Trump's Tariffs Put American Energy Security In Question

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President Donald J. Trump announced 25% tariffs on both Mexico and Canada (except for certain items such as energy, where the tariff will be only 10%), and an additional 10% tariff on China, citing fentanyl as the main justification for the tariffs.

Immediately, Canada and Mexico retaliated, placing their own levies on American products. As the new week dawns, reports are that the numerous hedge funds are placing bets on a massive stock market collapse, with some fund managers even suggesting the possibility of a new economic depression.

For President Trump, one major paradox of these tariffs is that they will now increase price uncertainty in the one area that, during the 2024 campaign, he stressed would be the key sector to bring prices down in his administration – energy. Specifically, when asked during the 2024 campaign how he would keep inflation under control, then candidate Donald Trump consistently said that he would "drill baby drill," stop the "Green New Scam," and bring down the price of energy overall with these tactics. With these new tariffs, the President now appears to be risking the exact opposite result.

As of July 2024, Canada was exporting approximately 4.3 million barrels of oil per day (b/d) to the United States. (Source). This constituted approximately 62% of all crude imports to the United States at the time. Regarding natural gas, in 2023 nearly 99% of all American natural gas imports came from Canada. (Source). Ironically, the massive increase in oil exports from Canada is a result of the completion of the extension of the Trans Mountain Pipeline, which had been fought bitterly by the province of British Columbia and many Canadian environmental

Most of the oil that flows from Canada to the United States comes via pipeline, with the Enbridge system being the dominant player. Most of that product goes to the Midwest, to places where the cost of a gallon of gasoline is generally around or below $3.00. However, with the new Canadian tariff, that probably will not last, although at this time of year gas prices are normally among their lowest

Despite the abundance of American crude oil, this country will not find it easy to make up the anticipated decline of Canadian crude due to the new tariff. American crude oil is mostly of light, sweet grades, while U.S. refineries generally run on heavier grades, such as from Canada. As the Atlantic Council points out, imports of crude oil account for about 39% of the crude used by domestic refineries,

Time will tell, of course, about the overall wisdom of these tariffs, and whether they will accomplish some greater good despite their predictable reduction in the availability of cheap energy for American consumers. It does seem, however, to be a rather strange card to play at the beginning of the second Trump Administration, after a campaign in which keeping down the high price of energy was such a major promise of then candidate Trump