POLICY BRIEF

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ENERGY AND CLIMATE ISSUES DURING THE TRUMP ADMINISTRATION'S FIRST 100 DAYS

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President Donald Trump has made energy a clear focus for his second term in the White House. Having campaigned on an "America First" platform that highlighted domestic fossil-fuel growth, the reversal of climate policies and clean energy incentives advanced by the Biden administration, and substantial tariffs on key US trading partners, he declared an "energy emergency" on his first day in office. How Trump's platform will be transformed into action remains uncertain, as are the associated energy, environmental, economic, and geopolitical implications.

In this series, scholars at the Center on Global Energy Policy examine central energy questions and issues facing the Trump administration in its first 100 days as it works to realize the energy vision outlined during the presidential race and consider the domestic and global outcomes of the decisions it may make.

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Energy Diplomacy Amid 'America First'

By Jonathan Elkind

In his quest to return to the White House, candidate Donald Trump promised repeatedly to put America first. Now, as he begins the first 100 days of his second term, President Trump and his team will need to choose when to prioritize American interests without regard to other countries' concerns, and when to work in tandem with others toward outcomes that satisfy both the United States and its partners. In energy, climate, and energy-related trade issues, acting unilaterally could place at risk some of the new team's stated objectives, a point that does not appear to have been reflected in the announcements and orders that the president issued on Day One.

The slogan "America First" is understood widely as an echo of 1930s American isolationism—shorthand for giving priority to domestic policy concerns and especially rejecting global entanglements, be they military or civilian. From this perspective, the United States is right to view international commitments and institutions with skepticism. But at least three areas could challenge an inflexible adherence to this aim and may favor diplomacy: tariff repercussions, trade system improvements, and influence in global climate decision-making.

Diplomacy: Strong Arguments Win the Day

Anyone who has engaged with international partners and institutions on behalf of the United States knows that work is hard, perhaps especially in technocratic arenas like energy that have major implications for the economy. To forge international energy agreements and well-functioning multilateral institutions is labor-intensive and often requires sustained funding support. US representatives need to understand foreign counterparts' priorities—and accommodate them when possible. Washington's preferences win the day if and when American ideas are superior to those suggested by other countries and are advocated skillfully.

In fact, American ideas frequently do win out—even in the most complicated international negotiations. Several examples from multilateral climate negotiations are notable: The notion that the global response to human-caused climate change should reflect first and foremost the best available science was a core approach of President George H. W. Bush that was incorporated into the UN Framework Convention on Climate Change (UNFCCC); it set the stage for an evolving response as the science of climate change matured. Later, President George W. Bush established in 2007 the Major Economies Process, a consultation forum designed to allow pragmatic dialogue on how to protect the climate and economic activity. Later still, after years of American diplomacy opposing top-down emissions limitations that would have applied only to industrialized countries, the Paris Agreement adopted a "pledge and review" structure as its foundation. This structure reflected the need for a truly global response on climate, including actions by China and other emerging economies, as well as periodic reviews to assess collective progress.

If energy and climate diplomacy is labor-intensive but potentially productive, a key question for the start of Donald Trump's second term is how to navigate the trade-offs involved in either adhering to America First or selectively foregoing it. The president relishes disrupting established norms and longstanding institutions, so giving primacy to American views regardless of other countries' concerns may be his standard response. The problem is that prioritizing US objectives alone can undermine Trump's own objectives and can even create bigger problems than exist today.

Tariffs: Considering Repercussions

On Inauguration Day, Trump announced that he intends to impose, probably by February 1, across-the-board 25% tariffs on all products from Mexico and Canada, two important trading partners of the United States. If implemented on all imports (though indeed, unconfirmed reports before inauguration suggested a narrower scope), the tariffs would raise the cost of heavy crude oil used in US refineries along the Gulf Coast and electricity sold to consumers in northwestern and northeastern states. Thus, instead of helping Trump to reduce energy costs, as he has pledged, the threatened tariffs would hit American households with higher pump prices and electric bills. The tariffs would also undercut the US-Mexico-Canada trade agreement, which Trump called an important achievement of his first term.

Competition with China is another critical area where a strict America First orientation could make desired outcomes more complicated. Many American leaders, from both major parties and from both the legislative and executive branches, state that China disregards World Trade Organization rules about market access, and engages in other anti-competitive behaviors ranging from industrial espionage to forced technology transfer and from support for excessive industrial capacity to long-running subsidies provided by various levels of government. Trump has said he will impose tariffs in response: a 60% levy on all goods from China.

A challenge arises, however, when Trump also declares that goods from other countries will face tariffs of 10–20%. It is possible these tariff threats are mere saber-rattling, a tactic that at least one member of Trump's own team has acknowledged as "escalate to de-escalate." Regardless, Trump's promised tariffs may undermine foreign leaders' willingness to join Washington in pressing for changes to China's trading practices. Longstanding Trump priorities like the effort to break China's dominance in critical minerals could likewise lose support.

Trade: Repairing the System

Many in Washington appear to have concluded that the current international trade system, which the United States has supported since the Second World War, needs truly profound change. Regardless of these views, trade and investment, including through the underperforming World Trade Organization (WTO), are the lifeblood of the US energy industry. From liquefied natural gas to crude oil and from nuclear reactor systems to innovative nanomaterials, US energy exports—and therefore US jobs—depend on a functioning global trade system. Consequently, the Trump team needs to be clear about the ways in which it thinks the WTO and other trade arrangements could be improved; without clear solutions, the United States will compromise its ability to enlist other countries in forging a fairer and more effective global trade system.

Climate Change: Maintaining a Presence at Negotiations

Future climate change diplomacy is an area of special sensitivity. Trump speaks with venom about clean energy and climate policies, labeling them a "green new scam." The president has already indicated that the United States is again abandoning the Paris Agreement, although he has not indicated an intent to withdraw from the UNFCCC. In addition, certain congressional Republicans are calling for the United States to leave, reduce funding, or force changed priorities at the International Energy Agency, which they claim pays excessive attention to climate and too little to energy security despite the fact that energy security remains central to the agency's stated priorities and its work program. But the open question is whether US interests are better advanced by staying within established institutions and negotiations—even if only for defensive reasons. Exiting would largely leave decisions to others, such as China or European countries, whose priorities may be at odds with what Trump would prefer.

The president and his team have arrived with a long list of policies they intend to change. As they start their first 100 days in power, they need to determine when to work with foreign partners on topics like the future of global energy markets, and when not to. Effective energy diplomacy, which advances US interests by engaging foreign partners and accommodating them when possible, can yield positive results for the American people—results made more durable exactly because partners support American approaches.

Get Ready for a Stronger Chinese Response to Tariffs

By Dr. Erica Downs

On the second day of his second term, President Donald Trump announced that he intended to make good on his campaign promise to impose a 10 percent tariff on imports of Chinese goods due to China's failure to stop the flow of fentanyl to the United States via Canada and Mexico. Trump said he plans to implement the tariff on February 1, the same day he is considering putting a 25 percent tariff on imports from Canada and Mexico for failing to prevent illegal drugs and immigrants from entering the United States.

More tariffs are probably coming. On Trump's first day back in office, he ordered federal agencies to review the "persistent trade deficits" that harm the US economy and security and recommend remedies. China looms large in Trump's executive order. For example, he directed the US Trade Representative to assess China's compliance with the US-China trade agreement signed during Trump's first term and to recommend actions, including the imposition of new tariffs, based on the outcome of the review. Trump also called on the US Trade Representative to estimate the costs imposed by China's unfair trade practices.

