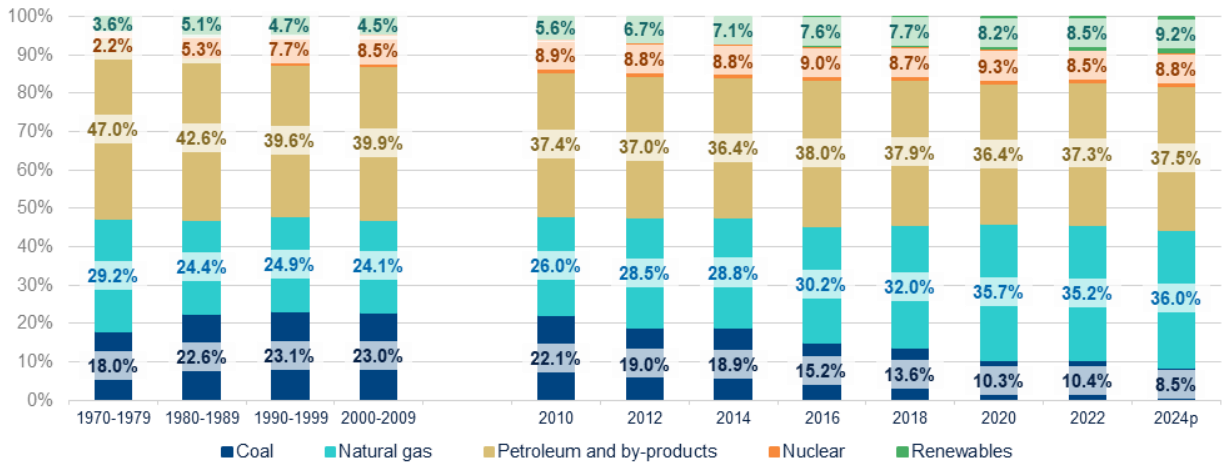
**Against this background, business decarbonization action would be sustained in specific niches.** Geopolitics and global competitiveness might be the justification of public policy support to domestic business decarbonization action, at least in specific niches: CCS of fossil extraction, industrial decarbonization, heat batteries and home electrification or nuclear energy. All of them apart from the economic profitability of clean products, i.e,Tesla, which also emerges as a major beneficiary of expected EV policy changes.

4: Meanwhile, the broader Glasgow Financial Alliance for Net Zero (GFANZ) is undergoing restructuring and shifting its focus to addressing barriers to capital mobilization in emerging markets. See: Statement from GFANZ Leadership | Glasgow Financial Alliance for Net Zero; 2025: NEW YEAR UPDATE FROM GFANZ SECRETARIAT | Glasgow Financial Alliance for Net Zero.
5: Further details: Global | Is It Economically Rational for Banks to Commit to Net-Zero? | BBVA Research. January 10, 2025.

# Further details

**IRA in the Crosshairs: Targeted Dismantlement?** The Inflation Reduction Act (IRA) of 2022 represents the largest climate investment in U.S. history, with a key component of support for renewable energy. While most of the public and private investments resulting from this law are concentrated in Republican districts as of August 2024 ($286 billion compared to $56 billion in Democratic districts)[6], there are records of Republican lawmakers voting to defund provisions of this law on 54 separate occasions between February 2023 and October 2024[7], frequently targeting components like the Greenhouse Gas Reduction Fund and the Methane Emissions Reduction Program. These funds are more likely to face repeal shortly. While a Republican-controlled government might facilitate efforts to repeal the IRA, it may be difficult to build a sufficiently large coalition in Congress to dismantle it. Republican lawmakers may prefer to preserve certain IRA incentives that benefit their constituents, as many of them have relied on it to make investments and create jobs. **A full repeal of clean energy tax incentives is unlikely regardless of the election results, given the bipartisan support some aspects of the IRA received prior to its enactment, which is expected to continue**.[8]

Figure 3. **TOTAL PRIMARY ENERGY CONSUMPTION BY SOURCE IN THE UNITED STATES, 1970-2024** (%)




Note: p: preliminary data, from January to September, 2024.
Source: BBVA Research with data from the U.S. Energy Information Administration.
"USA | Will the energy matrix change after Trump's victory?". BBVA Research. November 14, 2024.

