

California v. Trump 2.0: Navigating Policy Collisions and Business Opportunities

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TAKEAWAYS

- ⌚ Under the new administration, businesses will need to navigate increasing numbers of conflicting federal and state regulations, particularly in energy, environmental standards and AI governance.
- ⌚ Gov. Newsom's \$25 million litigation fund signals California's intention to challenge federal rollbacks. Businesses should anticipate legal uncertainty but also opportunities to align with evolving state standards.
- ⌚ Opportunities abound to shape emerging regulations, especially in California, where the state's progressive policies may set national and global standards.

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As President Trump embarks on his second term and California begins the second year of an already active legislative cycle, a high-stakes battle is brewing. The Trump administration's aggressive deregulatory agenda is poised to clash with California's stringent regulations in critical areas such as **energy, environmental standards, taxation and artificial intelligence (AI) governance**. This evolving landscape is already having impacts beyond the borders of California and presents both risks and opportunities for businesses operating across these dual regulatory frameworks.

ENERGY AND ENVIRONMENTAL POLICY CONFLICTS

Trump 2.0 Agenda:

- **Rollback of Clean Energy Incentives:** Plans to cancel and/or claw back clean energy tax incentives under the Inflation Reduction Act (IRA), potentially reducing renewable energy investments by \$350 billion over the next decade.

- **Promotion of Domestic Fossil Fuels:** Emphasis on fossil fuel exploration, repeal of offshore wind leasing, and scaling back of solar and wind credits. The administration's withdrawal from the Paris Climate Agreement further underscores this shift.
- **EPA Deregulation:** Led by Administrator Lee Zeldin, EPA is expected to prioritize industry-friendly rulemaking, rolling back Biden Administration vehicle emission standards and climate disclosure mandates.
- **Cutting Agency Budgets and Staffing:** Led by DOGE and Elon Musk, the Administration is looking to slash EPA budget by 30%+, offer buyouts for many employees and reclassify more staffers into at-will positions to make future reductions in force easier.

California's Response:

- **Doubling Down on Clean Energy:** California will continue to mandate renewable energy and low-carbon fuel standards, expand cap-and-trade programs, and introduce mandatory climate disclosures to be enforced against large corporations across the globe.
- **Anti-Fossil Fuel Agenda:** Continued aggressive regulations to discourage oil and gas exploration and refining in the state, restrict fossil fuel supplies/imports
- **Fusion & AI-Driven Energy Innovation:** California aims to become a global hub for fusion energy and AI-driven clean tech solutions, with legislation advancing decarbonization and technological leadership.
- **Strategic Litigation:** Governor Gavin Newsom's **\$25 million litigation fund** is poised to attack Trump environmental policies, and won about 80% of its more than 120 lawsuits against the first Trump administration.

What to Watch For:

- **Battles Over Vehicle Emission Standards:** The Trump administration will seek to deny/rescind federal Clean Air Act waivers that allow California to enforce its own stricter vehicle emissions standards nationwide, creating uncertainty for global automakers on whether California standards will continue to be enforceable.
- **Climate Disclosure Conflicts:** California's **SB 253** and **SB 261** will mandate climate disclosures for most global companies starting in 2026, potentially setting the stage for additional legal battles in wake of Trump's rollback of SEC climate disclosure regulations.
- **Water and Wildlife Protections:** Trump's promises to increase water access for California agriculture and fighting wildfires could lead to federal challenges of the state's environmental protections, particularly concerning endangered species like the Delta smelt.

TAXATION POLICY

Trump 2.0 Agenda:

- **SALT Deduction Repeal:** Plans to modify the **\$10,000 cap on state and local tax (SALT) deductions**, addressing concerns raised by Republican Members of Congress representing districts in high-tax states like California. However, internal GOP resistance from fiscal conservatives over deficit concerns could

stall this initiative.

California's Response:

- **Balancing Opportunities and Risks:** While SALT repeal/reform could provide short-term tax relief for California residents, state leaders remain cautious about broader federal rollbacks in tax benefits related to health care, environmental programs and education funding.

What to Watch For:

- **Impact on State Revenues:** California must strategize how to leverage potential SALT benefits while mitigating the effects of reduced federal funding in other key sectors.
- **Fiscal Uncertainty:** Businesses should prepare for fluctuating tax environments, especially if federal tax reforms impact state funding mechanisms.

AI GOVERNANCE—DIVERGING PATHS

Trump 2.0 Agenda:

- **Private Sector Focus:** Emphasis on voluntary industry standards and global competitiveness, potentially reducing oversight on AI safety, transparency, and ethics. The Trump administration seeks to position the U.S. as the global leader in AI innovation without restrictive regulations.

California's Response:

- **Leading AI Governance:** California has enacted 18 new AI laws that emphasize transparency, data privacy, and ethical AI use. Look for new legislation in 2025 to establish new benchmarks for AI accountability, transparency, and data sharing.
- **Business Compliance Strategies:** Companies operating in California must adapt to these evolving AI regulations while balancing federal deregulation efforts. This presents opportunities for businesses to lead in ethical AI practices.

OPPORTUNITIES IN FUSION ENERGY DEVELOPMENT—A BIPARTISAN AVENUE

Despite these regulatory clashes, **fusion energy development** represents a rare area of bipartisan alignment:

- **California's Fusion Innovation:** Home to 80% of the world's AI companies and leading fusion innovators like the **UC System and General Atomics**, California is positioned at the forefront of fusion energy advancements.
- **Federal Alignment:** Both state and federal entities recognize fusion energy's potential to achieve U.S. energy independence and technological superiority.

What to Watch For:

- **Collaborative Investments:** Businesses in the clean tech and AI sectors should look for funding opportunities and policy incentives that align with both California's and the federal government's shared interest in fusion energy.

What All of This Means for Businesses:

1. Prepare for Uncertainties in Light of Increasing Conflicts Between Federal and California Regulatory Frameworks

Businesses must develop flexible compliance frameworks to navigate the increasingly conflicting demands of California's progressive policies and federal deregulation, particularly in environmental standards, AI governance, and taxation.

2. Engage in Policy Discussions

Companies should participate in public comment opportunities and partner with organizations like the AI Trust Foundation to shape regulatory landscapes in ways which align with their business goals.

3. Opportunities in Clean Energy and Fusion

Energy offers a rare bipartisan avenue for collaboration, with potential funding and policy incentives at both the state and federal levels. Businesses in the clean tech and AI sectors should position themselves to capitalize on this convergence.

Pillsbury can help you bridge the complex regulatory landscape between California's progressive policies and Trump's deregulatory agenda. With deep roots in **AI governance**, **energy law** and **environmental compliance**—and strong connections on both coasts—our team is uniquely positioned to guide businesses through this challenging environment.

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