

Intelligence MEMOS



From: Brian Livingston
To: Tariff Watchers
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Re: **QUANTIFYING US BENEFITS FROM CANADIAN CRUDE OIL EXPORTS**

We still don't know if, when, or how steep Donald Trump's tariffs are going to be, but it's not hard to tease out the effect of several scenarios.

Canada's oil and gas export to the United States in 2023 were worth roughly US\$100 billion, with the result that the US has a [trade surplus with Canada of US\\$50 billion in all other goods](#) and services. Crude oil exports have increased in 2024.

Most of this crude is heavy and very viscous. This higher viscosity results in a lower price than the current benchmark West Texas Intermediate (WTI) price of about \$74 per barrel. The lower price compensates refiners for the additional capital investment required to process heavy Western Canadian Select (WCS) crude into gasoline, diesel and jet fuel.

This heavier Canadian crude is delivered to refineries in Minnesota, Wisconsin, Illinois, Colorado, Louisiana and Texas. The expansion of the TransMountain pipeline has led to additional sales to US West Coast refineries. The common denominator of most of these refineries is that they have made significant capital investments in equipment to refine this heavy Canadian crude. Refining engineering 101 also says that it is not possible to refine the lighter oil produced from the US Permian Basin in Texas and New Mexico without heavy capital investment to reverse the heavy crude capability.

This context creates a further and less obvious benefit to the US. The [4.4 million barrels per day imports](#) from Canada permit the US to export a corresponding 4.4 million barrels per day of light oil, [mostly from the Permian Basin](#). Since Permian oil is light oil, it receives the benchmark WTI price of US\$74 per barrel. This results in annual exports from the US of US\$119 billion. These light crude oil exports to countries in Europe and elsewhere help the US reduce its trade deficits with those countries, and maybe even to achieve a trade surplus.

In simplest terms, the US buys Canadian oil at a discount and exports at full price, which currently yields a US\$19 billion annual windfall.

Can the US Replace Canadian Oil?

If President Trump's view that the US does not need Canadian oil prevails, then the US will have to find another source of feedstock for its refineries.

Venezuela and Saudi Arabia export heavy crude, but not enough to make up for Canada's supply. This would also require major pipeline reconfiguration because pipelines to refineries in the north and Midwest do not flow north.

A second possibility is to replace Canadian heavy crude with lighter Permian crude. This will require significant new capital investment that will take time to implement. In addition, using Permian crude domestically instead of exporting it will eliminate the \$19 billion per year benefit.

What Happens if Tariffs are Placed on Oil Exports?

With 25-percent tariffs on Canadian exports announced on February 1st, the president indicated that 10-percent tariffs could potentially be applied to the 4.4 million barrels per day of crude oil exports from Canada to the United States.

If this ever comes about, what happens here really depends on who pays for the tariffs. The answer will usually depend on the relative bargaining strengths of the two parties to the transaction.

Looking at geography, Midwestern US refiners would [have few alternative sources of supply](#). Pipelines from tidewater on the Gulf Coast do not flow south to north, and there is little or no US sourced crude production in that area.

Gulf Coast refiners do have some bargaining power. They could import heavy Saudi or Venezuelan crude. Alternatively, they could access light crude from the Permian Basin, which would present difficulties since their refineries currently are designed to refine heavy crude.

Scenario 1 is that the sale price remains at \$60 per barrel. The 10-percent tariff would be \$6 per barrel and would be paid by the importing refiner. The Canadian exporting company would remain unaffected and continue to receive the \$60 per barrel. The refiner's cost would increase to \$66 per barrel, and it would have to eat the cost or pass it on to consumers. Midwestern refiners may fall into this category.

Scenario 2 is that Canadian producers pay the 10-percent tariffs and their return drops to around \$54 a barrel. It appears that this is how President Trump believes matters should and will play out, and it is perhaps why he has applied a lower tariff rate to Canadian energy imports. Some refiners on the Gulf Coast with access to other sources of heavy crude at \$60 per barrel may be able to achieve this result.

Scenario 3 is that the Canadian exporter and American importer saw off the difference, say at \$57 per barrel. The tariff is shared by both parties. The importer's total price is \$63 per barrel, and the exporter's sale price is \$57 per barrel. In effect, the importer pays \$3 of the tariff, and the exporter pays the remaining half. This outcome may play out for other Gulf Coast refiners.

Future events will show how these scenarios play out. In particular, it will be interesting to watch the futures market in Western Canadian Select heavy crude.

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