

WEBVTT

00:00:07.237 --> 00:00:21.497

<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.

00:00:21.497 --> 00:00:28.337

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

00:00:33.837 --> 00:00:43.317

<v SPEAKER_2>For today's podcast, we're featuring economist Charles St-Arnaud for a discussion of the economic impacts to Canada from the current energy crisis.

00:00:43.317 --> 00:00:50.677

<v SPEAKER_2>But before we dive into that, I'm going to quickly go over some of the information that I think is relevant for you folks.

00:00:50.677 --> 00:00:58.317

<v SPEAKER_2>I know I normally would do news stories, but this time around, I wanted to do a little, I suppose, introduction to global oil prices.

00:01:00.017 --> 00:01:04.537

<v SPEAKER_2>Just so people have proper context for what we're talking about when we talk about oil prices.

00:01:05.977 --> 00:01:14.957

<v SPEAKER_2>I'm not a huge expert on this, so please take all this with a grain of salt, but I've learned a lot looking this up, so I find it very interesting.

00:01:14.957 --> 00:01:20.757

<v SPEAKER_2>But one little piece of news to cover before we start, and I didn't write this down in the script here.

00:01:20.757 --> 00:01:27.677

<v SPEAKER_2>Trump did end up, I suppose the term that's thrown around is taco.

00:01:27.677 --> 00:01:28.977

<v SPEAKER_2>Trump always chickens out.

00:01:28.977 --> 00:01:39.217

<v SPEAKER_2>Trump did allow for a two-week, quote-unquote, ceasefire where it comes to his ultimatum to the Iranians.

00:01:39.997 --> 00:01:49.697

<v SPEAKER_2>So I gave a little quote to some CBC people earlier today about the idea of Trump's ultimatum.

00:01:50.857 --> 00:01:57.437

<v SPEAKER_2>These ultimatums should not be taken with the same seriousness, I suppose, as George HW.

00:01:57.437 --> 00:02:00.197

<v SPEAKER_2>Bush's ultimatum to Saddam Hussein.

00:02:01.377 --> 00:02:06.397

<v SPEAKER_2>So it's something to keep in mind with a player like Trump.

00:02:06.397 --> 00:02:09.057

<v SPEAKER_2>He plays very fast and leaps with these ultimatums.

00:02:09.057 --> 00:02:14.897

<v SPEAKER_2>And I'm not sure if that's a great direction for global geopolitics.

00:02:14.897 --> 00:02:17.537

<v SPEAKER_2>But anyhow, a piece of news for you all.

00:02:17.537 --> 00:02:27.917

<v SPEAKER_2>We'll be talking more about that this Friday when we have a webinar focused on Canada's role in the current energy crisis.

00:02:27.957 --> 00:02:29.417

<v SPEAKER_2>I'll be making a post on LinkedIn.

00:02:29.577 --> 00:02:33.377

<v SPEAKER_2>We don't have it up on the website quite yet, but I might make a web page for it.

00:02:33.377 --> 00:02:43.197

<v SPEAKER_2>Anyhow, if you're interested in attending this webinar, it'll be Kevin Byrne, Kelly Ogle, Monica Gattinger and I talking through Canada's role in this current crisis.

00:02:43.197 --> 00:02:47.477

<v SPEAKER_2>So if you don't have a link to that, then please shoot me an email.

00:02:47.477 --> 00:02:49.637

<v SPEAKER_2>I'll send it along.

00:02:49.637 --> 00:02:52.177

<v SPEAKER_2>Anyhow, let's jump into oil prices.

00:02:52.177 --> 00:02:57.217

<v SPEAKER_2>We'll go into a few of the major oil prices that get thrown around and what they actually mean.

00:02:57.897 --> 00:03:07.357

<v SPEAKER_2>I think this is important because people are always talking about Brent, WTI, WCS, without some of the important context for these benchmarks.

00:03:07.357 --> 00:03:10.077

<v SPEAKER_2>Now, before I dig into this, I should warn my listeners.

00:03:10.077 --> 00:03:11.777

<v SPEAKER_2>I'm not the greatest expert in this.

00:03:11.877 --> 00:03:16.837

<v SPEAKER_2>I'd recommend listeners look up the names or look up some of our previous guests.

00:03:16.897 --> 00:03:21.957

<v SPEAKER_2>For example, Ilya Bushiev, Lucas Albrecht, and Rory Johnston.

00:03:21.957 --> 00:03:24.817

<v SPEAKER_2>If you want more detailed information, you should look them up.

00:03:24.817 --> 00:03:26.377

<v SPEAKER_2>I'm just talking in broad strokes here.

00:03:27.097 --> 00:03:31.557

<v SPEAKER_2>Please forgive me if I get anything wrong to some of our more informed listeners.

00:03:31.557 --> 00:03:35.777

<v SPEAKER_2>I'd be happy to error a correction in the coming weeks if any of this is incorrect.

00:03:35.777 --> 00:03:40.837

<v SPEAKER_2>But as far as I can tell, I think all this information is spot on.

00:03:40.837 --> 00:03:47.157

<v SPEAKER_2>First of all, we need to clarify the difference between physical cargoes and futures contracts.

00:03:47.217 --> 00:03:51.817

<v SPEAKER_2>So for example, North Sea Brent Light Suite Crude Oil.

00:03:51.817 --> 00:03:56.237

<v SPEAKER_2>There are different contracts that are relevant to when we're talking about oil prices.

00:03:56.237 --> 00:04:02.257

<v SPEAKER_2>And these are known as Dated Brent and Front Month Brent.

00:04:02.257 --> 00:04:05.577

<v SPEAKER_2>Dated Brent contracts are for physical cargoes.

00:04:05.677 --> 00:04:12.137

<v SPEAKER_2>If you're holding one of these contracts on the delivery date, you'd better be prepared to actually take that physical crude oil.

00:04:13.097 --> 00:04:20.997

<v SPEAKER_2>These are spot contracts for customers like refineries to buy, to secure their feedstock.

00:04:20.997 --> 00:04:25.837

<v SPEAKER_2>So it's really important to note here that this is the physical barrel contracts.

00:04:26.937 --> 00:04:31.257

<v SPEAKER_2>Front Month Brent, on the other hand, is known as a paper barrel.

00:04:31.257 --> 00:04:38.077

<v SPEAKER_2>It is a financial futures contract, which is generally settled with cash, rather than delivery of the oil.

00:04:38.897 --> 00:04:50.097

<v SPEAKER_2>The Front Month Brent is still tied to the underlying commodity, but it is generally traded for financial purposes with no intent to take on cargoes.

00:04:50.097 --> 00:04:58.357

<v SPEAKER_2>Because of this, the Front Month Futures Brent contract is thought to be 10 to 30 times the size of the...

00:04:58.357 --> 00:05:05.457

<v SPEAKER_2>Sorry, the Front Month Futures Brent market is thought to be 10 to 30 times the size of the physical dated Brent market.

00:05:05.637 --> 00:05:21.917

<v SPEAKER_2>So, generally, the amount of money that is moving between these contracts and different people is 10 to 30 times how much money is exchanged for contracts in the physical market.

00:05:21.917 --> 00:05:30.057

<v SPEAKER_2>Normally, this isn't an issue, but in recent weeks, the

divergence between dated Brent and Front Month Brent has become absolutely enormous.

00:05:31.097 --> 00:05:40.797

<v SPEAKER_2>As of April 7, 2026, the dated Brent physical market hit a record high of \$144.42 per barrel.

00:05:40.797 --> 00:05:46.277

<v SPEAKER_2>However, Front Month paper barrels are trading at just \$109 per barrel.

00:05:46.277 --> 00:05:50.357

<v SPEAKER_2>This is a \$35 difference higher than it has ever been before.

00:05:50.357 --> 00:06:02.997

<v SPEAKER_2>So, basically, what we're talking about is that paying for the actual delivery of the oil is \$35 more per barrel than just speculating in the futures contracts.

00:06:03.477 --> 00:06:05.897

<v SPEAKER_2>This is a huge difference.

00:06:05.897 --> 00:06:09.397

<v SPEAKER_2>This situation is known as backwardation.

00:06:09.397 --> 00:06:22.537

<v SPEAKER_2>What it signals is that supplies of oil are incredibly tight right now, meaning that refineries and other handlers of crude oil are willing to pay very high prices to get their hands on this much needed crude.

00:06:22.537 --> 00:06:28.437

<v SPEAKER_2>However, speculators on the financial markets are betting that this will be resolved soon and prices will come down.

