

Macro Focus

A key election for the planet

- ▶ Climate policy a major difference in Trump's and Biden's agendas
- ▶ Biden's plan includes large green investments but no carbon tax
- ▶ A Democrat victory would support green tech industries globally

The political agendas of Donald Trump and Joe Biden are in some ways not that different. For instance, both are expected to run an expansive fiscal policy in the aftermath of the crisis and the political rifts with China are not going anywhere. On climate policy, however, the candidates have radically different objectives. Trump would continue to dismantle environmental regulations, promote fossil fuels, and keep the US a passive actor in global climate policy.

Biden would promote large green investments and more stringent emission standards for fuels and the power sector. Biden would also contribute to renewed momentum in global climate efforts. His policies could lead to a green technology race with China, which would support innovation and growth globally.

US emissions' pathway after the crisis depends on who's in charge of policy

CO₂-emissions, semiannual, metric tons, million



Sources: EIA, Swedbank Research & Macrobond

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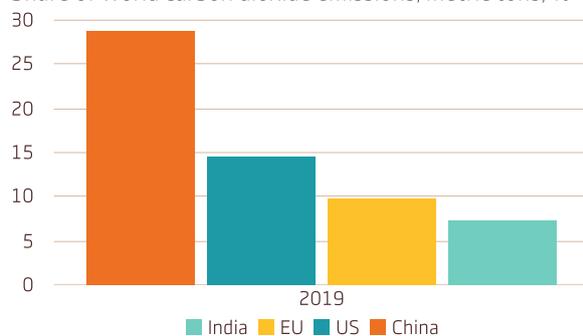
Trump has done his best to undermine climate action

During his Term in office, Trump has pulled the US out of the Paris agreement, revoked a host of environmental regulations, notably Obama's Clean Power Plan, and done his best to support the fossil fuel industry. His campaign plan points at similar ambitions on his second term. Markets, however, seem to be on another route. Despite Trump's policies, coal power generation continued to decline over his presidential term, replaced by cheaper natural gas and, to some extent, renewables.

A second term for Trump could, however, have more dramatic effects than the first. So far, the rollback of environmental regulations by his administration has been met by several lawsuits, and a second term would make it more likely that the changes would eventually pass. The Trump administration would also have another chance to push through policies reducing the autonomy of states in environmental policy. Many states have enacted their own, more ambitious climate policies; this could undermine their efforts

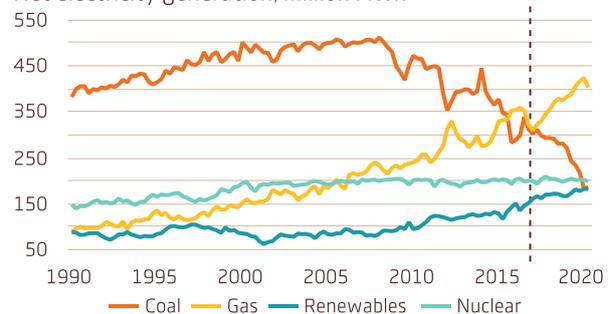
The US is the world's second biggest emitter

Share of world carbon dioxide emissions, metric tons, %



US coal use has declined despite Trump

Net electricity generation, million MWh



Biden envisions large green investments

Biden has a climate agenda with more ambition than the efforts of the Obama administration. In his July 2020 plan, Biden announced targets of net-zero US emissions by 2050 and a zero-carbon power sector by 2035. He promises federal green investments worth USD 2 trillion (9.2 percent of GDP) over his first four-year term. The plan points out areas such as clean energy, electrification, the train network, energy efficiency improvements in buildings, and the development of green technologies. A share of USD 400 bn has been specified to target federal public procurement of clean energy technologies.

If all the planned investments would be directed to green areas, they could add up to a green stimulus plan more ambitious in scope than the measures announced in the EU so far.¹ Although the investments have been flagged as green in the US media, however, classical infrastructure projects such as road repairs are also mentioned in the plan. Nevertheless, the 400 bn specified for clean energy would already be double the total US clean technology investments in the past four years (BNEF data, 2020). The plan stresses jobs creation and aid to disadvantaged communities. It also includes greener standards for fuels and the power sector and strengthened tax credits for energy efficiency and clean energy.

How much of the candidates' agendas that will actually materialize also depends on which, if any, party controls the Congress: Biden's plan would meet stern opposition from Republicans and the large investments would only be possible to implement if the Democrats gain control of the Senate. The president does have autonomous powers in issues such as international agreements, however. Biden would also be able to work around some issues using executive orders, as Obama did previously to implement power sector emission standards.

¹ including the planned recovery fund and long-term budget, using estimates by BNEF, 2020.

Carbon pricing: a missing item on Biden's agenda

Carbon pricing does not feature in Biden's most recent climate plan, even though Biden commented in support of carbon pricing last year. This is a shortcoming of Biden's plan, as it does not contain broad-based, direct incentives for emission reductions. The planned measures would still reduce emissions via greener infrastructure and fuel and electricity standards. If the latter are set in line with the target of a zero-carbon power sector by 2035, the effects would be considerable, given that the power sector accounts for around 27% of US emissions. Stricter fuel standards could cut emissions from transport and the industry, but their ambition level is left to be negotiated with stakeholders. Industrial process emissions are left largely unaddressed apart from R&D spending.

