Our View

Carney Has Trump and Republicans by the "Short Hairs"

Philip Verleger
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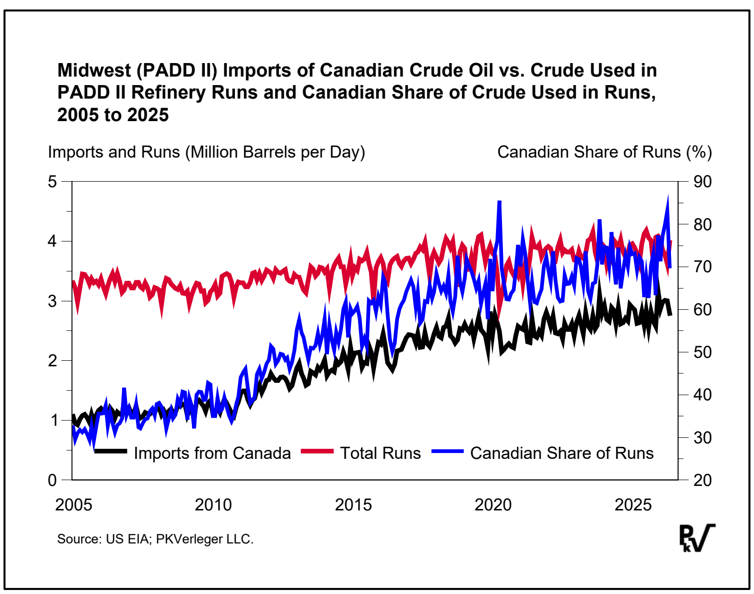
Iowa voters will play a critical role in the November midterm election, as will Michigan voters. Today, Iowans pay $4.07 per gallon for gasoline and $5.45 for diesel, according to the *AAA Fuel Prices* report. Michigan drivers pay $4.14 per gallon for gasoline and $5.64 for diesel.

These amounts could rise by a dollar or more per gallon should Canada impose an export tax or volume limits on the crude oil it exports to the United States. Make no mistake, **Canada can do this, and the US can do absolutely nothing to prevent it. The US Midwestern refiners that supply around 4 million barrels per day of products to Minnesota, Iowa, Illinois, Indiana, Ohio, and Michigan depend on Canada for 70% of their crude supplies.** Today, these refiners are cut off from the rest of the country for crude supply. The pipelines that once moved oil north from the Gulf of Mexico have been reversed and can no longer supply them. There are no alternative sources.

The Midwest's petroleum consumers also depend on Canadian crude. Iowa farmers' diesel is refined from it, as is the diesel Michigan truckers use. The gasoline bought in Chicago, Cleveland, Minneapolis, and Milwaukee also comes from Canadian crude. Without it, the tractors, trucks, and cars in these cities and states would stop. Along with Republicans, **Canada has the upper Midwest economy by the proverbial "short hairs."**

It Wasn't Always This Way

Midwestern refiners have not always depended on Canadian crude imports. In the figure here, I show the oil volumes processed in the region from 2005 to 2026, the volumes brought in from Canada, and the percentage of refinery output accounted for by Canadian oil. That share was only 30% in 2005, the earliest year for which US Energy Information Administration data are available, while the volumes refined were almost identical.



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Canada's share of the PADD II oil processed rose as Alberta producers expanded their tar sands output. Much of the oil imported now comes from that province.

Before the Canadian crude became available, PADD II refiners relied on shipments from the US Gulf Coast. For example, in 1983, the earliest year we have data, refiners in the region processed 2.7 million barrels of crude per day, with imports covering 25% of the runs. Half of the foreign crude came from Canada and the rest from OPEC, Mexico, and the United Kingdom.

At that time, crude imports flowed to Midwest refineries through pipelines from the Gulf Coast. As noted, those pipelines have been reversed, making it impossible now for these refiners to acquire oil from the Gulf.

In 1983, Canada had little leverage over PADD II or the US. Today, Canada accounts for 100% of the Midwest's imported crude and 70% of its crude supply. In short, Canada has a strong hand regarding the region's petroleum product availability.

Jonathan Wilkinson, Canada's ambassador to the European Union, noted Canada's leverage at the 2025 CERAWeek Canada conference. In an interview with Reuters, as President Trump prepared his first round of tariffs, the then-energy minister noted, "Canada could impose non-tariff measures such as restricting its oil exports to the United States or levying export duties on products if a trade dispute with the US escalates further."[1] He then offered more details:

> "When we are talking about non-tariff retaliation, it could be about restricting supply, it could be putting our own export duties on products. It could be energy and minerals, it could be broader than that," Wilkinson said in an interview with Reuters.

Subsequently, the minister seemed to contradict himself to reassure Canadian producers:

> "By and large, you couldn't displace the 4 million barrels that we send to the United States in pipelines, but I would say it works on the other side of the bucket too," Wilkinson said, citing some additional capacity on the Trans Mountain pipeline and rail as alternatives to move some Canadian oil.
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> "I actually think the oil coming down here (to the United States) is pretty sticky and I don't think it's displaceable and in that regard I don't think the threat to Canada's producers in the oil sector is as significant as perhaps in other sectors," he added.

In the same article, Alberta's premier, Danielle Smith, had a similar view:

> "Alberta owns the oil and gas and the bulk of it is coming into the United States. We would never do that to our friends and allies," she said.
>
> "The temperature has come down a bit, it has de-escalated," Smith added, referring to the trade war.

