WEBVTT

00:00:07.240 --> 00:00:21.500
<v SPEAKER_2>Hello and welcome to Energy Security Cubed, Canada's foremost energy geo-strategy podcast, where we explore the factors shaping energy and economic security in Canada and around the world.

00:00:21.500 --> 00:00:27.800
<v SPEAKER_2>I'm Joe Calnan, Vice President, Energy and Calgary Operations at the Canadian Global Affairs Institute.

00:00:34.943 --> 00:00:50.903
<v SPEAKER_2>For today's interview, recorded January 20th, 2026, we have an update on global oil flows amid some pretty major updates in global geopolitics, including the American intervention in Venezuela and the potential weakness of the Iranian regime.

00:00:50.903 --> 00:00:54.243
<v SPEAKER_2>With me to talk about this is Rory Johnston.

00:00:54.243 --> 00:00:58.043
<v SPEAKER_2>Rory is the founder of market research firm Commodity Context.

00:00:58.043 --> 00:01:02.143
<v SPEAKER_2>He is also a CGAI fellow and a frequent guest on Energy Security Cubed.

00:01:02.583 --> 00:01:03.583
<v SPEAKER_2>Happy New Year, Rory.

00:01:03.583 --> 00:01:05.143
<v SPEAKER_2>Great to have you on again.

00:01:05.143 --> 00:01:06.463
<v SPEAKER_1>Happy New Year, Joe.

00:01:06.463 --> 00:01:07.463
<v SPEAKER_1>Pleasure to be here.

00:01:07.463 --> 00:01:10.243
<v SPEAKER_1>And what a start to the new year it's been.

00:01:10.243 --> 00:01:10.563
<v SPEAKER_2>Yeah.

00:01:10.563 --> 00:01:10.783
<v SPEAKER_2>Yeah.

00:01:10.783 --> 00:01:23.783

<v SPEAKER_2>I think I mentioned in a podcast, our first podcast of the year, that January 3rd seems to be the date that Donald Trump really likes disrupting global geopolitics, because that was also Soleimani back in 2020.

00:01:23.823 --> 00:01:26.803
<v SPEAKER_1>It was back in 2020, it was Soleimani.

00:01:26.803 --> 00:01:37.683
<v SPEAKER_1>Last year, that was right around the time when everything started really ramping up in terms of the tariff fight and the kind of fentanyl accusations and trade war.

00:01:37.683 --> 00:01:40.963
<v SPEAKER_1>No, I've made a very similar observation that I don't know what it is.

00:01:40.963 --> 00:01:47.603
<v SPEAKER_1>I don't know what Trump gets into during the Christmas parties, but it makes him very, very feisty in January.

00:01:47.603 --> 00:01:51.843
<v SPEAKER_1>And I think we are now all dealing with the consequences of said feistiness.

00:01:52.343 --> 00:01:55.883
<v SPEAKER_2>Yeah, I think maybe we need to...

00:01:55.883 --> 00:02:00.943
<v SPEAKER_2>I know that Trump's a bit of a T-totaller, but maybe some eggnog would do him well to...

00:02:01.043 --> 00:02:02.763
<v SPEAKER_1>Do us all well right now.

00:02:02.763 --> 00:02:06.383
<v SPEAKER_2>So I have to start off with a bit of a less serious question.

00:02:06.383 --> 00:02:12.223
<v SPEAKER_2>So people might not know this, but your educational background is in global affairs and political science.

00:02:12.223 --> 00:02:17.283
<v SPEAKER_2>So you have a deep background in these sorts of conversations.

00:02:17.283 --> 00:02:20.583
<v SPEAKER_2>So do you think your degrees covered Venezuelan politics enough?

00:02:20.983 --> 00:02:26.443
<v SPEAKER_2>Me personally, I've just been trying to rack my brain about anything I know about Venezuela.

00:02:26.443 --> 00:02:29.283
<v SPEAKER_2>And it seems like everybody became an expert overnight.

00:02:29.283 --> 00:02:31.263
<v SPEAKER_2>But yeah, I'll leave that with you.

00:02:31.263 --> 00:02:32.923
<v SPEAKER_1>Yeah, it's true.

00:02:32.923 --> 00:02:38.863
<v SPEAKER_1>I mean, I always like to say that I am a trained international relations and security guy.

00:02:38.863 --> 00:02:43.443
<v SPEAKER_1>I like to say that I just played an economist on TV for a bunch of years for Scotiabank.

00:02:43.443 --> 00:02:44.603
<v SPEAKER_1>But no, that's my background.

00:02:44.603 --> 00:02:50.943
<v SPEAKER_1>I now teach at a global policy school as well at the Munk School at U of T, my old grad school.

00:02:50.943 --> 00:02:53.603
<v SPEAKER_1>So did it cover Venezuela enough?

00:02:53.603 --> 00:02:55.283
<v SPEAKER_1>No.

00:02:55.283 --> 00:02:57.043
<v SPEAKER_1>Did any of my education cover Venezuela?

00:02:57.043 --> 00:02:59.763
<v SPEAKER_1>I think there's this interesting thing.

00:02:59.783 --> 00:03:13.943
<v SPEAKER_1>I think it makes a lot of sense that when you are a student of politics, of international relations, of security studies or whatever, the things you learn about are very much driven by the very recent headline.

00:03:13.943 --> 00:03:18.323
<v SPEAKER_1>So when I was in school, like when I was an undergrad, it was a rock war.

00:03:18.723 --> 00:03:20.863
<v SPEAKER_1>It was counter-terrorism.

00:03:20.863 --> 00:03:22.183
<v SPEAKER_1>It was asymmetric warfare.

00:03:22.183 --> 00:03:36.023
<v SPEAKER_1>It was the precarity of unipolar politics, which I think are very salient in the current moment, but kind of the shift from multipolarity to unipolarity and potentially back again.

00:03:36.023 --> 00:03:43.203
<v SPEAKER_1>Like what does this all mean to have a single global kind of power, of the kind of hyper power scale of the United States is?

00:03:43.203 --> 00:04:08.783
<v SPEAKER_1>And now, I mean, most of what I learned about Venezuela, I learned through the lens of the oil market, because all I really knew about, all we really studied about Latin America broadly, really during my time in school, when I was an undergrad and grad student, was much more around, you know, Latin America had this long history of American imperial intervention becoming very salient again.

00:04:09.623 --> 00:04:14.743
<v SPEAKER_1>But had, essentially, my time in school was, it was the post-imperial stage.

00:04:14.743 --> 00:04:21.943
<v SPEAKER_1>It was all of these Latin American countries having their own kind of, you know, leftward lurches broadly across most of Latin America.

00:04:21.943 --> 00:04:23.543
<v SPEAKER_1>That was the kind of tone.

00:04:23.543 --> 00:04:49.723
<v SPEAKER_1>So in that sense, Chavez at the time, this was prima duro, Chavez was just kind of another representative, one of the arch leaders of the kind of broader Latin American leftist shift, alongside whether it was, you know, Dilma Rousseff in Brazil or the, you know, the leadership in Cuba.

00:04:49.723 --> 00:04:56.083
<v SPEAKER_1>I think these were all of this kind of broader movement of, okay, there's a broad left shift and these are the kind of players.

00:04:56.083 --> 00:05:05.363
<v SPEAKER_1>And I mean, you remember being in undergrad, there was a

lot of, I think, natural sympathy among student, among student bodies for kind of leftward politics.

00:05:05.423 --> 00:05:12.443
<v SPEAKER_1>And I think at the time there was like this, oh, well Chavez, you know, at that time there was an oil boom.

00:05:12.443 --> 00:05:21.363
<v SPEAKER_1>So the Venezuelan government and the Chavez government was actually printing money despite all of the incompetence and kind of execution errors that we've seen.

00:05:21.363 --> 00:05:24.843
<v SPEAKER_1>They got lucky by all of this money and windfall.

00:05:24.843 --> 00:05:30.023
<v SPEAKER_1>So they got to print all of these really impressive poverty reductions and all these other things.

00:05:30.023 --> 00:05:39.503
<v SPEAKER_1>And then really when it all kind of fell apart was when you lost that commodity price windfall in 2014, 2015, 2016.

00:05:39.503 --> 00:05:42.023
<v SPEAKER_1>And so then the industry began falling apart.

00:05:42.023 --> 00:05:47.283
<v SPEAKER_1>And then after that, you got that additional kind of hammering of sanctions from the first Trump administration.

00:05:47.283 --> 00:05:50.083
<v SPEAKER_1>But no, did not cover Venezuelan politics nearly enough.

00:05:50.083 --> 00:06:07.383
<v SPEAKER_1>And we've all been rapidly trying to climb the curve to understand what's going on, how this fits into the president's kind of rapidly evolving kind of people are calling the Dunro Doctrine or whatever else.

00:06:07.383 --> 00:06:23.243
<v SPEAKER_1>And I think again, it is important to stress for this conversation that the national security priorities were stated very recently and none of this was like there was some comment on hemispheric security, but like Greenland wasn't in there, like, you know, Venezuela was mentioned vaguely.

00:06:23.243 --> 00:06:35.443
<v SPEAKER_1>But I think like even amongst the people that read it, I don't think anyone expected the White House to fly in and kidnap Nicolas Maduro in the middle of the night on a Saturday morning.

