

WEBVTT

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<v SPEAKER_1>Hello, and welcome to Energy Security Cubed, Canada's foremost energy geostrategy podcast, where we explore the factors shaping energy and economic security in Canada and around the world.

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<v SPEAKER_1>I'm Joe Calnan, Vice President, Energy and Calgary Operations at the Canadian Global Affairs Institute.

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<v SPEAKER_1>For today's interview recorded April 9th, 2026, we talk about the current status of the Strait of Hormuz, and how it is affecting commodity markets beyond just oil and gas.

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<v SPEAKER_1>With us to discuss this is Sara Vakhshouri.

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<v SPEAKER_1>Sara is the founder of SVB Energy International, an energy strategy advisory firm.

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<v SPEAKER_1>She is a faculty member of Walsh School of Foreign Service at Georgetown University, and chair of the Center for Energy Security and Diplomacy at the Institute of World Politics.

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<v SPEAKER_1>I'm also pleased to say that among her many affiliations, she is also a fellow with us here at CGAI.

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<v SPEAKER_1>Delighted to have you back in the podcast, Sara.

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<v SPEAKER_2>Thank you so much, Joe.

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<v SPEAKER_2>It's always a pleasure.

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<v SPEAKER_1>Yes, always great to have you on to talk through what's going on in the Middle East and how it is affecting American energy politics.

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<v SPEAKER_1>And some considerations, hopefully, for how this impacts Canada too.

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<v SPEAKER_1>But I'd like to start with a bit of a global view on the energy impacts of the current disruption.

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<v SPEAKER_1>Now, of course, when I wrote this script, there wasn't yet this talk of this ceasefire between Iran and the United States.

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<v SPEAKER_1>But right now, the situation is still that very few ships are going to the Strait of Hormuz, and quite a few commodities are impacted by this.

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<v SPEAKER_1>So just starting off with energy, and specifically on the oil side.

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<v SPEAKER_1>Sara, in barrel-per-day terms, how large is the disruption to global energy right now today?

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<v SPEAKER_2>So first of all, again, thanks for having me.

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<v SPEAKER_2>It's always a pleasure to be member of the CGAI family, and also being back at the podcast.

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<v SPEAKER_2>Something, Drew, because this issue has been evolving every second, and lots of contradicting headlines every minute comes out.

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<v SPEAKER_2>I like to reiterate the date that we record this.

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<v SPEAKER_2>I know that we're going to have this perhaps sometimes next week.

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<v SPEAKER_2>But when I'm talking about any numbers and any decisions over this market situation, as much as I try to look ahead to somehow cover a week, which is weird, we always could comfortably talk about medium term.

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<v SPEAKER_2>But now I have to state that kind of our discussion is now happening on April 9th.

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<v SPEAKER_2>So by April 9th, as of now that we're discussing, what is happening in terms of oil flow is that since the beginning of the war, which almost four months, four weeks passed, and we had one month of this happening, we had multiple effects on the energy market at different layers.

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<v SPEAKER_2>One and the most important one is the flow of energy molecules through the Strait of Hormuz.

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<v SPEAKER_2>So the Strait of Hormuz was immediately, when the war broke, kind of closed.

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<v SPEAKER_2>And this closure was not a physical closure necessary by Iran, but it started by insurance companies voluntarily not wanting to ensure any tanker passing through the Strait of Hormuz.

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<v SPEAKER_2>And then the tankers rate extremely increasing, the captains and the crew don't want to pass.

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<v SPEAKER_2>So the ship owners and the shipping industry themselves first started to voluntarily passing through the Strait of Hormuz.

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<v SPEAKER_2>And we had President Trump administrations announcing multiple strategies from financing, insuring, escorting tankers to open the Strait of Hormuz and the flow.

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<v SPEAKER_2>But none of them happened, not that it could happen because obviously it's not doable to escort military escort for tanker by tankers or insurance, all of that.

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<v SPEAKER_2>So, so far until now, we had some quasi flow of energy from the Strait of Hormuz happening, mostly Iranian oil and also those tankers that Iran kind of allow them or have some negotiations or talks with the countries like Malaysia or Indonesia, some tankers going to China.

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<v SPEAKER_2>So, or some like Iraqis, for instance, very limited number of tankers.

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<v SPEAKER_2>So the first and foremost interruption is the flow of molecules.

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<v SPEAKER_2>Even though the first week of the war and also recently we had OPEC, actually the OPEC meeting was like really at the beginning of the war and OPEC tries always in the market to balance the market by their production.