It would be surprising if the Trump administration's trade policy review did not result in new tariffs on China (and other countries), given Trump's view of tariffs as a multipurpose tool that can be deployed to pressure foreign governments to make concessions on a variety of policy priorities. Since he was reelected president, Trump has threatened to put tariffs on the European Union unless it substantially increases its purchases of US oil and natural gas, on Denmark unless it goes along with Trump's plan to purchase Greenland, and on China unless it permits Beijing-based ByteDance to sell TikTok to a US buyer.

As the Trump administration ponders additional China tariffs, it should be prepared for China to implement measures to protect its economy from new tariffs, pursue a more robust and more diverse set of retaliatory actions than it took during the US-China trade war in 2018–2019, and seek concessions from Washington in any negotiations over another trade deal. Examples of potential protective and retaliatory moves by China follow.

Protective Measures

Support for Exporters

Beijing might help exporters weather new tariffs by offering higher export tax rebates. China did this in 2018 in response to tariffs Trump imposed on Chinese goods. According to the State Council, the objective was "to ease the burden on enterprises and secure the stable growth of foreign trade."

Currency Depreciation

If Trump imposes hefty tariffs on Chinese goods, Beijing might take a page from its playbook for the 2018–2019 trade war and let China's currency further depreciate against the US dollar, which would make Chinese exports less expensive for Americans. Beijing recently allowed the RMB to depreciate past 7.3 to the dollar for the first time since 2023. While there are domestic economic reasons for this allowance, the timing of the depreciation also suggests a warning to the Trump administration that a further weakening of the RMB might occur.[1]

Stronger Stimulus

Beijing may rollout more robust stimulus measures. In December, China's top leaders urged a "more proactive" fiscal policy, and the Central Economic Work Conference, which set China's economic policy priorities for 2025, called for increasing the issuance of "ultra-long special treasury bonds" and "local government special-purpose bonds" to spur government investment. The fact that Beijing has yet to reveal how much the issuances will increase suggests policymakers are waiting to see Trump's China tariff agenda before finalizing the amounts.

Retaliatory Actions

Reduce Imports

Beijing can reprise a measure from the 2018–2019 trade war and tariff US goods it can easily source elsewhere to discourage Chinese firms from "buying American." In the prior trade war, China imposed tariffs on some of the top US exports to China including soybeans, crude oil, and LNG. Chinese purchases of all three commodities declined before the two countries signed a trade agreement in January 2020.

But how much China can hurt the US with tit-for-tat tariffing is limited because China buys far less from the US than it sells to the US. During January–November 2024, the value of China's imports from the US ($149 billion) were less than a third of its exports to the US ($476 billion).

Another option is to instruct firms to reduce purchases of US goods. There is a precedent: in December 2021, Beijing told major electricity producers to embargo Australian coal to punish Canberra for calling for an inquiry into the origins of Covid-19. Coal imports from Australia, one of China's top suppliers, subsequently plunged from 77.5 million tons in 2020 to 2.9 million tons in 2022, before the unofficial ban ended in 2023.

Tighten Export Controls

China is willing to use export controls against the United States. On December 3, China's Ministry of Commerce (MOFCOM) announced a ban on the sale of gallium, germanium, and antimony to the US and a stricter review of end-uses and end-users of graphite exported to the US. The day before, the Biden administration announced export controls to curb China's ability to produce advanced semiconductors with military applications. A MOFCOM spokesperson suggested China's new export restrictions were a retaliatory measure, stating the US had abused export controls and unreasonably restricted exports to China.

Beijing again signaled its willingness to restrict exports to the United States on January 2, when MOFCOM added 10 US companies to its list of "unreliable entities" prohibited from trading with or making new investments in China and banned exports of dual-use products to 28 US firms. While China had already sanctioned many of the companies, MOFCOM's latest moves are a reminder that China's export control regime, parts of which are modelled after that of the US, may feature in Beijing's response to new tariffs.

Target US Companies

China's antitrust regulator, the State Administration for Market Regulation (SAMR), can create headaches for US companies. On December 9, SAMR announced an antitrust probe into US chipmaker Nvidia. The timing of the announcement—one week after the US unveiled new export controls aimed at China's chip industries—suggests other US firms might find themselves in SAMR's crosshairs if trade tensions further escalate.

During the 2018–2019 trade war, SAMR withheld approval of US chipmaker Qualcomm's planned takeover of Dutch firm NXP Semiconductors. Qualcomm terminated the transaction in July 2018. Although China denied US-China trade tensions were to blame, Qualcomm's chief executive implied otherwise, stating "we obviously got caught up in something that was above us."

Beijing is likely open to signing another trade agreement, given Chinese officials' mantra that nobody wins a trade war. But China wants bargaining chips to press the Trump administration for concessions. Items on its wish list likely include a loosening of technology export controls and a reduction in tariffs; in November, China's leader Xi Jinping told President Joe Biden—in remarks probably also aimed at Trump—that China's "right to development" is one of four "red lines" that must not be crossed. Beijing indicated violations of this red line include decoupling and supply chain disruptions. But these are likely to be tall asks, especially if one of the Trump administration's goals with new tariffs is to decouple the US and Chinese economies.

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[1] The author thanks Artur Kroeber for this point.

US-Gulf Relations on Energy Infrastructure and Fuel Sources

By Dr. Karen E. Young, Senior Research Scholar

The new Trump administration will face many pressure points in its engagement with the Gulf Cooperation Council (GCC) states. For the United States, a key policy decision pivot is likely to occur, namely, surrendering its leadership role, along with traditional partners in multilateral development banks and Western financial institutions, as a development finance facilitator and supporter of clean energy infrastructure in emerging markets. The Gulf states and their sovereign investment funds stand to gain from this the most, in terms of access to opportunities in the deployment of energy infrastructure and their appetite for risk in places where private capital and US-backed projects have traditionally sought more assurances for rule of law and rights of investors. The Biden administration was drawn to the Gulf states as partners and investors to amplify US efforts to provide and support clean energy infrastructure in emerging markets, particularly in countries that possess critical minerals or lean as democratic counters to Chinese development models, or map as alternative trade pathways to China's Belt and Road Initiative. In future, the decisions of who to partner with and why may be less in the hands of US policymakers and led more by the visions of Gulf leaders and their aspirations as middle powers. It is a traceable and empirical example of a deglobalization and multipolar trendline in global political economy.

From a return to maximum pressure on Iran, to OPEC+ production decisions, to preserving the ceasefire and ending the war in Gaza, to engaging with a new Syria led by Islamists with past ties to terrorism, to challenging and opportunistic engagements on AI and nuclear technology, it will be a diplomatic ropes course for the Gulf states to balance their own domestic economic and security concerns with their need for a strong bilateral relationship with the United States. The Gulf states come to the table with a set of impressions formed during the first Trump administration, viewing the president as transactional in nature, apathetic to their security concerns after the 2019 attack (claimed by the Iran-backed Houthi movement but linked by the US to Iran) on oil processing facilities in eastern Saudi Arabia, wary of deploying American military forces in the Middle East to achieve shared strategic interests, and intent on increasing US fossil fuel dominance in a competitive global market.

