Trump 2.0's Climate and Energy: Can Rollbacks Derail Decarbonization?

The House-passed budget, now before the Senate, backs fossil-fuel expansion over renewables. If this approach continues, U.S. decarbonization will likely slow, but it should not stop because of the economic rationale of the green transition.[1]

Takeaways

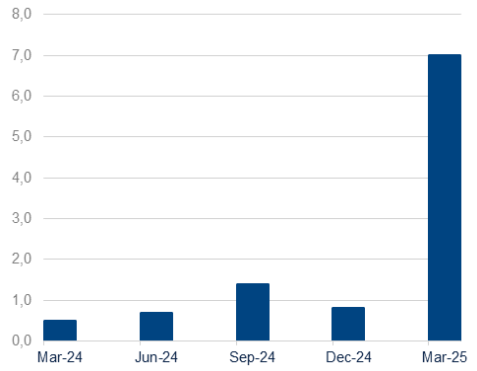
The first moves and the onset of a mercatilist approach. The Trump administration quickly prioritized fossil-fuel expansion: it declared a National Energy Emergency to speed oil and gas production, froze offshore-wind projects, cut EV support, exited the Paris Agreement, and reopened the Arctic refuge to drilling. Its mercantilist tilt also set up a Council on Energy Dominance, and fast-tracked critical-mineral permits.

Rollbacks of environmental regulation. The U.S. government has dismantled key environmental safeguards: it rolled back EPA emission limits for power plants and vehicles and ordered a review of the 2009 greenhouse-gas Endangerment Finding.The federal administration has also challenged state-level climate rules, suspended SEC climate-risk disclosure enforcement, repealed methane-emission fees, or ended support for clean manufacturing

New Budget Priorities are consistent with fossil's preference. The House-approved "One, Big Beautiful Bill Act" accelerates the expiration of key Inflation Reduction Act tax credits, or adding restrictions tied to geopolitical tensions, especially affecting sectors reliant on Chinese supply chains. Against this background, policy shifts have already triggered cancellations of planned U.S. clean-energy investments (**Figure T.1**). Actually, energy & industry clean investment climbed and then plateaued, and manufacturing eases off (**Figure T.2**).

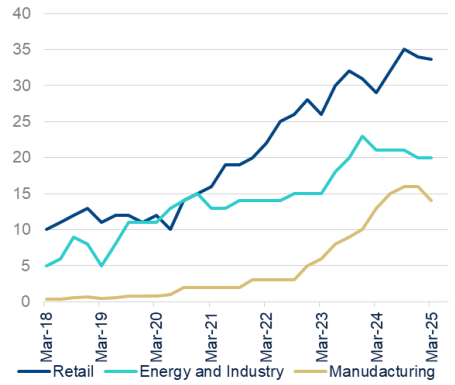
[1] This note follows up on the analysis Global | Uncertainty Looms over Climate Policy Rollbacks in Trump's Second Term | BBVA Research, concluding that Trump's second term could roll back climate policies like the Inflation Reduction Act and ESG standards, but renewable energy and decarbonization are expected to demonstrate resilience to changes, supported by state and local policies and geopolitical dynamics.