00:06:28.437 --> 00:06:39.377

<v SPEAKER_2>They might in fact turn out to be right if Trump does use the ceasefire as an opportunity to declare victory and pull out of Iran.

00:06:39.377 --> 00:06:45.857

<v SPEAKER_2>Brent, whether it's dated or front month, is generally considered the global oil benchmark price.

00:06:45.857 --> 00:06:52.377

<v SPEAKER_2>This is because dated Brent is relatively transparent and liquid based on sales of cargoes loaded in the North Sea.

00:06:53.157 --> 00:06:57.817

<v SPEAKER_2>Of course, front month Brent is kind of a derivative of dated Brent.

00:06:57.817 --> 00:07:08.357

<v SPEAKER_2>Similar dynamics for Brent in the North Sea also exist for the other closely followed oil price benchmark, and this is West Texas Intermediate.

00:07:08.357 --> 00:07:14.297

<v SPEAKER_2>Similar to Brent, WTI has a deep and transparent market for pricing.

00:07:14.297 --> 00:07:24.857

<v SPEAKER_2>However, owing to its physical settlement at Cushing, Oklahoma, WTI is also subject to local storage and pipeline constraints that do not affect Brent.

00:07:24.857 --> 00:07:31.637

<v SPEAKER_2>WTI usually trades at a small discount to Brent because of these oil transportation constraints.

00:07:31.637 --> 00:07:35.837

<v SPEAKER_2>However, recently, WTI has been trading higher than Brent.

00:07:35.837 --> 00:07:39.817

<v SPEAKER_2>The explanation for this is relatively simple as far as I can tell.

00:07:39.817 --> 00:07:44.177

<v SPEAKER_2>WTI contracts expire at different times than Brent contracts.

00:07:44.177 --> 00:07:53.937

<v SPEAKER_2>So for some of the past few weeks, we've been comparing WTI contracts expiring in April with Brent contracts expiring in May.

00:07:53.937 --> 00:08:06.017

<v SPEAKER_2>And of course, the sooner the contract expires right now, the higher the price will be because there's that shortage right now and an expectation that this shortage will be resolved further into the future.

00:08:07.457 --> 00:08:27.317

<v SPEAKER_2>Some of the other true benchmarks include Dubai Oman, which is the main benchmark for Middle Eastern crude to Asia, ESPO Blend, this is crude from Russia's Eastern Siberia-Pacific Ocean pipeline for Northeast Asian buyers, and EURALS, which is the export crude for European and Mediterranean buyers.

00:08:27.317 --> 00:08:35.137

<v SPEAKER_2>Nevertheless, none of these benchmarks are in the same league as Brent and WTI in terms of their liquidity or their transparency.

00:08:36.857 --> 00:08:47.957

<v SPEAKER_2>The vast majority of crude, however, is not contributing to benchmark price discovery, but rather subject to contracts which use benchmarks to come up with the prices.

00:08:47.957 --> 00:09:00.817

<v SPEAKER_2>This includes Canada's WTS, Heavy Sour Crude Oil, which is priced relative to WTI, because we don't have liquid or transparent enough markets for price discovery here in Canada.

00:09:00.857 --> 00:09:15.177

<v SPEAKER_2>This category also includes crude oil grades like Offshore US Mars Blend, Mexican Maya Crude, Nigeria's Bonnie Light, Saudi Arabia's Arab Light Medium and Heavy, and Kazakhstan's CPC Blend.

00:09:15.177 --> 00:09:19.017

<v SPEAKER_2>Now, there's many more things that we can talk about where it comes to this.

00:09:19.017 --> 00:09:24.357

<v SPEAKER_2>And again, I'm not a huge expert, so I'll leave it there for now.

00:09:24.357 --> 00:09:42.957

<v SPEAKER_2>This really reminds me that I should get another oil trader on the podcast to talk through these, especially someone involved on the financial side of this, because there's a huge area for hedging and for various other players in kind of the financial side of this, which can distort things.

00:09:42.957 --> 00:10:00.617

<v SPEAKER_2>Now, right now, there's a question about whether the market's being distorted by too much panic in the physical markets or whether it's being distorted by too much, I think they call it, or a lack of panic, I suppose, in the financial markets.

00:10:00.617 --> 00:10:11.897

<v SPEAKER_2>There's a question about who is wrong here, and ultimately, I suppose we only really, we'll only really know once we sort out what exactly the Trump administration is going to do here.

00:10:11.897 --> 00:10:19.237

<v SPEAKER_2>There's also the question of what the Iranian regime will do once, if and when Trump administration pulls out.

00:10:19.237 --> 00:10:21.317

<v SPEAKER_2>So that's a whole other question.

00:10:22.777 --> 00:10:28.057

<v SPEAKER_2>Now, we'll switch over to our discussion with Charles St-Arnaud about Canada's economy and the current oil crisis.

00:10:28.057 --> 00:10:34.417

<v SPEAKER_2>And again, please do reach out if you are interested in the upcoming webinar.

00:10:34.417 --> 00:10:38.337

<v SPEAKER_2>That is this Friday morning at 10:30 a.m.

00:10:38.337 --> 00:10:39.297

<v SPEAKER_2>Eastern Time.

00:10:39.297 --> 00:10:43.257

<v SPEAKER_2>So please reach out if you're interested in that webinar.

00:10:43.257 --> 00:10:45.417

<v SPEAKER_2>We'll now switch over to our interview.

00:10:46.617 --> 00:11:01.877

<v SPEAKER_2>For today's interview recorded April 2, 2026, we talk about the economic implications of the current oil shock for the Canadian economy, as well as longer term considerations for Canada's broader economic and energy status.

00:11:01.877 --> 00:11:06.137

<v SPEAKER_2>With us to discuss this is Charles St-Arnaud.

00:11:06.137 --> 00:11:14.837

<v SPEAKER_2>Charles is Chief Economist at Servus Credit Union and an experienced economist with more than two decades of work in both the public and private sectors in Canada and internationally.

00:11:15.377 --> 00:11:25.677

<v SPEAKER_2>He recently presented at CGAI's Annual Energy Analyst Summit where he gave a fantastic presentation on the economic fundamentals of Canadian oil and gas.

00:11:25.677 --> 00:11:28.217

<v SPEAKER_2>Delighted to have you on the podcast, Charles.

00:11:28.217 --> 00:11:30.797

<v SPEAKER_1>Thank you for having me.

00:11:30.797 --> 00:11:45.417

<v SPEAKER_2>Now, before we get into some of the existential concerns or the really oil and gas concerns, it might be helpful to get some context for where Canada was economically prior to this current energy crisis.

00:11:45.417 --> 00:11:51.777

<v SPEAKER_2>So earlier this week, StatsCan released its GDP by industry for January 2026.

00:11:51.777 --> 00:11:55.837

<v SPEAKER_2>So Charles, what are your main takeaways from this data?

00:11:55.837 --> 00:11:56.257

<v SPEAKER_1>Yeah.

00:11:56.257 --> 00:12:13.417

<v SPEAKER_1>Well, it's interesting when you look at the data, is that it shows that after a rocky second half of 2025, mainly due to the US tariffs and its impact on the export sector, we were seeing some kind of improvement in economic activity early in 2026.

00:12:13.417 --> 00:12:24.637

<v SPEAKER_1>So we're actually tracking growth in the first quarter of the year at about 1.5, 1.7 percent, which is not necessarily great, but better than the contraction we had in the fourth quarter.

00:12:24.637 --> 00:12:29.697

<v SPEAKER_1>We were seeing also better business confidence and improvement and also consumer confidence.

00:12:29.737 --> 00:12:43.417

<v SPEAKER_1>So there was in some ways better momentum starting 2026, but now with the energy shock coming from the Iranian war, that will change the dynamic as we get further in 2026.

00:12:43.417 --> 00:12:51.517

<v SPEAKER_1>So at least we were in a better footing to absorb the shock than where we were just six months ago, for example.

00:12:51.557 --> 00:13:02.137

<v SPEAKER_2>Yeah, and kind of that the economic situation six months ago, that was still kind of kind of reeling from the tariffs that the United States imposed upon Canada, correct?

00:13:02.137 --> 00:13:03.297

<v SPEAKER_1>Yeah, that's really it.

00:13:03.437 --> 00:13:05.657

<v SPEAKER_1>We've seen like a big decline in our exports.

00:13:05.937 --> 00:13:21.757

<v SPEAKER_1>What's interesting though is that we're seeing big decline in exports to the US, but almost fully compensated or more than fully compensated by our exports, increase in exports to non-US partner especially, which matters for our subject today.