Fate of Infrastructure Initiatives

While the Gulf presents the US with these immediate challenges, the fate of a set of global trade and clean energy infrastructure strategies that the Biden administration put in place to foster development and connectivity across the globe may be of longer-term consequence to US interests. The Trump administration will need to decide whether to continue these plans or cede them to regional states. The associated projects, which would build power plants and transport infrastructure, deliver critical minerals, and facilitate clean energy supply chains, currently involve the Gulf states as nodes of connectivity between emerging markets and the West and as investors. The Lobito Corridor, the India–Middle East–Europe Corridor (IMEC), and the PACE program—each resting under the larger G7 Partnership for Global Infrastructure and Investment (PGII) initiative (2022)—all serve US strategic interests to counter China's development infrastructure initiatives and/or the Belt and Road Initiative. The decision on these strategies will be based on whether the new administration sees connectivity through infrastructure and energy projects led by the Gulf states as fitting into its strategic approach to countering China, and the promotion of clean energy access in emerging economies as forwarding US national interests. The ceding of leadership within a global development and energy for development framework would mark a pivotal change after more than 75 years of US post-World War II multilateral leadership, providing an opening for the Gulf states to shape a new set of power relations between poorer countries with infrastructure and energy needs and sovereign funds and rulers willing to meet them.

To briefly describe these infrastructure initiatives, the PACE program predated the PGII but served as a blueprint for engaging the United Arab Emirates as a partner to the US to serve American clean energy investment needs and purportedly those of emerging economies as well. The program sought to catalyze $100 billion in financing and investment toward deploying 100 gigawatts of clean energy by 2035 globally to advance the energy transition and climate goals. In practice, most of the announced investments by the UAE were deployed inside the United States, including the UAE state-owned energy company Masdar acquiring a 50 percent stake in Terra-Gen, and the UAE national oil company ADNOC acquiring a 35 percent stake in ExxonMobil's Texas low-carbon hydrogen and ammonia business. One example of the limited investment deployed abroad is the UAE government AI firm G42 partnering with Microsoft to invest in a $1 billion data center in Kenya.

The Lobito Trans-Africa Corridor includes US-backed investment in new rail infrastructure in central Africa that will serve as an economic corridor and facilitate the export of critical minerals from the region. The project has received more US private and publicly funded support than PACE, but it also rests on an expectation that Saudi Arabia's quest to build a mining industry at home and become a mining stakeholder globally can be a source of capital. Early discussions in 2023 between the US and Saudi governments focused on the synergy of Saudi investment in African mining with US strategic interests in countering Chinese mining interests on the continent. The US interest is to encourage Saudi state investment in mining operations that compete directly with China and serve as a source of critical mineral exports more friendly to US markets.

IMEC is a Western political imagining of the multipolar global system, with more states on its side of the balance sheet than on China's. The IMEC provides something for all, including China. The Gulf (and the UAE in particular) is already the most important re-export source of Chinese goods in the Middle East; increasing trade from India to the UAE through a new trade agreement has facilitated Emirati investment in India's green energy projects, high tech computing, and solar manufacturing supply chains, while elevating state-privileged Indian conglomerates such as the troubled Adani Group. A rail corridor by land through Saudi Arabia would only facilitate that existing capacity from Jebel Ali in the UAE onward to Haifa in Israel and then by sea to Europe.

One of the key limitations of these initiatives has been a somewhat mythical understanding of how private finance would blend with multilateral finance to meet the clean energy needs of developing countries. This is what Alan Beatti describes as a "magic pony" problem of private investment in global infrastructure, which peaked in 2012 at $150 billion and declined to just $71 billion by 2023, with low-income countries receiving only 10 percent of that investment. Institutional investors are not active in infrastructure investment, with just 3 percent of global infrastructure allocations coming from pension funds or major institutional funds. The opportunity for Gulf sovereign funds is clear, but so too is the risk of a future in which the power needs of low- and middle-income countries across the Global South are met by state-owned investors and developers from the Gulf. (The new Gulf Renewable Power Tracker at CGEP specifically maps this development.) The policy priorities of the PGII depend on an active role for private infrastructure investment, but they likely underestimate the volume of potential deployment and how these investors evaluate risk.

Level-Setting on Energy Demand, Sources

In some ways, the new Trump administration has an opportunity to level-set (perhaps inadvertently) expectations about the energy transition and the role that oil and gas producers in the Gulf will continue to play in meeting global energy demand. Expected US pro-oil and gas production policies will mean a rhetorical reprieve to competitor Gulf producers who see their own longevity as more sustainable, and having a lower carbon footprint, than US oil production. The new administration will also be aligned with an

Arab Gulf state view to prioritize an "all of the above" strategy of energy for development in emerging market economies over clean energy deployment. Global energy transition challenges, from both a climate and a financing perspective, are subsumed under a larger development challenge that has often been lost in the debate over equity in the energy transition. Poorer countries do need affordable and clean electricity generation, but equally or more importantly they need to address debt management, poor governance, weak legal systems, inadequate social service delivery, and lack of access to clean water, food, and skill-training opportunities.

The level-setting involves a more realistic understanding of future energy system demand and the mix of legacy and renewable fuels that will meet it, along with a clearer picture of how to pay for meeting those needs. That would represent a dramatic shift in the global discourse on development finance and climate goals. It would also help refine US policy priorities toward connectivity and infrastructure initiatives in the Middle East, distinguishing the trade-offs of encouraging state-owned infrastructure investment by Gulf partners along with a concern for China's role as a global development actor. But in exchange, new Gulf leadership in defining an energy for development paradigm will have its own set of strategic priorities, privileging some partners and allies over others, and working with China in ways that will surely test US tolerance for shared technology and co-investment.

The Russia–Ukraine War and the Future of Sanctions on Russian Oil and Gas

By Anne-Sophie Corbeau and Dr. Tatiana Mitrova

A key geopolitical question that emerged from the US presidential election was what a new Trump presidency will mean for the Russia—Ukraine war and by extension existing sanctions on Russian oil and gas. Donald Trump's inauguration on January 20, preceded by about a month the three-year mark of Russia's invasion of Ukraine. It remains highly uncertain when and how the war will end, though Trump has stated repeatedly that if elected he would settle it within 24 hours, possibly even before coming into office, by forcing Ukraine and Russia to the negotiating table. Toward that end, he has stated there would probably be less aid for Ukraine from the United States, ratcheting up pressure on President **Volodymyr** Zelenskiy as his country faces increased loss of human life and territory. President Vladimir Putin, who has been gaining territory recently, may not be in a hurry to enter negotiations, though absent participation Trump may threaten Russia with further sanctions.

Trump's approach to any negotiations will likely focus on quick, high-level compromises with minimal details that prioritize speed and optics over resolving deeper issues. This could involve major concessions from Ukraine such as territorial losses (e.g., the Donbas), de facto acceptance of Russia's claims to Crimea, and agreeing not to join NATO or allow NATO forces on its territory, balanced by security guarantees and economic incentives via an aid package. More knotty issues such as the location of border lines would likely be left open, risking an unstable outcome. But in the interim Trump will have gained a symbolic win that allows him to end US financial aid to Ukraine ($61.4 billion in military assistance since February 2022) as promised during his campaign.

The core areas of negotiation would therefore likely be:

- Territory that may be taken over (or regained) by Russia.
- Military aspects such as a ceasefire, demilitarized and buffer zones, arms control, prisoner exchanges, and the repatriation of deported civilians.
- Security guarantees, including long-term mechanisms to prevent conflict and a block on Ukraine's NATO/EU ambitions.
- Reconstruction aid for Ukraine.
- Sanctions relief for Russia, notably on oil and gas.