**Energy Federal Policies Tilt Toward Fossil Fuels, Heightening Clean Energy Challenges**. Trump, for his part, as a presidential candidate, had promised oil sector businessmen to eliminate hydrocarbon regulations and remove subsidies for electric vehicles[9], making the United States a dominant energy producer[10], while as the virtual winner of the presidential election, he has signaled his intention to cut IRA budget pending disbursement, given that this law provides funding until 2030[11]. However, as shown in **Figure 3** above, renewables have already surpassed nuclear in their contribution to the country's energy consumption in the first three quarters of 2024, so an immediate reduction in their share of the energy mix does not seem efficient, especially to meet growing national demand and to maintain economic development in regions benefiting from the deployment of renewable energy, mostly in

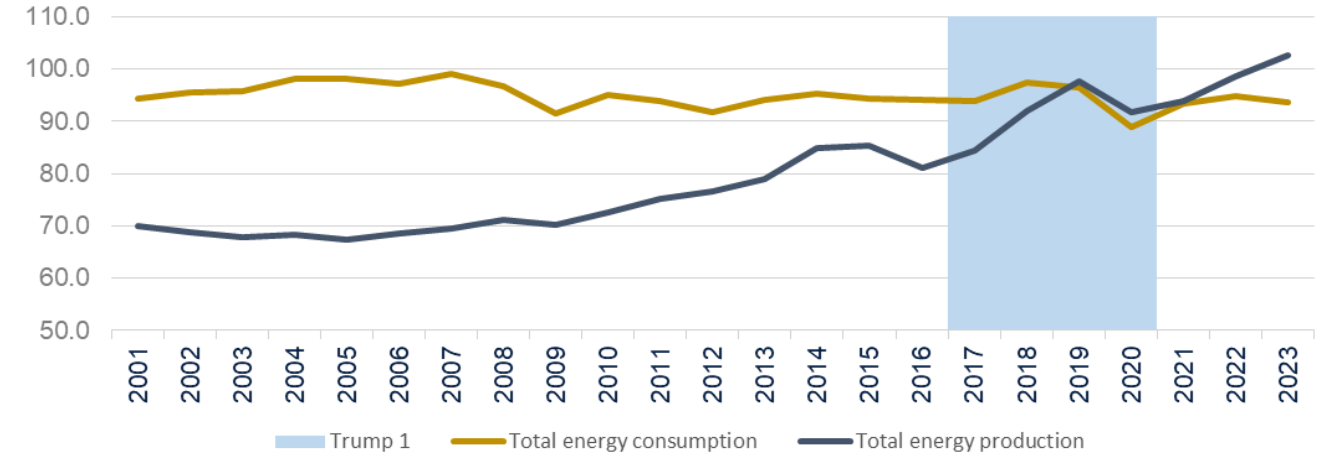
6: Two Years of the Biden-Harris Clean Energy Boom (Climate Power).
7: Inflation Reduction Act Repeal Votes Tracker (Climate Power).
8: What will happen to the Inflation Reduction Act under a Republican trifecta? (Brookings).
9: Trump vows to target EVs, LNG exports in meeting with oil CEOs, report says (Reuters).
10: Platform - Donald J. Trump For President 2024 (Donald J. Trump For President 2024).
11: Trump vows to pull back climate law's unspent dollars (Politico).

Republican districts. In addition, some traditional energy industries (oil, gas, and electric utilities) already benefit from subsidies for carbon capture and storage and hydrogen production established in the IRA[12].

