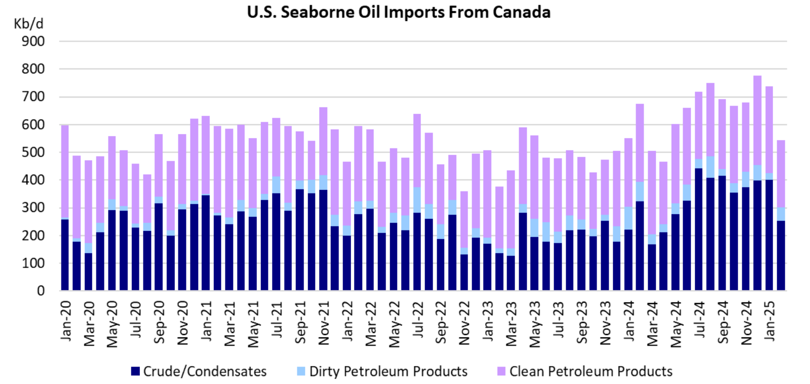
Will Trump's Tariffs Boost Tanker Rates?

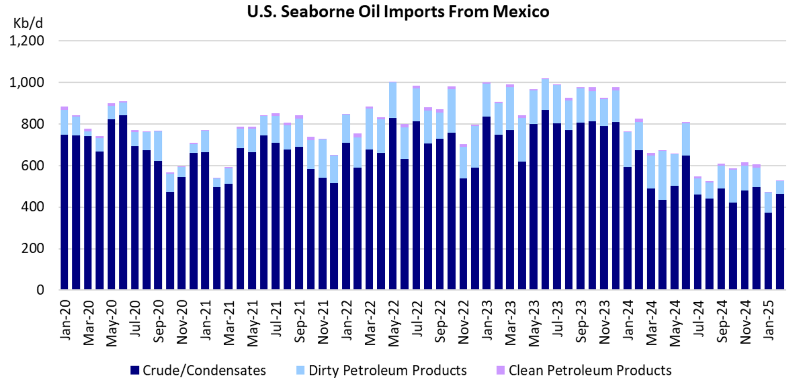
Tariffs on crude oil and products can change trade flows

Over the last six weeks, U.S. President Trump has imposed and postponed tariffs on Canada and Mexico several times. The current situation seems to reflect something of a compromise. Tariffs are in place, but they will not apply to goods covered by the North American trade agreement known as USMCA. Crude oil and refined products are covered under the USMCA, so provided the energy companies file the appropriate paperwork, they should be able to meet the certification requirements necessary to ensure relief from the 10% and 25% levies on crude oil and refined products from Canada and Mexico respectively. Despite this temporary (until April 2nd) reprieve, the energy industry remains on edge. In this week's Tanker Opinion, we discuss the potential implications for crude oil and refined product trade flows around North America in the event that energy from Canada and Mexico will be subject to tariffs.

To put matters in perspective, Canada and Mexico are both significant providers of energy products to the United States, with Canada being particularly important. According to data from the U.S. Energy Information Administration (EIA), the U.S. imported 6.6 Million barrels per day (Mb/d) of crude oil in December 2024 (the latest monthly data available). Of this total, 4.2 Mb/d (64%) came from Canada and 451,000 b/d (7%) from Mexico. During the same period, U.S. product imports were 1.75 Mb/d; 699 Kb/d came from Canada (40%) and 120 Kb/d (7%) from Mexico. It should be noted that the vast majority of the crude oil flows from Canada to the U.S. are transported via pipelines, while most of the product movements are seaborne. There are no pipelines connecting the U.S. and Mexico, so nearly all crude and products are shipped on tankers.

The vast majority of Canada's crude oil exports to the U.S. are going via pipelines. This limits the potential to change flows if tariffs are introduced. For example, refiners in the U.S. Midwest are highly dependent on Canadian barrels and producers will likely pass on at least some of the added cost to the buyers. However, there are some seaborne flows that can be redirected if tariffs are introduced and maintained for an extended period of time. Newfoundland and Labrador, located on Canada's East Coast produce about 250,000 b/d of crude from several offshore fields (Hebron, Hibernia, Terra Nova and White Rose). About 50% of this oil (125,000 b/d) ends up in the U.S., shipped directly or indirectly via the transshipment terminal at Wiffen Head. These barrels can be easily redirected to other destinations in the Atlantic Basin. Another seaborne export outlet for Canadian crude oil is the Westridge terminal in Vancouver, which is connected to the Trans Mountain pipeline. After the Trans Mountain Expansion (TMX) came online in May 2024, seaborne exports from Westridge were boosted from about 50,000 b/d in





Source: Vortexa

January-April 2024 to 375,000 b/d in May-December. About 50% of the seaborne TMX exports are sold into the U.S. West Coast, with the remainder shipped to Asia. However, if tariffs are implemented, Canadian producers have the option to sell more to Asia. The Westridge terminal can only load up to Aframax tankers, making it less economical to make the long-haul voyage to Asia versus the short-haul trip to the U.S. under normal circumstances. However, tariffs could change these economics. A Canadian switch to Asia would force West Coast refiners to look further afield (Latin Americas, Middle East) for replacement barrels. Canadian producers also have the option to ship crude via pipeline to the U.S. Gulf and export from there. Limited access to storage capacity caps the potential of that option to about 250-300,000 b/d. On the refined product side, there are meaningful flows from the Canada's East Coast to the U.S. Atlantic Coast. Canadian producers will try to maintain market share in the U.S. Redirecting product exports elsewhere would invite competition from Europe, West Africa (Dangote) or the Middle East. This scenario would boost ton-mile demand for product carriers.

The situation in Mexico is simpler. All exports (450,000 b/d) to the U.S. are seaborne and can be redirected based on economics. While the Mexican-owned refinery in Deer Park, Texas will likely still receive some Maya crude, other U.S. Gulf Coast refiners will look for alternative sources in Latin America (except Venezuela) and maybe the Middle East (Iraq). Mexican product exports (mostly fuel oil) will probably end up in Europe and/or Asia.

It appears that if the U.S. imposes tariffs on Canadian and Mexican crude oil and products that there will be some potential to reshuffle trade flows, both for products and for crude oil. Everything else being equal, tariffs will make trade flows less efficient, leading to more ton-mile demand for tankers.

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