Among these, sanctions on Russian oil and gas will have outsized implications for both Russia and the US as well as Europe and Ukraine.

The Issue of Sanctions

US sanctions on Russia encompass many areas including financial transactions, high-tech sectors, and energy flows (notably oil and gas). Depending on Russia's reaction to Trump's initial suggestions about the conditions for settling the conflict, those sanctions could initially get stronger, building upon the latest sanctions package introduced by the Biden administration on January 10. But for Putin to play ball, he will need to see some material concessions that allow him to save face domestically (i.e., something beyond sanctions removal for Russian State Duma members), especially as Russia's budget revenues have finally started to show the impact of sanctions pressure.

Putin may seek to put the following items on the negotiation table:

- **Sanctions on oil.** These sanctions are the most critical for the Russian economy. The options for Trump are: lift them completely or partially (both of which would require congressional review, as many of these sanctions are covered by the Countering America's Adversaries through Sanctions Act [CAATSA]); keep them in place but ease implementation (e.g., no hunting after intermediaries, weaker financial control, no sanctions on specific shadow fleet tankers), which would provide some relief to Russia while maintaining US leverage in the event Russia does not comply with the agreement that is achieved; or put in place stronger sanctions.
- **Sanctions on gas.** These are less critical for the Russian budget, but important geopolitically for Putin at a time when he seems to be prioritizing geopolitical considerations over economic ones.
  - *LNG.* There are numerous US sanctions on LNG equipment, specialized Arctic LNG carriers, Russia's dark LNG fleet, and LNG companies (Novatek, LLC ARCTIC LNG 2 and recently the smaller Portovaya LNG and Vysotsk LNG). These sanctions have forced the Arctic LNG 2 project to halt operations. Europe has also imposed restrictions on Russian LNG transshipments, which likely means more Russian LNG staying in Europe. The options for Trump include: lift sanctions on all LNG projects; lift sanctions on Arctic LNG 2 and its supporting fleet, but not on the other projects; do not lift any sanctions, but loosen enforcement (e.g., no hunting after Arctic LNG 2–related tankers, no pressure on buyers); keep sanctions in place; or put in place stronger sanctions (on operating large-scale Yamal LNG and Sakhalin II LNG). The first two of these options would require congressional review as well.
  - *Pipeline gas.* EU countries have never banned imports of Russian pipeline

gas (or LNG). In fact, roughly 30 billion cubic meters (bcm) of Russian pipeline gas have been delivered to Europe in 2024 through Ukraine and TurkStream. The options for negotiations relate to Ukrainian transit (which ended on January 1 but could be a vector for compensation in the future) and recent US sanctions on Gazprombank impacting European gas buyers' ability to pay (even though Russia has already turned to other financial institutions).

A Balancing Act

Whichever decisions are made on oil and gas sanctions, they will surely affect global oil and gas markets. The negotiations themselves may even initiate a period of uncertainty. Trump will have to strike a careful balance between Putin's demands, the expectations of US energy stakeholders (who have benefitted from the vacuum left by the drop in Russian gas imports to Europe), his ability to manage the congressional review process, and his own electoral promise to slash energy and electricity prices by half in 18 months.

Oil

Given that oil is a global market, Trump's actions on oil sanctions will have implications for global prices. Surprisingly, Trump's and Putin's interests regarding oil largely do not contradict. However, since most major oil sanctions are multilateral—such as the G7-imposed price cap—and the EU oil embargo is clearly an independent EU decision, Trump's real ability to ease sanctions is limited by differing priorities within the EU and G7 in combination with the need to coordinate this decision with the US Congress.

Trump's options are:

- **Impose stronger sanctions (or significantly stricter enforcement of existing ones).** This option could be used at the very start of the negotiation process to pressure Russia into a compromise if Putin proves completely unyielding. However, in terms of the long-term outcomes of the negotiation process, it would mean significantly less Russian oil and therefore higher oil prices. Neither president wants this outcome, which is the opposite of what Trump promised during his campaign and is unacceptable to Putin due to the further fall in Russia's revenues it implies as the Russian economy turns toward stagnation.
- **Partially lift US sanctions or keep them in place but ease implementation.** This would mean preserving the status quo in terms of volumes, which would be an acceptable outcome for both sides since the US would avoid major disruptions to oil flows (and have more flexibility on the global market in case of a supply shortage—e.g., less oil coming from the Middle East) and Russia would maintain its export revenues.
- **Lift US sanctions completely.** This would mean significantly more Russian oil and therefore a drop in oil prices to levels that

would be unacceptable to US oil producers (and therefore Trump) and would force Putin to break up with OPEC+ and give up his geopolitical objective to maintain and even expand cooperation with non-OECD countries (including OPEC) toward a global anti-Western coalition.

Among these options, the second is the only one where the interests coincide in a positive direction for Trump and could therefore be his preference.

Gas

Trump and Putin have more conflicting interests regarding gas. Neither Trump nor Putin cares whether the gas market remains tight (though European politicians and players do). US players have benefitted from the tight market, so keeping or even increasing sanctions would be an acceptable policy to Trump. For Putin, maintaining gas exports (especially LNG) is extremely important, mainly for reasons of national pride and geopolitical influence. The Russian LNG projects in Yamal have both a geopolitical and a security aspect, as they are linked to the Northen Sea Route and Arctic infrastructure development. It is therefore likely that Putin will make lifting gas sanctions a condition for entering negotiations.

Trump's options are:

- **Impose sanctions on other operating LNG export plants (Sakhalin and Yamal).** This option could also be used at the very start of the negotiation process. However, significantly less Russian LNG on the market and, consequently, significantly higher LNG prices would make European and Asian stakeholders extremely unhappy.
- **Keep sanctions on all new Russian LNG projects or even strengthen them.** This would mean less competition for US LNG globally, which is strongly promoted by Trump, who even told the EU that it must buy more US oil and gas to avoid a trade war with the US. But it would be unacceptable to Putin, who will demand fewer sanctions on Arctic LNG 2 at the least.
- **Lift sanctions on Russian LNG.** This would mean more Russian LNG exports, which would be disadvantageous for US LNG producers and unacceptable to Trump.
- **No restoration of pipeline transit deal.** This would mean less Russian pipeline gas in the European market than in 2024 and more space for US LNG, which would be welcomed by Trump but not by Putin.
- **Minimal pipeline transit volumes.** This would mean keeping Russian gas at 2024 levels and leaving sufficient room for US LNG in Europe. Some Central European leaders, notably Hungary's Prime Minister Viktor Orban—a good friend of both Putin and Trump—would be satisfied with this approach, Ukraine would get transit revenues (and it may need re-exported Russian gas for domestic consumption once the hostilities end), and Russia would be able to sustain its gas export

revenues and special relationship with certain European importing countries while not having to leave the Russian-backed Transnistrian region of Moldova without gas. Some European industrials would be happy to see lower gas price levels return.

- **Large pipeline transit deal.** This would mean significantly more Russian pipeline gas, which would be highly desirable for Putin but would hamper US LNG exporters' ambitions and be unacceptable politically for Trump since he criticized Germany's high dependency on Russian gas in the past.

