

## Year one of Trump's energy policy

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During the first year of his term in office, President Trump has fulfilled, one after another, at least many of the electoral promises included in his America First Energy Plan, forcing a 180-degree turnaround from the energy policy of President Obama. The declared objective of this strategy is to achieve US energy dominance, a kind of carbon (or fossil fuel) supremacy that has taken over, at least symbolically, many important US energy policy measures. Immediately following his swearing in, Trump signed executive orders allowing both the Keystone XL and Dakota Access (DAPL) pipelines to proceed. More than representing simply an important economic decision, these executive orders served as a declaration of Trump's intentions, particularly given the media context in which these fossil fuel infrastructures had generated significant public opposition. Trump requested that the promoters of the Keystone XL –which had been blocked by Obama– present the project to the government again; and when they did, this time it was approved. He also ordered that the DAPL –halted by Obama after three months of opposition and protest, resume construction– and by mid-year the pipeline was transporting oil.

Also among the first measures taken by President Trump was the decision to reverse the recent prohibition against **drilling in the Arctic and the Atlantic oceans**, which had been approved at the last minute by the Obama Administration. This energy policy change was also mainly symbolic: there is a certain consensus that such measures will have very limited real effects, given that even after the increase in oil prices during recent months the exploitation of the Arctic remains unprofitable, in particular relative to the fracking of shale oil. In September, the *Washington Post* revealed that the Trump Administration was maneuvering to allow for hydrocarbon exploration to proceed in the Arctic National Wildlife Refuge (ANWR) for the first time in 30 years. This measure, recently approved, is another high-profile blow in the decades-long policy battle between the environmentalists and native-American tribes, supported by the Democrats, on the one side, and the political leaders of the State of Alaska, supported by the Republicans in the Congress, who want to exploit these petroleum resources, on the other.

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The next shift in energy policy came in March when the **Clean Power Plan (CPP)** – another flagship of the Obama Administration's energy policy– was suspended. The President signed an executive order calling for the Administrator of the Environmental Protection Agency (EPA) to begin to dismantle the CPP –which had been projected to reduce GHG emissions in the electricity sector by requiring states to reduce CO<sub>2</sub> emissions from gas and coal-fired plants by 32% in 2030 (when compared with 2005)–.

In fact, however, it was once again a nearly symbolic decision, given that the CPP had never entered into effect. During 2018 the EPA will need to replace the regulation approved by the Obama Administration and set new emissions standards. The year has begun with an important defeat for the Trump Administration, however: on January 8, 2018, the Federal Energy Regulatory Commission (FERC) rejected the petition of the Department of Energy to establish a model for compensation of nuclear and coal plants for their energy storage and grid resilience capacities. That proposal has been interpreted as a clear subsidy to both technologies, given that other technologies, like wind and solar (and to some extent gas), do not have this possibility because of the high cost and their limited capacity for storage.

A varied range of arguments have been used to reduce the perceived significance of such measures, and while most of them are valid, sometimes they are stretched. Most of them point out that the shift in energy policy has been more declarative than substantively real, and that its impact will be limited. It is true that, at this stage, the reduction in the costs of renewable energies have made the transition in the US electricity sector almost inevitable. The policies of President Trump will not easily reverse the trend of the **energy transition** taken up by the US towards a combination of gas and renewable energies, supported by new electricity storage systems and smart grids. The interests of business and the regulatory capacity of the states, especially those where the voters support renewable energy either for economic reasons (for example, as in Texas) or out of environmental preference (as in California) represent important counterweights in this regard. But it is evident that Trump's policies will slow down the transition and make it somewhat more expensive (than it needs to be). In the same way, the defeat inflicted by the FERC to the proposal for hidden subsidies to coal and nuclear energy show that the institutional counterweights and checks do limit the space in which President Trump's energy policy can unfold. On the contrary, however, although the regulators continue to act to displace coal-fired plants from the U.S. electricity mix for reasons of cost, they can only expect obstacles from the Trump Administration.