00:13:21.757 --> 00:13:26.797

<v SPEAKER_1>Big increase in exports to non-US countries for oil and gas.

00:13:26.797 --> 00:13:28.297

<v SPEAKER_1>That's a big change.

00:13:28.297 --> 00:13:39.057

<v SPEAKER_1>Actually, last fall, we managed to export about 15% or so of our exports to non-US country, a record for Canada.

00:13:39.057 --> 00:13:46.117

<v SPEAKER_1>It shows obviously the importance of TMX on that front, helping us to find and being able to diversify to new market.

00:13:46.217 --> 00:13:50.837

<v SPEAKER_1>We also have the same with LNG Canada allowing us to export the rest of the world.

00:13:50.837 --> 00:13:58.117

<v SPEAKER_1>So that's kind of, it shows the value of those projects where we can access new market.

00:13:58.117 --> 00:14:06.517

<v SPEAKER_1>And it's not just like, those are the evidence in the short term from the oil and gas sector, but the same is also true in other sectors.

00:14:06.577 --> 00:14:14.437

<v SPEAKER_1>One sector that I've been looking at is very interesting, is that aluminum, our exports are actually roughly flat over the past year.

00:14:14.437 --> 00:14:26.437

<v SPEAKER_1>We've seen big decline in exports to the US because of the tariffs, but big increase in our exports to the rest of the world as we manage to gain market share elsewhere and kind of fully compensate.

00:14:26.437 --> 00:14:32.437

<v SPEAKER_1>So it really shows why trade diversification matters so much for a country like Canada.

00:14:32.437 --> 00:14:47.157

<v SPEAKER_2>Yeah, and I'm sure that, you know, it's important that those aluminum smelters, the people or the companies manufacturing that aluminum, largely in Quebec, I believe, they had to have that access to the ports to export their aluminum elsewhere.

00:14:47.157 --> 00:14:50.757

<v SPEAKER_2>If they didn't have that port infrastructure, they wouldn't have been able to do it.

00:14:50.757 --> 00:15:00.257

<v SPEAKER_1>Yeah, I think geography helps a lot in that case, because most of those smelters are in the Saguenay area where they have access to directly to the St.

00:15:00.257 --> 00:15:03.377

<v SPEAKER_1>Lawrence River in the Atlantic to exports to other markets.

00:15:03.377 --> 00:15:09.017

<v SPEAKER_1>So in some ways, they've been lucky that they had those infrastructure available.

00:15:09.017 --> 00:15:25.377

<v SPEAKER_1>And that's where investment in infrastructure in our port system is so crucial for the next decade that we'll need to really revamp those infrastructure to be able to diversify our trade and kind of in some ways reduce our dependence on the US.

00:15:26.177 --> 00:15:26.477

<v SPEAKER_2>Yeah.

00:15:26.477 --> 00:15:30.617

<v SPEAKER_2>And it would have been great to have an LNG export terminal in Saginaw right now.

00:15:30.797 --> 00:15:31.917

<v SPEAKER_2>I think that would be fantastic.

00:15:32.837 --> 00:15:37.497

<v SPEAKER_2>But I've harped on that a little bit too much on this podcast already.

00:15:37.497 --> 00:15:43.177

<v SPEAKER_2>But to keep with kind of the situation that we have right now.

00:15:43.177 --> 00:16:00.597

<v SPEAKER_2>So I think that there's an interesting kind of a trade-off here with high energy prices, where of course, as a net energy exporter, Canada has certain economic tailwinds from it, but also as a

big energy consumer, Canada is one of the largest per-capita energy consumers in the world.

00:16:00.597 --> 00:16:03.817

<v SPEAKER_2>It also is economic headwinds for Canada.

00:16:03.817 --> 00:16:12.297

<v SPEAKER_2>So you wrote on a LinkedIn post on Tuesday that higher oil prices will be, and I quote here, a net negative for Canada's economy.

00:16:12.357 --> 00:16:21.917

<v SPEAKER_2>And basically, consumer purchasing power erosion here will outweigh any set of oil and gas investment that comes out of this.

00:16:21.917 --> 00:16:28.837

<v SPEAKER_2>So I tend to agree that oil and gas companies I talk to here in Western Canada are definitely not thinking about increasing their investments yet.

00:16:29.297 --> 00:16:34.537

<v SPEAKER_2>They're definitely looking more longer term what the price forecast is going to be.

00:16:34.537 --> 00:16:38.497

<v SPEAKER_2>But I'd be interested in picking your brain a little bit here.

00:16:38.497 --> 00:16:43.777

<v SPEAKER_2>So higher prices should mean more export revenue, which should boost Canadian GDP in that way.

00:16:43.777 --> 00:16:51.497

<v SPEAKER_2>But I'm just interested in unpacking exactly like why do you see this as a net negative for Canada's economy?

00:16:51.497 --> 00:16:53.717

<v SPEAKER_2>Can you like unpack your thinking there?

00:16:53.717 --> 00:16:54.117

<v SPEAKER_1>Yeah.

00:16:54.117 --> 00:17:07.117

<v SPEAKER_1>So there's a direct impact, as you explained, as you said, that higher energy costs, higher inflation will impact most non-energy businesses in terms of profitability and all that.

00:17:07.437 --> 00:17:17.757

<v SPEAKER_1>Consumers will be affected because, well, we see it with

the price of gasoline at the pump that will have an impact on their budget and how they can spend going forward and on their purchasing power.

00:17:17.757 --> 00:17:21.297

<v SPEAKER_1>So that's kind of a direct impact of higher oil prices.

00:17:21.297 --> 00:17:29.817

<v SPEAKER_1>But then we always think as Canadian, oh, higher oil prices, it's a positive terms of trade, it will stimulate the economy.

00:17:29.817 --> 00:17:39.857

<v SPEAKER_1>But that is less of a case now, and especially since 2015, since the bust of the investment cycle in the mid-2010.

00:17:39.857 --> 00:17:48.137

<v SPEAKER_1>But also the type of shock we have also change away how we can take advantage of those higher prices.

00:17:48.137 --> 00:18:01.657

<v SPEAKER_1>It's very different if you have \$100 a barrel due to increased demand, which what we had in the early 2010, compared to now where it's due to what is considered short-term supply disruption.

00:18:02.217 --> 00:18:10.577

<v SPEAKER_1>Because the issue is that when it's demand driven, well, unless you have demand destruction, the price is going to stay high.

00:18:10.577 --> 00:18:19.157

<v SPEAKER_1>Right now, the problem is that what happened to the price once the Strait of Hormuz reopens and all those barrels starts to flow to the global market?

00:18:19.157 --> 00:18:23.717

<v SPEAKER_1>We're probably going to converge in terms of oil prices to where we were earlier this year.

00:18:23.717 --> 00:18:24.857

<v SPEAKER_1>Is it going to be to 60?

00:18:24.857 --> 00:18:25.917

<v SPEAKER_1>Is it going to be to 70?

00:18:25.917 --> 00:18:28.957

<v SPEAKER_1>But we're definitely not going to be at \$100 a barrel.

00:18:29.477 --> 00:18:39.397

<v SPEAKER_1>So if you're an oil company, what are you using as an assumption for your future price of oil to for your revenue in our investment decision?

00:18:39.397 --> 00:18:42.717

<v SPEAKER_1>It's probably not the \$100 a barrel that we're having right now.

00:18:42.717 --> 00:18:56.657

<v SPEAKER_1>You're probably using more towards 60, 70, and you're probably not in a hurry to invest, knowing that if there's a normalization, your investment decision might have been different.

00:18:57.297 --> 00:19:02.837

<v SPEAKER_1>That's kind of the context we are in, in terms of when we think about the impact on investment.

00:19:02.837 --> 00:19:14.597

<v SPEAKER_1>Then there's all the question is that, yes, we have much higher revenues from our oil production because of higher prices, but the question is, what are we doing with those revenues?

00:19:14.597 --> 00:19:28.517

<v SPEAKER_1>That has been going on for almost a decade now, is that we've been seeing oil producers returning a greater share of those revenues to their shareholders, which, by the way, 75% of them are non-Canadian.

00:19:28.517 --> 00:19:34.117

<v SPEAKER_1>That means that, yes, you have higher revenues, but they're not actually staying in Canada.

00:19:34.117 --> 00:19:38.277

<v SPEAKER_1>The same if they're not reinvesting those revenues in their operation.

00:19:38.277 --> 00:19:42.657

<v SPEAKER_1>That money is also not flowing back to Canada.

