Trump's climate agenda

Assessing the ultimate impact for the U.S. and EU

→ Trump's climate policies will likely slow the green transition in the U.S. although the ultimate impact will also depend on the future of the Inflation Reduction Act; in any event, their ripple effects in Europe are more complex, with the EU's own economic performance and shifting policy priorities towards defense playing an outsized role.

→ Despite pro-climate rhetoric, both the U.S. and the EU are retreating from key green policies–Trump explicitly, and the EU under the guise of "simplification" –leaving the future of global climate policy uncertain.

Trump's climate agenda

President Trump's climate policies prioritize fossil fuel production while dismantling clean energy initiatives. He plans to expand oil and gas drilling on federal lands, expedite permits for fossil fuel infrastructure, and eliminate incentives for renewable energy and electric vehicles (EVs). Many of these policies will require Congressional backing, lengthy regulatory processes, or legal battles to succeed. While he may not achieve all his objectives (at least not quickly) and the fate of the IRA will play a critical part, his agenda will still have political, environmental, and economic impact.

Impact on the United States

Oil and gas: Trump has the authority to open more federal lands for drilling and reduce paperwork, so these changes should be quick. The government has already paved the way for fast-track approvals of fossil fuel permits.[1] His agenda will likely lead to increased oil and gas exports as he pressures other countries to boost imports or face retaliatory actions. The lower extraction costs could lead to gains for oil companies drilling in new federal areas. Trump will also insist companies drill more. This will increase supply, outpace demand, and reduce oil prices up to a point, though other factors will also affect prices and dictate these decisions.[2] Some companies that shifted their portfolios to reduce carbon emissions and curb climate change have switched their focus back to oil and gas.[3]

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Renewables: Trump has the authority to eliminate permitting for wind power on federal lands so that these changes can happen immediately, but eliminating renewable energy tax credits will be difficult to achieve given the bipartisan congressional support. Trump's efforts could end up reducing investment in the sector and dampening growth, but they will probably not kill it given the strong market demands. The U.S. Energy Information Agency expects renewable energy sources will contribute 27 percent of electricity generation in 2026, a two percent increase from 2025.[4] Individual states as well as the private sector may fill the gap even if the United States rolls back green policies and subsidies. Some financial institutions continue pushing climate initiatives, seeing them as long-term economic priorities, however, as regulatory pressure weakens or disappears, many banks will likely deprioritize green projects.

EVs: Trump wants to remove EV manufacturing, adoption, and charging incentives included in the Inflation Reduction Act (IRA). He will need Congressional backing to do so, but he may face pushback from fellow Republicans since 80 percent of IRA investments are in conservative states and districts.[5] His plans to eliminate federal pollution limits on cars will move as quickly as the U.S. regulatory process allows. It took him at least 18 months to undo them in his first administration. Democratic-led states comprise half of the U.S. auto market and will press forward with their plans to ban gas-powered cars.[6] Trump will likely undermine EV production and sales, but U.S. automakers still favor EVs due to regulatory pressure, subsidies, and consumer demand. However, while EV adoption has grown, consumer demand–especially in the U.S. and Europe–is slowing due to high costs, charging concerns, and subsidy rollbacks, making the impact of Trump's policies more likely to reduce EV adoption. Elon Musk, the owner of Tesla, the largest EV manufacturer in the United States, has become one of Trump's closest allies. While he has not attempted to dissuade Trump from his anti-EV stance–believing that the policies would harm his competitors more than Tesla, particularly in China and the EU–Tesla itself is now facing a sharp decline in sales, raising questions about the company's resilience in an increasingly challenging market. In this regard, tariffs may have a significant environmental effect on the car sector.

Impact on the EU

The EU, facing slow economic growth and shifting policy priorities, including towards defense, is reconsidering its climate approach. Although this paradigm shift had begun with changes in the European Parliament following the recent elections, it may gain some momentum as a result of Trump's climate policies.[7] More EU member states and political parties have been resisting the implementation of pro-climate regulations in the last few months.[8] While some EU states resist stringent regulations, the European Commission insists it remains committed to the Green Deal, but its actions tell a different story.[9] Under the guise of "simplification," the EU is quietly relaxing key climate regulations, partly in response to economic pressures and competition from the U.S. and China. This inconsistency mirrors broader political trends–like Trump's climate stance–where rhetoric and policy do not always align, and the final outcome will likely be less green transition.

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Oil and gas: The EU will likely import more oil and lower-priced liquefied natural gas (LNG) from the United States but less from elsewhere. This could help further reduce the EU's reliance on Russian gas. It could lead to greater European energy security.

Renewables: If the United States moves away from renewables, it would likely lead to higher greenhouse gas emissions than previously expected mostly driven by the change to gas (currently the U.S. represents 12% of global emissions), undermining global climate goals. This shift could also have mixed consequences for the EU. On one hand, a weakened U.S. renewables sector might give European industries–such as wind, solar, and alternative fuels–some increased competitive edge over China. On the other, escalating trade tensions and potential EU tariffs in response to U.S. policies could create uncertainty, limiting the extent to which Europe benefits from these changes.

