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INSIGHT

U.S. Petroleum Trade: Crude Oil Imports from Canada and Mexico and Potential Tariffs

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The United States engages in petroleum trade with Canada and Mexico, including imports and exports of crude oil and petroleum products (e.g., gasoline and diesel fuel). Generally, this trade is motivated by factors including geographic proximity, refinery configurations, crude oil quality, and an integrated pipeline network. Most U.S. petroleum imports from Canada and Mexico consist of crude oil. During calendar year 2023, U.S. refineries imported approximately 6.5 million barrels per day (BPD) of crude oil, which is currently subject to tariffs. Canada and Mexico supplied more than 71% of U.S. crude oil imports, with nearly 60% of U.S. crude oil imports from Canada alone.

On February 1, 2025, President Donald J. Trump announced that he would be imposing tariffs on Canada and Mexico. These actions raise questions about how higher tariffs might affect the U.S. crude oil market and consumer fuel prices.

Crude Oil Imports: Canada and Mexico

Refineries purchase crude oil to produce gasoline, diesel fuel, and other petroleum products. Refineries in each Petroleum Administration for Defense District (PADD)—state groupings used for petroleum analysis—currently import crude oil produced in either Canada or Mexico or both (see **Figure 1**). Crude oil imports from Canada—most of which are produced in Alberta—are delivered by various modes, but mostly by pipeline to refineries located in PADDs 2, 3, 4, and 5. Crude oil imports from Mexico are mostly delivered by maritime vessels to PADDs 1, 3, and 5. Refineries in each PADD have unique trade relationships with Canada and Mexico. Considering crude oil import volumes and percentages, refineries and petroleum product prices in PADDs 2 and 4 could be impacted the most by higher tariffs (see bar charts in **Figure 1**).

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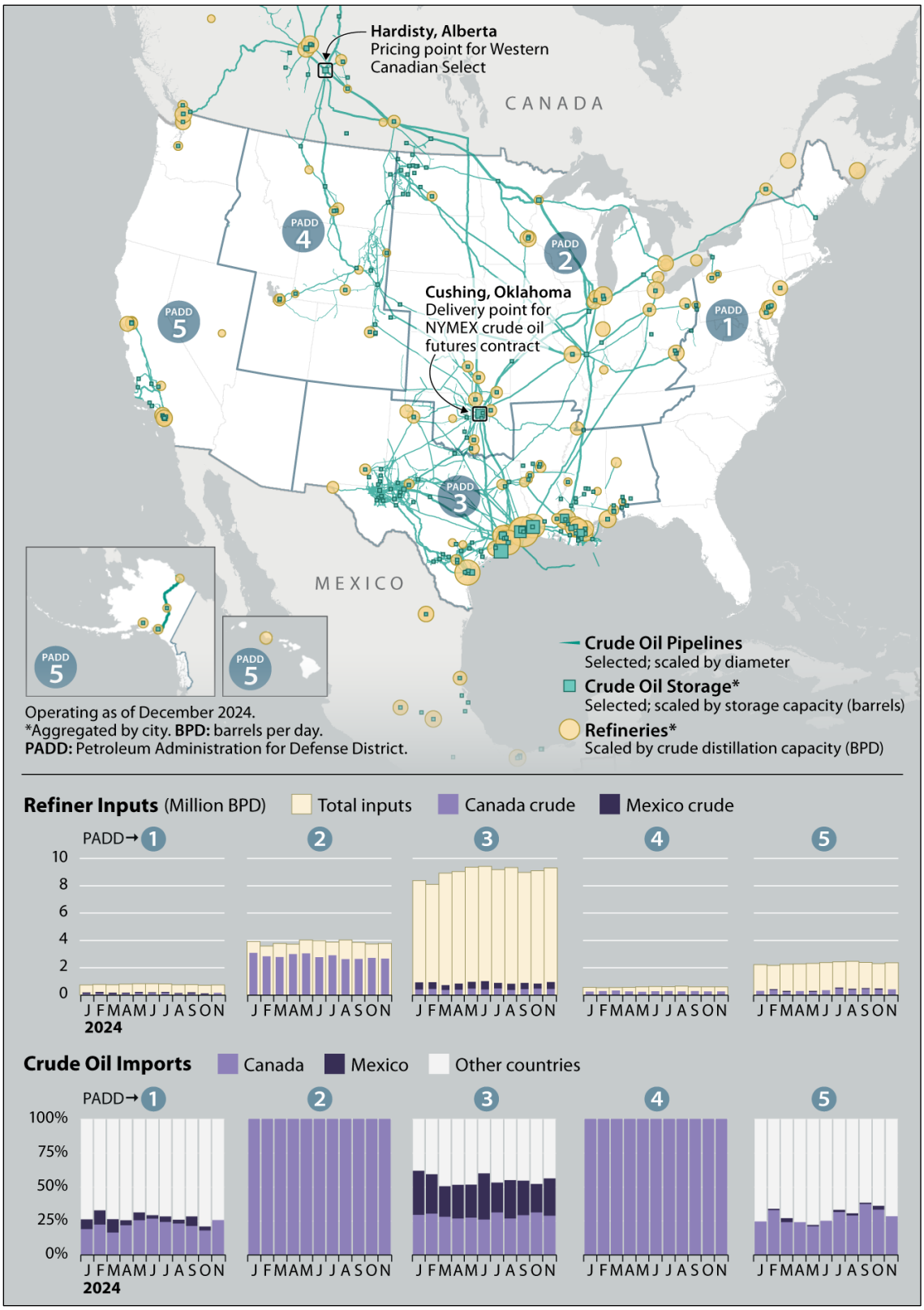
Figure 1. North America Crude Oil Pipelines, Storage, and Refineries