00:19:42.657 --> 00:20:05.437

<v SPEAKER_1>That means that, yes, we have on paper positive terms of trade shock because our export prices have increased faster than our import prices, but that money is actually not coming to the economy, so you don't have that normal positive push on your economic growth that you would have expected in the past.

00:20:05.437 --> 00:20:19.057

<v SPEAKER_2>Yeah, I mean, that's a really interesting point, talking about when we have \$100 per barrel, like how much of that \$100 for every barrel that's exported goes to kind of which party?

00:20:19.217 --> 00:20:34.737

<v SPEAKER_2>Because you have the royalties, the royalties go to the

government of Alberta, corporate taxes go to the federal government of Alberta, you have kind of the employees' wages, which is largely going to be in Canada, kind of supply chain costs for just general running things.

00:20:34.737 --> 00:20:40.497

<v SPEAKER_2>But then there's a question about the balance between the investment versus returning capital shareholders.

00:20:40.497 --> 00:20:44.957

<v SPEAKER_2>And that's, I think, the chunk that has switched over, right?

00:20:44.997 --> 00:20:56.257

<v SPEAKER_1>Yeah, and that's also explained why we've seen over the past 10 years also how the Canadian dollar is much less affected or correlated to the oil prices.

00:20:56.257 --> 00:21:06.257

<v SPEAKER_1>We used to trade, I used to be a foreign exchange strategist, so most traders on the Canadian dollar desk would have oil prices, Canadian dollar, and they would just trade based on that.

00:21:06.257 --> 00:21:19.297

<v SPEAKER_1>But that correlation has broken completely because you don't have the same share of revenues that are in US dollars that are then converted back in the Canadian dollar.

00:21:19.297 --> 00:21:25.377

<v SPEAKER_1>Because at the end of the day, if we take those oil producers, their revenues are in US dollars.

00:21:25.377 --> 00:21:32.477

<v SPEAKER_1>Yes, their accounting, if we look at their balance sheet, is in the Canadian dollar, but that's just an accounting measure.

00:21:32.477 --> 00:21:43.017

<v SPEAKER_1>The actual bank account at the back is most likely in US dollar, and the only way the Canadian dollar is appreciated is those US dollars are ultimately converted in the Canadian dollar.

00:21:43.017 --> 00:22:04.577

<v SPEAKER_1>And what we've seen is that by having less reinvestment in the domestic economy, having less of that money being returned into the economy, you do not have that same amount of flows per dollars of, or the same share of that US dollar revenue is being converted back into the Canadian dollar, and that's why we're not seeing that appreciation.

00:22:04.957 --> 00:22:24.477

<v SPEAKER_2>Yeah, so before we started the podcast recording here, we were chatting a little bit about how you originally got into the oil and gas space, because you're originally working in the foreign exchange analysis, both in the private sector as well as at the Canadian Central Bank.

00:22:26.857 --> 00:22:52.237

<v SPEAKER_2>I'm really interested, I think, in something that you've written about before, which is that the enormous inflow of investment expenditure in the oil sands was one of the things that kind of shaped the Canadian economy, I think, through the 90s and then the early 2000s up until, I believe, the oil price crash in 2014, right?

00:22:52.237 --> 00:22:52.417

<v SPEAKER_2>Yeah.

00:22:52.417 --> 00:22:55.437

<v SPEAKER_2>And how that shifted things.

00:22:55.437 --> 00:23:07.917

<v SPEAKER_2>So I guess the question is, if there is another big wave of investment, which is definitely possible with this major projects office, whether that could start to shape the Canadian economy in a similar way.

00:23:08.217 --> 00:23:11.857

<v SPEAKER_2>Do you see any scope for something like that?

00:23:11.857 --> 00:23:12.637

<v SPEAKER_1>There is.

00:23:12.637 --> 00:23:14.197

<v SPEAKER_1>I think we also have to be careful.

00:23:14.197 --> 00:23:57.677

<v SPEAKER_1>I think there's two sides to it, is that when we look at the, I would call it kind of the boom of investment from mid-2002, mid-2010, I think we have to look at it also as, I look at the oil industry a bit in terms of, it's almost kind of a tech industry, but in slow motion, is that we got into the early 2000s, we kind of, we already knew that we had oil sands, we knew there was a potential, but we kind of managed to kind of control, have a better grasp of the technology and lower the cost and realize that, hey, with proper investment, we can actually start producing oil from the oil sands with a profit.

00:23:58.497 --> 00:24:18.557

<v SPEAKER_1>And everybody rushed into the sector from like in the early 2002, when the prices crashed and we had massive investment that generated the massive boom we've had in investment and also a lot of

wealth was created in Alberta during that period that happened.

00:24:18.597 --> 00:24:25.097

<v SPEAKER_1>But also now we kind of have a different period because that's kind of why you call that a startup company.

00:24:25.097 --> 00:24:36.677

<v SPEAKER_1>Very much as you see in tech is that, or we see in AI right now, you have that new technology and you want to invest massively to be the first in and to profit from that new sector.

00:24:36.677 --> 00:24:51.857

<v SPEAKER_1>But now we're kind of more of a mature phase where that previous investment is now more mature, is producing, and a very, very big boost to our economy still.

00:24:51.857 --> 00:25:07.357

<v SPEAKER_1>Like when we look at Alberta's growth over the past six years, so if we compare since pre-COVID, about a third of the growth in Alberta comes from increase in production in the oil and gas sector.

00:25:07.357 --> 00:25:08.937

<v SPEAKER_1>That's a lot.

00:25:08.937 --> 00:25:11.837

<v SPEAKER_1>It kind of shows how we're still extremely heavily.

00:25:11.837 --> 00:25:33.477

<v SPEAKER_1>We might not be feeling the boom, but it's more of a steady increase and it's more, like I said, mature, is that now the business model has changed from rapid growth and development to we have that investment, it's producing, revenues are really high, even before the increase in oil prices right now.

00:25:33.477 --> 00:26:02.637

<v SPEAKER_1>Revenues for oil companies, their free cash flows, profitability was close to their highest on record still, but they don't feel the need to invest as much to increase production massively as we had, because it's no longer that rush into that new, in that new era and that new industry or that new sector, which was the oil send 20, 20 or so years ago.

00:26:02.637 --> 00:26:24.597

<v SPEAKER_1>And now the question is that, especially with how, where oil prices have been over the past 10 years, it's the consideration with, with oil prices being \$65 or so on average over the past 10 years, does it justify the heavy investment that are required upfront for those companies?

00:26:24.597 --> 00:26:36.097

<v SPEAKER_1>Because that's always the thing that seems to be missed when people think about the oil industry and the economics of it is that it's a very different structure in terms of cost.

00:26:36.697 --> 00:26:39.677

<v SPEAKER_1>It's heavily fixed cost.

00:26:39.677 --> 00:26:45.557

<v SPEAKER_1>You need tens of billions of dollars upfront before producing your first barrel.

00:26:45.557 --> 00:26:54.937

<v SPEAKER_1>At the other extreme, you have the shell oil producers, which has constantly, most of their cost is variable because their capex is constant.

00:26:54.937 --> 00:27:07.937

<v SPEAKER_1>So, but how do you pass that threshold to justify the 30 or so billion to create or to start a new project when oil prices are \$65 a barrel?

00:27:07.937 --> 00:27:14.117

<v SPEAKER_1>That's where I think it's interesting to see the dynamic in terms of investment right now.

00:27:14.117 --> 00:27:35.217

<v SPEAKER_1>And that's kind of where we stand now is, yes, there's the regulation and all that, but our shareholders right now that are benefiting from very higher return on their investment thanks to dividends, are they willing to sacrifice the dividend to spend capital, to expend production in the future?

00:27:35.877 --> 00:27:36.097

<v SPEAKER_2>Yeah.

00:27:36.617 --> 00:27:38.057

<v SPEAKER_1>That's where we are at.

00:27:38.057 --> 00:27:55.177

<v SPEAKER_1>But once you've committed that capital, then your break even is extremely low, because as long as you can, your price is higher than your variable cost, you're still making enough money to repay the initial capital.

00:27:55.177 --> 00:28:18.937

<v SPEAKER_1>So it's an interesting one where current project or those where the capital has already been committed, you're not necessarily in a profit maximization kind of framework, you're more in a loss minimization framework, where as long as you can cover those initial

costs, you're going to continue to produce, which means that the break even for once the capital is committed, is extremely low.

00:28:18.937 --> 00:28:25.437

<v SPEAKER_1>So it's how do you pass that hump in the short term to create the new investment?