But the culmination of the abrupt shift in the Trump Administration's energy policy and its aspirations to energy supremacy was made especially visible by the Administration's *withdrawal* from the **Paris Agreement**. The Administration has also begun to turn its back on the US's financial obligations to the UN's Sustainable Development Objectives. Furthermore, Trump's unilateralism has affected other key mechanisms of global energy governance, precisely when such mechanisms are needed even more to undertake an

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orderly energy transition in economic and geopolitical terms. The clearest example of this has been the response of the Trump Administration to the agreement between OPEC and Russia, along with other oil producers, to maintain the production cuts in order to stimulate a recovery of oil prices. The President announced that he would carry out another of his electoral promises to unilaterally **sell off half of the US's strategic oil reserves**, irrespective of the rules of the International Energy Agency (IEA) in this regard, revealing that Trump's lack of interest in the fight against climate change, or in

environmental protection, also extends to his attitude toward multilateral energy cooperation.

The risks to US energy security stemming from this unilateralism nearly materialised in August with the arrival at the shores of Texas of Hurricane Harvey, which paralysed the offshore production of the Gulf of Mexico and the shale production of Eagle Ford, as well as nearly 30% of the refining capacity of the country. The impact on prices, and the related scenarios of shortages, were only temporary, but they produced some fear of a repeat of the situation in 2005 when Hurricane Katrina obliged the US to appeal to the solidarity of the members of the IEA to release some of their strategic reserves. Although in the end it was not necessary to call on the cooperation mechanisms of the IEA, the mere possibility of having to do so placed the unilateralism of Trump, along with its contradictions, plainly in disturbing view of the mirror. Tensions with multilateralism have also been apparent in the commercial field: the White House will need to decide before the end of January whether or not to apply additional tariffs or other commercial measures to the imports of Chinese solar panels. The first protectionist decision of President Trump could in this way affect the whole of the energy sector. Other cases related to the energy sector remain unresolved, like the commercial tariffs facing imports of steel (used in oil and gas pipelines) or the implications of an eventual renegotiation of NAFTA.

It must be clarified that what explains US energy leadership is not energy nationalism as much as an energy ecosystem characterised by deep markets that stimulate business dynamism in both hydrocarbons and renewable energies. The impressive increase in the production and **export of US crude oil** illustrates perfectly the limits to energy isolationism of the kind proposed by Trump's campaign. In 2015 the Obama Administration eliminated the ban on petroleum exports, a decision which candidate Trump opposed, but during 2017 a wave of oil exports was unleashed. It is true that part of this increase was due to the effects of Hurricane Harvey, which forced crude oil to be exported in the face of widespread refinery closings, but the data continues to be revealing: between January and June of 2017 the US exported on average 750,000 barrels a day of petroleum, a figure which was doubled during the last quarter of the year and which made the country one of the largest oil exporters in the world. Production levels are also rising, and with the higher price ranges now expected for oil, the projections for 2018 continue to rise. The policies which have produced this phenomenon were already in place before the arrival of President Trump, and despite having campaigned in favour of returning to the prohibition against US petroleum exports in the name of 'America First', it is one of the few star measures from his campaign program that has been forgotten in practical terms, and even rhetorically. This absence is probably the most notable and revealing limitation of his America First Energy Plan.

In business terms, the most relevant measure arrived at the end of last year, when Congress approved a **tax reform** which reduced the tax rate on companies from 35% to 21%, with energy companies among the principal beneficiaries. In addition to a reduction in the tax rate, the tax legislation allows for the deduction of capital invested in the year in which the investment is made, which will lower even further the tax burden on the energy sector, stimulate investment and push up business profits. In the field of renewable energy, one of the great fears of the sector has been the future of the

renewable energy tax incentives, which finally were preserved and have now contributed to moderating uncertainty with respect to the future of renewables. This business component of the America First Energy Plan, and not its unilateralist, protectionist and fossil fuel rhetoric, is what rescues the first year of the energy policy of President Trump. It remains to be seen up to what point this component is capable of resisting the tensions between different business interests. At a certain point, the Trump Administration will need to decide whether to honour campaign promises or to follow the dynamics of business and the market, as well as those of the domestic (and multilateral) institutions which shape the realities facing US energy policy.