FIGURE T.1 CANCELLATIONS OF ANNOUNCED CLEAN MANUFACTURING INVESTMENTS. BILLION 2023 USD



Source: Clean Investment Monitor Rhodium Group MIT CEEPR

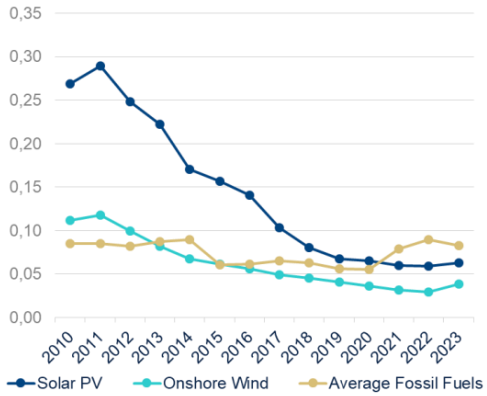
FIGURE T.2 U.S. QUARTERLY CLEAN INVESTMENT BY SEGMENT. BILLION 2023 USD



Source: Clean Investment Monitor Rhodium Group MIT CEEPR

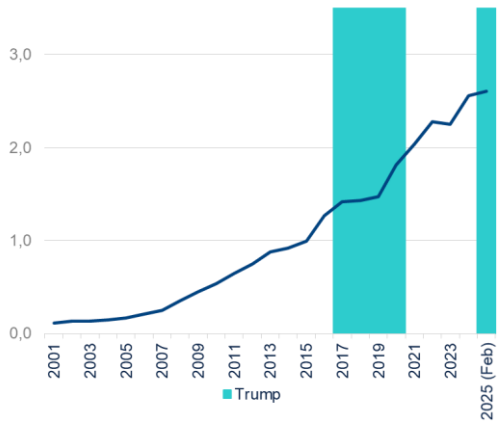
The economic rationale for U.S. decarbonization should prevail. The economic rationale that has driven renewable energy adoption in the US is unstoppable. Renewable technologies have experienced significant reductions in cost over the past decades, making clean energy more affordable than fossil fuels (**Figure T.3**). In fact, the decline in renewable-energy costs is boosting their growing share of total U.S. energy production (**Figure T.4**).

FIGURE T.3. U.S. LEVELIZED COST OF ELECTRICITY (LCOE) (2023 USD/KWH)



Source: BBVA Research with data from the International Renewable Energy Agency (IRENA).

FIGURE T.4. U.S. WIND AND SOLAR PRIMARY ENERGY PRODUCTION (% TOTAL)



Source: BBVA Research with data from the U.S. Energy Information Administration(EIA). Primary energy production includes the extraction of raw energy sources directly from natural resources, before any conversion or transformation occurs.

The U.S. Government policy direction on energy and environment risks missing significant opportunities by neglecting renewable energy's economic and technological benefits. The persistence on trade tariffs and regulatory uncertainty could temporarily deter investments, but the economic rationale of decarbonization should prevail.

Background

1. The First Moves

Just hours after taking office on January 20, President Donald Trump issued a **series of executive orders concerning climate and energy policy**. Central among these was the **declaration of a National Energy Emergency**, in which the President asserted that high energy costs and inadequate infrastructure constitute a national crisis. The order directed federal agencies to invoke existing emergency authorities to accelerate and expand fossil fuel production, transportation, and refining. It also streamlined environmental permitting to expedite infrastructure development and invoked Department of Defense powers to secure energy resources for national security purposes.

In terms of renewable energy, Trump signed an order calling for a temporary pause on offshore wind projects on federal lands, along with a comprehensive **review of environmental permits and feasibility assessments for both onshore and offshore wind energy.** The Unleashing American Energy order eliminated federal support for the transition to electric vehicles, including the defunding of charging infrastructure initiatives established under the Inflation Reduction Act (IRA) of 2022.

Also on January 20, as anticipated, **the U.S. announced its withdrawal from the Paris Agreement and all other climate treaties**, effectively reversing previous efforts to curb greenhouse gas emissions. This decision has broad implications for the international climate agenda, as the U.S. was the world's second-largest emitter of greenhouse gases in 2022 (11.2%), following China (29.2%). Additionally, Trump signed an executive order reopening the Arctic National Wildlife Refuge (ANWR) for oil and gas exploration, reversing the conservation policies of the Biden administration.

2. The Beginning of the Mercantilist Approach

On February 14, the administration announced the formation of the Council on Energy Dominance, tasked with advising the president on strategies to expand domestic energy production and cut regulations. The Council will propose a **National Energy Dominance Strategy to reduce bureaucratic obstacles, attract private investment, and promote innovation**. Although the announcement briefly caused a dip in oil prices, the market quickly stabilized.

On February 25, Trump signed an executive order initiating an investigation into international copper suppliers, citing the metal's critical role in clean energy, electric vehicles, electronics, infrastructure, and defense. A month later, he issued the Immediate Measures to Increase American Mineral Production order, which prioritized domestic mining of uranium, copper, potash, gold, and other critical minerals as identified by the Council. The directive called for

streamlining permitting processes, utilizing federal lands, invoking the Defense Production Act for financial assistance, and soliciting both public and private investment.