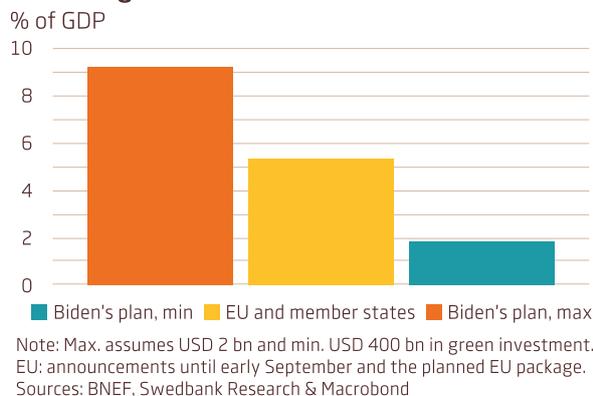
Carbon pricing has become a less important item on the Democrats climate agenda, in favour of policies such as public infrastructure spending. The corona crisis has likely amplified concerns over the economic and distributional effects of carbon pricing. Biden's current plan is only a campaign document, however, and carbon pricing may have been left out deliberately to prevent attacks by Trump. Carbon pricing could be put back on the table in the coming years, but this will likely take some time. To the rest of the world this means that US carbon tariffs will not become reality in the near future.

Biden's victory would support green tech industries globally

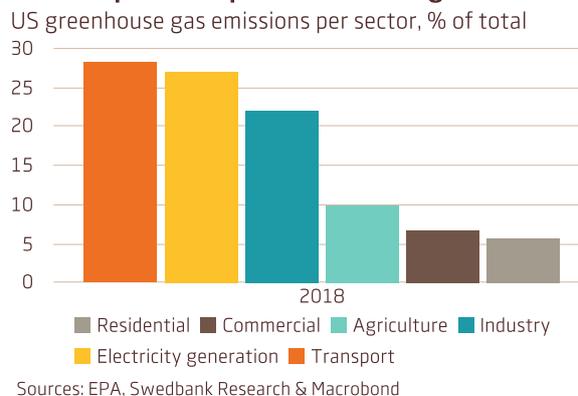
The US accounted for around 15 % of annual global carbon emissions and was the second biggest emitter in the world after China in 2019. US climate policy therefore has a large direct effect on global emissions. Before the dip caused the corona crisis, US emissions had developed sideways, ending a declining trend during Obama's terms in office. It seems safe to say that if Biden is elected, he would contribute to a lower emission path than Trump, although this partly depends of the composition of the Congress.

Biden's climate plan stresses the importance of domestic green technology production and innovation with a protectionist tone. Regardless, his envisioned investments are bound to support technology imports as well. Biden's climate policies would hence support green technology development both in the US and globally. The US accounted for around 8% of Sweden's goods exports in 2019 and placed 5th in a ranking of the export markets of Swedish established environmental businesses.² Sweden has established international companies in areas such as energy efficiency, smart grids, and green transport and Swedish businesses are therefore in a good position to gain from Biden's green investment plans.³

Planned green stimulus in the US and EU



US transport and power sector big emitters



² IVL, 2019. Based on data from the years 2010-2014.

³For more information on the Swedish environmental sector see our macro focus "[Kina, Indien och gröna exportmöjligheter](#)" (in Swedish).

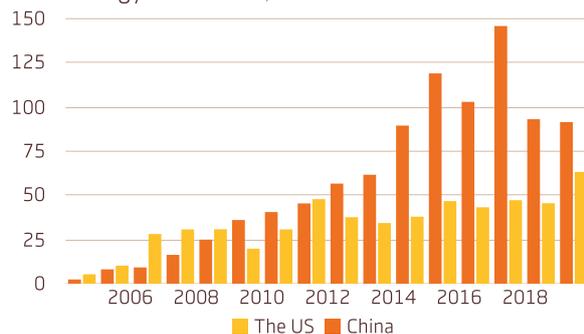
Competition between China and the US would benefit global climate efforts

Biden has pledged to re-join the Paris accord and would likely again make the US an active participant in global climate negotiations. After Trump's victory China has presented itself as a leader in the climate arena, and recently announced a new target of reaching carbon neutrality before 2060. However, the latest years' policy record is mixed when it comes to climate and China's climate plan still lacks specifics. A more active White House could promote high ambition in China as well, like the EU has been doing. At the same time, climate policy would offer an opportunity for cooperation in an otherwise inflamed political situation. Climate action could also become an area of competition for soft power.

As importantly, active US green industrial policy would push strategic competition. Over the last decade, green investments in the US have lagged far behind China, where the industry has been seen as important for global competitiveness. Biden's climate agenda would lead to increased emphasis on domestic green technology development in the US as well. This could trigger a technology competition between the two countries, not unlike the space race of the Cold War time. Such a race could spur innovations, enable a faster transfer to zero-carbon economies and, in turn, boost global growth.

China has had higher clean energy investment

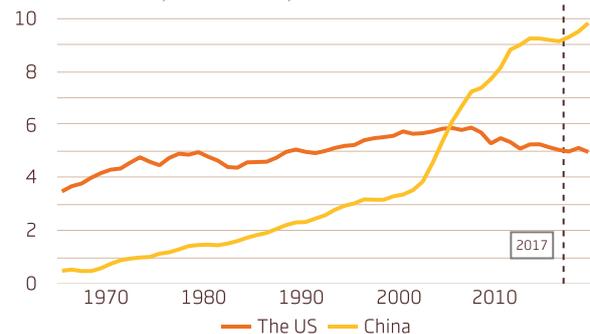
Clean energy investment, bn USD



Sources: BNEF, Swedbank Research & Macrobond

China's emissions have kept on climbing

CO2 emissions, metric tons, billion



Sources: BP, Swedbank Research & Macrobond

Sources:

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