00:28:25.437 --> 00:28:27.757

<v SPEAKER_1>That's, I think, where we are.

00:28:28.037 --> 00:28:42.477

<v SPEAKER_2>I wonder if, and this is completely going off script here, just my own speculation, I'm almost wondering if it would be worth it to, for the Canadian government to be starting to approach the oil super majors, the international oil companies.

00:28:42.477 --> 00:28:45.717

<v SPEAKER_2>Some of these companies are very worried about their inventory.

00:28:47.037 --> 00:28:51.637

<v SPEAKER_2>A company like Shell, which doesn't really have that great of an inventory going forward.

00:28:51.637 --> 00:29:06.457

<v SPEAKER_2>And I know that most of these companies, they left the upstream oil sands over the last 15 years because of climate concerns, but now they're kind of looking down the barrel of, first of all, they don't have enough inventory as is.

00:29:06.457 --> 00:29:12.597

<v SPEAKER_2>And secondly, any investments in the Strait of Hormuz are now extremely suspect.

00:29:12.597 --> 00:29:22.017

<v SPEAKER_2>Because you could always have, let's say, we have a situation where the United States unilaterally pulls out because it just, Trump just can't justify it.

00:29:22.017 --> 00:29:35.977

<v SPEAKER_2>And then like the Strait of Hormuz opens again, but there's always that risk of Iran getting upset with the Gulf Monarchy neighbors and decide to close it again or attack their energy infrastructure.

00:29:35.977 --> 00:29:46.897

<v SPEAKER_2>If the United States decides to stop defending these countries effectively, then you could have a situation where those investments are extremely unsure.

00:29:47.477 --> 00:29:48.897

<v SPEAKER_2>But that's just complete speculation.

00:29:48.897 --> 00:29:51.877

<v SPEAKER_2>I'm not saying necessarily this is what's going to happen.

00:29:51.877 --> 00:30:04.997

<v SPEAKER_1>I think on that front, I see it in two waves in some ways, is that we've just had two big supply shock in the oil industry within five years.

00:30:04.997 --> 00:30:09.257

<v SPEAKER_1>We had the Russian War with Ukraine, now we have the Iranian War.

00:30:09.257 --> 00:30:21.517

<v SPEAKER_1>So I can imagine if you're a net importer of oil and gas, you're probably starting to look in terms of how can I diversify my suppliers in the short term.

00:30:21.517 --> 00:30:36.637

<v SPEAKER_1>So I can imagine there's going to be a lot of interest from India, China, Europe to invest in project that will provide them in some ways that energy security at least in the short term.

00:30:36.637 --> 00:30:39.757

<v SPEAKER_1>So that's going to be positive for Canada in the medium term.

00:30:39.757 --> 00:30:48.137

<v SPEAKER_1>So over the next decade or so, there will be an increase in interest and an increase in demand for a product.

00:30:48.137 --> 00:31:07.197

<v SPEAKER_1>Where I'm a bit more concerned is the long term consequences, is that in the long run, if you're China or India and you realize that your economic security and your energy security depends on imports, well, you want to try to reduce as much as you can your dependence on energy imports.

00:31:07.917 --> 00:31:14.357

<v SPEAKER_1>So does it kind of create a steeper decline in demand for oil in the long run?

00:31:14.357 --> 00:31:22.617

<v SPEAKER_1>Where, yes, we have increased demand for Canadian oil in the short to medium term, but a faster rate of decline in the longer run.

00:31:22.617 --> 00:31:35.237

<v SPEAKER_1>Because those countries will probably transition faster to other source of energy because they see it as an imperative, an economic and security imperative.

00:31:35.377 --> 00:31:44.857

<v SPEAKER_1>And I've been saying it since the war in Ukraine, is that my view is that the war in Ukraine did more for energy transition than all the carbon tax and all the regulation.

00:31:44.857 --> 00:31:51.337

<v SPEAKER_1>Because it was not just, we're doing it to save the planet, which is a cost.

00:31:51.337 --> 00:32:10.077

<v SPEAKER_1>No, we're doing it because if we don't, the cost will be economic and security where we're actually, so it changed the dynamic when it becomes more of an economic imperative rather than an environmental imperative to do the energy transition.

00:32:11.197 --> 00:32:25.417

<v SPEAKER_1>That's where I think we might have to look into that, what are the consequences in the long term on potential demand destruction coming from having too big supply shock in such a short period of time.

00:32:25.417 --> 00:32:26.557

<v SPEAKER_2>Yeah, I completely agree.

00:32:27.417 --> 00:32:53.217

<v SPEAKER_2>I remember, I was on CBC for one of those radio interviews where you have people calling in and I immediately start talking about, I bet people are starting to look at EVs again and households will be looking at the math, not based upon some sort of save the world kind of idea, but just based upon, can I save some money on gasoline?

00:32:54.137 --> 00:33:07.517

<v SPEAKER_2>Because as much as oil prices, I'd say Brent and WTI crude oil prices haven't raised, like we were saying before the podcast, well, that they haven't gone up as high as you'd expect considering the real supply disruptor we're talking about here.

00:33:07.517 --> 00:33:11.997

<v SPEAKER_2>But refined products prices have gone up by an awful amount.

00:33:11.997 --> 00:33:20.317

<v SPEAKER_2>And it's really going to be hitting people's wallets and they're going to be starting to do the math on what makes sense.

00:33:20.317 --> 00:33:31.297

<v SPEAKER_2>And then once you got a person switched over, like if they have just one car and they switch over to an electric vehicle, then that's probably going to be pretty sticky once you have that switch over.

00:33:31.297 --> 00:33:34.197

<v SPEAKER_2>So, yeah, that's definitely a concern.

00:33:34.197 --> 00:33:48.837

<v SPEAKER_2>But I think at the same time we'll see for states and for like the electricity, the grid planners of these countries, they're going to be thinking about how long does this disruption last?

00:33:49.137 --> 00:33:54.717

<v SPEAKER_2>And should we be making these like absolutely enormous investments in upgrading the grid?

00:33:54.717 --> 00:33:55.917

<v SPEAKER_2>Should we be accelerating those?

00:33:56.537 --> 00:33:57.597

<v SPEAKER_2>That's something big.

00:33:58.357 --> 00:34:13.897

<v SPEAKER_1>And also some of the countries that are big importers, like China and India, is how much research and development they are doing into alternative source of energy that is not based on imports.

00:34:13.897 --> 00:34:23.797

<v SPEAKER_1>I can imagine countries like India investing probably more massively in terms of nuclear and other sources that are not dependent on imports.

00:34:24.097 --> 00:34:30.297

<v SPEAKER_2>A big benefit of this, you know, coal could really stick around for a lot longer out of this too.

00:34:30.297 --> 00:34:40.057

<v SPEAKER_1>But coal in the same way is that the question, and I'm not a specialist on coal, is that how much does country depends also on imports.

00:34:40.057 --> 00:34:50.557

<v SPEAKER_1>Because it might be starting to look more broadly, not just at oil and gas, but broadly is like, OK, yeah, I can switch into coal for the next five, 10 years, 15 years.

00:34:50.557 --> 00:35:02.357

<v SPEAKER_1>But again, in 20 years, I probably want to wean myself completely from energy imports and basically trying to be as much as I can energy sufficient.

00:35:02.417 --> 00:35:07.557

<v SPEAKER_1>So that's when nuclear power plants become more interesting.

00:35:09.317 --> 00:35:19.757

<v SPEAKER_1>One thing that I've pointed to that rabbit hole earlier this year, the Chinese are investing massively in what they call thorium nuclear reactor, which is alternative to uranium.

00:35:19.757 --> 00:35:22.677

<v SPEAKER_1>And the technology is actually quite interesting when you look into it.

00:35:22.677 --> 00:35:39.317

<v SPEAKER_1>So you're like, OK, if they start to, there's now a bigger incentive to invest in research and development in improving the, in some way, what I call self-sufficiency in energy for many of those countries.

00:35:39.317 --> 00:35:54.937

<v SPEAKER_1>And that, again, it doesn't matter now, but in 20, 30 years from now, when the technology is advanced enough, you might see some really sharp decline in demand for some of the fossil fuels.

00:35:55.017 --> 00:36:01.277

<v SPEAKER_1>So that's, that I think is where I'm seeing the current environment may be changing.

00:36:01.277 --> 00:36:12.637

<v SPEAKER_1>Because again, it's really the thing is that for a country like China, it's becoming more strategic and economic than just purely trying to do the, the environmental choice.