Climate and Energy Policy in the Era of Trade Uncertainty

With the onset of trade-related uncertainty following new tariffs announced on April 2, the U.S. energy transition is expected to face additional hurdles. Tariffs on imported clean energy technologies will likely raise costs for solar panels, wind turbines, and electric vehicles, potentially delaying deployment. Projects aimed at modernizing the electrical grid and building new transmission lines may also suffer from higher material costs and longer timelines.

The May 28 decision by a federal court declaring that the imposition of tariffs on specific countries exceeds presidential authority represents an initial setback for Donald Trump's trade policy. Nonetheless, it does not halt the application of tariffs on certain specific industries—such as steel or aluminum—so trade tensions persist. However, on May 29 a Court of Appeals allowed the president to temporarily continue collecting the tariffs under the emergency powers law while the administration pursues its appeal. Anyway, **it is worth noting that the geoeconomic fragmentation triggered by geopolitical concerns makes climate transitions more vulnerable**[2].

3. Rollbacks of Environmental Regulation

Under the current administration, a rapid series of legislative and executive actions has dismantled key climate and environmental safeguards put in place previously. See below some of the most consequential rollbacks that collectively signal a major shift in U.S. climate policy.

- In March, the Environmental Protection Agency (EPA) unveiled a sweeping rollback of environmental regulations, **eliminating limits on emissions** from tailpipes, smokestacks, and power plants, as well as rescinding the agency's authority to regulate greenhouse gases. EPA Administrator declared a reorientation of the agency's mission toward reducing costs for consumers and businesses, emphasizing economic growth over environmental or public health concerns. Against this background, In May, the EPA confirmed its intention to eliminate all federal limits on greenhouse gases from coal and gas-fired power plants in the US, with the proposal expected to be published after the interagency review. This decision is consistent with the EPA Administrator recommendation from February, urging a reconsideration of the 2009 'Endangerment Finding', which established that greenhouse gases like carbon dioxide and methane pose a significant threat to public health and welfare, thus underpinning current climate regulations.

- In the same vein, on April 9, the Reinvigorating America's Beautiful Clean Coal Industry order reclassified coal as a strategic mineral, thereby prioritizing extraction,

[2] Global | Geoeconomic Fragmentation, a Vulnerability for the Climate Transition | BBVA Research. April 4, 2025.

expanding exports, and reducing regulatory oversight. Simultaneously, the Regulatory Relief for Certain Stationary Sources order temporarily exempted coal- and oil-fired power plants from the EPA's Mercury and Air Toxics Standards (MATS), arguing feasibility concerns and risks to grid reliability.

- **Challenging State's climate policies**. In the Protecting American Energy from State Overreach order, the Trump administration challenged state-level energy and climate policies—particularly in California, Vermont, and New York—arguing these laws unfairly restrict energy companies from other states through stringent permitting and financial penalties. The Attorney General has been directed to pursue legal action against such state laws. A related order requires agencies like the EPA and Department of Energy to regularly justify the retention of existing regulations.

- **Setback of climate disclosure rule.** The U.S. Securities and Exchange Commission (SEC) announced it would stop defending its climate disclosure rules in court. These rules had required public companies to disclose climate-related risks and emissions. The SEC's decision to withdraw its legal defense effectively ends a major regulatory initiative of the previous administration.

- In February, Congress repealed the Biden-era methane fee, which had required certain oil and gas emitters to pay $900 per ton of excess methane emissions. Though only a fraction of companies were subject to the rule, industry pressure played a key role in its repeal.

- On March 13, Trump decreed that the Defense Production Act (DPA) measures to designate solar photovoltaic technologies as vital to national security were no longer in course. The reversal canceled $500 million in IRA funding for domestic clean energy manufacturing—including solar panels, heat pumps, and electrolyzers—and removed related technologies from the DPA's Section 303 priority list.