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<v SPEAKER_2>Unfortunately, this production cannot go to the market.

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<v SPEAKER_2>So we had the flow of oil stopping and then we had the interruption of actual production in two different ways.

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<v SPEAKER_2>One was the voluntary shut-ins of the production.

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<v SPEAKER_2>The countries, the producer had to shut down or reduce their production because the storages are full and they can't export it.

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<v SPEAKER_2>So there are multiple estimates up to 10 million barrels.

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<v SPEAKER_2>So we had about 20 million barrels of oil, 2021 million barrels of oil passing every day through Strait of Hormuz, now almost, let's say, very little, very close to zero.

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<v SPEAKER_2>And about 10 million of that already not being produced because the storages are full.

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<v SPEAKER_2>Then we had attacks to the infrastructure.

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<v SPEAKER_2>So we also had the energy infrastructure being targeted.

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<v SPEAKER_2>So far, we did not have any serious attack on oil facilities.

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<v SPEAKER_2>We had some on refineries, on storage tanks, but not on actual production.

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<v SPEAKER_2>Something that could hurt the production of oil in the long-term.

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<v SPEAKER_2>Nevertheless, we had targets and attacks on LNG facilities in Qatar, which there are estimates by the country themselves and different experts in the market, that it took away about 17 percent of Qatar's LNG supplies for about three to five years, which is huge because there are multiple substitute and we could say, floating storages, OECD storages of oil, Chinese oil inventories, and also Western Hemisphere's oil production.

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<v SPEAKER_2>But when it comes to LNG and natural gas, there's very little substitute for the LNG.

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<v SPEAKER_2>We've seen in the market that price of gas definitely increase way more than oil.

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<v SPEAKER_2>But so far, as of now, this is the status and you mentioned about the ceasefire, which yesterday, April 8th, was announced.

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<v SPEAKER_2>But again, that doesn't mean that these two weeks temporary ceasefire, which had already multiple violation of it.

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<v SPEAKER_2>You could, depending on how you're looking, what is your point of view, in the first 24 hours, the tankers might not yet feel comfortable to start flowing.

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<v SPEAKER_2>So I do not expect that even these two weeks ceasefire is going to return the flow the way it used to be before the war.

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<v SPEAKER_1>Yeah.

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<v SPEAKER_1>I generally agree that the oil price reaction, or at least in the paper market, the way that the oil price has reacted.

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<v SPEAKER_1>So this is the front month Brent versus data Brent, very different things.

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<v SPEAKER_1>The reaction to this announcement of a ceasefire seems to be disconnected from the physical reality on the ground, where ships still aren't going through the Strait of Hormuz.

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<v SPEAKER_1>I'm not seeing any indications that these shipping companies are confident quite yet.

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<v SPEAKER_1>And actually, I have one follow on question.

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<v SPEAKER_1>And this is a little bit off script.

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<v SPEAKER_1>So let me know if the information on this isn't quite there yet.

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<v SPEAKER_1>But do you have any sense for why Iran seems to be attacking LNG facilities rather than attacking oil infrastructure?

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<v SPEAKER_1>Why would Iran target Qatar?

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<v SPEAKER_1>Because it seemed to me that Qatar and Iran were always a little bit closer than the rest of the Gulf monarchies.

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<v SPEAKER_1>Do you have any thoughts along those lines?

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<v SPEAKER_2>So this is a very complex story if you want to look at it.

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<v SPEAKER_2>Everything happening, because yes, as you said.

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<v SPEAKER_2>We could put the relationship of different countries in the region on the map, but we have seen immediate attacks by Iran, retaliatory attacks when the war broke.

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<v SPEAKER_2>What we should remember is that at the beginning of the war, like the first, zero second, the first thing happened was the Iranian leader, supreme leader was taken out.

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<v SPEAKER_2>Then into multiple levels, Iranian leaders were all eliminated.

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<v SPEAKER_2>It's very hard to read Iran, even for myself.

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<v SPEAKER_2>It's looked like a magic black box that you don't know the country is in the hand of whom.

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<v SPEAKER_2>From one side, we know that the Israeli intelligence service had penetrated deeply into multiple levels in Iran.

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<v SPEAKER_2>On the other side, we have multiple systematic power centers in Iran, their leaders being eliminated.

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<v SPEAKER_2>But what is the sense is that Iran's Revolutionary Guard and Khatam al-Ambia Headquarters, which we see their spokesperson constantly sending messages, these are the ones who are really running the country.