00:36:14.037 --> 00:36:27.037

<v SPEAKER_2>Yeah, no, it's definitely an interesting dynamic and kind of also within the larger trend, I think, also of this push back against globalization, where countries are starting to lose trust in each other.

00:36:27.037 --> 00:36:30.817

<v SPEAKER_2>And that trust is what underpins globalization.

00:36:30.817 --> 00:36:36.557

<v SPEAKER_2>You know, countries feel like they need to be more self-sufficient, which is less economically efficient.

00:36:36.557 --> 00:36:43.957

<v SPEAKER_2>So there's going to be slower global growth and slower improvements in standard of living, but countries are going to be prioritizing security more.

00:36:43.957 --> 00:36:47.297

<v SPEAKER_2>I think that's kind of what we're talking about here, right?

00:36:47.337 --> 00:36:57.257

<v SPEAKER_1>Yeah, yeah, it's really that and we're seeing also in Canada, like, is it more efficient for us to export to the US or export to the rest of the world?

00:36:57.257 --> 00:36:59.657

<v SPEAKER_1>It's easier to export to the US.

00:36:59.657 --> 00:37:05.957

<v SPEAKER_1>It's less costly because the shipping costs are much lower.

00:37:05.957 --> 00:37:22.677

<v SPEAKER_1>But again, in an uncertain world, in a volatile world, you need that diversification to ensure that when you have a negative shock, you have other sectors that can ease the pain or reduce the negative impact.

00:37:22.677 --> 00:37:35.577

<v SPEAKER_1>And well, I'll put it this way, it's always been my pet peeve with global trade theory and economics is that it works well, that specialization, as long as you don't have any volatility.

00:37:38.237 --> 00:37:47.477

<v SPEAKER_2>Yeah, I just worry, I think, about this going too far as well, because I think that if you, like no country can be, no country is an island.

00:37:47.477 --> 00:37:56.037

<v SPEAKER_2>Well, I guess some countries exist on islands, but in terms of their existence in supply chains, no country can provide everything for themselves.

00:37:56.037 --> 00:38:10.377

<v SPEAKER_2>And if you try to, then you can end up creating supply chains that are actually much, well, of course, much less efficient and creating worse products, but also in some ways much more vulnerable, in my view.

00:38:10.377 --> 00:38:16.317

<v SPEAKER_2>And I think that there's definitely a balance to be

struck on that front.

00:38:16.317 --> 00:38:37.397

<v SPEAKER_2>And I'm also reminded of a whole thing about the Ambassador Bridge and the Gordie Howe Bridge, where it's kind of an interesting thing, where Canada is talking about decoupling with the United States, and yet we're still advocating for this new bridge that's supposed to integrate Canada's and the US auto sectors even more.

00:38:37.397 --> 00:38:42.717

<v SPEAKER_2>It's just a question about what exactly Canada wants out of that too.

00:38:42.717 --> 00:38:53.917

<v SPEAKER_1>Yeah, but I think on that front, we've already committed so many billions to that bridge that the faster it can be completed, I think we're past the point of no return on that one.

00:38:53.957 --> 00:39:00.817

<v SPEAKER_1>And it's still going to be positive because we're still, even though if we want to, we're never going to decouple fully from the US.

00:39:00.817 --> 00:39:02.017

<v SPEAKER_1>That's for sure.

00:39:02.777 --> 00:39:13.677

<v SPEAKER_1>It's still going to be our main trading partner, might not just be as much, but we're still going to continue to see in level term, our exports to the US growing.

00:39:13.677 --> 00:39:19.577

<v SPEAKER_1>So we'll still need better infrastructure to send more things to the US because it's still going to continue to grow.

00:39:19.577 --> 00:39:26.057

<v SPEAKER_1>It might grow not as fast as our exports to the rest of the world, but it's still going to be growing.

00:39:26.057 --> 00:39:33.177

<v SPEAKER_1>So that's where I think we also need to look at it, is that we're not suddenly stopping all trade with the US.

00:39:33.177 --> 00:39:34.977

<v SPEAKER_2>Yeah, absolutely.

00:39:34.977 --> 00:39:35.637

<v SPEAKER_2>I completely agree.

00:39:36.777 --> 00:39:41.017

<v SPEAKER_2>I think it would be fundamentally pretty much impossible to not trade with the US at all.

00:39:41.017 --> 00:39:44.477

<v SPEAKER_2>It's like the countries in Asia not trading with China.

00:39:45.377 --> 00:39:51.437

<v SPEAKER_2>It's just such an economic magnet that you have to have the supply chains.

00:39:51.437 --> 00:39:51.577

<v SPEAKER_1>Yeah.

00:39:53.917 --> 00:39:57.597

<v SPEAKER_2>I guess one last question on kind of the long-term prospects for Canada.

00:39:58.617 --> 00:40:01.857

<v SPEAKER_2>You've been highlighting Canada's productivity challenges for many years.

00:40:02.837 --> 00:40:12.577

<v SPEAKER_2>In my view, it was kind of unfortunate, the timing of this trade disruption between Canada and the United States, because we do have really significant economic problems here in Canada.

00:40:12.577 --> 00:40:17.097

<v SPEAKER_2>They're completely separate from any sort of external actor who we can blame.

00:40:18.497 --> 00:40:23.777

<v SPEAKER_2>In a lot of ways, the problems we're facing are entirely our own fault.

00:40:24.477 --> 00:40:28.877

<v SPEAKER_2>I think it would be useful to kind of highlight some of these too.

00:40:29.017 --> 00:40:43.457

<v SPEAKER_2>I think overall, and I know this is a big question, but if you were advising Prime Minister Mark Carney right now, what would you highlight as some of the key barriers for improving Canadian productivity?

00:40:44.297 --> 00:40:47.117

<v SPEAKER_1>Oh, there are plenty.

00:40:48.017 --> 00:40:57.677

<v SPEAKER_1>I think for me, the first comes from, do we have the

right diagnosis for what is happening and what has been hindering our productivity?

00:40:57.677 --> 00:41:01.377

<v SPEAKER_1>And I'm not sure we have a full picture.

00:41:01.377 --> 00:41:11.877

<v SPEAKER_1>I'm not sure people have the full picture either, because unfortunately doesn't get tainted by politics and don't want to look too much under the hood.

00:41:11.937 --> 00:41:19.457

<v SPEAKER_1>And I've done some of the calculation, is that a lot of people look at, oh, for example, we look at GDP per capita relative to the US.

00:41:19.457 --> 00:41:25.477

<v SPEAKER_1>Canada started to decouple from the US in 2015, and people go to, oh, that's when we had the change of government.

00:41:25.477 --> 00:41:30.797

<v SPEAKER_1>But we forget that we also have a massive oil shock that change a lot of the dynamic.

00:41:30.797 --> 00:41:38.297

<v SPEAKER_1>And when you look under the hood, you kind of realize that actually our economic problem started more in the late 90s, early 2000.

00:41:38.917 --> 00:41:50.097

<v SPEAKER_1>They were just invisible or not visible on the surface, because we had that boom in the oil industry and that investment that was hiding all the problems we had in the rest of the economy.

00:41:50.097 --> 00:41:57.117

<v SPEAKER_1>So, and to look at it in a different way, we look at some of the problem we have.

00:41:57.117 --> 00:42:09.937

<v SPEAKER_1>Our exports per capita, just to kind of, because we can always decompose that GDP per capita by composition, our exports per capita have stagnated completely since the late 90s to now.

00:42:09.937 --> 00:42:23.997

<v SPEAKER_1>After I've been responsible for more than half of our growth in GDP per capita between 1960 and the late 90s, something is terribly wrong, especially for, like I put it, is that, is Canada really a trading nation anymore?

00:42:23.997 --> 00:42:31.957

<v SPEAKER_1>And those exports include manufacturing, include services, and includes all the energy and mining and resources.

00:42:31.957 --> 00:42:38.217

<v SPEAKER_1>So there's something terribly wrong going there, where we are not competitive on the world stage.

00:42:38.217 --> 00:42:40.697

<v SPEAKER_1>So that's part of our productivity issue.

00:42:40.697 --> 00:42:43.417

<v SPEAKER_1>But why since the late 90s?

00:42:43.417 --> 00:42:47.937

<v SPEAKER_1>And it's interesting that it kind of coincides with globalization.

00:42:47.937 --> 00:42:52.737

<v SPEAKER_1>We're kind of been, in some ways, I call it as Canada has been a casualty of globalization.

00:42:52.737 --> 00:42:59.097

<v SPEAKER_1>We used to be probably, we grew to be in some ways the cheap supplier to the US.