EVs: The European Commission is quietly retreating from some of its green commitments, extending compliance periods for emissions rules and expediting a review of the 2035 internal combustion engine ban. Some automakers are shifting strategies towards plug-in hybrids instead of fully electric vehicles, reflecting concerns about both consumer demand and competition from cheaper Chinese EVs. While this adjustment may help European automakers in the short-term, it also signals political concern over the fate of the auto industry, in particular in Germany, which seems increasingly “too big to fail.” Meanwhile, Trump’s tariffs and the EU’s own regulatory uncertainty add further pressure, raising questions about Europe’s long-term competitiveness in the EV market. As well, Trump’s rollback efforts of EV incentives could reduce U.S. demand for European cars, like Volkswagen and BMW, which have invested heavily in EVs. European manufacturers could also shift their investments to Europe or Asia and focus their sales on countries like China, which have more friendly EV policies. But, at the same time, Chinese producers will become more aggressive in non U.S. markets, which is bad for the EU electric car industry. In any case, Trump´s climate policy is just one factor, probably not the largest, in the EU rethink of climate policy. Other factors are poor economic prospects, tariffs and, of course, defense spending.

Conclusion

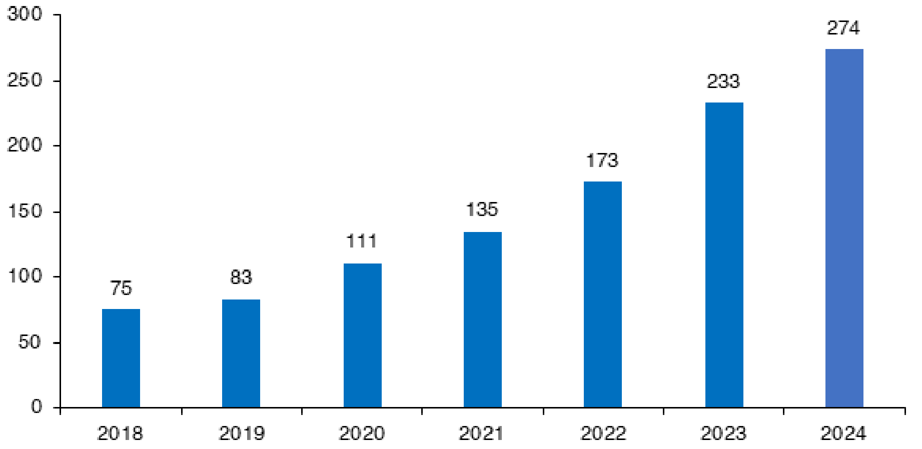
As stated, Trump’s climate policies could translate to a slower green transition in the U.S., or even a move backwards, to a large degree depending on the ultimate fate of the IRA. They may take time to implement and encounter roadblocks, but they will be relevant environmentally and politically. China, the EU, and the UK will likely attempt to fill the political void as the United States retreats from its global leadership role. That said, despite pro-climate rhetoric, there is pressure within the EU to relax or dilute green goals, also due to external factors such as recession and the need to increase defense spending, among others. Thus, some further relaxation will almost certainly occur.

Trump's policies will undermine the global commitments to transition away from fossil fuels, slow the growth of renewables, and increase greenhouse gas emissions. The impact on oil prices is set to be moderate.

On the other hand, the economic impact will be mixed. His policies will result in fewer green jobs, but more so-called brown jobs, such as fossil fuel extraction. Reducing regulations will promote business expansion and investment in the short-term. Depending on what happens with the IRA, eliminating subsidies that promote green energy will reduce federal spending; however, over the longer-term, clean energy investors will look for other markets with greater state support, although with the U.S. and EU retreating, this may be increasingly hard to find.

The EU cannot simultaneously maintain its Green Deal commitments while systematically rolling back climate regulations–it is ultimately a choice between one or the other. The Commission's framing of this shift towards relaxation of standards as "simplification" masks a broader retreat from ambitious targets under pressure from economic and political realities. Loosening mandates and removing penalties for non-compliance signals that climate policies are now negotiable, which could further dilute the EU's commitment to climate action.

EXHIBIT 3.0 – CLEAN ENERGY INVESTMENT IN THE UNITED STATES (BILLION USD)



Source: Rhodium Group/MIT-CEEPR Clean Investment Monitor, https://rhg.com/research/clean-investment-monitor-q4-2024-update/

Notes

[1] https://www.nytimes.com/2025/02/19/climate/army-corps-engineers-fossil-fuel-permits.html?smid=nytcore-android-share

[2] https://www.eia.gov/pressroom/releases/press564.php

[3] https://www.reuters.com/business/energy/bp-ditch-renewables-goals-return-focus-fossil-fuels-2025-02-24/?utm_source=Sailthru&utm_medium=Newsletter&utm_campaign=Sustainable-Switch&utm_term=022525&lctg=650c58afb8e3cb338a096e92

[4] https://www.eia.gov/pressroom/releases/press564.php

[5] https://www.nytimes.com/2025/02/10/climate/trump-clean-energy-republican-states.htm

[6] https://www.nytimes.com/2025/02/26/climate/republicans-california-waiver-electric-cars.html?campaign_id=54&emc=edit_clim_20250227&instance_id=148626&nl=climate-forward&regi_id=34652644&segment_id=192099&user_id=2d456375d416115d8ff5090cfa7bafab

[7] *Ibid.*

[8] https://www.elconfidencial.com/mundo/2025-02-08/bruselas-contrarrevolucion-simplificacion-amenaza_4059797/

[9] https://www.ft.com/content/53f3886b-b90b-41e5-81a7-2432977c9bca?emailId=894e984e-ad54-4a2d-abaf-493c85ab8cf5&segmentId=22011ee7-896a-8c4c-22a0-7603348b7f22