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[1] Jarrett Renshaw and Arathy Somasekhar, "CERAWeek Canada could restrict its oil exports to US if Trump trade war escalates," Reuters, March 12, 2025 [https://tinyurl.com/yc6wuyk8].

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Smith spoke before Justin Trudeau resigned as Canada's prime minister, a time when the Conservatives there thought they would take control of the government and before Trump's tariffs took hold in Canada. Two months later, Mark Carney replaced Trudeau and the Liberal Party prevailed, keeping Ms. Smith's Conservatives in the minority.

After trade negotiations between Canada and the United States collapsed on August 21 and the US imposed new tariffs, Canadian Prime Minister Mark Carney promised to retaliate. On Monday, August 24, Colin Robertson, a former Canadian diplomat who took part in the NAFTA talks for Canada, said this to NPR's Leila Fadel: "We also provide a lot of energy from Alberta, oil and gas, but we also provide electricity from Ontario to the Northeast."[2] He suggested that power and fuels could be taxed. In addition, Canada could impose an export tax on fertilizer, which is critical to Midwest farmers, many of them Trump supporters.

Doug Ford, the Conservative premier of Ontario, was more forceful, according to CBC:

> Ford, who is set to speak with reporters at 1:30 p.m. ET, said earlier today that Canada should be prepared to cut off electricity and critical minerals to the US if trade woes worsen.
>
> "I'll cut them off," Ford told The Associated Press, referring to sending critical minerals to the US. "You won't get a grain of sand out of Ontario."
>
> He added that Ronald Reagan would be "throwing up on" Trump over his trade policies, noting that Trump keeps a portrait of the former US president near his desk.[3]

Implications of a Canadian Export Tax

In the 1970s, Canada imposed crude oil price controls to limit the impact of increases that followed the 1973 Arab embargo. Then, in 1980, Pierre Trudeau proposed allowing prices to rise slowly while forcing the nationalization of some US companies and imposing an export tax on crude.

Economist Brian Scarfe strongly criticized the policy, as did many others. He noted that an export tax would limit exploration and production because, at the time, the Canadian oil price was less than half the world price.[4] In his discussion, he correctly noted that price controls would openly delay the necessary adjustments.

Prices in Canada today reflect the world price. The government still has the authority to levy export taxes that would lift Canadian prices above world prices. To appease those opposing the tax, the government could share the revenues with producers or Alberta's government.

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[2] Leila Fadel, "Former Canadian diplomat discusses US-Canada trade war," NPR Morning Edition, August 24, 2026 [https://tinyurl.com/bdcwpc29].

[3] "Trump calls Ford a 'flunky,' Ford responds that Trump is a 'loser,'" CBC, August 24, 2026 [https://tinyurl.com/4wyxzx65].

[4] Brian L. Scarfe, "The Federal Budget and Energy Program, October 28th 1980: A Review," *Canada Public Policy* 7, No. 1 (Winter 1981), pp. 1-14 [https://tinyurl.com/9pdmeabu].

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Under most circumstances and during normal times, implementing an export tax would be absurd. Producers would see their revenues decline as buyers turned to other suppliers.

However, these are not normal times or normal circumstances. Today, the world has no surplus refining capacity except, perhaps, in China. Diesel supplies are tight and are getting tighter. There is also no way to move petroleum products in bulk to the Midwest. To be crude, Canada has the US by the "short hairs."

What makes matters worse is that the US war with Iran has depleted global crude oil inventories. Some now worry that continued fighting could create significant problems. Reuters, for example, posed the following question: "Are global oil stocks enough to offset what could become the biggest supply disruption on record?"[5] The answer, according to the report, "is far from clear."

Under these conditions, a tax on Canadian oil exports to the US would likely raise prices for all US buyers.

Those in PADD II would likely bear the full burden, given the absence of alternative supplies and the limited ability of refiners in other regions to move products to the Midwest. In the initial months, a 50% tax could raise Midwestern gasoline and diesel prices by roughly $1 per gallon.

Refiners on the US coasts would likely seek alternative crudes to avoid the tax. Canadian crude now accounts for one-sixth of the imported crude processed by East Coast refiners, one-quarter of the imported crude processed on the Gulf Coast, and a similar share of the imported crude processed on the West Coast.

Surprisingly, Rocky Mountain refiners would be substantially affected by the tax because Canadian oil accounts for almost half the oil they process. Part of that dependence stems from a major Denver refinery being owned by the Canadian firm Suncor Energy, which also happens to be a prominent tar sands producer.

If imposed, the tax would create significant hardship for US farmers just as their harvest season begins. The impact would be particularly harsh in Iowa, Wisconsin, and Michigan, where Republicans are fighting to retain or win back congressional seats and governorships.

On August 24, in response to Carney's speech, President Trump declared that US tariffs on auto and truck imports from Canada would be raised from 25% to 50% on January 1, 2027. According to *The New York Times*, Trump called Canada "entitled" in a social media post, saying with his typical bluster that "WE DON'T NEED CANADA, THEY NEED US!"[6]

If Canada shuts off or taxes its oil flows to the United States, Trump and the Republicans will likely pay a heavy price for failing to understand that the US does indeed need Canada, and probably more so than Canada needs us.

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[5] Anushree Ashish Mukherjee, "Are global oil stocks big enough to weather another six months of US-Iran war?" Reuters, August 13, 2026 [https://tinyurl.com/5uawer5a].

[6] Ana Swanson and Tony Romm, "Trump Threatens Even Higher Tariffs on Canadian Exports After Talks Unravel," *The New York Times*, August 24, 2026 [https://tinyurl.com/bdeetk8s].

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