00:06:35.443 --> 00:06:37.283
<v SPEAKER_1>That was all surprising.

00:06:37.283 --> 00:06:43.563
<v SPEAKER_1>And now we're kind of learning and kind of working through what's happening.

00:06:43.563 --> 00:07:08.683
<v SPEAKER_1>And it's this bewildering kind of cacophony of unprecedented actions and kind of contradictory public statements around like what this means for the shipments of Venezuelan oil, what this means for Canada, what has been a major talking point over the past couple of weeks, like given that everyone knows, you know, Canada exports a lot of heavy crude to the United States.

00:07:08.683 --> 00:07:10.223
<v SPEAKER_1>And what does Venezuela export?

00:07:10.223 --> 00:07:13.223
<v SPEAKER_1>Heavy crude, largely accessible to the United States, at least the US.

00:07:13.223 --> 00:07:13.643
<v SPEAKER_1>Gulf Coast.

00:07:13.643 --> 00:07:30.123
<v SPEAKER_1>So there's been this natural tendency, I think, particularly among a segment of like the MAGA base, if you will, of like, ah, now, now, quote, we have Venezuela, we being the Trump administration, this means that we can basically, we don't need Canada anymore.

00:07:30.123 --> 00:07:39.563
<v SPEAKER_1>So that's, I think, there's been this additional element of like, we can talk through all of this, but it's been this deeply kind of pertinent question for the Canadian oil sector in particular.

00:07:39.563 --> 00:07:40.603
<v SPEAKER_2>Yeah, absolutely.

00:07:40.603 --> 00:07:50.143
<v SPEAKER_2>And on the oil side, I think that we're seeing a, yeah, that Don Rowe Doctrine and kind of the oil side of that.

00:07:50.143 --> 00:08:05.503
<v SPEAKER_2>It's really interesting how the components play into that, because now with this, all these threats about the Arctic and about concerns about, or supposed concerns about security in the Arctic, that has big implications for Canada as well, and the

questions of what leverage Canada has here.

00:08:05.503 --> 00:08:17.103
<v SPEAKER_2>So yeah, now we're a few weeks into this American intervention, and it seems like the United States is basically grabbing Venezuelan oil and laundering it somehow for sale to American refineries.

00:08:17.103 --> 00:08:27.543
<v SPEAKER_2>And so far, it doesn't seem like, well, as far as I know that there's no American boots on the ground in Venezuela, so they're basically boarding these sanctioned tankers.

00:08:27.543 --> 00:08:35.223
<v SPEAKER_2>And then I'm not really sure how the entire chain goes from there, but I guess that's what I'm looking for from you.

00:08:35.223 --> 00:08:41.263
<v SPEAKER_2>Do you have any idea where exactly this oil is going and where the money is going?

00:08:42.303 --> 00:08:43.343
<v SPEAKER_1>Yeah.

00:08:43.343 --> 00:08:43.803
<v SPEAKER_1>Okay.

00:08:43.803 --> 00:08:49.423
<v SPEAKER_1>So we're already into this web of intrigue on this stuff.

00:08:49.423 --> 00:08:50.203
<v SPEAKER_1>So we're going to cut.

00:08:50.203 --> 00:08:51.923
<v SPEAKER_1>Let's try and make it as clear as possible.

00:08:51.923 --> 00:08:54.303
<v SPEAKER_1>So let's just kind of go over some very basic numbers first.

00:08:54.303 --> 00:09:06.203
<v SPEAKER_1>So prior to the blockade, Trump's blockade of Venezuela that started in October, November, Venezuela was exporting roughly a million barrels a day.

00:09:06.203 --> 00:09:11.043
<v SPEAKER_1>Roughly 80% of that, give or take, was going to China with the balance going to the United States.

00:09:12.063 --> 00:09:17.003

<v SPEAKER_1>Only a very small portion of Venezuelan oil was able to go to the United States prior.

00:09:17.003 --> 00:09:25.963
<v SPEAKER_1>And that was Chevron's shipments that were exempted from sanctions due to this OFAC license and this effective sanctions waiver.

00:09:25.963 --> 00:09:27.323
<v SPEAKER_1>So that's where things stood.

00:09:27.323 --> 00:09:30.983
<v SPEAKER_1>With a million barrels a day, most going to China, a little bit going to the United States.

00:09:30.983 --> 00:09:42.703
<v SPEAKER_1>Now, as of the first two full weeks of the new year, we, at least the data we've seen so far, shows that exports are less than half that volume.

00:09:42.703 --> 00:09:47.503
<v SPEAKER_1>So we're at about 450,000 barrels a day relative to a million.

00:09:47.503 --> 00:09:50.463
<v SPEAKER_1>So already there, we've had a huge cut to supply.

00:09:50.463 --> 00:09:57.703
<v SPEAKER_1>And I think we can talk about, we've had other losses of supply that have compounded in January, in late December and January in particular.

00:09:57.743 --> 00:10:05.403
<v SPEAKER_1>But rather than those half a million barrels going to China largely, so far this year, they've been going to two places.

00:10:05.403 --> 00:10:06.703
<v SPEAKER_1>They've been going to the US Gulf Coast.

00:10:06.703 --> 00:10:08.663
<v SPEAKER_1>This is Chevron at all.

00:10:08.663 --> 00:10:22.043
<v SPEAKER_1>And going to other Caribbean countries, countries like Curaçao, that have a large storage tank infrastructure that's good for basically staging for future exports.

00:10:22.043 --> 00:10:28.483
<v SPEAKER_1>So there's two different pools of oil, I think, that are kind of important to talk about at the gate here.

00:10:28.483 --> 00:10:33.303
<v SPEAKER_1>So one, the first is this 30 to 50 million barrels a day.

00:10:33.303 --> 00:10:43.083
<v SPEAKER_1>I'm sorry, 30, 50 million barrels flat that Trump implied that the Venezuelan government turned over to him.

00:10:43.083 --> 00:10:47.463
<v SPEAKER_1>I've been calling it Trump's pirate booty from his blockade.

00:10:47.463 --> 00:10:50.103
<v SPEAKER_1>Because the way it's right, it just sounds...

00:10:50.103 --> 00:10:54.103
<v SPEAKER_1>Right, yeah, literally, it sounds like it's just like a straight up extraction, like theft.

00:10:55.183 --> 00:10:56.923
<v SPEAKER_1>But whatever, let's...

00:10:56.923 --> 00:10:58.663
<v SPEAKER_1>So what are these barrels?

00:10:58.663 --> 00:11:04.963
<v SPEAKER_1>This likely represents some combination of the barrels that were effectively rendered floating storage.

00:11:04.963 --> 00:11:09.023
<v SPEAKER_1>This is the barrels that got trapped in Venezuela by the blockade.

00:11:09.023 --> 00:11:17.663
<v SPEAKER_1>There's probably somewhere in the ballpark, you know, there were probably somewhere in the ballpark of 10 to 15 million barrels of crude that were kind of bottled up in Venezuelan shores.

00:11:17.663 --> 00:11:30.363
<v SPEAKER_1>On top of that, you have other Venezuelan tanker or shadow tankers with Venezuelan crude on them that had already escaped the area of Venezuela, floating offshore China or en route to Asia or whatever else.

00:11:30.363 --> 00:11:32.503
<v SPEAKER_1>Maybe you add another 510 there.

00:11:32.503 --> 00:11:34.923
<v SPEAKER_1>So that gets you, let's say, charitably to 25.

00:11:36.023 --> 00:11:40.503
<v SPEAKER_1>On top of that, you have other barrels in domestic storage in Venezuela.

00:11:40.503 --> 00:11:46.603
<v SPEAKER_1>And one of the big stories of the blockade in the past couple of months in Venezuela is that it's not just exports that have gotten hammered.

00:11:46.603 --> 00:11:57.623
<v SPEAKER_1>Production upstream has also started to take a toll because basically, in a very kind of Western Canadian understandable issue, they lack egress.

00:11:57.623 --> 00:12:00.543
<v SPEAKER_1>They no longer have the capacity to ship out these barrels.

00:12:00.543 --> 00:12:04.843
<v SPEAKER_1>And given that when you lose the export capacity, you fill up domestic storage.

00:12:04.843 --> 00:12:09.963
<v SPEAKER_1>And when you fill up domestic storage, when you're done and you have nowhere else to put them, you have to shut in the barrels, shut in the production.

00:12:09.963 --> 00:12:12.843
<v SPEAKER_1>And that's what we saw through December and early January.

00:12:12.843 --> 00:12:17.423
<v SPEAKER_1>Now there have been mixed reports that some of that has been reopened or is being reopened.

00:12:17.423 --> 00:12:22.303
<v SPEAKER_1>But I would say based on what we're seeing so far from exports, nowhere near the full amount.

00:12:22.303 --> 00:12:29.763
<v SPEAKER_1>And if these export volumes continue, we're going to see further damage upstream in Venezuela because they just need more clearance than we're currently getting.

00:12:30.963 --> 00:12:37.683
<v SPEAKER_1>Then I think there's this and I think for Trump, he heard this and said, Ah, well, you have a bunch of inventory that's preventing you from producing.

00:12:37.683 --> 00:12:40.043

<v SPEAKER_1>I'll take it off your hands.

