

Our View: Sacrificing Energy Dominance

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The United States once dominated the global soybean market, accounting for seventy percent of world production, Richard Nixon destroyed the nation's advantage when, in late June 1973, he imposed an embargo on shipments of the legumes. Japan saw the action as a threat to its food security, and the nation immediately began to develop alternative sources, funding in particular soybean production in Brazil. That effort continued even though the embargo lasted only three months. Today, buyers see Brazil as a more trustworthy source of soybeans than the United States, and the country now exports far more than we do. US farmers may have lost over one trillion dollars since Nixon implemented his ban fifty-two years ago.

US crude oil refiners and producers confront a similar fate thanks to the Trump administration's aggressive tariff actions. Refiners on the Gulf Coast are especially at risk because they export much of their gasoline and diesel output. Those products will likely face retaliatory tariffs from the importing nations.

Refiners in Africa, China, the Middle East, and elsewhere will be exempted from tariffs directed at US firms. Given the global refining capacity surplus, companies here will have to accept significantly lower prices, and many may have to reduce product runs.

The financial consequences for Gulf Coast refiners could be severe. Several large, complex units will likely need to be shut permanently if the trade war lasts more than a year. One or more independent refiners may end up in bankruptcy. Citgo, Koch, Marathon, PBF, Phillips 66, and Valero are all vulnerable.

Recently refining consultant Wood Mackenzie listed the world refineries most likely to close due to low margins. The report omitted all but a few US facilities because they are among the most complex, versatile units. However, the consultancy will need to revise its list now to include as much as two million barrels per day of Gulf Coast capacity as the global trade war intensifies.

Today, the economic survival of refineries depends not on their sophistication but rather on their being located outside of the United States. Richard Nixon demolished a significant advantage enjoyed by US farmers. Donald Trump is about to do the same to the US refining industry.

(We published more details on this along with graphs in the March 10 *Notes at the Margin* [<https://tinyurl.com/mr37a43h>].)