
Experts see few winners if US enacts tariff on Canadian oil, gas imports

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By Bill Holland
Commodity Insights

Canadian officials are meeting with US President-elect Donald Trump on the eve of his inauguration with the hope of getting him to back off of a proposal to [enact a 25% tariff](#) on \$1.2 billion per day of Canadian exports to the US, primarily oil and natural gas.

A tariff of that size on Canadian oil and gas would be passed on to US consumers in the form of higher gasoline prices, according to Canadian government officials and energy policy and trade experts. Canada still produces the heavy crudes processed by older US refineries, primarily in the Midwest, and there are no readily available substitutes.

After meeting with Prime Minister Justin Trudeau on Jan. 15, Canada's provincial premiers issued a warning that Canada could retaliate by imposing counter-tariffs on US goods. The premier of Alberta, Canada's most prolific oil and gas producer, broke ranks and urged continued talks with the US, which is the province's largest customer.

Alberta charts its own course

"Alberta will simply not agree to export tariffs on our energy and other products, nor do we support a ban on exports of those same products," Alberta Premier Danielle Smith said in a statement after the meeting of ministers. She said Canada should use the moment to invest in its energy infrastructure so it can diversify its customer base.

Smith lobbied Trump at his Mar-a-Lago club Jan. 12 and plans to attend his Jan. 20 inauguration.

Observers do not agree on whether Trump will actually order the tariff or if he is using the threat in an opening bid for negotiation. Many doubt Trump will stick with a measure that will raise gasoline prices or result in a retaliatory embargo of electricity destined for New York and New England.

The energy policy analysts at ClearView Energy Partners think a tariff feud is brewing, and they do not see a winner.

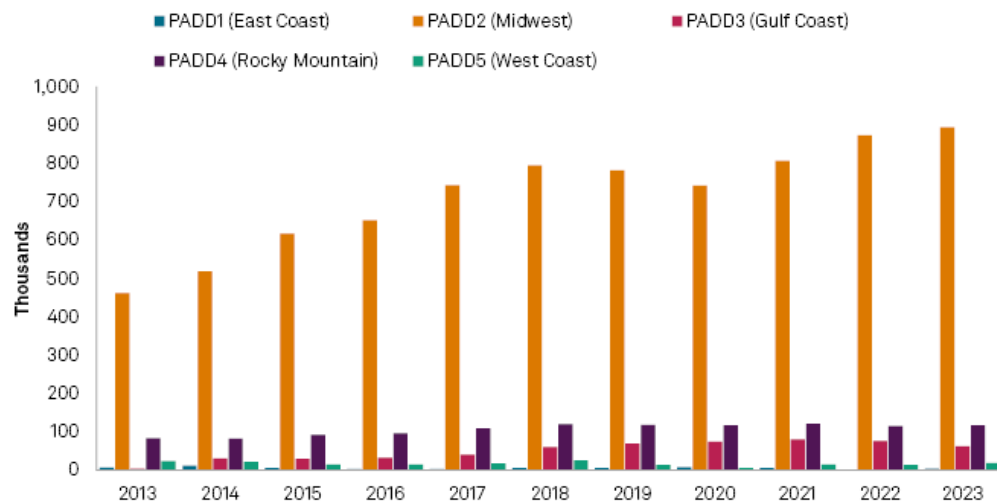
"Pundits have opined that Trump merely plans to use tariffs as a negotiating tool, and that threats are unlikely to be realized," ClearView said. "We would not be so sure."

Canadian retaliation could hurt US

"A retaliatory Canadian cutoff of power exports to New England could have a severe impact given the region's import reliance," ClearView told clients Dec. 20. Meanwhile, the Midwest, Rocky Mountain and West Coast regions "rely significantly on Canadian gas imports."

"If the levies proceed and survive legal challenges, we think Canada — and maybe Mexico — could win eventual exemptions for energy products," ClearView said. "But before that happened, tariffs might remain in force for weeks to months."

Canadian heavy crude oil destinations in the US



Data accessed Jan. 15, 2025.

Source: US Energy Information Administration.

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Analysts at Morningstar said they do not think any tariff will last long in the face of public pressure over higher gasoline prices. "We believe the new administration will face considerable backlash from US consumers regarding tariffs placed on [oil and gas] exports from Canada," they said.

"Under ordinary circumstances, the threat of such tariffs from Canada's single largest customer would be a cause for serious concern; however, there is a degree of skepticism about whether the incoming administration will follow through on its threat," Morningstar said. "Even if the US were able to increase its domestic production, it is unlikely to meaningfully replace crude oil imports from Canada."

Canada has options, Morningstar said. "We believe that stronger balance sheets, along with the [Trans Mountain pipeline expansion](#) and the start-up of [LNG Canada](#), place the Canadian [oil and gas] industry on firmer footing to deal with tariffs relative to the last time Trump was in office."

The tariff question dominates the discussion, said Usha Haley, the chair of the W. Frank Barton School of Business at Wichita State University in Kansas, and it introduces the bane of any business leader: uncertainty. "The point is, he is the most powerful guy in the world, and people are hanging on his every word," Haley said in an interview. "And they don't like not being able to plan, which is what he is doing: roiling the waters constantly."

"I'm not sure how it will all shake out," Haley said. "I find it very difficult to believe that his first two days in office are going to be overturning the existing order."

Trudeau remained in Ontario on Jan. 16, standing up an 18-member Council on Canada-US Relations to advise him on Canada's next moves.

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