**Nuclear Energy, Bipartisan Support.** Regarding nuclear energy, a few days after the election, Trump signaled the increased cost of expanding nuclear power as one of his main concerns[13]. However, an analysis by S&P highlights the strong bipartisan support for nuclear reactors to continue providing energy to the U.S., as well as the favorable position of the new energy secretary and other influential businessmen around Donald Trump[14].

**U.S. Energy Surplus Emerges Since 2019, With Exports Poised to Expand Under Next GOP Administration.** In terms of the balance between energy consumption and energy production in the U.S., there was an important shift in 2019 during the first Trump administration, when production exceeded consumption for the first time, as shown in **Figure 4**. This trend was maintained and even expanded during the Biden government, so we can foresee the energy surplus to continue, as this is in line with Trump's plans to make the U.S. a major energy producer. In this sense, we can also expect the easing of natural gas export permits once the Republican takes office[15].

Figure 4. **TOTAL U.S. ENERGY CONSUMPTION AND ENERGY PRODUCTION, 2001-2023**
(QUADRILLION BRITISH THERMAL UNITS)



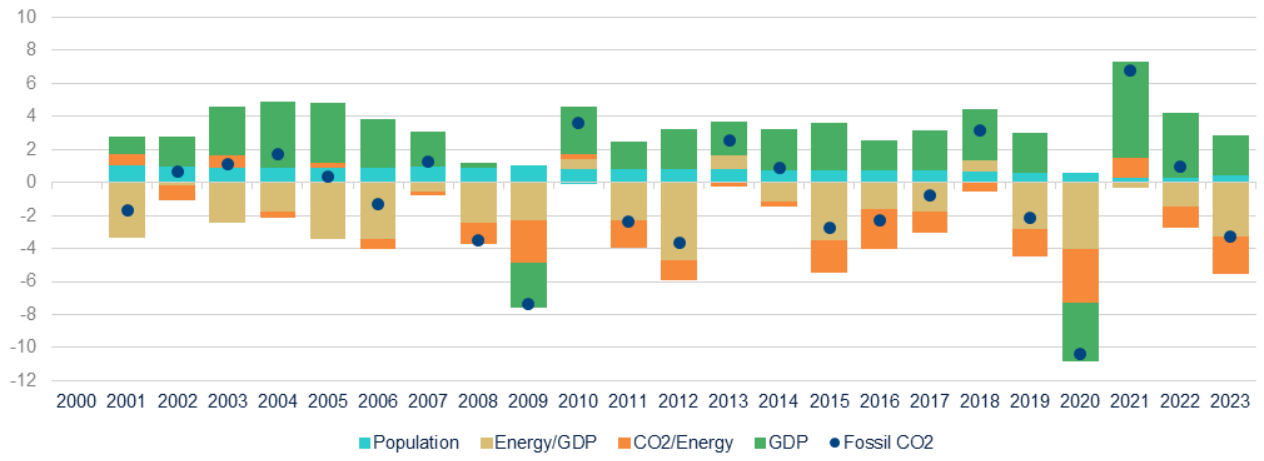

Source: BBVA Research with data from the U.S. Energy Information Administration

**Kaya Identity: Fossil Fuels Emissions Shaped by their Intensity of Use and Economic Growth. Figure 5** shows how the combination of four drivers - energy/GDP (energy intensity), population, fossil emissions/energy (carbon efficiency) and GDP- explain yearly fossil CO2 emissions.[16] The balance between these factors shifts year by year, reflecting economic cycles (such as the recession around 2008–2009), policy influences, and technological advancements. Periods where gains in energy efficiency or cleaner energy sources outpace economic and population growth show net reductions in emissions (e.g., 2009), while times of rapid economic expansion or less efficient energy use lead to net increases (e.g., 2021). Insofar as policy changes under the new

12: Climate change and the next administration (The Economist).
13: Nuclear sector's views on second Trump administration mixed as Rogan interview raises questions (Utility Dive).
14: Analysts, industry see ongoing support for nuclear energy in second Trump term (S&P Global).
15: US LNG developers see Trump win lifting pall over expansions (Reuters).
16: The "Kaya Identity" (Pennsylvania State University).

government might slow the pace of emissions reductions per unit of energy, emissions could rebound compared to a scenario without policy changes.

