

## Our View: Canada Is Screwed

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It could not happen to a nicer group of people. Donald Trump is going to screw Canadian oil producers. As one who once taught in Canada and wrote that the Keystone XL pipeline was an attempt to raise prices to US consumers, I take some joy in anticipating the screams from there when Trump's tariffs take effect and Canadian producers face a twenty-percent price reduction for oil they sell to the US. Again, it could not happen to a nicer group of people.

Canadian producers claim that US consumers will pay a higher price when tariffs are imposed. They are wrong. US refiners have alternative sources. Countries such as Saudi Arabia produce similar types of oil. (Maybe Canadian producers have never heard of Saudi Arabia.) Canadian exports to the US West Coast through the expanded Trans Mountain Pipeline or to the US Gulf Coast must match global prices. In this case, the President-elect's action will make Canadian producers accept lower prices.

Attempts to impose higher prices on Midwestern refiners such as Exxon and BP will also fail because increased volumes of products produced by Gulf Coast refineries using lower-priced crude will move into the Midwest, holding down prices.

Canadian producers will have to accept lower prices or find customers elsewhere in the world. I am shedding crocodile tears.

I will add that President-elect Trump is applying a technique used by Germany in the 1930s. Albert O. Hirschman described the German success in his 1946 book *National Power and the Structure of Foreign Trade*. He explained how Germany used the might of its large market to squeeze smaller countries. In the process, Hirschman introduced an index now called the HHI.

The United States will squeeze Canada and Mexico if Trump follows through with his tariffs. There is little the two smaller countries or Canadian oil producers can do in response other than find buyers in nations such as China, South Korea, Japan, or other Asian countries.

Middle Eastern producers should pay attention. Canada (and Mexico) will be coming for your customers to avoid Trump's tariffs. Welcome to the new economics of trade.