00:12:40.043 --> 00:12:44.083
<v SPEAKER_1>And I think of this 50 million barrels, again, let's just say 50 for nice round numbers.

00:12:44.803 --> 00:12:50.303
<v SPEAKER_1>The first barrels that have been officially sold by by the US administration.

00:12:50.303 --> 00:12:58.343
<v SPEAKER_1>And again, we're hearing that the Trump administration is controlling or brokering these sales on behalf of Venezuela and Peta Pesa.

00:12:58.343 --> 00:13:02.923
<v SPEAKER_1>It's all still very blurry, very frankly, exactly how all of this is being managed.

00:13:02.923 --> 00:13:13.783
<v SPEAKER_1>But what we do know is that $500 million or roughly 10 million barrels worth has been sold or contracted out to two major global trading firms.

00:13:14.203 --> 00:13:27.523
<v SPEAKER_1>Namely, Trafeguera and VTOL, roughly 5 million barrels a piece, or $250 million or roughly 5 million barrels a piece, assuming a reasonable discount on Heavy Crude versus WTI.

00:13:28.963 --> 00:13:45.283
<v SPEAKER_1>Those barrels, that money had been, this is the other weird thing about this, it's not going into the United States, it's being routed into a bank and cutter, and then sent back to Venezuela somehow to facilitate hard currency imports.

00:13:45.283 --> 00:14:06.283
<v SPEAKER_1>It's all very blurry, but I think some of this weirdness with the financing and sheltered funds is meant to guard or say or kind of protect those funds from being potentially seizable by people that, by foreign companies, let's say ConocoPhillips, that has claims against the Venezuelan government.

00:14:06.283 --> 00:14:23.803
<v SPEAKER_1>By taking them out of this system and making sure that they don't touch US banks, this prevents them from getting tied up in US litigation as easily in the same way as like when Argentinian bond holders tried to seize that Argentinian naval ship that had docked in New York.

00:14:23.803 --> 00:14:29.563

<v SPEAKER_1>Basically, once it gets into the US system, it's much more legally touchable, and that's what they want to avoid.

00:14:29.603 --> 00:14:39.043
<v SPEAKER_2>Yeah, I guess the breakdown of international law that seems to be happening here, US law is still very much applicable in this.

00:14:39.043 --> 00:14:40.103
<v SPEAKER_1>Yes, exactly.

00:14:40.103 --> 00:14:41.503
<v SPEAKER_1>US law still is teeth, right?

00:14:41.503 --> 00:14:43.363
<v SPEAKER_1>So I think that's what we know.

00:14:43.363 --> 00:15:01.603
<v SPEAKER_1>And I think the big question for these barrels, I think the biggest question in terms of the impact this has on Canadian marketing in particular is whether or not the blockade is lifted and these barrels are simply, sanctions are lifted, and these barrels are allowed to be exported elsewhere in the world?

00:15:01.603 --> 00:15:03.503
<v SPEAKER_1>And they're allowed to go to the United States?

00:15:03.503 --> 00:15:16.023
<v SPEAKER_1>Or if the way those sanctions are eased, waived, whatever, there are stipulations that basically require them to first to be marketed or only be marketed in the United States.

00:15:16.023 --> 00:15:31.123
<v SPEAKER_1>Essentially, the answer is like prior to prior to the Trump administration, his first term clamping down in Venezuela in early 2019, Venezuela is exporting roughly a million and a half barrels a day, only a third of which were actually going to the United States.

00:15:31.123 --> 00:15:39.703
<v SPEAKER_1>What this tells us is that even in a perfect kind of normal Venezuela, world for Venezuelan exports, not all those barrels would end up stateside.

00:15:39.703 --> 00:15:46.123
<v SPEAKER_1>And I think a lot of the commentary we've seen has implied that they would naturally all end up there.

00:15:46.123 --> 00:15:47.583
<v SPEAKER_1>I think that's not true.

00:15:47.583 --> 00:15:54.983
<v SPEAKER_1>I think there's ways that they could arrange the sanctions relief that functionally forces them into the market.

00:15:54.983 --> 00:15:57.043
<v SPEAKER_1>But I don't think that they would do that naturally.

00:15:57.163 --> 00:16:09.523
<v SPEAKER_1>I think the way this impacts Canadian barrels and Canadian crude in particular is we ship one of our one of you know basically Western Canadian kind of marginal demand is in the US.

00:16:09.523 --> 00:16:15.923
<v SPEAKER_1>Gulf Coast essentially once we've saturated mountain region and the Midwest everything else all the incremental barrels end up at the US.

00:16:15.923 --> 00:16:18.983
<v SPEAKER_1>Gulf Coast the furthest away most expensive to get there.

00:16:20.023 --> 00:16:45.663
<v SPEAKER_1>Those are the barrels and the discount we get on those we can you can view visibly at the WCS discount at Houston that discount in November was around $4 a barrel under WTI today it's closer to $8 a barrel under WTI that alone I think shows that there that there has the market is positioning for incremental competition from Venezuelan barrels in the US.

00:16:45.663 --> 00:16:56.023
<v SPEAKER_1>Gulf Coast but I think the ultimate amount of that discount is going to depend on whether those are allowed to compete or they're forced to compete.

00:16:56.023 --> 00:17:02.583
<v SPEAKER_1>And I think again one more important element there, I think inside of the commentary is something that if we if Venezuela pushes the center of the US.

00:17:02.583 --> 00:17:13.823
<v SPEAKER_1>Gulf Coast, then what those barrels are trapped, then we get back to kind of crazy and blowout levels and differentials and everything else, or we need that pipeline of the West Coast, which we do by the way, but not for this reason.

00:17:13.823 --> 00:17:21.023
<v SPEAKER_1>The actual answer is that even prior to the start of Trans Mountain, you saw more and more barrels that made their way to the US.

00:17:21.023 --> 00:17:23.263
<v SPEAKER_1>Gulf Coast being re-exported in the first place.

00:17:23.563 --> 00:17:26.983
<v SPEAKER_1>Going to China, going to India, and going further abroad.

00:17:26.983 --> 00:17:40.683
<v SPEAKER_1>I think if you had that forcing mechanism where, you know, all the Venezuelan crew was forced, and therefore there wasn't quite as much room for Canadian heavy, what you would likely see is that wire differential would then incentivize more re-exports to those further afield.

00:17:40.683 --> 00:17:42.983
<v SPEAKER_1>That would basically pay for the tanker shipping.

00:17:42.983 --> 00:17:49.883
<v SPEAKER_1>Now, that's not ideal for Canadian crude, obviously, but it is far from existential either.

00:17:50.823 --> 00:17:52.723
<v SPEAKER_2>Yeah.

00:17:52.763 --> 00:17:55.323
<v SPEAKER_2>Absolutely, lots to think about there.

00:17:55.323 --> 00:17:56.983
<v SPEAKER_2>Yeah, very interesting.

00:17:57.343 --> 00:17:58.383
<v SPEAKER_2>Tons of fallout questions.

00:17:58.383 --> 00:18:00.543
<v SPEAKER_2>But one thing that is pretty clear-

00:18:00.543 --> 00:18:01.383
<v SPEAKER_1>So many strings.

00:18:01.383 --> 00:18:03.363
<v SPEAKER_2>Yeah, so many strings to pull on here.

00:18:03.363 --> 00:18:04.483
<v SPEAKER_2>We only have so much time.

00:18:04.483 --> 00:18:17.483
<v SPEAKER_2>So one thing is pretty clear about this, which is that this Venezuelan heavy oil, like you said, there's Venezuelan heavy oil sitting offshore China, because a lot of those refineries in China are actually still worried about US sanctions, and there's still questions about that.

00:18:17.483 --> 00:18:27.963
<v SPEAKER_2>So I mean, that's one interesting thing, which is that the US sanctions have really do have teeth even in China, and they need to get to pretty high discounts in order to be taken in.

00:18:27.963 --> 00:18:44.163
<v SPEAKER_2>But this heavy oil that is currently being produced and exported off Venezuelan shores, as of January 3rd, this isn't headed to China, and this really opens up a vulnerability in the world's largest oil importer.

00:18:45.603 --> 00:18:51.743
<v SPEAKER_2>And I've been hearing that there are some Chinese refineries that are looking to increase imports from Canada.

00:18:51.743 --> 00:18:55.023
<v SPEAKER_2>I think that there's already an indication that that's happening.

00:18:55.023 --> 00:19:05.743
<v SPEAKER_2>But I'd like to know broadly, how are Chinese refineries handling this sudden halt in Venezuelan oil imports, and how is Canada factoring into all of this?

00:19:05.743 --> 00:19:06.783
<v SPEAKER_1>It's a great question.

00:19:06.783 --> 00:19:09.463
<v SPEAKER_1>And I think what we have seen...

00:19:09.663 --> 00:19:17.283
<v SPEAKER_1>So the first thing is that not all of the crude being imported into China was being consumed immediately.

00:19:17.283 --> 00:19:19.923
<v SPEAKER_1>I think that's one important thing, that they have lots of storage.

00:19:19.923 --> 00:19:22.743
<v SPEAKER_1>So there isn't an immediate pinch on them.