00:42:59.097 --> 00:43:01.397

<v SPEAKER_1>Unfortunately, the US found someone cheaper than us.

00:43:02.457 --> 00:43:12.617

<v SPEAKER_1>And we never adapted to that new reality and improve our offering in terms of moving up in the supply chain in terms of value added and all that.

00:43:12.617 --> 00:43:15.297

<v SPEAKER_1>The part of it is we're not productive.

00:43:15.297 --> 00:43:21.277

<v SPEAKER_1>Our businesses are not investing enough in their operation.

00:43:21.277 --> 00:43:36.577

<v SPEAKER_1>And the problem is that also if we look at the past 30 years, Canada has in some ways have had the wrong economic model where we've been focusing too much on the demand side of the economy at the expense of the supply side.

00:43:36.577 --> 00:43:38.877

<v SPEAKER_1>And we've seen it.

00:43:38.877 --> 00:43:48.597

<v SPEAKER_1>Investment as a share of GDP in machinery, equipment, and intellectual property has been declining steadily since the late 90s.

00:43:48.597 --> 00:43:56.817

<v SPEAKER_1>But you look on the flip side, our investment in home renovation and home ownership transfer cost has been increasing by the same proportion.

00:43:57.557 --> 00:44:06.297

<v SPEAKER_1>So basically, we've started to spend less on productive investment to spend more on flipping homes, which is not productive.

00:44:06.297 --> 00:44:17.557

<v SPEAKER_1>So there's that too, is that we need to start thinking in terms of there's a supply side of the economy that we've kind of forgotten for the past 30 years or so.

00:44:17.557 --> 00:44:20.397

<v SPEAKER_1>So we need to look at it a bit more.

00:44:20.577 --> 00:44:25.317

<v SPEAKER_1>And it's more how we incentivize that supply side of that investment.

00:44:26.717 --> 00:44:29.597

<v SPEAKER_1>And how do we ensure that that happens?

00:44:29.597 --> 00:44:32.857

<v SPEAKER_1>And there's a flip side.

00:44:32.857 --> 00:44:46.197

<v SPEAKER_1>And that's where I find, in some ways, there's a lack of discussion at the government side, is that for a company to invest, someone needs to be able to supply that money.

00:44:46.197 --> 00:44:48.817

<v SPEAKER_1>There's a fundamental equation in economics.

00:44:48.817 --> 00:44:51.337

<v SPEAKER_1>Savings equal investment.

00:44:51.337 --> 00:45:00.617

<v SPEAKER_1>So how do we, yes, we want to incentivize saving, investment, but do we have the savings required to do that?

00:45:00.617 --> 00:45:11.057

<v SPEAKER_1>And part of the discussion also, over the past 30 years, is that there's a clear sign that household indebtedness and household borrowing has crowded out the business sector.

00:45:12.097 --> 00:45:34.097

<v SPEAKER_1>So in some ways, is that we have very ambitious investment objective, whether it's to construct the houses that we need for affordability, whether it's to rebuild our stock of capital to become productive, whether it's our infrastructure for ports, roads, and everything, whether it's investment in the military and all that.

00:45:35.257 --> 00:45:43.257

<v SPEAKER_1>We have all those ambitions, but do we have actually the capital that will be required to support that investment?

00:45:43.257 --> 00:45:46.857

<v SPEAKER_1>And when you speak to businesses, a lot of the time, the issue is not that they...

00:45:47.017 --> 00:45:53.457

<v SPEAKER_1>Like, we often think that, oh, the lack of investment is because a business doesn't want to invest.

00:45:53.457 --> 00:45:57.517

<v SPEAKER_1>I tend to say that that's probably the wrong way of seeing it.

00:45:57.517 --> 00:46:06.557

<v SPEAKER_1>I do not know any business owners that are not willing to invest in their business to improve their profitability, efficiency, and be more productive.

00:46:06.557 --> 00:46:10.457

<v SPEAKER_1>The issue is that can they do it at a decent cost?

00:46:10.457 --> 00:46:13.097

<v SPEAKER_1>Do they have access to the capital required?

00:46:13.097 --> 00:46:13.737

<v SPEAKER_1>Because you're not.

00:46:14.057 --> 00:46:16.957

<v SPEAKER_1>You're not going to invest without borrowing.

00:46:16.957 --> 00:46:31.357

<v SPEAKER_1>But it's clear, and we've seen it over the past 40 years, the amount of lending going to households has been increasing steadily as a share of total lending, and the share of lending going to businesses has been steadily decreasing.

00:46:31.357 --> 00:46:37.017

<v SPEAKER_1>So how do we, one, incentivize more savings to ensure that we have the capital we require?

00:46:37.017 --> 00:46:41.917

<v SPEAKER_1>How do we incentivize also the financial system to lend more to businesses?

00:46:42.337 --> 00:46:54.017

<v SPEAKER_1>Because the system is clearly putting more advantage to for more, more incentive to for financial institutions to lend to households versus businesses.

00:46:54.017 --> 00:47:08.937

<v SPEAKER_1>So, and just to put a quick estimate, like I did a back of the envelope calculation, we'll need for about \$6 trillion of investment over the next 10 years in Canada to match all our ambition.

00:47:10.557 --> 00:47:12.697

<v SPEAKER_1>RGDP is \$3 trillion.

00:47:12.697 --> 00:47:18.917

<v SPEAKER_1>We're not going to find \$6 trillion at the bottom of the drawer or under the mattress or something.

00:47:21.017 --> 00:47:31.117

<v SPEAKER_1>We'll need to find some source, whether it's local by incentivizing households to be more savers and to repay their debt or to attract foreign investment.

00:47:32.817 --> 00:47:42.637

<v SPEAKER_1>And I think that's part of the puzzle that is not discussed enough, is that to invest, we'll need to have the capital to match our ambition.

00:47:42.637 --> 00:47:51.777

<v SPEAKER_1>And I don't think we're really aware of what that means and what are the consequences of that.

00:47:53.217 --> 00:47:56.837

<v SPEAKER_1>And the belt tightening that will be required for households.

00:47:57.417 --> 00:47:57.857

<v SPEAKER_2>Yeah.

00:47:57.857 --> 00:47:58.817

<v SPEAKER_2>Yeah.

00:47:58.817 --> 00:47:59.117

<v SPEAKER_2>Yeah.

00:47:59.377 --> 00:48:07.057

<v SPEAKER_2>To reduce consumption, to divert more of that into savings, and to divert more of their savings away from buying houses.

00:48:07.377 --> 00:48:26.757

<v SPEAKER_2>I think one of the things that, and I'll let you finish, one of the things that has always been a bugbear of mine is how much we, how much our tax system favors buying houses versus where in the United States, where in the United States they have 401Ks, which really incentivize investment in private companies.

00:48:26.757 --> 00:48:28.377

<v SPEAKER_2>So that's one thing.

00:48:28.377 --> 00:48:28.957

<v SPEAKER_1>Yeah.

00:48:28.957 --> 00:48:30.477

<v SPEAKER_1>That's one thing I agree with you.

00:48:30.477 --> 00:48:41.697

<v SPEAKER_1>We'll need to find ways to incentivize more savings on the consumer side, more ways for them to save locally or to invest locally.

00:48:41.697 --> 00:48:44.237

<v SPEAKER_1>It could be new products and all that.

00:48:44.237 --> 00:48:51.257

<v SPEAKER_1>But we also need to, because there's going to need to be some kind of effort that will be needed from households.

00:48:51.257 --> 00:48:55.697

<v SPEAKER_1>And at the end of the day, we have to remember that household votes and corporation don't.

00:48:55.697 --> 00:48:58.797

<v SPEAKER_1>So we'll need to make sure that they're on target.

00:48:58.797 --> 00:49:04.157

<v SPEAKER_1>But we'll need also to really explain well, what are the benefits of productivity?

00:49:04.157 --> 00:49:08.637

<v SPEAKER_1>And in some ways, like we've been talking a lot about affordability over the recent years.

00:49:08.637 --> 00:49:20.317

<v SPEAKER_1>But what is often forgotten on the affordability side is that it's not just the issue is not just that cost of increase, is that our income has been growing more slowly in recent years.

00:49:20.317 --> 00:49:29.077

<v SPEAKER_1>If you look at real disposable income per person, it has been increasing by about 0.7% since 2015 on average.

00:49:29.077 --> 00:49:35.437

<v SPEAKER_1>Between 1995 and 2015, it was growing at 1.7% on average.

00:49:35.437 --> 00:49:38.157

<v SPEAKER_1>That's a full percentage point lower every year.