Among these options, only a deal to keep Ukrainian transit at around 2024 volumes would seem to benefit Russia (as well as Ukraine and several EU countries) without creating new problems for Trump. However, Russia is also likely to press hard for easing sanctions on Arctic LNG 2—something that would be very difficult for Trump to accept. In either case, US LNG exporters would certainly balk, potentially putting the issue in the hands of Congress. And it should be noted that any amount of Russian gas flowing to the EU clashes directly with new EU energy Commissioner Dan Jørgensen's pledge to stop Russian fossil fuel imports.

Confronting Iran in the Geopolitical Context

By Richard Nephew

The Trump administration will have to decide early on how much to prioritize dealing with Iran, especially its nuclear program and support for regional proxy groups, given the array of other geopolitical challenges it will be facing.

Seen from the perspective of Iran's ability to use proxies to threaten and attack US forces, partners, and interests in the Middle East, the Trump administration is inheriting a situation somewhat more propitious than when it was last in office. As a result of Israel's campaign against Hezbollah and its response to Hamas's attack on October 7, 2023, Iran's proxy network is weaker than it has been for a decade or longer. Iran's partner in Syria has collapsed, at a minimum complicating Iran's ability to operate near Israel's borders. Perhaps the only place where the balance has shifted in Iran's favor is with the Yemeni Houthis, who now possess ballistic and cruise missiles, as well as drones, and are willing to attack US and partner targets in the Red Sea. Even so, the United States and its partners have been intensifying their strikes on the Houthis and Israel's attack against Iran in October now exposes Iran to far greater risk for its regional activities. The ceasefire reached between Hamas and Israel may also moot some of the threat from proxy groups for at least the immediate time being.

Economic Weakening, Nuclear Advancement

Iran is also economically weak. Sanctions enforcement was lax during the Biden administration, but even so, Iran's macroeconomic indicators are poor and its longstanding problems of inflation and unemployment persist. Iran's economy is largely floating on expanded oil exports to China, and those may become the target of a potential renewed enforcement drive based on "maximum pressure" strictures from the first Trump administration. The current glut in global oil supply offers the Trump administration the best opportunity since oil sanctions were first imposed in 2012 to press home the US sanctions advantage without risking significant global economic effects, though the January 10 expansion of US sanctions on Russian energy trade may constrict some of that flexibility.

However attractive the environment may appear for intensified pressure on Iranian oil exports, though, there is both danger in doing so as well as global complication.

First and foremost, while the proxy situation may be better today than a year ago from the perspective of the United States and its partners, Iran's nuclear program is decidedly more of a threat. When Trump exited the Joint Comprehensive Plan of Action (JCPOA) in May 2018, the Iranians were at least a year away from being able to possess enough nuclear material for a bomb. Today, the Iranians are 1–2 weeks away from being able to do so. In the intervening six years, Iran has expanded its stockpile of enriched uranium to levels far closer to weapons use, and it has essentially perfected the advanced uranium enriching centrifuges the JCPOA put on ice. Moreover, Iran's production of new centrifuge parts is outside of international monitoring, meaning that Iran could now have clandestine stores of these machines capable of producing enriched uranium in secret. In July 2024, the US Intelligence Community noted that Iran was engaged in separate R&D activities that could have weapons significance again.

The result is that Iran could move to possess nuclear weapons quickly, including by diverting existing uranium stocks. Iran has also toyed with exiting the Nuclear Nonproliferation Treaty (NPT), bandying this threat about in response to Israel's October attack and reports that the European parties to the JCPOA may move to force the snapback of UN sanctions before this authority expires in October 2025.

Risks of Maximum Pressure

This highlights a significant risk: Iran has made clear that it is prepared to respond to sanctions imposition with nuclear escalation. The same may apply to the Trump administration's attempt to exert pressure on Iran's oil exports. The Trump administration will have to decide early in 2025 how seriously to take Iran's threats to walk out of the NPT and/or move to possess nuclear weapons, and whether this threat should soften or preclude its approach to maximum pressure.

Moreover, in the first Trump term, Iran carried out threats to attack regional oil and gas infrastructure if its own ability to export oil was hindered. Iranian attacks on Abqaiq in September 2019 as well as shipping in the Persian Gulf could presage a similar Iranian response if the United States were to succeed in driving Iranian oil exports down significantly. Saudi Arabia and the UAE seem to recognize this risk and have engaged in diplomatic activity over the last five years that seems intended to create separation between US policies and their policies in order to minimize the chances that they too will be brought into a conflict. The Trump administration will have to decide whether and how to prioritize regional cooperation (including on defense issues). The increased US support for Israeli settler activities in the West Bank (e.g., by terminating sanctions on violent Israeli settlers on day one of his presidency) and Israeli operations in Palestinian territories that often enrage the Arab world may make such cooperation more difficult, however.

The China, Russia Link

Unless the Trump administration decides to blockade Iran, targeting Iranian oil exports will also require applying pressure on Iran's customers, and this means targeting China. Ultimately, the Trump administration appears to have two options. It could apply pressure on China through its port operators, shipping services, and financial institutions to force China away from Iranian oil imports. Alternately, the administration could cut a deal with China to halt or reduce purchases of Iranian oil. Reportedly, Iran is offering less by way of discounts to China than it has in the past, probably reflecting overall lower oil prices, reducing the economic incentive to purchase oil from Tehran.

But there are broader issues at play, not least the global power dynamics that are pushing the United States and China into conflict. Beijing may be willing to reduce purchases from Iran (it is too early to see whether Shandong Port Group's decision to ban sanctioned tankers marks a change in China's approach or is a one-off corporate decision), but could require concessions from the United States that run contrary to Trump's prevailing interest in confronting China on issues as diverse as trade, technological innovation, and fentanyl smuggling. Likewise, if the United States applies sanctions on substantial Chinese entities, Beijing could double down on its relationship with Iran.

Trump's desire to cut a deal with Russia over Ukraine is also in tension with the likely focus of his Iran policy. Any deal that results in sanctions relief for Moscow should see an increase in Russian energy supplies to the market, which could make it easier to put the screws to Iran. However, Moscow could use the increased revenue from those sales to insulate Iran from any new US pressure, rewarding Tehran for its support in providing drones and missiles for the war against Ukraine.

Finally, before the Trump administration decides on its approach vis-à-vis Tehran, it may be worth taking a step back to think about why it is imposing such costs on Iran and the costs of such an approach. US-Iranian antipathy may be largely a given, but how the US treats Iran in foreign policy is a choice. A maximum pressure strategy aimed at a new deal that restrains Iran's nuclear program and support for proxies could be in the US interest, but the costs of this strategy—and risks that it backfires—are substantial. Alternatively, the United States could pursue a strategy of containment that seeks to build and maintain international support for confronting Iran. Maximum pressure could remain the slogan, but the intent would be minimizing risk and conflict. Likewise, Iran's nuclear program could prompt an even more aggressive approach, including US military strikes.

The Trump administration could start with a process to identify its priorities in confronting Iran, the mix of tools it is prepared to utilize, and how to blend those with the other pressing foreign policy requirements of the day, especially as relates to economic sanctions.

The Geopolitics of International Energy and Climate Finance

By Dr. Luisa Palacios, Dr. Gautam Jain, Diego Rivera Rivota, Dr. Shayak Sengupta, and Dr. Vivek Shastry

President Donald Trump's energy, anti-climate, and security agenda featured prominently in the barrage of executive orders issued on Inauguration Day, providing a roadmap for how his first 100 days in office will redefine the way the US engages with the rest of the world on these issues. These orders included halting international climate finance and placing a 90-day suspension on development aid for reevaluation. Nevertheless, international energy finance and investments should remain a critical part of the Trump administration's foreign policy arsenal, particularly for emerging markets and developing economies (EMDEs), where China's energy financing and investments have been increasing.