00:19:22.743 --> 00:19:34.503
<v SPEAKER_1>And we saw Chinese imports of crude oil in December, which likely still incorporated some Venezuelan crude in it, actually hit all-time highs, even though demand in China is no longer near all-time highs.

00:19:34.503 --> 00:19:40.283
<v SPEAKER_1>So I think they have been hoovering up as much of the

sanctioned, kind of discount crude that they can get.

00:19:40.283 --> 00:19:54.363
<v SPEAKER_1>But what we have seen is that, yeah, if you automatically or all of a sudden shut off 800,000 barrels a day of Venezuelan heavy crude exports to China, that's a hole that now needs to be filled.

00:19:54.363 --> 00:19:58.863
<v SPEAKER_1>Now, who can fill a heavy crude hole in the Pacific basin?

00:19:58.863 --> 00:20:04.003
<v SPEAKER_1>Ah, well, thankfully Canada has a new pipeline to the West Coast in Trans Mountain Expansion.

00:20:04.003 --> 00:20:13.463
<v SPEAKER_1>Last year, China actually already overtook the United States as the largest end destination for those exported barrels.

00:20:13.463 --> 00:20:15.663
<v SPEAKER_1>It took a little while to get up to those levels.

00:20:15.663 --> 00:20:22.523
<v SPEAKER_1>We had never really sold that much oil to China via the Pacific before, so it took a little while to figure it out.

00:20:22.523 --> 00:20:32.663
<v SPEAKER_1>But eventually, that was always the long-term target market for the Trans Mountain Expansion, and I think that was validated by what we saw through the end of the year.

00:20:32.663 --> 00:20:54.343
<v SPEAKER_1>What we have heard, anecdotally at least, I think it's difficult to get really good firm pricing data on some of these cargoes, but what we have heard through the grapevine is that there has been an increased bid for, which means increased demand, higher pricing, for Western Canadian heavy crew that's being shipped out of the US.

00:20:54.343 --> 00:21:00.823
<v SPEAKER_1>Sorry, that's being shipped out of the West Coast, to the Port of Vancouver, out of Westridge and Trans Mountain.

00:21:00.823 --> 00:21:16.683
<v SPEAKER_1>So I think that is your evidence that there is some incremental kind of capacity or incremental demand there that's coming from China, assuming that will further kind of intensify if this persists.

00:21:17.783 --> 00:21:28.543

<v SPEAKER_1>And I think eventually what you'd see is that wider differential in Houston, in addition to making the re-export economics of the US.

00:21:28.543 --> 00:21:36.183
<v SPEAKER_1>Gulf Coast more attractive, it also begins to make using that uncommitted portion of the Trans Mountain system more attractive as well.

00:21:36.183 --> 00:21:41.643
<v SPEAKER_1>Now, for those that aren't aware, Trans Mountain has 80% of the system is basically firm committed.

00:21:41.643 --> 00:21:44.343
<v SPEAKER_1>So take or pay, that's going to be used regardless.

00:21:44.343 --> 00:21:49.823
<v SPEAKER_1>Whereas that final 20% is more flexible, essentially uncommitted spot capacity, if you will.

00:21:50.863 --> 00:21:56.723
<v SPEAKER_1>But those tolls, because of all the cost overruns on Trans Mountain expansion, are very high.

00:21:56.723 --> 00:22:01.923
<v SPEAKER_1>Higher than you normally require to get to the US market, even as far as down to the US.

00:22:01.923 --> 00:22:02.643
<v SPEAKER_1>Gulf Coast.

00:22:02.643 --> 00:22:05.983
<v SPEAKER_1>But if all of a sudden the pricing is less attractive in the US.

00:22:05.983 --> 00:22:17.863
<v SPEAKER_1>Gulf Coast, that can open that ARB, if you will, to allow and kind of pay for that additional kind of tolls or pipeline shipping capacity on Trans Mountain.

00:22:18.263 --> 00:22:20.803
<v SPEAKER_1>I think that's probably what we're going to see.

00:22:20.803 --> 00:22:44.423
<v SPEAKER_1>And I think that's also the only time we've currently filled that line into that uncommitted space to date was during basically this time last year, when during the height of that March, April tariff fight, when at least at one, there was one moment where everyone actually thought we were going to have US tariffs on Canadian crude oil.

00:22:44.423 --> 00:22:47.643
<v SPEAKER_1>That is the only moment we've actually utilized that uncommitted portion to date.

00:22:47.683 --> 00:22:50.743
<v SPEAKER_1>And I think that is what we will see.

00:22:50.743 --> 00:22:57.483
<v SPEAKER_1>Now, I think again, though, this does highlight that export capacity at the West Coast is valuable.

00:22:57.483 --> 00:22:59.103
<v SPEAKER_1>This is valuable optionality.

00:22:59.103 --> 00:23:13.423
<v SPEAKER_1>We don't know what the future is going to hold, but we do know that relative to the prior kind of status quo, the United States, Washington is no longer a reliable ally in the way it once was.

00:23:13.423 --> 00:23:22.803
<v SPEAKER_1>And we need to, I think, even if we can never completely decouple, it would be strategically foolhardy to not attempt some diversification here.

00:23:22.803 --> 00:23:52.663
<v SPEAKER_1>And I think if we if we lean, if we can lean one way, we're going to lean to Asia now as a source of diversification, which is why, as we're speaking, you know, Carney was just in was in China earlier this week and is now kind of then went over to the Emirates and then and now is now is in Davos and is kind of doing this international tour very much under the auspices of like, look, we're in a bad relationship and we need to diversify.

00:23:52.663 --> 00:23:54.263
<v SPEAKER_1>And I think that is the tone of this.

00:23:54.263 --> 00:23:59.243
<v SPEAKER_1>And I think that I know crude buyers in China are taking note.

00:23:59.243 --> 00:24:14.963
<v SPEAKER_2>Yeah, and mainly, you know, to improve our our leverage with the United States, not necessarily trying to replace the enormous volumes that we provide to the Midwest, because, I mean, that would be that would be incredibly hard to replace as a market, though, right?

00:24:14.963 --> 00:24:15.683
<v SPEAKER_1>Yeah, well, exactly.

00:24:15.683 --> 00:24:22.083
<v SPEAKER_1>I mean, yeah, so of the roughly kind of four plus million barrels a day of crude, we ship globally.

00:24:22.083 --> 00:24:24.743
<v SPEAKER_1>Two and a half million of that goes to the Midwest.

00:24:24.743 --> 00:24:37.803
<v SPEAKER_1>And again, and for those that aren't aware of how pipelines are laid out in North America, the Midwest market is not except Venezuela can't access the Midwest market because the pipelines that would access the Midwest run south, not north.

00:24:37.803 --> 00:24:41.263
<v SPEAKER_1>Now, ironically, they used to run north.

00:24:41.263 --> 00:24:50.003
<v SPEAKER_1>Kaplan, an example, is a pipeline that used to run from the US Gulf Coast into the Midwest because that's the way crude used to flow 20 years ago.

00:24:50.003 --> 00:24:58.063
<v SPEAKER_1>But given the growth in the US, you know, the US oil, sorry, the Canadian oil sands, not the US oil sands, the Canadian oil sands.

00:24:58.063 --> 00:24:59.423
<v SPEAKER_2>Yeah, we should be very clear about that.

00:24:59.503 --> 00:24:59.883
<v SPEAKER_1>Exactly.

00:24:59.883 --> 00:25:01.803
<v SPEAKER_1>Very clear.

00:25:01.803 --> 00:25:05.803
<v SPEAKER_1>That basically rendered that northbound flow non-economic.

00:25:05.803 --> 00:25:11.263
<v SPEAKER_1>And the other thing I just want to stress here, I think, because again, people are like, well, can't the United States, can't Trump just build pipelines up to the Midwest?

00:25:11.263 --> 00:25:12.203
<v SPEAKER_1>Of course, he can't.

00:25:12.203 --> 00:25:13.303
<v SPEAKER_1>Yeah, I will.

00:25:13.303 --> 00:25:18.483
<v SPEAKER_1>I always stress this, almost anything is possible in the oil market.

00:25:18.483 --> 00:25:21.823
<v SPEAKER_1>It's complicated, but it's still just pipes and flow, right?

00:25:21.823 --> 00:25:24.183
<v SPEAKER_1>Like, it's not rocket science.

00:25:24.183 --> 00:25:27.483
<v SPEAKER_1>We can get this stuff done, but it's really, really expensive.

00:25:27.623 --> 00:25:36.823
<v SPEAKER_1>And even though it's physically possible, a much smaller scope is commercially viable, and an even smaller scope is actually outright profitable on a risk-adjusted basis.

00:25:36.823 --> 00:25:40.303
<v SPEAKER_1>None of this makes commercial or economic sense.

00:25:40.303 --> 00:25:52.543
<v SPEAKER_1>Much in the same way, a year ago, I was hearing about conversations that the White House was having with people being like, what would it take to completely retrofit the US crude refining fleet to run on light tight oil out of the US shale patch?

00:25:52.543 --> 00:25:53.883
<v SPEAKER_1>People are like, well, it can be done.

00:25:53.883 --> 00:25:57.943
<v SPEAKER_1>It's going to cost hundreds of billions of dollars and take a decade plus.