Figure 5. **FOSSIL CO2 EMISSIONS GROWTH IN THE US** (%). KAYA DECOMPOSITION




Source: BBVA Research with data from Global Carbon Budget.

**Trump's Deregulation Drive: From Opening Alaska to Rolling Back ESG Disclosure Rules.** Donald Trump also has a record of initiating environmental deregulation processes during his first term, for example, opening the possibility of carrying out hydrocarbon extraction in natural protected areas in Alaska[17] or allowing greater emissions of pollutants in industrial facilities[18], not to mention the withdrawal from the Paris Agreement at the beginning of his first administration[19]. **The Securities and Exchange Commission's (SEC) climate disclosure rule, adopted in March 2024, paved the way for stronger ESG frameworks, but the chances of it being completely repealed under the second Trump administration are high**, as the rule has already been sued by 25 states and other entities since it was published[20]. While other approaches, such as the International Sustainability Standards Board (ISSB), may become the norm, their adoption will still be voluntary, leaving US companies behind European and other global companies in ESG disclosure[21].

**The nomination of Lee Zeldin, a former Republican congressman from New York, to the EPA also increases the chances of further deregulation**, as he has previously stated the economic costs to American businesses and consumers. His nomination is also notable for his Trump loyalty, given his limited experience on environmental issues and a mixed record during his legislative career[22], offering even a less radical profile than some energy lobbyists appointed by the first Trump administration[23]. Another interesting appointment is North Dakota former governor Doug Burgum as Secretary of the Interior. Burgum is known for his support of fossil fuel development and

17: Trump's Energy Policies Put Alaska in the Climate Crosshairs (Center for American Progress).
18: EPA restores industrial air pollution rule axed by Trump (Washington Post).
19: Statement by President Trump on the Paris Climate Accord (The White House).
20: Four things for green investors to watch in Trump's second term (Financial Times).
21: The SEC's climate rule pause: What happens next? (KPMG).
22: Lee Zeldin, Trump's EPA Pick, Brings a Moderate Face to a Radical Game Plan (Inside Climate News).
23: Lee Zeldin Knows How to Defend Trump. Will He Defend the Environment? (The New York Times).

deregulation, but also for being a proponent of carbon capture[24]. However, a tougher profile could come from oilman Chris Wright, CEO of Liberty Energy, as the next Secretary of Energy[25].

**Climate and environmental support actions will eventually center on local legislation**, such as in Vermont, which requires local fossil energy companies to contribute to a state fund for damages caused by extreme weather events[26], NYC road congestion pricing, which went into effect in early January 2025[27], or California, which established that it will not allow the sale of gasoline-only vehicles in the state by 2035[28]. However, California's targets are backed by a waiver from the EPA, so there is also a high chance of a repeal, as Trump did in his first term. As a result, we can expect future legal challenges and increased litigation[29].

**Trump's EV Subsidy Potential Phaseout Propels Tesla, Shrinks Market Outlook for Competitors.** With regard to electric vehicles, the decision to phase out subsidies appears to favor Tesla and represents a challenge for other manufacturers, given that the Elon Musk company generates profits from EVs, while its local competitors do not benefit from a significant portion of the market. Furthermore, 10 days after the election, Tesla's capitalization grew by 300 billion USD, representing a larger volume than six of its closest competitors combined[30]. Additionally, despite the significant investment made by automakers and the enhanced resilience of production tax credits, projections indicate that the market share for new EVs in the U.S. by 2030 will be 28%, a reduction from the 33% expected prior to Trump's victory[31].