4. New Budget Priorities and the Road Ahead

In May 2025, the White House released President Trump's Fiscal Year 2026 "Skinny Budget", outlining significant realignments in federal climate and energy spending. The proposal eliminates over $15 billion from the Infrastructure Investment and Jobs Act (IIJA), cutting Department of Energy funds for renewable energy, carbon removal, and other climate programs. It also rescinds $5.7 billion allocated for electric vehicle charger grants under the Department of Transportation and plans to redirect funds toward fossil fuel research, nuclear energy development, and enhancing baseload power technologies.

Changes in tax credits

On May 22, the House of Representatives approved the latest version of the **"One, Big Beautiful Big Act"**. Among its measures are the early terminations of most of the tax credits[3] that formed the core of the 2022 Inflation Reduction Act (IRA).

The IRA tax credits were focused on two main groups. On one hand, **households and businesses** benefited from tax incentives for the purchase of electric vehicles, as well as tax credits for energy-efficient homes and clean energy installations. The second beneficiary group consisted of **utility companies**, which had access to tax credits for investing in and producing electricity from clean sources, as well as in other technologies such as carbon capture, hydrogen production, nuclear energy, and the manufacturing of clean energy components.

In the case of electric vehicles, the tax credits were originally scheduled to end in December 2032. However, under the newly proposed changes, the credits for used light-duty vehicles[4] and electric utility vehicles would end in December 2025, while the expiration for new light-duty vehicles would be extended until December 2026. In 2026, however, this credit would apply only to purchases from manufacturers that have sold fewer than 200,000 new units by December 2025.

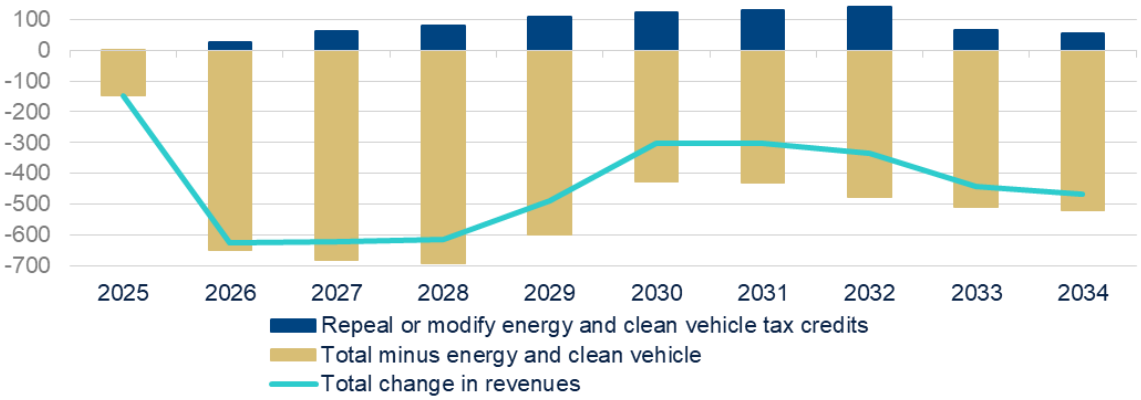
The credits for utility companies face a more complex process. While gradual reductions are proposed in the total amount of most tax credits (20% in 2029, 40% in 2030, 60% in 2031, and full elimination in 2032), these must also contend with restrictions on investments and supply chains linked to China, Russia, Iran, and North Korea. This presents a greater challenge, particularly because China plays a crucial role in the clean energy component industries, such as batteries, solar panels, and wind turbines.

Among the least affected sectors— and even those that stand to benefit—are hydrogen transport and storage, industrial-scale carbon capture, as well as biofuels and sustainable aviation fuels, as these are included among the sectors eligible for income tax exemptions.

Overall, the House Ways and Means Committee's tax proposal would cut U.S. revenues by about $4.3 trillion over the 2025-2034 budget window.[5] Repealing or revising energy and clean-vehicle tax credits would offset only a share of that loss, adding roughly $0.8 billion in revenue during the same period (**Figure 1**).

[3] A detailed explanation of the tax provisions in the new Budget proposal, as reviewed by the U.S. House of Representatives, is available here. Please note that some measures were amended between submission and approval.
[4] Light-duty vehicles (LDVs) generally refer to vehicles with a gross vehicle weight rating (GVWR) of 10,000 pounds (4,500 kg) or less. This category includes passenger cars, sport utility vehicles (SUVs), minivans, and light-duty trucks like pickup trucks and delivery vans.
[5] If made permanent, the proposal could result in revenue losses of $5.6 trillion, according to estimates from the Penn Wharton Budget Model.