00:25:57.943 --> 00:26:06.883
<v SPEAKER_1>But again, it's like, unless the White House could pay for that, like Congress could allocate $200 billion.

00:26:06.883 --> 00:26:09.783
<v SPEAKER_1>They're not going to, but they could.

00:26:09.783 --> 00:26:15.023
<v SPEAKER_1>And I think that's the thing here is that we often get caught in this conversation of like, oh, well, Trump can do it.

00:26:15.023 --> 00:26:15.723
<v SPEAKER_1>I'm like, sure.

00:26:15.723 --> 00:26:17.043
<v SPEAKER_1>Yeah, he can absolutely do it.

00:26:17.043 --> 00:26:18.103
<v SPEAKER_1>Doesn't mean he's going to.

00:26:18.103 --> 00:26:20.283
<v SPEAKER_1>And I think that's the situation we're finding ourselves in now.

00:26:20.323 --> 00:26:32.943
<v SPEAKER_2>Yeah, yeah, I'm very sceptical of it, especially as we are looking down the barrel of, you know, midterm elections down in the states that are going to happen this November, November 2026.

00:26:32.943 --> 00:26:40.763
<v SPEAKER_2>You know, I have a strong feeling that it's going to be a very different conversation going forward about money bills, especially down in the US.

00:26:40.763 --> 00:26:41.723
<v SPEAKER_1>Absolutely.

00:26:41.723 --> 00:26:44.963
<v SPEAKER_2>But we should talk briefly about Iran.

00:26:44.963 --> 00:26:54.623
<v SPEAKER_2>And, you know, while Trump did not choose to intervene militarily against the regime this time around, and, you know, things could always change.

00:26:54.623 --> 00:27:01.283
<v SPEAKER_2>I think the Trump administration has demonstrated that some of its threats are credible, or threats are credible, sorry.

00:27:01.283 --> 00:27:10.603
<v SPEAKER_2>In addition, the most recent protests have demonstrated the population is very, very unhappy with their, I would call them, kleptocratic leadership.

00:27:10.603 --> 00:27:15.223
<v SPEAKER_2>So, Rory, how has this instability affected the oil market?

00:27:16.463 --> 00:27:21.983
<v SPEAKER_2>And what does this kind of tell us about the current context for energy globally?

00:27:21.983 --> 00:27:33.983
<v SPEAKER_1>Well, I think one thing that's really interesting is that

we act, like in Venezuela, the morning after, you know, basically, the Maduro napping occurred on a Saturday.

00:27:33.983 --> 00:27:37.243
<v SPEAKER_1>By the time markets opened on Monday, there was really no effect.

00:27:37.243 --> 00:27:39.403
<v SPEAKER_1>There was a little sell-off initially, then a rally back.

00:27:39.403 --> 00:27:41.143
<v SPEAKER_1>But by the end of the week, we basically hadn't moved.

00:27:41.143 --> 00:27:42.103
<v SPEAKER_1>It was a flat trade.

00:27:43.023 --> 00:28:05.203
<v SPEAKER_1>Compare and contrast that with, you know, once the news got going about how much more intense these protests in Iran were, and then immediately after Trump began kind of saber rattling that he was going to come in and kind of intervene on behalf of the protesters, the crew jumped like five bucks in the span of two days.

00:28:05.203 --> 00:28:11.463
<v SPEAKER_1>I think what this shows, like, we saw realized kinetic action in Venezuela, and things barely budged.

00:28:11.723 --> 00:28:16.523
<v SPEAKER_1>And we just got the threat of movement in Iran, and prices jumped pretty quickly.

00:28:16.543 --> 00:28:38.723
<v SPEAKER_1>I think the first thing it reveals is that while the market is increasingly numb to political risk, to all of this kind of tail risk stuff, Iran's a different story in the way the market has to hedge these risks, because even though anytime Iran comes up, we always hear, are they going to close the Strait of Hormuz?

00:28:38.723 --> 00:28:40.463
<v SPEAKER_1>The answer is always probably not.

00:28:40.983 --> 00:28:49.003
<v SPEAKER_1>But even given that the volume of crude that transits the Strait is talking, we're talking about a third of global supply here.

00:28:49.003 --> 00:28:57.363
<v SPEAKER_1>Even a movement of like a 1% chance to a 5% chance, even if it's a 95% chance, it still won't happen.

00:28:57.363 --> 00:29:04.903

<v SPEAKER_1>But that movement is enough to warrant a $5 move in prices very easily, just because of the volume we're talking about that could be at risk.

00:29:04.903 --> 00:29:06.883
<v SPEAKER_1>I think that's the first thing with the oil market.

00:29:06.883 --> 00:29:22.023
<v SPEAKER_1>I think the other thing that's really interesting is that, well, we have seen a bunch, over the past year, we've seen a bunch of various price rallies and different shifts in the risk landscape, often along sanctions.

00:29:23.283 --> 00:29:33.163
<v SPEAKER_1>We've seen that mostly manifest in futures positioning, in flat price, which is like the price that people see on their screen.

00:29:33.163 --> 00:29:36.103
<v SPEAKER_1>But we haven't seen it in quite as much as in the options market.

00:29:36.483 --> 00:29:43.483
<v SPEAKER_1>Whereas that's what we've seen as like the clear way that the market price is a wrong risk.

00:29:43.483 --> 00:29:55.763
<v SPEAKER_1>In June, we saw a massive spike in basically positive options skew, which is basically represents people bidding up the price of kind of high priced options as these risks.

00:29:55.763 --> 00:29:59.423
<v SPEAKER_1>And then that basically causes this Delta hedging that basically pulls the price up.

00:29:59.423 --> 00:30:05.083
<v SPEAKER_1>But I think it just shows and basically you look at the chart of basically this option skew and crude.

00:30:05.403 --> 00:30:08.263
<v SPEAKER_1>And two things jump out at you over the past like five years.

00:30:08.263 --> 00:30:11.663
<v SPEAKER_1>And it's Iran in June and Iran today.

00:30:11.663 --> 00:30:15.863
<v SPEAKER_1>And I think it's just one of these things that just sticks up like a sore thumb on the chart.

00:30:15.863 --> 00:30:24.063
<v SPEAKER_1>I think shows you very, very concretely, the different way the market prices, Iran risk compared to everything else.

00:30:24.063 --> 00:30:26.603
<v SPEAKER_1>Now, to your point, it does seem like they backed off that.

00:30:26.603 --> 00:30:41.403
<v SPEAKER_1>I think that what we've seen from the Trump administration is that, and we saw this in June when they dropped 14 bunker buster bombs on three different Iranian nuclear sites during the 12-day war between Israel and Iran.

00:30:41.403 --> 00:30:44.483
<v SPEAKER_1>That's something that a president wouldn't normally do.

00:30:44.483 --> 00:30:50.523
<v SPEAKER_1>But similarly, immediately after that, then Trump basically said, aha, we're done.

00:30:50.523 --> 00:30:51.963
<v SPEAKER_1>Now there can be peace.

00:30:51.963 --> 00:30:54.323
<v SPEAKER_1>And prices dropped like 10 bucks a barrel that day.

00:30:54.323 --> 00:30:57.663
<v SPEAKER_1>It was crazy how rapidly they fell off after that.

00:30:57.663 --> 00:31:11.263
<v SPEAKER_1>And I think this again shows that Trump is very, very willing to do the bombastic flashy thing, whether it's dropping bombs or kidnapping foreign leaders or whatever else.

00:31:11.263 --> 00:31:26.843
<v SPEAKER_1>But we have not seen any appetite from him on any of the harder, trickier, longer, that actual quagmire-esque stuff that would boots on the ground in Venezuela or actual engagements in a real way in Iran, very, very different.

00:31:26.883 --> 00:31:34.383
<v SPEAKER_1>And I think that what we the reporting at least indicates that, you know, most people were generally pushing Trump.

00:31:34.383 --> 00:31:36.683
<v SPEAKER_1>Trump wanted to intervene in Iran.

00:31:38.103 --> 00:31:38.343
<v SPEAKER_1>JD.

00:31:38.343 --> 00:31:41.763
<v SPEAKER_1>Vance was pushing Trump to intervene.

00:31:41.763 --> 00:31:56.043
<v SPEAKER_1>But what apparently ended up winning of the day was basically military leadership being like, here's all the intelligence, basically being like, this is all the ways this could become a quagmire very, very quickly, and there's no immediate, like there's no just a bomb dropping on a nuclear site.

00:31:56.043 --> 00:31:58.063
<v SPEAKER_1>There's no just a guy to kidnap.

00:31:58.063 --> 00:31:59.443
<v SPEAKER_1>It's a very different situation.

00:31:59.443 --> 00:32:07.803
<v SPEAKER_1>I think what we that's I think what we've seen is that Trump doesn't like that kind of open ended kind of timeline risk.

00:32:07.803 --> 00:32:16.243
<v SPEAKER_1>And I think that's also, I think, you know, whether or not we're talking about Greenland or threats of annex in Canada or any of this other stuff.

00:32:16.243 --> 00:32:26.743
<v SPEAKER_1>I think what we've seen is that he's very willing to drop a bomb or grab a guy, but far less willing to actually fully embark on a campaign of any of this.

00:32:26.743 --> 00:32:31.483
<v SPEAKER_1>And I think that gives us an insight into the types of risks we can expect.