Historically, the US has been the largest source of foreign direct investment (FDI). The US government is also the largest donor of official development assistance (ODA), the largest shareholder of the International Monetary Fund (IMF), and either the largest or second-largest shareholder in multilateral development banks (MDBs), including the World Bank, the InterAmerican Development Bank (IADB), the Asian Development Bank, and the African Development Bank.[1] This gives the US government significant financial leverage in EMDEs. Rather than turning its back on these financial levers, rethinking the approach along the following dimensions could help advance US strategic goals:

1. **Providing affordable and innovative development finance can expand the US's sphere of influence:** US government financial agencies—such as the US Agency for International Development (USAID), the Development Finance Corporation (DFC), and the US Export-Import Bank (EXIM Bank)—which play a key role in much-needed finance for economic development in EMDEs and finance US FDI and exports, can be used more strategically. The EXIM Bank and DFC are up for reauthorization during Trump's second term.
2. **Development finance can help secure supply chains critical for many technologies,** limiting Chinese influence while advancing US interests.
3. **The administration can build on its first term's success in using development finance to mobilize private sector investments in EMDEs** to counteract Chinese state-led investments.

4. **Contributing to resilient energy infrastructure also helps with anti-immigration policies.** Financing adaptation projects to deal with extreme weather events has historically been a part of the US government's financial assistance.

The Geopolitics of Energy for Development

Given the strong growth in energy demand in EMDEs, meeting the need for affordable, reliable, and clean energy is imperative for these countries' economic development. However, the volatility of energy prices, lack of fiscal space, high cost of capital, and extreme weather events make energy investments in EMDEs challenging.

Failure to achieve energy needs is not only about these countries' economic outlook but also about political and social stability. Securing access to energy is thus a priority for many EMDEs. Where the energy comes from and how it is financed are secondary considerations when there are few choices. This has clear geopolitical implications for the Trump administration because China and, to a much lesser extent, Russia[2] are meeting some of the energy needs of EMDEs.

Energy has been central to Chinese global investments and financing linked to the Belt and Road Initiative (BRI), representing about 40 percent of the $1 trillion of Chinese investments abroad since 2013. Chinese companies have financed about $200 billion in energy projects in EMDEs, translating into almost 150 GW of capacity in the 2013–23 period. Coal-fired power generation dominated these investments, particularly in Asia.

China is also very active in energy transition investments in EMDEs, particularly after 2021, when it vowed to stop funding coal plants abroad. This policy change has resulted in China shifting more of its engagement with EMDEs toward renewable energy, metals and mining, EVs, and other energy technologies. Such trends warrant more international energy and adaptation finance from the US, not less, as absent these investments and financing, the US will simply cede geopolitical influence and markets to China.

Energy and Climate Financing to Advance US Interests

As part of the executive order withdrawing the US from the Paris Agreement, Trump revoked and rescinded the US international climate finance plan, part of the US contribution to the Paris Agreement's climate finance pledge made by developed nations which was increased from $100 billion annually to $300 billion at COP29 in Baku last year. The US international climate finance plan estimated a budget for 2024 of $11 billion (rising from $1.5 billion in 2021 at the start of the Biden administration).

There is ample room for doing things differently, including repurposing and revisiting some of the programs. However, international climate finance, in large part, is about energy, infrastructure, and resilience projects. The latter is critical to EMDEs and for a US immigration policy that wants to address structural issues in home countries that encourage emigration. Resilience has also been part of the US ODA portfolio for years.

Some DFC transactions resulted in innovative financing instruments such as the guarantees in nature-for-debt swaps, which supported debt relief in EMDEs in exchange for adaptation financing, such as in Belize, Ecuador, Gabon, and, more recently, El Salvador. Chinese BRI lending, on the other hand, has sometimes compounded debt issues in EMDEs.

In addition to halting climate finance, other issues ahead for US development finance under the second Trump administration include the potential elimination of the restrictions on oil and gas financing in MDBs, whether the 90-day pause on ODA will come with significant budget cuts to US AID, and whether the reauthorization of agencies such as the EXIM Bank and DFC will proceed or not. In this regard:

- Thanks to strong bipartisan support, attempts at significant budget cuts to foreign aid largely failed under the first Trump administration. Efforts to increase the impact of ODA have also received bipartisan support, such as recent congressional efforts to increase funding for and programming through local partner organizations. This could spur more efficient resource utilization and build local institutional capacity while also furthering US strategic interests. The 90 days required in the executive order is not a lot of time to review all the programs that comprise the $60 billion foreign aid budget, creating execution risks. The empowerment of Secretary of State Marco Rubio (who, as a former senator, is well-versed in these issues) to waive this pause or restart the programs might help ensure that the pause does not lead to major strategic issues.
- There is a high probability that the DFC and EXIM Bank reauthorization will go forward. The DFC was created under Trump to modernize US development finance tools precisely in response to China's BRI. The discussion on DFC's reauthorization could be about enhancing its capabilities to increase its impact. To enhance DFC's dual mandate of countering BRI and supporting development, experts have proposed several recommendations, including expanding the number of countries it reaches, lending in local currency, and making it easier to make equity investments.
- Regarding oil and gas financing, energy already represents about 40 percent of the US EXIM Bank's portfolio, including oil, gas, and power projects. However, the Biden administration's directive to end MDB support for fossil fuels, except in exceptional circumstances, is likely to be reversed under Trump in line with the executive order declaring a national energy emergency.

Energy Transition Finance and Supply Chain Considerations

Behind what is labeled "climate finance" lies key investments in energy-related projects, including building supply chains in EMDEs that have national security implications. These investments mainly secure raw materials and technologies that limit Chinese influence and help US economic competitiveness. Three specific existing initiatives the Trump administration could build upon are:

- **The Minerals Security Partnership (MSP):** a multilateral group of 14 countries and the EU to catalyze public and private investment in responsible critical minerals supply chains. MSP has announced 32 projects that include minerals for defense-related technologies and semiconductors, including a graphite mine in Mozambique. The MSP launched the MSP Forum with 15 mineral-rich countries. The Trump administration has an opportunity to expand efforts to boost investments in mineral mining, processing, and recycling and include other countries such as Chile and Indonesia.
- **Partnership on Global Infrastructure Investment:** a G7 partnership for infrastructure projects in low- and middle-income countries that also supports US and allies' economic and national security interests. One flagship investment is the revitalization and expansion of the Lobito Corridor, connecting the copper belts of the Democratic Republic of Congo and Zambia to the port of Lobito in Angola.
- **Clean energy manufacturing cooperation with India:** The United States and India seek to expand energy cooperation and investment to create alternative manufacturing bases to counter Chinese dominance in clean energy technologies. An example is a $500 million DFC loan to a solar manufacturing facility in Tamil Nadu, India.

The Trump administration has many financial levers to expand US energy financing and investments in EMDEs. The country is already the largest shareholder in some multilateral banks, which have seen capitalization of their private sector investment arms. Reauthorization of the DFC would allow it to enhance those financial tools. Choosing not to continue energy and climate financing and cooperation would likely cede the leadership role to China. Instead, the Trump administration has a unique opportunity to turbocharge and redefine the development finance space in innovative ways that more effectively mobilize private sector capital and enhance US national security to counteract China's non-market practices and state-led investments in EMDEs.

