

Trump 2.0 in the First 6 Months and International Energy Situation

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As symbolized by massive executive orders issued immediately after its inauguration, the U.S. Trump 2.0 administration has conducted energetic policy implementation with tremendous momentum, shaking the world with major policy shifts in key areas and the development of bold and powerful policy initiatives. In early August, or more than half a year after the inauguration, Trump 2.0 policy trends still attract global attention.

Regarding the Trump tariff issue, which has rattled the world economy since the tariffs were announced in April, new tariff rates were implemented on August 7 based on the results of the negotiations with major U.S. trading partners, including Japan. The Trump 2.0 administration has imposed a flat 10% tariff on all countries and even higher reciprocal tariffs for correcting U.S. trading partners' trade deficits with the United States and the "unfair trade practices". This Trump 2.0 approach was taken as demonstrating a full-blown trade policy change by the United States, which had remained a free trade leader for a long time, sending shockwaves through the global economy. As the global economic unrest was coupled with triple declines in U.S. stocks, bonds, and the dollar in a manner that raised concerns about the future, Trump 2.0 was forced to give due consideration to the U.S. economy. Under these circumstances, negotiations with each U.S. trading partner continued toward the U.S.-set deadline of August 1. As noted above, lower tariff rates than initially proposed levels were introduced from August 7, based on the negotiations.

Under an agreement with Japan, the reciprocal tariff rate was reduced to 15% from the initially proposed 25% in response to Japan's offer to invest \$550 billion in the United States. Under agreements with the European Union, South Korea, Japan, and other U.S. trading partners with which the United States runs trade deficits, reciprocal tariff rates were cut from initially proposed levels in exchange for their offers to make massive investments in the United States and purchase U.S. goods. The reduction in tariff rates from initially proposed levels has made the market feel relieved, easing concerns about the future of the global economy. The stark fact, however, is that tariff rates have increased significantly from levels before the Trump 2.0 administration was kicked off. The existence of higher tariff rates will pose various challenges for the entire global economy and all countries, including the United States.

Even after the implementation of new tariff rates, it is pointed out that details of bilateral agreements are not necessarily clarified, leaving uncertainties about how these agreements would actually be implemented. On the other hand, the U.S. side has vowed to regularly check progress in efforts under bilateral agreements, indicating that tariff rates may be raised unilaterally if the United States deems progress insufficient. The future course of the Trump tariff issue, including the impact of new tariff rates, is expected to continue to affect the global economy as a destabilizing factor in the future.

In regard to President Donald Trump's foreign and security policies, the significant

escalation of military tensions over Iran that broke out in late June has attracted the most attention from the world. Following Israel, the United States itself directly attacked Iran's underground nuclear facilities in a shocking event, raising concerns about a dramatic destabilization of the Middle East. Eventually, Iran, which seemingly wanted to avoid any full-scale war with the United States from the perspective of maintaining its regime, retained a restrained stance while implementing a limited retaliatory attack, leading to U.S.-Iran nuclear talks without causing any significant further confrontation so far. Since then, the Trump 2.0 administration has focused on the Ukraine issue, intensifying diplomatic efforts for a ceasefire and peace between Russia and Ukraine. President Trump indicated the possibility of tightening economic sanctions to put pressure on Russia, which was seen as slow to move towards a ceasefire and peace. In order to narrow down oil revenues as a main artery of the Russian economy, he has announced a policy to impose secondary tariffs on China, India, and other buyers of Russian energy sources, including oil. Along with the future course of the abovementioned Iranian situation and EU plans to increase pressure on Russia, the Trump 2.0 plan to toughen sanctions against Russia may affect the stability of the international energy market. Regarding Russia, the world will watch the August 15 U.S.-Russia summit with bated breath.

The Trump 2.0 administration's energy policy gives top priority to "Energy Dominance" to take maximum advantage of the United States' huge energy supply potential for U.S. economic prosperity and national interests. As indicated by many executive orders issued for the energy dominance initiative, the administration has promoted relevant measures as part of its priorities. These measures include initiatives to promote a massive increase in oil and gas production, as symbolized by President Trump's "Drill, Baby, Drill" slogan. Despite the slogan, however, it has become clear that any large oil or gas production increase will not be easy. The biggest point in this regard is that U.S. oil and gas producers are private companies that give top priority to economic principles and make necessary investment decisions based on the reality in the business environment. In the reality of the business environment, lower oil prices due to the effects of the Trump tariff issue, among others, have exerted downside pressure on the global economy.

In the past four months, excluding periods when oil prices shot up momentarily due to the impact of the Iran situation, the benchmark West Texas Intermediate crude oil price has remained in the range between \$60 per barrel and \$70/bbl. Under the oil price situation, U.S. oil production in particular has lost its upward momentum. According to the U.S. Energy Information Administration's short-term energy outlook released in July, U.S. crude oil production will increase slightly from 13.2 million barrels per day in 2024 to 13.4 million bpd in 2025 and level off at 13.4 million bpd in 2026. Although the Trump 2.0 administration had expected an oil supply expansion under the "Drill, Baby, Drill" slogan to lower gasoline prices, the tariff issue, among others, has worked to lower crude oil prices, bringing about a negative impact on a supply expansion. If oil prices rise for some reason, investment may expand to increase production in the United States in the next several months. Due to such a time lag, U.S. oil production will fail to make any quick response to crude oil price hikes caused by geopolitical risks. Only oil-producing countries with huge surplus production capacity, such as Saudi Arabia, can make a quick response. This is why Saudi Arabia's presence and importance are increasing from the viewpoint of the United States and the rest of the world under the Trump 2.0 administration.

Another point that has attracted attention in regard to the Trump 2.0 energy policy has been how clean energy investment subjected to strong promotion by the previous Biden administration's Inflation Reduction Act, will be revised. In this regard, the "One Big and Beautiful Bill Act (OBBA)" signed into law by President Trump on July 4 substantially cuts funding for tax credits and other measures for promoting clean energy investment support measures in order to secure financial

resources for large tax cuts, a top priority for the Trump 2.0 administration. The OBBBA is designed to reduce or repeal clean energy investment support measures, excluding those for CCS (carbon capture and storage) and clean fuel technologies, which potentially can go well with the oil and gas industry as a priority sector of the Trump 2.0 administration, as well as nuclear energy, emphasized as a strategic priority by the administration. Funding is cut for electric vehicles and other clean vehicles (in the retail sector), wind and solar power generation (in the electric power sector), and renewable energy parts production (in the manufacturing sector). The OBBBA also includes tougher regulations on foreign investment from the perspective of economic security. In the United States under the Trump 2.0 administration, investment in the clean energy sector, including renewable energy and EVs, will slow down, widening a gap with China that seeks to enhance dominance in clean energy supply chains. In its first six months, the Trump 2.0 administration has developed policies that have a significant impact on the energy situation in the United States and around the rest of the world. In the future as well, Trump 2.0 policies will continue to attract global attention.

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