FIGURE 1. REVENUE EFFECTS OF THE HOUSE WAYS AND MEANS COMMITTEE TAX PROPOSAL
(INCREASE (+) OR DECREASE (-) IN REVENUES, BILLION USD)



Source: BBVA Research from Penn Wharton Budget Model: The House-Passed Reconciliation Bill: Budget, Economic, and Distributional Effects

With the Budget Bill currently under consideration in the Senate, further changes are still anticipated. Republican senators have previously expressed support for a more moderate package, citing concerns about local job creation associated with green technologies, as outlined in a letter from four GOP senators to their majority leader[6].

Thus, given the narrow Republican majorities in both chambers, party leadership will require near-unanimous backing from GOP lawmakers to pass the reconciliation bill—including from those who have expressed support for the Inflation Reduction Act's energy tax credits.

There is still time before key deadlines, but legislative back-and-forth is expected in the coming weeks. While July 4 (U.S. Independence Day) is viewed as the preferred target for passage, the federal government can continue operating without a funding shortfall until early August, which may allow discussions to extend beyond the first timeline.

Investments and employment at risk

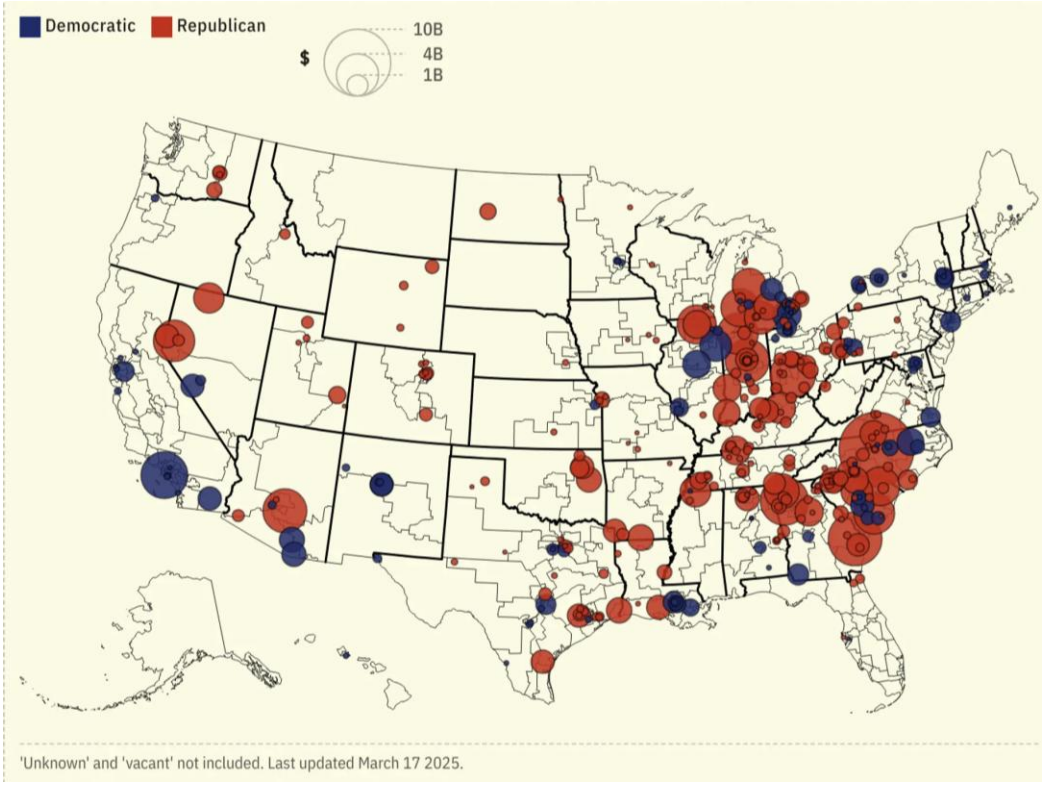
New market conditions, characterized by rising tariffs, uncertainty in federal policies, and trade tensions, have already resulted in the cancellation of clean manufacturing investments in the United States during the first quarter of 2025, totaling $6.9 billion—of which over $6 billion were in battery projects, as shown in **Figure B.4**.