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[1] The US is the second largest shareholder in the Asian Development Bank after Japan and in the African Development Bank after Nigeria. The US has veto power in the IMF, the World Bank (except its ODA facility), and the IADB.

[2] Since 2021, Russia has redirected more of its fuel exports from the EU to EMDEs, with most of Russia's refined products going to Turkey, Brazil, China, India, and Africa.

North America Trade — A Tattered Trilateral

By Dr. Robert Johnston, Diego Rivera Rivota, Sagatom Saha, and Trevor Sutton

President Donald Trump has rattled trade and diplomatic dynamics with Canada and Mexico with his promise to impose 25 percent across the board tariffs on imports from the top US trade partners. The president has pledged to impose these tariffs repeatedly in his public statements, however his executive order relating to trade issued on January 20 did not take direct steps towards such tariffs, but rather ordered a range of reports and investigations relating to US trade relations.

Should President Trump attempt to make good on his promise, it would have major implications for North American supply chains and the domestic economies of the United States, Mexico, and Canada. The United States represents 80 percent of exports for both Canada and Mexico and the free trade agreement of the last 30 years embodied in NAFTA/USMCA is the bedrock of their economies. US consumers and industry also depend on a range of Mexican and Canadian goods, with the auto and energy sectors standing out. These sectors, representing massive volumes of trade and economic value for all three countries, will likely be at the center of Trump's effort to reshape North American trade.

Automotive Sector

Steep US tariffs on all Mexican and Canadian goods would significantly disrupt the North American automotive sector. The industry is deeply integrated across the continent with hundreds of billions of dollars' worth of vehicles and car parts crossing the border from Mexico and Canada into the United States annually.

It is unclear what legal authority the White House would invoke in imposing such tariffs, but both Mexico and Canada will almost certainly argue that such unilateral action violates the US-Mexico-Canada (USMCA) trade agreement negotiated during Trump's first term. That may be the intended effect: Trump may be seeking to leverage the threat of tariffs as a bargaining chip to re-negotiate the USMCA agreement in 2026 and/or make a deal on illicit drugs and immigration. In fact, this is not the first time Trump has linked tariffs and immigration. He promised a 25 percent tariff against all Mexican imports in May 2019 if migration flows did not decrease. The tariff was not implemented at that time.

Mexico and Canada already are hesitant to make the concessions that Trump seeks. Mexican President Claudia Sheinbaum said she will meet Trump's threats in kind. The recent resignation of Canada's Prime Minister

Justin Trudeau may leave Ottawa without a government for months, putting it in a poor position to negotiate trade terms.

Even if the tariffs are eventually traded for concessions from Mexico and Canada, the impact on the auto industry could nonetheless be substantial. Dragged-out negotiations could trigger higher sourcing costs for US automakers and compound other potential macroeconomic woes including inflation and higher fuel prices. Doubts about the durability of the USMCA and access to the US auto market, in conjunction with Republican lawmakers' campaign to repeal the electric vehicle (EV) tax credits in the Inflation Reduction Act (IRA), could lead to more cautious investment decisions around cross-border supply chains.

Notwithstanding these risks, Trump's tariff rhetoric could create the opportunity to pursue pragmatic, strategic priorities for the US automotive sector and the American economy more broadly. Despite Trump's disdain for EVs, they have been displacing internal combustion vehicles at an increasing pace, even in the United States. That market trend is likely to continue even if the president succeeds in terminating federal funding for EV charging, as he sought to do in another executive order.

US automakers have struggled to pivot to producing affordable electric cars and trucks compared to Chinese competitors. The EV tax credit under the IRA sought to help address this by extending eligibility to vehicles assembled in North America as well as components for batteries and minerals including lithium and copper, incentivizing Mexico and Canada to orient supply chains around a growing US EV market. Tighter rules of origin for EVs and EV components to qualify for favorable tariff treatment entering the US market would ensure that the tax credits do not inadvertently benefit Chinese firms.

China does not export many EVs to the United States, but low-cost Chinese EV production is growing so quickly that President Joe Biden deemed it necessary to impose 100 percent tariffs on them. Democrats and Republicans are largely aligned against Chinese EVs. Last year, Canada announced plans to investigate unfair Chinese trade practices, which could lead to tariffs on Chinese imports, rule changes preventing Chinese-made vehicles from accessing EV rebates, and other restrictions on Chinese content in relevant supply chains.

However, Sheinbaum is keen to attract foreign investment to Mexico. US Trade Representative Katherine Tai has noted the risk of rising Chinese investments in Mexico, which represented less than 1 percent of total investment in 2023. Chinese automaker BYD announced plans to build a plant in Mexico, although concrete developments on the ground remain to be seen. The Trump administration could continue to press for more North American alignment to ensure the long-term health of the region's automotive industry.

Energy Integration at Risk

The North American energy sector is profoundly integrated, albeit in clearly asymmetric ways. Canada is the largest crude oil supplier to the US by a large margin, accounting for over 60 percent of total US imports or around 4 million barrels per day (bpd). Canada's heavy crude enables US refiner exports of gasoline and diesel. It is also the largest foreign supplier of natural gas and electricity. Canada also imports US refined products, condensate, and light sweet crude oil.

Crude oil is Mexico's main energy-related export to the United States, representing about 10 percent of total US imports. Those exports have fallen due to a continuing decline in Mexican production and as the nation refines more of its crude for domestic use. Mexico is also the top importer of most US petroleum products including gasoline, diesel, and jet fuel. Some of these oil products come from Mexican-origin crude oil refined in US Gulf Coast plants.

Mexico is also the largest importer of US natural gas, which is vital for powering Mexico's electrical system. Mexican imports account for around 30 percent of total US exports and 6 percent of total US gas production. Imports of US gas are expected to increase to meet rising Mexican domestic demand and to feed liquefied natural gas (LNG) export terminals on Mexico's Pacific and Atlantic coasts.

Trump's tariffs could raise prices for US consumers after he pledged to focus on inflation and affordability. It would be difficult for the United States to source alternative supplies of heavy crude similar to Canadian and Mexican grades in the Gulf Coast refineries given the poor state of the oil sector in Venezuela and relatively low spare capacity in producers from the Organization of Petroleum Exporting Countries (OPEC).

In other regions like the Midwest there are few economical alternatives to replace Canadian crude pipeline imports. US domestic oil production is not suited to the Midwest and Gulf Coast refiners that invested in processing equipment to run heavier crudes. US refiners would therefore likely have to absorb the costs of tariffs or try to force the suppliers to absorb them. Ultimately such tariffs could raise pump prices, as some oil and gas industry representatives like the American Petroleum Institute have warned.

In terms of US natural gas imports, the United States has large reserves that could displace Canadian imports without the complexities of the light/heavy crude refinery issues. It is also possible that the Trump administration would view gas exports via LNG from Canada and Mexico as competition for US gas producers and LNG exporters. Already, a set of LNG terminals on the Mexican coasts are poised to re-export US-produced natural gas: one is in operation and another is expected to be next year. While these projects benefit some US companies, some stakeholders oppose them. Republican Senator Dan Sullivan (R-Alaska) introduced a bill to the Committee on Energy and Natural Resources in October 2024 to ban natural gas re-exports.