**Trump's 'America First' Approach Escalates U.S.-China Climate Tensions and Would Reshape Global Energy Outlook.** US foreign policy toward China is expected to heighten tension in the realm of climate and energy policies. Trump's "America First" strategy emphasizes economic nationalism, with increased tariffs on Chinese imports, particularly targeting sectors like technology and manufacturing, and disengagement from global climate treaties, like the Paris Agreement. These measures are likely to hinder international collaboration, especially on climate change, further exacerbating the rivalry between the two largest carbon emitters. This could have significant implications for global markets, especially in emerging economies, which may experience economic disruptions due to the escalating trade tensions between them.[32] At this vein, Trump administration's focus on rolling back clean energy initiatives, such as subsidies for renewable energy projects, and imposing tariffs on critical minerals like copper[33], essential for clean energy technologies, could **disrupt global supply chains**, and undermine efforts to meet international climate goals. Such policies risk **ceding ground to China**, which continues to dominate the renewable energy market and invest heavily in green development. By prioritizing domestic industries, the US may inadvertently allow China to strengthen its leadership role in global climate governance, reshaping the geopolitical landscape of sustainable development[34].

**In conclusion, Trump's second term poses significant challenges for U.S. climate policy, from weakening environmental regulations and removing tax incentives to withdrawing from international cooperation mechanisms. However, state-level initiatives, corporate commitments, and the resilience of renewable energy would act as a counterbalance to the shift in federal policy objectives, making it likely that the decarbonization of the U.S. economy will continue.**

24: What to know about Doug Burgum, Trump's Interior secretary pick (Axios).
25: Oil boss Chris Wright named as Donald Trump's energy secretary (Financial Times).
26: Vermont Law Requires Energy Companies to Pay for Climate Change Damage (Jones Day).
27: CONGESTION RELIEF ZONE Toll information (MTA).
28: California moves toward banning new cars running only on gas by 2035 (Washington Post).
29: Trump 2.0: This Time the Stakes for Climate Are Even Higher (Yale Environment 360).
30: Donald Trump's shake-up of EV rules would be 'huge positive' for Tesla (Financial Times).
31: EV Growth Expectations for Trump Years Are Already Being Slashed (Bloomberg).
32: Trump dealmaking could shift the cold war over the climate (Brookings).
33: Trump's Tariffs and Climate Rollbacks: How 2025 is Shaking Copper Markets and Clean Energy Goals (Carbon Credit).
34: Q&A: What could a US-China trade war mean for the energy transition? (Carbon Brief).

## Highlights of the Week

- **Spain |** **Spain is leveraging industrial clusters to lead Europe's energy transition | World Economic Forum.** Europe's industrial geography is being redrawn and Spain is in pole position to lead the way, with the prospect of becoming a flagship of the EU's new Clean Industrial Deal.

- **Mexico |** **Mexico City Congress Approves Tax on Emissions. Mexico Business News.** Mexico City's 2025 Fiscal Code introduces a carbon tax set at MX$58 (US$2.88) per tonne of CO2 equivalent (CO2e) to reduce GHG emissions. Lawmakers emphasized that the revenue generated will support mobility, water management and public safety projects.

- **Europe |** **Cómo Portugal se convirtió en el país más descarbonizado del sur de Europa. El País.** El 71% de la electricidad consumida en 2024 fue ya de energías renovables, pero algunos gigantescos proyectos fotovoltaicos despiertan el rechazo de las poblaciones afectadas.

- **U.S. |** **US lobbied Greenland rare earths developer Tanbreez not to sell to China. Reuters.** U.S. and Danish officials lobbied the developer of Greenland's largest rare earths deposit last year not to sell its project to Chinese-linked firms, adding that it has been in regular talks with Washington as it reviews financing options to develop the island's critical minerals.

- **China |** **Experts: What to expect from China on energy and climate action in 2025? Carbon Brief.** China's renewable energy buildout pushed coal to a record low share of electricity generation, while steps were taken to expand the number of industries covered by the national carbon market.

- **Global |** **A new era for nuclear energy beckons as projects, policies and investments increase - News - IEA.** Nuclear power is set to reach a new record in 2025 and can improve energy security as electricity demand accelerates – but costs, project overruns and financing must be addressed.

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