According to a report by Climate Power, the investment environment in the Trump administration puts up to 400,000 new jobs in green sectors at risk. Of these, 36.7% are in the battery sector, 20% in solar energy, 17% in electric vehicles, and 14.5% in clean technologies. It should also be noted that more than half of the investments under the IRA have been made

6 Although Republicans hold a 53–47 majority over Democrats in the Senate, losing as few as four votes threatens the chances of securing a simple majority. A recent precedent is the narrow House vote on the budget bill, which passed by a razor-thin margin of 215–214; two Republicans voted against it, and one was absent.

in Republican districts (**Figure 2**).

FIGURE 2. POST-INFLATION REDUCTION ACT MANUFACTURING INVESTMENT BY CONGRESSIONAL DISTRICT UP TO MARCH 2024 (BILLIONS OF DOLLARS)



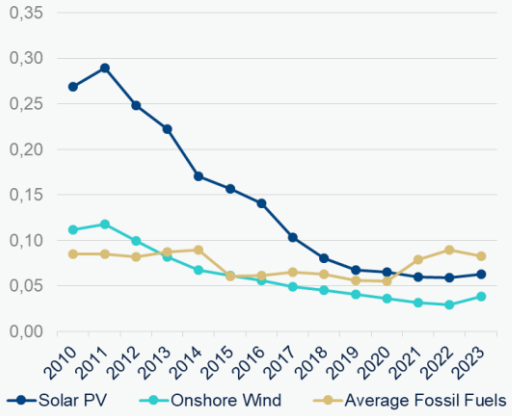
Source: SEMAFOR with data from Clean Economy Tracker, Atlas Public Policy and Utah State University

In summary, the direction of Trump's policy threatens to overlook significant opportunities for the United States. In a global context that increasingly highlights the economic, environmental, and technological advantages of renewable energy, the administration's approach appears likely to bypass crucial opportunities. Specifically, policy decisions characterized by uncertainty, including the introduction of tariffs and regulatory instability, could discourage investment and hinder the remarkable progress achieved in recent years.

Box 1. The Economic Rationale for U.S. Decarbonization Prevails

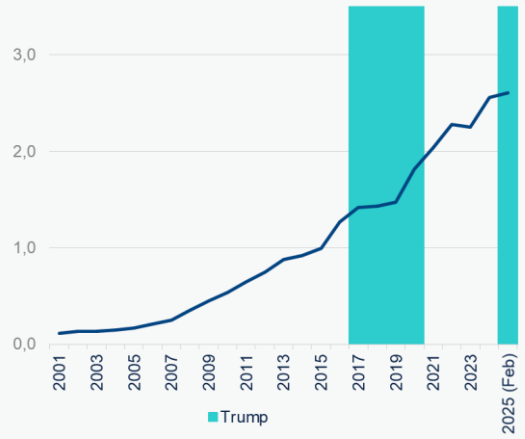
The economic rationale that has driven renewable energy adoption in the U.S. is undeniable. Renewable technologies have experienced significant reductions in cost over the past decades, making clean energy more affordable than fossil fuels (**Figure B.1**). In fact, the decline in renewable-energy costs is boosting their growing share of total U.S. energy production (**Figure B.2**).

FIGURE B.1. U.S. LEVELIZED COST OF ELECTRICITY (LCOE) (2023 USD/KWH)



Source: BBVA Research with data from the International Renewable Energy Agency (IRENA)[7].