00:32:31.483 --> 00:32:53.863
<v SPEAKER_1>And while I still think that there's a higher than average chance or higher than normal chance that Trump will intervene kinetically in Iran in some way, the probability that does seem to be rapidly falling off, despite the truly horrific death tolls that we've seen kind of reported by independent media and the kind of extremely violent crackdown by the regime in Tehran.

00:32:53.863 --> 00:32:57.963
<v SPEAKER_1>But so far, it doesn't seem like he's that interested in following up.

00:32:57.963 --> 00:33:00.343
<v SPEAKER_1>So we'll see if we get another flare up or whatever.

00:33:00.343 --> 00:33:05.963
<v SPEAKER_1>But what's interesting, ironically, as well, the oil prices have fallen back.

00:33:05.963 --> 00:33:19.603
<v SPEAKER_1>We haven't seen a lot of the markets not as concerned about Iran as it was seemingly at the peak prior to Trump basically saying, well, we've basically read, we've seen reporting that they're delaying the execution.

00:33:19.603 --> 00:33:20.903
<v SPEAKER_1>So we don't need to intervene anymore.

00:33:20.903 --> 00:33:23.183
<v SPEAKER_1>It's like, okay, doesn't matter.

00:33:23.183 --> 00:33:24.203
<v SPEAKER_1>They've executed a bunch of people.

00:33:24.203 --> 00:33:25.323
<v SPEAKER_1>They're delaying the new ones.

00:33:25.323 --> 00:33:28.183
<v SPEAKER_1>So we'll pull back.

00:33:28.183 --> 00:33:34.223
<v SPEAKER_1>But I think that is despite that fall off, you've seen options pricing that I mentioned remain very elevated.

00:33:34.223 --> 00:33:37.343
<v SPEAKER_1>So the oil market still isn't fully convinced this crisis is done.

00:33:38.543 --> 00:33:42.603
<v SPEAKER_1>But I think that the White House seems to be pretty convinced that it's done.

00:33:42.603 --> 00:33:44.903
<v SPEAKER_1>So I don't know when we get back to this.

00:33:44.903 --> 00:33:50.043
<v SPEAKER_1>I have no doubt that it'll come back up, much like all of these perennial kind of risks do.

00:33:50.043 --> 00:33:53.603
<v SPEAKER_1>But at least for now, it seems like the worst risk is behind us.

00:33:53.603 --> 00:33:54.283
<v SPEAKER_2>Yeah.

00:33:54.283 --> 00:34:02.243
<v SPEAKER_2>Now, I have to keep an eye on the time here, but I do want to ask kind of like a related question to that and eat up a little bit more of your morning.

00:34:02.703 --> 00:34:23.023
<v SPEAKER_2>This is the question about like, so we've all of course been paying attention to, well, we've been hearing all about Syria and how the new regime in Syria is close to the Trump administration seemingly and has been, I think they took back a few oil fields in a negotiated settlement with the Kurdish-held territory in Syria.

00:34:23.023 --> 00:34:23.563
<v SPEAKER_2>Yeah.

00:34:23.803 --> 00:34:56.203
<v SPEAKER_2>And I think there's a question about like, let's say if Iran falls in maybe not exactly a popular revolution, but more of the, I suppose, more pragmatic minds maybe among the IRGC or something like that, are able to take control and kind of try to chart a path against revolutionary Islam or something like that, and try to get integrated more with like say like the Western-led order and the United States more specifically.

00:34:56.203 --> 00:35:07.923
<v SPEAKER_2>Could this be more, could something like that be, could we see more oil production from Iran under that court sort of scenario in the coming years?

00:35:07.923 --> 00:35:09.283
<v SPEAKER_1>I think, yeah, I mean, here's the thing.

00:35:09.283 --> 00:35:20.483
<v SPEAKER_1>Much like in Venezuela, well, the immediate impact of whatever action Trump would take is bearish for that country's production.

00:35:20.483 --> 00:35:25.323
<v SPEAKER_1>As we've seen, Venezuelan production is still, you know, supplies still half of it was a couple months ago.

00:35:25.323 --> 00:35:26.963
<v SPEAKER_1>So that's still a bullish factor for the market.

00:35:26.963 --> 00:35:33.823
<v SPEAKER_1>The longer term, I think, is overwhelmingly bearish that, you know, not just will these countries be able to produce more.

00:35:33.823 --> 00:35:45.643

<v SPEAKER_1>They these are countries with massive, so, you know, both Venezuela and Iran, two of the largest reserve holding countries on the planet and both countries that have been under sanctions, various types of sanctions for a decade plus.

00:35:46.563 --> 00:35:54.523
<v SPEAKER_1>And have had deep, deep kind of starvation, like capital starvation, that, you know, it's very easy.

00:35:54.523 --> 00:35:57.723
<v SPEAKER_1>There's lots of low-hanging fruit in these countries, in these industries.

00:35:57.723 --> 00:35:59.523
<v SPEAKER_1>So there's plenty of opportunity.

00:35:59.523 --> 00:36:11.603
<v SPEAKER_1>But again, I think it's this question of in Venezuela, it was, you know, just grab the guy at the top and then deal with his vice president, Dalcy Rodriguez.

00:36:11.623 --> 00:36:14.523
<v SPEAKER_1>Who is that person in Iran?

00:36:14.523 --> 00:36:21.823
<v SPEAKER_1>Like is Trump going to topple the regime, but then kind of deal with the IRGC, as you mentioned?

00:36:21.823 --> 00:36:38.623
<v SPEAKER_1>Like it's very, that is probably what would happen, but it's hard to figure out exactly who the constituency for that action is beyond maybe people that like slightly cheaper oil prices, which again, is obviously Trump's goal, but it's a confusing one.

00:36:39.383 --> 00:36:47.903
<v SPEAKER_2>I mean, to be fair, the current president of Syria, Ahmad Hussein al-Sharah, he was a former al-Qaeda militant.

00:36:47.903 --> 00:36:53.543
<v SPEAKER_2>So you can have some strange friends if they're willing to align with your interests.

00:36:53.543 --> 00:36:54.723
<v SPEAKER_1>Very buttoned up now.

00:36:54.723 --> 00:36:56.003
<v SPEAKER_2>Yeah.

00:36:56.403 --> 00:36:59.743
<v SPEAKER_2>He's traded in more traditional guard for a suit.

00:36:59.743 --> 00:37:01.903
<v SPEAKER_2>So I guess that's one signal.

00:37:01.903 --> 00:37:10.523
<v SPEAKER_2>But now it's important that we look at also at the big context here, which is the global oversupply of oil.

00:37:10.603 --> 00:37:14.883
<v SPEAKER_2>I think that's really shaping a lot of the decisions here as well.

00:37:14.883 --> 00:37:22.163
<v SPEAKER_2>Because I think that under the Biden administration, there's all this nervousness about even putting sanctions on Russian oil after the invasion of Ukraine.

00:37:22.163 --> 00:37:30.163
<v SPEAKER_2>Now we're seeing the Trump administration maybe just more risk tolerant in general, where it comes to this sort of stuff.

00:37:31.603 --> 00:37:40.783
<v SPEAKER_2>But I think that we're seeing a lot of moves that we really wouldn't expect in a situation of really tight oil markets, in my opinion.

00:37:40.783 --> 00:37:46.603
<v SPEAKER_2>But since the beginning of the year, prices have popped up a bit, like you said, mainly on Iran.

00:37:46.603 --> 00:37:51.983
<v SPEAKER_2>But there's still expectations for 2026 to be a year of major oversupply.

00:37:51.983 --> 00:37:54.683
<v SPEAKER_2>I remember you warning about this.

00:37:54.903 --> 00:37:57.603
<v SPEAKER_2>I forget exactly when the podcast was, but this was a few years ago.

00:37:58.343 --> 00:38:11.523
<v SPEAKER_2>You called the immense amount of oil being held off the market by OPEC as a sword of Damocles over the oil market, where this could fall anytime, and it probably would, and now it has.

00:38:11.523 --> 00:38:17.843
<v SPEAKER_2>But I just want to pick your brain a little bit here, just for the silver lining on this for Canada.

00:38:17.843 --> 00:38:25.083
<v SPEAKER_2>Do you see any initial indications that supply and demand dynamics could change in a constructive way beyond 2026?

00:38:25.343 --> 00:38:30.303
<v SPEAKER_2>Or do you think this sub-$60 oil could be the new normal?

00:38:30.303 --> 00:38:31.043
<v SPEAKER_1>It's a good question.

00:38:31.043 --> 00:38:37.143
<v SPEAKER_1>I think the first thing is dealing with Trump's action in the oil price environment.

00:38:37.143 --> 00:38:43.403
<v SPEAKER_1>I think there's always this debate around, is Trump bullish or bearish for oil prices?

00:38:43.403 --> 00:38:48.743
<v SPEAKER_1>And we know, listening to him speak, at least taking him at his word, that he wants lower oil prices.

00:38:49.203 --> 00:38:50.883
<v SPEAKER_1>He's pretty overt about that.

00:38:52.043 --> 00:39:03.303
<v SPEAKER_1>But I think there's this inclination to kind of tie that with the fact that oil prices have declined and say, ah, ipso facto, ergo, he is bearish for oil prices.

