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ANALYSIS: Pyrrhic victory for Biden entails trade-offs on climate, energy, Iran
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[1]

Democrat hopeful Joe Biden is within a hair's breadth of winning the US presidency, but unless there is a shock last-minute 'blue wave' that sees Democrats seize Congress, a narrow victory will not herald the clean energy revolution Biden campaigned upon. The Republicans are set to retain control over the Senate, allowing them to stymie efforts to bankroll Biden's clean energy revolution, while talk of curbing fracking and rapprochement towards Tehran seem unlikely to be prioritised in the face of more pressing domestic matters under what is shaping up to be a 'lame duck' Biden presidency.

At the time of writing, Biden had won 264 of the 270 electoral college votes needed to win the White House, with incumbent Donald Trump trailing at 214. The Democrats held 204 of the 216 seats needed to retain control of the House of Representatives, with the Republicans trailing at 190 seats. There could be fewer blue seats and thus a thinner Democrat majority in the lower house.

In the Senate, the two parties are currently tied with 48 senators apiece, leaving the Democrats needing to win three more to secure a majority in the 100-seat upper house. This would involve unseating incumbents in Alaska, Georgia and North Carolina, which early vote count reporting indicates is unlikely to happen.

Assuming Biden takes White House and Republicans retain the Senate, the Democrats are more likely to pursue a moderate energy policy agenda focussed on incremental emissions improvements rather than wholesale market changes at a federal level. A divided Congress also quells hopes of a stimulus bill appearing in the short term, while green energy advocates are openly pondering whether solar and wind

energy tax credits extensions could be appended to 'must-pass' spending bills.

Standing on the Democrats' most radical climate platform ever, Biden had proposed a USD 2 trillion climate-energy-infrastructure stimulus package designed to put the US on course to net-zero emissions by 2050 and a carbon-free power sector by 2035 and create millions of US 'green' jobs along the way.

This would have invested USD 400 billion of federal taxpayer cash in hydrogen, renewables, small nuclear reactors, battery storage and carbon capture technology. Appropriations require Congressional sign-off so would be fiercely contested, although bipartisan agreement might be found on CCS and modular atomic power generation.

If Biden assumes office and passes executive orders banning oil and gas drilling on federal lands or reinstating Obama-era methane checks that Trump rolled back, these could be challenged in the courts. Aggressive methane regulation is a key Biden pledge, and among the most likely to be pursued by a hamstrung Democratic president who has made bipartisan deal-brokering a hallmark of his lengthy political career.

A bipartisan approach will inevitably revive the 'all-of-the-above' energy policy pursued by Obama that led to huge increases in shale oil and gas production. An obvious trade-off for support to green energy and decarbonisation initiatives would be leniency towards fossil fuels, using the federal government's overarching priority to save jobs in the Covid-19 era as the justification.

Persian riddle

Biden could, on his first day in office, pass an executive order to re-join the 2015 Paris climate accord that the US officially quit yesterday. However, the US would at some point have to submit a Nationally Determined Contribution (NDC) setting out how it would contribute to limiting global heating to 1.5-2 degrees above pre-industrial levels. The NDC would need Congressional approval, which would open a key battleground for Republican resistance to federal support for clean energy or curbs on fossil fuels.

Several major oil and gas stocks rose yesterday while shares in clean energy companies fell, seemingly reflecting this sentiment. Chevron, ExxonMobil and ConocoPhillips all made marginal gains while NextEra Energy and Vestas shares both fell by 3.5%.

There is some logic to this, particularly in light of Brent crude's mini-rally [2] before the election and during the first full day of vote counting. However, it might fail to reflect a much greater threat to oil stocks: a Biden administration easing sanctions in Iranian oil exports, allowing Tehran to flood a delicately-balanced global crude market.

Biden has pledged to re-join the Joint Comprehensive Plan of Action (JCPOA) that the Trump administration quit in 2018, subject to Iran meeting its nuclear obligations under that multilateral pact with China, Russia, Germany, France, the UK and the European Union.

The extent to which this would depress oil prices is open to debate. Iranian oil continues to enter the market in contravention of sanctions, according to reports, aboard 'ghost' tankers that have deactivated GPS transponders in order to engage in illicit crude trade. China is believed to be the biggest buyer of sanctioned Iranian crude, it is understood. The oil price impact would hinge on whether lifting sanctions on Tehran leads to a material increase in Iranian physical volumes in the market, as opposed to illicit cargoes merely being traded openly once again.

Of course, easing Iranian oil sanctions would not top the list of priorities of a Biden administration, and

would come with strings attached – if at all.

In September, Biden wrote in an op-ed for CNN that he would “offer Tehran a credible path back to diplomacy” and rejoin the JCPOA only if Iran “returns to strict compliance with the nuclear deal”. On sanctions, his priority is to ensure the US does “not hinder Iran’s fight against Covid-19”. Biden would also lift Trump’s “disgraceful” travel ban targeting Muslim-majority countries.

Moreover, Trump recently tightened Iranian sanctions under US anti-terrorism rules, which reportedly means they could be harder to undo than those already imposed against Tehran. This essentially ends any remaining prospect of foreign investment in Iran’s energy sector by entities averse to exposure to US sanctions – which even includes Chinese state oil majors such as CNPC [3].

In light of the chastened Democratic mandate in the lower house and probable narrow Biden presidential win, a seachange in US foreign policy towards Iran or, for that matter, China seems less likely than under the counterfactual blue wave. It stands to reason that a hamstrung Biden administration would prioritise more urgent domestic matters relating to Covid-19 and US economic recovery, and in a way that seeks to garner Republican support in the Senate. - SK

The views contained in this article are solely those of the editor and do not necessarily reflect those of Gas Strategies.



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