FIGURE B.2. U.S. WIND AND SOLAR PRIMARY ENERGY PRODUCTION (% TOTAL)



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

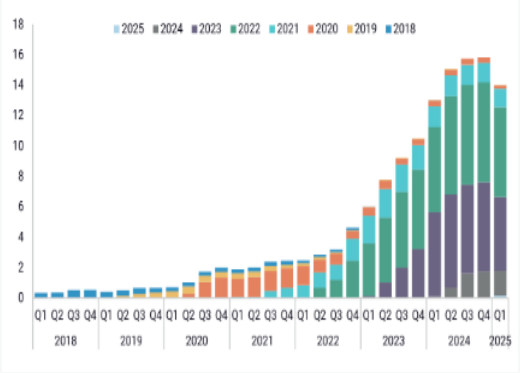
Leadership in renewable technologies has spurred job creation and fostered investment in the U.S., strengthening its economic resilience and competitiveness. In 2023, the energy sector employed 8.35 million workers in the US[8], up by 250,000 from the previous year, with over 40% now working in clean-energy industries. Clean energy jobs have grown, driven by investment in wind, solar, and battery power, which reached nearly $80 billion by 2024, according to the American Clean Power Association (ACP)[9]. This highlights the key role renewable energy plays in driving economic growth, job creation, and infrastructure transformation in the U.S.

[7] Renewable Power Generation Costs in 2023 (irena.org)
[8] United States Energy & Employment Report 2024
[9] Clean Power Annual Market Report 2024

Affordable and abundant renewable energy is also critical to supporting the rapidly expanding U.S. data center industry. Demand is projected to grow significantly from 25 GW in 2024 to more than 80 GW by 2030, driven by increased data usage, migration to the cloud, and, in particular, the expansion of advanced technologies such as generative AI. By providing reliable and cost-effective electricity, renewable energy would allow the US to sustainably meet this growing demand, strengthening its attractiveness as a destination for data infrastructure and capturing economic value from emerging digital technologies.

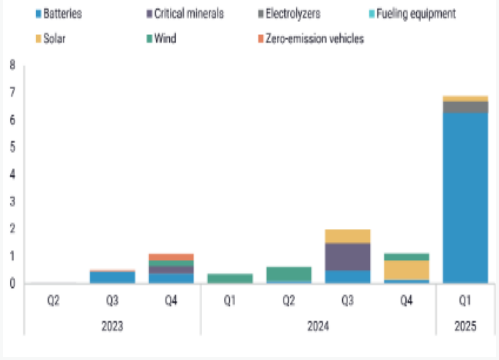
What do the clean manufacturing investment data reveal since Trump took office? Since the start of Trump's second administration, the upward trend in U.S. clean-energy investment has stalled. Following the Inflation Reduction Act (IRA), investment surged, driven by the electric vehicle (EV) supply chain, with quarterly investments more than tripling between Q3 2022 and Q1 2025, reaching $14 billion. Yet, Q1 2025 experienced a record $6.9 billion in project cancellations due to tariffs, policy instability, and economic pressures (**Figures B.3 and B.4**). Still, new investment announcements grew by 47% from the previous quarter, highlighting ongoing cautious optimism.

FIGURE B.3. ACTUAL MANUFACTURING INVESTMENT BY YEAR OF ANNOUNCEMENT.
BILLION 2023 $



Source: Clean Investment Monitor: The State of US Clean Energy Supply Chains in 2025 – Rhodium Group

FIGURE B.4. CANCELLATIONS OF ANNOUNCED CLEAN MANUFACTURING INVESTMENT.
BILLION 2023 $



Source: Clean Investment Monitor: The State of US Clean Energy Supply Chains in 2025 – Rhodium Group

Highlights of the Week

Global	**Fast-tracking Net Zero by Building Climate and Economic Resilience | OECD. May 27, 2025.** The report shows that reaching net zero is still possible but requires urgent action. It also discusses the importance of public support, trade, investment and finance, climate adaptation and bridging knowledge gaps to improve the effectiveness of climate policies.
Global	**DP20277 The Global Effects of Carbon Border Adjustment Mechanisms | CEPR. May 20 2025**. CBAMs can effectively boost competitiveness, curb leakage, and encourage regulation, while also avoiding disproportionate impacts on lower-income countries.
Europe	**Communication delivering the Union's 2030 energy and climate objectives - European Commission.** National governments have improved plans to reduce pollution and boost clean energy.
Europe	**The European economy is not drought-proof.** ECB. May 23, 2025. The degradation of natural ecosystems slows growth and leads to financial instability.

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