00:39:03.303 --> 00:39:05.663
<v SPEAKER_1>And I think that's actually very, very, very backwards.

00:39:05.663 --> 00:39:12.663
<v SPEAKER_1>I would say that to date, now again, we could see where this goes in the future, because Venezuela could evolve, et cetera, et cetera.

00:39:12.663 --> 00:39:15.083
<v SPEAKER_1>There's ways that he could become a bearish impulse.

00:39:15.083 --> 00:39:21.763
<v SPEAKER_1>But to date, he has been overwhelmingly the most bullish impulse to the oil market, period, end of sentence.

00:39:21.763 --> 00:39:25.043
<v SPEAKER_1>And it's not even a close debate to just this point.

00:39:25.043 --> 00:39:38.723
<v SPEAKER_1>So this glut, this oversupply we're facing has

essentially underwritten and facilitated the degree of kind of risky adventurism that the Trump administration has embarked upon.

00:39:38.723 --> 00:39:55.363
<v SPEAKER_1>If it wasn't for this massive, you know, glut or surplus of supply, all of these sanctioned activities that the Trump, that the administration has pursued, we've seen Iranian, Russian, and Venezuelan oil all leak out of the supply of the market very, very quickly.

00:39:55.363 --> 00:40:04.743
<v SPEAKER_1>Now, if there, many of those barriers are still being produced, so they'll show up in your kind of global supply-demand balance, but they're largely building on water.

00:40:04.743 --> 00:40:14.123
<v SPEAKER_1>So they're basically backing up, they're taking longer to get where they're going, they're floating around for longer, they're having trouble finding buyers, having to travel longer distances to find willing buyers.

00:40:14.683 --> 00:40:21.983
<v SPEAKER_1>All of this together functionally decreases that supply to the market because these barrels aren't getting there as quickly.

00:40:21.983 --> 00:40:36.363
<v SPEAKER_1>So if, let's say, you're building oil and water by half a million barrels a day, which it was doing between half a million and 800,000 barrels a day for the latter half of last year, the combination of those countries were building on water every single month, every single day, that was supply that was lost.

00:40:36.363 --> 00:40:44.863
<v SPEAKER_1>So let's say you have a 2 million barrel a day surplus and you lose 800,000 barrels a day of it, well, now that's only a 1.2 million barrel a day surplus.

00:40:44.863 --> 00:40:58.683
<v SPEAKER_1>On top of that, you've had a bunch of other things that have taken oil out of the market that have prevented this surplus from really weighing on term structure and flipping the curve into contango and letting the flat price kind of fall out continuously.

00:40:58.683 --> 00:41:08.023
<v SPEAKER_1>That said, I think this question of the longer term trajectory, I think in terms of ways to be constructive, demand is performing well.

00:41:08.323 --> 00:41:14.163
<v SPEAKER_1>I think it's easy to forget, given how crazy supply has

been over the past year.

00:41:14.163 --> 00:41:22.003
<v SPEAKER_1>And again, just so last year on exit, supply was growing at roughly three times the pace of global demand on a year over year basis.

00:41:22.003 --> 00:41:30.103
<v SPEAKER_1>So supply growth easily outpacing, but this is mostly the return of withheld OPEC barrels, not fresh supply.

00:41:30.103 --> 00:41:37.603
<v SPEAKER_1>Demand, many people, myself included, have a fairly bearish disposition on demand, at least kind of relative to the pre-COVID norm.

00:41:38.243 --> 00:41:49.683
<v SPEAKER_1>But demand is actually growing very strong right now, and that's largely because China shifted back from being a contracting source of demand to actually being a source of demand growth again.

00:41:49.683 --> 00:41:59.343
<v SPEAKER_1>And again, we talk about whether or not India is doing good or not so good, and we're talking about the difference between maybe 100 and 200,000 barrels a day of growth.

00:41:59.343 --> 00:42:02.683
<v SPEAKER_1>That's the kind of what we're really talking about in terms of is it good or not.

00:42:02.683 --> 00:42:09.543
<v SPEAKER_1>In China, it's the difference between three to 500,000 barrels a day of contraction versus three to 500,000 barrels a day of growth.

00:42:09.543 --> 00:42:16.083
<v SPEAKER_1>We're talking almost a million barrels a day of swing just from one country on demand, which is not something we're used to dealing with.

00:42:16.083 --> 00:42:31.443
<v SPEAKER_1>So if China can grow a little or even remain flat and not a negative drag on the market, I think that demand actually looks pretty promising, particularly if prices remain lower, which is what they seem like they're going to do.

00:42:32.723 --> 00:42:47.443
<v SPEAKER_1>So I think you have stronger demand, you have OPEC unwinding rapidly, which again is bad for the current market, but theoretically good for the future market, because those prices reduce

the incentive to drill primarily the United States.

00:42:47.443 --> 00:42:53.903
<v SPEAKER_1>Now, most forecasts now expect the United States crude oil production will plateau this year and begin to decline.

00:42:55.283 --> 00:43:05.583
<v SPEAKER_1>The important thing to stress here is it's not a geological peak, this is an economic peak, that they're just not producing at 50, 60 bucks a barrel anymore, which fine.

00:43:05.583 --> 00:43:07.383
<v SPEAKER_1>If you go back to about $100, they'll grow again.

00:43:07.383 --> 00:43:11.963
<v SPEAKER_1>But again, it's providing you a little bit of a natural floor of the market.

00:43:11.963 --> 00:43:21.283
<v SPEAKER_1>And similar with Canada, Canada is going to grow, but if we have durable kind of sub $50 crude, we'll probably grow slower, even with new pipeline capacity.

00:43:21.283 --> 00:43:38.543
<v SPEAKER_1>But I think all else, it's really this question of how much can demand grow to catch up with this situation we have, which was that OPEC kept a bunch of supply of the market, kept prices higher, facilitated all this non-OPEC supply to come on.

00:43:38.543 --> 00:43:40.863
<v SPEAKER_1>Now we kind of need to work through that.

00:43:40.863 --> 00:43:46.563
<v SPEAKER_1>I think OPEC has created a bit of a debt for the market, a supply debt, if you will, the market needs to kind of churn through.

00:43:46.563 --> 00:43:52.623
<v SPEAKER_1>And the only way we're going to do that is either with big contractions to supply, which I don't see even in the United States.

00:43:52.683 --> 00:43:56.923
<v SPEAKER_1>I don't see the big kind of contractions that you'd need to balance things in the longer term.

00:43:56.923 --> 00:44:03.103
<v SPEAKER_1>But what's more likely is that demand, I think, is just going to remain healthier than expected and is going to gradually eat away at that.

00:44:03.103 --> 00:44:09.203
<v SPEAKER_1>I think that's how this ends up getting us back to a more stable level in the next couple of years.

00:44:09.203 --> 00:44:10.263
<v SPEAKER_2>Yeah.

00:44:10.583 --> 00:44:13.543
<v SPEAKER_2>No, it's interesting that China's kind of taken on that role.

00:44:13.543 --> 00:44:21.623
<v SPEAKER_2>I mean, like we've always, like you've been talking for years about the SPR in the United States being like the swing, you know, consumer, I guess.

00:44:21.943 --> 00:44:25.103
<v SPEAKER_2>Not consumer, but like, you know, swing demand for oil.

00:44:25.283 --> 00:44:28.383
<v SPEAKER_2>Now China's SPR is also acting in that way.

00:44:28.383 --> 00:44:29.643
<v SPEAKER_2>Absolutely.

00:44:29.643 --> 00:44:40.763
<v SPEAKER_2>And I also wonder about, you know, where it comes to like if we can put a grand strategy on the United States thinking about oil right now, and I'm not sure if we really can.

00:44:40.763 --> 00:44:53.923
<v SPEAKER_2>But if they're wanting sub $50 oil, $50 per barrel oil, then it's very tough to have that oil coming predominantly from US shale oil, right?

00:44:53.923 --> 00:44:56.563
<v SPEAKER_2>So you have to have interests elsewhere.

00:44:56.563 --> 00:44:59.203
<v SPEAKER_2>So while oil prices are high enough.

00:44:59.203 --> 00:45:00.103
<v SPEAKER_2>Yeah.

00:45:00.463 --> 00:45:03.963
<v SPEAKER_1>It's either sub $50 crude or it's drill baby drill, like choose one.

00:45:04.383 --> 00:45:05.283
<v SPEAKER_2>Yeah.

00:45:05.283 --> 00:45:11.423
<v SPEAKER_2>So yeah, that's the trade-off that Trump seems to be banking on.

00:45:11.423 --> 00:45:19.243
<v SPEAKER_2>And I don't know, I guess as far as I can tell, he seems to be more on the sub $50 crude than the drill baby drill side.

00:45:19.243 --> 00:45:19.863
<v SPEAKER_2>I've never.

00:45:20.243 --> 00:45:21.123
<v SPEAKER_1>I would agree with that.

00:45:21.123 --> 00:45:21.563
<v SPEAKER_2>Yeah.

00:45:21.563 --> 00:45:28.243
<v SPEAKER_2>And that means that it's more about his foreign policy where it comes to oil rather than domestic policy where it comes to oil.