Sources: CRS; map data from S&P Global; 2024 chart data as available from the U.S. Energy Information Administration.

Tariffs and Potential Market Effects

Tariffs increase the cost of acquiring imported goods subject to tariff charges. Under tariffs applied to energy products from Canada (10%) and Mexico (25%), refineries that continue importing from those countries will pay tariffs assessed on the value of crude oil imports. However, some refineries could be financially motivated to secure crude oil not subject to higher tariffs. This optionality makes it difficult to determine how U.S. crude oil and petroleum product prices might be affected. Exactly how tariffs, and related costs, might be distributed throughout the supply chain will likely be a function of responsive actions by U.S. refineries, Canadian crude oil producers/exporters, and the Government of Alberta. Tariffs could be reflected in refining profits, Canadian crude oil prices, and U.S. petroleum product prices.

Refining Profits

Since crude oil is the largest refinery input cost, higher tariffs could immediately reduce refinery profitability. To limit exposure to higher tariffs, refineries could source crude oil from other suppliers. For refineries in PADDs 1, 3, and 5 with access to flexible maritime oil supplies, import substitution is possible. In turn, crude oil imports from Canada and Mexico to those regions could be rerouted to non-U.S. refineries. While a less efficient, higher-cost crude oil supply system could result, such costs could be lower than higher tariffs. For refineries connected with Canada by pipeline, especially those located in PADDs 2 and 4, supply alternatives are currently limited but could include increased processing of domestically produced light, sweet (low-sulfur) crude oil, a suboptimal feedstock for some U.S. refinery configurations.

Canadian Crude Oil Prices

Western Canadian Select (WCS)—a heavy, sour (high-sulfur) crude oil priced at Hardisty, Alberta, that some U.S. refineries prefer—is the benchmark price for most crude oil imports from Canada. WCS is typically priced lower than the U.S. benchmark price at Cushing, Oklahoma. This discount reflects quality differences and transportation costs, but can widen from time to time when Alberta crude oil production exceeds exports. Import reductions by refineries in PADDs 2, 3, and 4 could put downward pressure on WCS prices, potentially offsetting tariffs on remaining imports. To counter downward price pressure, Alberta crude producers and exporters could increase, to the extent possible, pipeline deliveries to British Columbia and the U.S. Gulf Coast for export to global markets. Should wide price discounts persist, the Government of Alberta could consider reinstating a production curtailment policy intended to narrow WCS price discounts. Considering these complexities, uncertainties, and interrelated variables, it is uncertain to what extent tariffs might be reflected in WCS prices.

U.S. Petroleum Product Prices

Consumer prices for gasoline, diesel fuel, and other petroleum products throughout the country could be affected by crude oil import tariffs, especially in regions most reliant on imports from Canada (i.e., PADDs 2 and 4). Typically, crude oil is the largest retail price component for gasoline and diesel fuel. Higher crude oil costs, along with operational decisions influenced by lower refining profit margins, can be reflected in wholesale petroleum product prices, which are passed directly to consumers.

Options for Congress

In announcing these tariffs, President Trump cited the International Emergency Economic Powers Act of 1977 (IEEPA) as the underlying authority. IEEPA authorizes the President to "regulate" imports during a national emergency declared under the framework of the National Emergencies Act (NEA). No president

has previously used IEEPA to impose a tariff and whether "regulate" includes the power to impose a tariff, and the scale and scope of what tariffs might be authorized under the statute, are open questions. Although IEEPA has not previously been used to impose a tariff, in 1971 President Richard Nixon used IEEPA's similarly-worded predecessor authority, the Trading with the Enemy Act of 1917 (TWEA), to impose a 10% duty on all imports.

No action by Congress is needed for these tariffs to take effect. If Congress seeks to block or modify the tariffs, it has several options. Congress could terminate the underlying national emergencies by enacting a joint resolution of disapproval using the NEA's expedited procedures. Congress could also amend IEEPA to restrict its use in imposing tariffs. Several Members introduced bills in the 116th Congress (e.g., S. 764, H.R. 1755, S. 2413, and H.R. 3557) to do just that following a suggestion by President Trump that he might use IEEPA to impose tariffs on Mexico in 2019.

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