00:49:38.157 --> 00:49:39.037

<v SPEAKER_1>Put that on 10 years.

00:49:39.397 --> 00:49:45.037

<v SPEAKER_1>Yeah, we're 10 years behind where we should be in terms of purchasing power because of that lower income.

00:49:45.077 --> 00:49:50.237

<v SPEAKER_1>That low income, the issue is lower wages because of lower productivity.

00:49:50.237 --> 00:50:10.437

<v SPEAKER_1>We need to better explain that supply side economics, that having better productivity will mean better income in the future, and in some ways will help solve affordability because we try to focus too much on the cost, but we're not looking enough at the income side.

00:50:10.537 --> 00:50:13.397

<v SPEAKER_1>It's also in the performing because of productivity.

00:50:15.117 --> 00:50:16.357

<v SPEAKER_2>Absolutely.

00:50:16.357 --> 00:50:18.137

<v SPEAKER_2>Yeah, many challenges there.

00:50:18.137 --> 00:50:29.037

<v SPEAKER_2>I think that we're only scratching the surface on all the challenges faced by facing Canada's economy with the current shock, and then also with these chronic issues.

00:50:29.037 --> 00:50:31.657

<v SPEAKER_2>So no, it's great to have you on.

00:50:32.517 --> 00:50:38.357

<v SPEAKER_2>One last question, Charles, and this is one for our audience because they're always interested in knowing about this.

00:50:38.357 --> 00:50:42.297

<v SPEAKER_2>What's a book that you'd like to recommend to our audience?

00:50:42.297 --> 00:50:47.557

<v SPEAKER_1>Well, it's a book I read last year and it was probably long overdue.

00:50:47.557 --> 00:50:56.257

<v SPEAKER_1>And for anyone who's in economics and interested in policy, it's Why Nations Fail from Daron Acemoglu.

00:50:56.257 --> 00:51:10.157

<v SPEAKER_1>It's really, really good at explaining in some ways why institution matters, and also how you think about your economy and how you set up your economy matters.

00:51:10.157 --> 00:51:15.857

<v SPEAKER_1>And in some ways you read it and you kind of realize that, oh, okay, yeah, that might be why Canada...

00:51:15.857 --> 00:51:19.137

<v SPEAKER_1>That could be some of the reason why Canada is falling apart.

00:51:19.137 --> 00:51:26.477

<v SPEAKER_1>That could be also the reason why what's going on in the US could start to be a bit concerning because there's a big fight on institution.

00:51:26.477 --> 00:51:29.577

<v SPEAKER_1>How much is that could change their dynamic on their side?

00:51:29.577 --> 00:51:31.877

<v SPEAKER_1>So it kind of makes you thinking a bit more.

00:51:31.937 --> 00:51:50.677

<v SPEAKER_1>And it's also important to realize that our institutions really, really matter because at the end of the day, they put the incentive in place for the individuals, whether it's businesses and households, to push for what is needed to create a more productive and better economy.

00:51:50.677 --> 00:51:55.777

<v SPEAKER_1>So it's kind of really at the basis of it all.

00:51:55.777 --> 00:52:04.217

<v SPEAKER_1>And what I find interesting is that reading it, you look at it like, oh, it's interesting that it seems almost too simple.

00:52:04.217 --> 00:52:17.097

<v SPEAKER_1>And it should be obvious, but you kind of realize that the way that's been put with all the examples really, especially the historical example, are really interesting and kind of provide a good perspective.

00:52:17.097 --> 00:52:17.857

<v SPEAKER_2>Yeah, for sure.

00:52:18.297 --> 00:52:19.057

<v SPEAKER_2>I like that book.

00:52:19.277 --> 00:52:20.197

<v SPEAKER_2>It's really interesting.

00:52:23.397 --> 00:52:34.737

<v SPEAKER_2>But maybe Canadians might be a little bit, maybe not entirely happy with the suggestion that Canada's institutions are worse than the US institutions.

00:52:34.957 --> 00:52:39.717

<v SPEAKER_2>But there's a question of political versus kind of like economic institutions or social institutions.

00:52:39.717 --> 00:52:42.537

<v SPEAKER_2>I think there's a really interesting conversation to be had.

00:52:42.537 --> 00:52:58.957

<v SPEAKER_1>Well, I think in Canada, we have great institution, and I think it's just the issue is that we kind of moved in a direction where we were not putting the right incentive or the right focus in terms of we need to take care.

00:52:58.957 --> 00:53:14.497

<v SPEAKER_1>Like I said, the issue is that we were looking too much on the demand sides and in some ways saving everyone rather than thinking that at some point we'll need also economic growth to be able to do what we want to do on the demand side.

00:53:14.557 --> 00:53:21.617

<v SPEAKER_1>And I think that's where we kind of forgot that side of the economy for the past 30 years.

00:53:23.157 --> 00:53:32.537

<v SPEAKER_1>There's been also that saying, especially in the economy profession over the past 30 years, mainly in the US but also in Canada, is that, well, as long as the consumers are doing well, the economy is going to do well.

00:53:32.537 --> 00:53:42.057

<v SPEAKER_1>But the problem with that theory is that, yeah, but the consumers at some point, if they don't have income growth to support their consumption, the system comes to an end.

00:53:42.057 --> 00:53:48.917

<v SPEAKER_1>And that's actually what we had in Canada is that we've had over the past 30 years an economy that was driven by consumption.

00:53:48.917 --> 00:54:01.357

<v SPEAKER_1>Income started to underperform, so they started to borrow more to sustain their consumption, reducing the amount of money available to the supply to for businesses to invest, reducing the supply side.

00:54:01.357 --> 00:54:16.157

<v SPEAKER_1>And now we kind of stretch that elastic to the maximum where also that probably run how much they can actually support the economy without strong gains on their income side that won't need to come from supply.

00:54:16.157 --> 00:54:22.077

<v SPEAKER_1>So we really need that shift in the economic thinking.

00:54:22.077 --> 00:54:32.817

<v SPEAKER_1>I'm positive and I see some, I'm optimistic that I'm kind of realizing with, well, one, in the government, we're seeing a shift on that front.

00:54:32.817 --> 00:54:46.817

<v SPEAKER_1>And I think budget 2025 at the federal government, there's that realization a bit more, especially with the change of leadership in the liberal party kind of helped to get a bit more of that understanding.

00:54:46.817 --> 00:54:57.917

<v SPEAKER_1>But it will be interesting to see how we see more of that shift and how it translate also to the general population understanding that it's no longer consumer is king for the next decade.

00:54:57.977 --> 00:55:09.617

<v SPEAKER_1>It's how do we improve our investment in the environment to support our productivity, but so support then our future income growth and future prosperity.

00:55:09.617 --> 00:55:11.077

<v SPEAKER_2>Yeah, yeah, fantastic.

00:55:11.237 --> 00:55:14.577

<v SPEAKER_2>I think that's a great way to end the conversation here.

00:55:14.577 --> 00:55:16.057

<v SPEAKER_2>Super relevant conversation.

00:55:16.057 --> 00:55:17.997

<v SPEAKER_2>Thank you so much, Charles, for coming on.

00:55:17.997 --> 00:55:19.437

<v SPEAKER_2>This is fantastic.

00:55:19.437 --> 00:55:22.217

<v SPEAKER_1>Oh, thank you for having me.

00:55:22.217 --> 00:55:29.777

<v SPEAKER_2>Thanks for listening to this episode of Energy Security Cubed on The CGAI Podcast Network.

00:55:29.777 --> 00:55:32.857

<v SPEAKER_2>You can find us wherever you get your podcasts.

00:55:32.857 --> 00:55:34.977

<v SPEAKER_2>If you like the show, give it a rating.

00:55:34.977 --> 00:55:39.797

<v SPEAKER_2>You can also find us on Facebook, Twitter, and LinkedIn.

00:55:39.797 --> 00:55:50.757

<v SPEAKER_2>If you like this podcast and want to help us maintain our contributions to Canadian foreign policy research, you can support us by donating on our website, www.cgai.ca.

00:55:55.197 --> 00:55:59.377

<v SPEAKER_2>Energy Security Cubed is brought to you by our team at CGAI.

00:55:59.377 --> 00:56:02.397

<v SPEAKER_2>Thanks go out to Drew Phillips for our music.

00:56:02.397 --> 00:56:03.697

<v SPEAKER_2>I'm Joe Calnan.

00:56:03.697 --> 00:56:05.917

<v SPEAKER_2>Thanks for listening to Energy Security Cubed.