Canadian political leaders argue the United States and Canada are better off working together on energy than in competition. Canada's oil and gas industry has limited options for export beyond the United States. A small amount of additional crude oil could be moved to Asia via the recently expanded TransMountain pipeline, but a larger new build West Coast pipeline project would be costly and environmentally complex. Canadian gas and electricity exports could be more easily absorbed in the domestic market by data centers and manufacturers seeking clean, reliable nuclear and hydro power or gas plants using carbon capture. Canada's East Coast LNG exports face less attractive markets in the EU and more direct competition with US Gulf Coast oil and LNG exports, as well the greater cost and environmental complexities of bringing oil and gas from Canada's western provinces.

Increased electricity trade between Mexico and the United States could increase reliability and unlock relatively untapped solar and geothermal resources on the Mexican side. Electricity trade between the two countries, while very small, has been helpful in high-strained periods for power networks in California.

Ultimately, given the deep system integration and risks of higher costs to consumers, the Trump administration could opt to keep energy exempt from any new tariff regime as part of a complex sector-by-sector renegotiation with Canada and Mexico, particularly with the USMCA review starting in 2026. Autos may be more vulnerable given Trump made a strong push in the last round of USMCA renegotiation for greater domestic content.

Trump Energy Deregulation Agenda Will Upend Biden GHG Policies While Creating Opportunities for Permitting Reform, Nuclear, and Clean Hydrogen

By Dr. Matt Bowen, Anne-Sophie Corbeau, Dr. Robert Johnston, and Dr. Noah Kaufman

President Donald Trump made sweeping and ambitious campaign commitments to lower energy prices and increase US energy dominance as an agent of geopolitical change. Now that it is time to move from campaigning to governing, Trump—and his potential core energy team of Energy Secretary Chris Wright, EPA Director Lee Zeldin, and Interior Secretary/"energy czar" Doug Burgum—will find a limited number of targeted energy policies where executive actions loom large. A few key issues are climate regulations under the Clean Air Act, natural gas and permitting reform for major energy infrastructure, nuclear development and regulatory policy, and clean hydrogen production incentives.

Climate Regulations

While the fate of President Joe Biden's legislative achievements on climate change are uncertain, Trump is widely expected to scrap or severely weaken the Biden EPA's climate regulations, including requirements for certain coal and natural gas power plants to either retire or control 90 percent of their carbon dioxide emissions by the 2030s.

These likely actions will reflect the third major pullback by the federal government from attempts to reduce greenhouse gas (GHG) emissions under the Clean Air Act (CAA), which grants broad authority to EPA to regulate harmful air pollutants. After President Bill Clinton's EPA declared in 1998 that carbon dioxide is an air pollutant, President George W. Bush's EPA declined to issue regulations. After President Barack Obama's EPA issued the first round of climate regulations on vehicles, power plants, and oil and gas wells, President Trump scaled back these actions to business as usual. Now, Trump is poised to do it again after Biden strengthened climate regulations over the past four years.

Ironically, while EPA's authority to regulate GHGs is stronger than ever—it was codified in the Inflation Reduction Act—prospects of meaningful GHG emissions reductions from CAA regulations have never been bleaker due to the opposition of the executive branch and the Supreme Court. Trump may therefore deliver the nail in the coffin for the three-decade long project to make the Clean Air Act central to a US decarbonization strategy.

Even with these changes, demand for low/zero-carbon energy will continue to grow due to competitive costs, corporate demand for clean power, state-level climate regulations, and the federal clean energy incentives that survive under a Republican-controlled Congress. The new administration may also double down on certain low-carbon technologies, including geothermal, carbon capture, and nuclear. Still, Biden-era regulations intended to create a more predictable and smooth transition to a low-carbon energy system and the absence of an overarching climate policy framework from the Trump administration may create planning challenges for industry and regulators alike.

Natural Gas and Permitting Reform

The Trump energy team will likely look for ways to bolster the role of natural gas, including with new power plants, export terminals, and pipelines. The scaling back of EPA climate regulations will reduce barriers to building additional natural gas–fired electricity generators to help meet growing demands for new sources of power.

Trump's Department of Energy (DOE) will likely end the Biden "pause" on permit approvals for liquefied natural gas (LNG) export projects. The market for LNG may be oversupplied for the next decade, though, so while permit changes may enable some projects to move forward, they are unlikely to have any major effect on US LNG exports anytime soon.

As for new pipeline construction, failure of the Manchin-Barrasso permitting reform bill—which combined provisions advancing oil and natural gas with those targeting clean energy and the expansion of electric power transmission—means that the 119th Congress will go back to the drawing board. With narrow majorities in both the House and Senate, Republicans are expected to focus on reforming the National Environmental Protection Act (NEPA), which is seen by the oil and gas industry as a major barrier to new infrastructure, particularly pipelines. Republicans have advocated for both shorter project review timelines and stricter deadlines for judicial review within the NEPA process. However, NEPA reform may fail in Congress without the bipartisan approach of the Manchin-Barrasso bill.

In the long run, the goals of increasing natural gas exports and domestic consumption may be in conflict. If prices rise toward the levels paid by foreign customers, natural gas will become less competitive with alternative fuels at home.

Natural gas could also face competition from the nuclear power sector, which is expected to receive support from the Trump administration and will be attractive to hyperscalers—data centers requiring increasing supplies of electricity—that are seeking zero-GHG baseload power.

Nuclear Energy Development and Regulatory Reform

To move forward on the deployment of new nuclear power, the Trump administration will have to decide how best to leverage limited policy tools. The secretary of energy could negotiate with the Tennessee Valley Authority (TVA) to help move the Clinch River Small Modular Reactor (SMR) project forward. DOE cost-shared the development of an early site permit at the Clinch River site, which the Nuclear Regulatory Commission (NRC) issued in 2019, and TVA invested in the project as recently as last year. Negotiations could potentially lead to reactor construction in the next couple of years and help to create a new technology option—the GE Hitachi SMR—for private US utilities to deploy as well as for the United States to export to other countries.

Separately, the NRC chair will have to chart a course on complying with new congressional mandates for increased regulatory efficiency. The last public legislative proposal from the NRC to Congress in this vein was in 2008 but was never acted upon. It would have eliminated the so-called "mandatory hearing," an element of the new reactor licensing process that provides very little in the way of value while adding substantial delay and cost. The 119th Congress is expected to have greater bipartisan support for nuclear power and therefore could be more receptive to this change and similar measures to improve regulatory efficiency. The NRC could also reform the environmental reviews for new reactor licensing, a process which in the past has taken multiple years (as examined in a forthcoming CGEP report) and could cause delays for subsequent deployments of standardized reactor designs in the future.

Clean Hydrogen Funding

The new administration has decided to pause the spending of money associated with the Biden administration's clean hydrogen production tax credits (PTC), present in the Inflation Reduction Act, and the Hydrogen Hubs program. The final guidance on PTCs, published earlier this month, created a complex set of rules in an attempt to avoid emissions from hydrogen production.

As the DOE has only provided limited funding (out of $7 billion earmarked) to five of the seven hubs selected for the Hydrogen Hubs program, the agency could reallocate much of these funds, especially in the absence of contracts with hub developers. But as the Biden administration selected hubs spanning a mix of Republican and Democratic states, local Republican support may hold if the program is considered good for the economy and employment. This pause could also impact the 1.6 million tons of hydrogen projects in the US that had already taken final investment decision as of mid-2024, most of which are low-carbon hydrogen projects.

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