00:45:29.783 --> 00:45:37.883
<v SPEAKER_1>Maybe one day he'll realize, I'm not confident, but maybe one day he'll realize that all of the sanctions and blockades are actually keeping the price higher.

00:45:37.883 --> 00:45:41.223
<v SPEAKER_1>And we likely would already be at $50 or sub $50.

00:45:42.643 --> 00:45:51.223
<v SPEAKER_1>If we had a Kamala Harris in the White House, my bet is that we would be closer to $50 a barrel accrued right now than not.

00:45:51.223 --> 00:45:57.143
<v SPEAKER_1>Possibly even sub $50 a barrel, because we wouldn't have had all the disruptions that have kept the market tighter than expected.

00:45:57.143 --> 00:45:58.843
<v SPEAKER_1>That's the irony of all of this.

00:45:59.343 --> 00:46:05.663
<v SPEAKER_2>Yeah, it's just interesting the way that geopolitics affects markets, and markets affect geopolitics.

00:46:05.663 --> 00:46:15.063
<v SPEAKER_2>It's just something that's always just an interesting part about looking at energy from a geopolitical perspective.

00:46:15.063 --> 00:46:20.463
<v SPEAKER_2>But we could talk about this all day, Rory, but I'm going to have to end it here.

00:46:20.463 --> 00:46:21.943
<v SPEAKER_2>Thanks so much for coming on.

00:46:21.943 --> 00:46:24.323
<v SPEAKER_2>But one last question before we let you go.

00:46:24.323 --> 00:46:26.923
<v SPEAKER_2>What is a book you would like to recommend to our audience?

00:46:26.963 --> 00:46:30.343
<v SPEAKER_2>And you have a huge bookshelf right behind you to pull from.

00:46:30.343 --> 00:46:32.043
<v SPEAKER_2>Yes, so I actually have two.

00:46:32.043 --> 00:46:33.503
<v SPEAKER_2>Okay, great.

00:46:33.503 --> 00:46:42.103
<v SPEAKER_1>The one I'm currently reading, that's very topical to what we're discussing, and one that's I think just more nerdy and I think topical to what we're talking about, the political and strategic side at the beginning.

00:46:42.103 --> 00:47:05.183
<v SPEAKER_1>So the one I'll recommend for the oil industry is Things Are Never So Bad That They Can't Get Worse by William Neuman, Inside the Collapse of Venezuela, which is, it starts out in like, the first chapter starts out in the operating room or the kind of control room of the Venezuelan power grid, which is operated in Caracas by one guy.

00:47:05.183 --> 00:47:13.883
<v SPEAKER_1>Literally one guy was controlling and maintaining the entire country's electrical grid, and the electrical grid shockingly collapsed spectacularly.

00:47:13.943 --> 00:47:15.903
<v SPEAKER_1>So it's all about, exactly.

00:47:15.903 --> 00:47:23.543
<v SPEAKER_1>So basically it's all about Venezuela and the kind of Chavista kind of gutting of the government and state capacity.

00:47:23.543 --> 00:47:28.683
<v SPEAKER_1>And it's just, I think, a really interesting topic and read in the current context.

00:47:28.683 --> 00:47:30.843
<v SPEAKER_1>And so that's the one I will recommend for the oil side.

00:47:30.843 --> 00:47:34.303
<v SPEAKER_1>And on the strategic side, the book I just finished, I'm reading that one right now.

00:47:34.303 --> 00:47:47.303
<v SPEAKER_1>The one I just finished is called a book from my from my youth called Command and Control, Nuclear Weapons, The Damascus Incident, Accident and the Illusion of Safety, which is back to this point.

00:47:47.323 --> 00:47:51.003
<v SPEAKER_1>Actually, this is a book I referenced in like grad school, but I never read the full book.

00:47:51.003 --> 00:47:53.743
<v SPEAKER_1>It was one of those like you've read a piece of the chapter and pulled it out.

00:47:53.823 --> 00:47:57.983
<v SPEAKER_1>We always remember grad school anyways, but I read the full thing.

00:47:57.983 --> 00:48:01.323
<v SPEAKER_1>And oh, my gosh, it is an incredibly, incredibly good book.

00:48:01.323 --> 00:48:23.103
<v SPEAKER_1>One of the best I've read in ages, so compelling and is all about how fragile the command and control system for the US strategic nuclear arsenal, basically how hard it was to manage, how impossible even the illusion of controlling this weapon system was in reality.

00:48:23.103 --> 00:48:36.783
<v SPEAKER_1>And I think just as I was reading it, it was as I was finishing the book, you got all these headlines about how the Pentagon is thinking about integrating Grok or other AI systems into its various command and control systems.

00:48:37.123 --> 00:48:48.903
<v SPEAKER_1>And it just honestly gave me a heart attack because I think through this book, you basically see time and time and time and time again, you have all of these automated systems that were

basically assuming that the world was going to end.

00:48:48.903 --> 00:48:55.863
<v SPEAKER_1>And this is how one guy should be able to launch a missile, blah, blah, blah, assuming the president's dead and everything else.

00:48:55.863 --> 00:49:09.803
<v SPEAKER_1>There's always that one guy, there's like a dozen instances of like one guy, either in the US or in the Soviet Union being like, let's not press the big red button and wait like five more minutes for confirmation, breaking protocol, but saving the world by doing so.

00:49:09.803 --> 00:49:15.103
<v SPEAKER_1>I'm just not confident that Grok has the wisdom and the humanity to make that choice.

00:49:15.103 --> 00:49:22.303
<v SPEAKER_1>And so it just got me deeply, deeply worked up about the kind of precarity of our current existential status.

00:49:22.343 --> 00:49:30.203
<v SPEAKER_2>Yeah, yeah, no, I've always, I've always worried about nuclear weapons as the, as the mode of annihilation for humankind.

00:49:30.203 --> 00:49:35.863
<v SPEAKER_2>And, you know, it's always, it's always been remarkable to me how unlikely it is that we've survived to this point.

00:49:35.863 --> 00:49:38.883
<v SPEAKER_1>But, you know, I was, I was actually a big, I was a big fan.

00:49:38.883 --> 00:49:44.183
<v SPEAKER_1>I was like a big fan of like the nuclear weapons deterrents, theory of peace and all of these things.

00:49:44.183 --> 00:49:48.403
<v SPEAKER_1>And then I just read that book or a bunch of books around kind of various.

00:49:48.403 --> 00:49:51.063
<v SPEAKER_1>There was another book called Nuclear War Scenario.

00:49:51.943 --> 00:49:55.083
<v SPEAKER_1>And then there was the House of Dynamite movie that was just on Netflix.

00:49:55.083 --> 00:49:59.123

<v SPEAKER_1>I went through like a deep kind of despondent nuclear reading.

00:49:59.123 --> 00:50:04.383
<v SPEAKER_1>And I recommend it for anyone that wants to really have a less enjoyable life.

00:50:05.543 --> 00:50:07.203
<v SPEAKER_2>Yeah, great recommendation for our listeners.

00:50:07.203 --> 00:50:08.023
<v SPEAKER_1>Exactly, exactly.

00:50:08.023 --> 00:50:09.303
<v SPEAKER_2>Yeah, I'm sure that.

00:50:09.303 --> 00:50:10.823
<v SPEAKER_1>Join me in my misery.

00:50:12.083 --> 00:50:20.783
<v SPEAKER_2>Yeah, yeah, I'm sure that our listeners, much like, you know, the the the hosts of this podcaster are quite quite despondent at all times.

00:50:20.783 --> 00:50:23.903
<v SPEAKER_2>So yeah, thanks so much for coming on again, Rory.

00:50:23.903 --> 00:50:25.643
<v SPEAKER_2>Always a great time having you on.

00:50:25.643 --> 00:50:26.863
<v SPEAKER_1>And thanks for having me, Joe.

00:50:26.863 --> 00:50:29.383
<v SPEAKER_2>We'll have you on again soon to provide an update.

00:50:29.383 --> 00:50:31.803
<v SPEAKER_2>Assuming we don't all blow ourselves up.

00:50:31.803 --> 00:50:32.543
<v SPEAKER_2>Knock on wood.

00:50:32.543 --> 00:50:32.923
<v SPEAKER_1>All right.

00:50:32.923 --> 00:50:33.683
<v SPEAKER_1>Have a great day.

00:50:33.683 --> 00:50:34.063
<v SPEAKER_2>All right.

00:50:34.063 --> 00:50:34.643
<v SPEAKER_2>You too, Rory.

00:50:38.163 --> 00:50:45.663
<v SPEAKER_2>Thanks for listening to this episode of Energy Security Cubed on The CGAI Podcast Network.

00:50:45.663 --> 00:50:48.763
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00:50:48.763 --> 00:50:50.883
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00:50:50.883 --> 00:50:55.703
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00:50:55.703 --> 00:51:06.663
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00:51:11.043 --> 00:51:15.283
<v SPEAKER_2>Energy Security Cubed is brought to you by our team at CGAI.

00:51:15.283 --> 00:51:18.283
<v SPEAKER_2>Thanks go out to Drew Phillips for our music.

00:51:18.283 --> 00:51:19.623
<v SPEAKER_2>I'm Joe Calnan.

00:51:19.623 --> 00:51:21.823
<v SPEAKER_2>Thanks for listening to Energy Security Cubed.