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<v SPEAKER_2>There was at the beginning some contradictory statements about Iran's foreign minister and president that the military units are acting in isolation and independent.

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<v SPEAKER_2>So somehow it was hard to engage why this is happening, but definitely it seemed that they already had some autopilot plan since last year's 12 days war with Israel, that if the leaders are taken at multiple level, the Iranian military would go on autopilot defence system, which would not necessarily look into the traditional relations that the countries had, but most importantly look how to increase the cost of war for those that they are involving in the war.

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<v SPEAKER_2>So Iran basically, Iran's strategy is like prolonging and not losing, is not a symmetric war, is asymmetric.

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<v SPEAKER_2>How can they increase the cost for US and its allies, particularly the allies in the region by increasing the cost.

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<v SPEAKER_2>So definitely targeting the global economy, global energy supplies.

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<v SPEAKER_2>This is part of the strategy.

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<v SPEAKER_2>And by raising the cost of that, they are hoping that everybody, not just US or Arab allies of US in the region, but also let's say China or European, would somehow intervene to stop the war.

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<v SPEAKER_2>So definitely very different logic.

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<v SPEAKER_2>And natural gas, as I said, more sensitive, higher impact, the LNG facilities in Qatar than oil could have.

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<v SPEAKER_2>And something very, very important that I don't want us to pass is what you just mentioned, that the gap between the paper market and physical market.

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<v SPEAKER_2>And maybe that's the reason that they targeted gas.

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<v SPEAKER_2>Because since the beginning of the war, the headlines that if you look at the headlines, that's what I like for the first two weeks, I couldn't sleep constantly following the headlines.

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<v SPEAKER_2>If you could look at the headlines, the headlines were designed in a way to not only message, but also target the market to somehow control the market.

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<v SPEAKER_2>And when we are talking about a stock market or a paper market, we are not dealing with human traders.

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<v SPEAKER_2>We are dealing with algorithms and all these trading algorithms that are so sensitive to headlines.

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<v SPEAKER_2>And of course, if a headline comes from President Trump, who has the power to stop or start or prolong or cut, basically control the timeline of the war and the outcome of the war, they're so sensitive in reacting toward that.

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<v SPEAKER_2>And President Trump headlines were designed, or like a

tweets or a communication.

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<v SPEAKER_2>They're smartly designed in a way to contain the stock market in a measured, you know, very, you know, measured way not to go sporadically and crazy.

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<v SPEAKER_2>And why is important?

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<v SPEAKER_2>Because for us in the United States, that we don't import a lot of oil from the region.

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<v SPEAKER_2>We are having our oil mostly inside and also imported from Western hemisphere and not so much from Strait of Hormuz.

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<v SPEAKER_2>But our oil benchmarks and pricing is based on global benchmark.

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<v SPEAKER_2>So if President Trump and his administration could keep the paper prices low and measure it, that could have the minimum impact for us in the United States.

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<v SPEAKER_2>However, in the physical market, as you said, the story is different because the access to physical oil barrels is almost impossible, those that are coming from region.

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<v SPEAKER_2>So the prices in the physical market have the gap of, let's say, \$60, \$70 to the paper market or more.

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<v SPEAKER_2>Again, depending on which day we are talking about it or more.

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<v SPEAKER_2>So again, I think that Iran very quickly, and you can see from the statement of their officials, that they realize that US is trying to control the oil market and oil prices.

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<v SPEAKER_2>So definitely, they would target somewhere that is harder to control that and has higher impact on global economy.

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<v SPEAKER_1>Yeah, absolutely.

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<v SPEAKER_1>No, I think the term that is often used is jawboning down the market or jawboning up, or whatever, basically using the presidential bully pulpit to control the economic impact of things like this.

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<v SPEAKER_1>But I think, in my mind, the actual physical flows are much more important than what happens on the financial markets.

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<v SPEAKER_1>And there will be consequences.

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<v SPEAKER_1>I'd like to quickly turn to how some of the consuming countries are dealing with this, because it's, of course, not just the producer countries that are impacted, consumer countries, which are suddenly cut off from these supplies of oil, are deeply impacted.

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<v SPEAKER_1>And countries across Asia have responded to the current crisis with emergency measures.

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<v SPEAKER_1>There have been policies meant to drive down consumption of petroleum products, paired in some cases with price caps for fuels and refined product export bans.

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<v SPEAKER_1>Depending on the country, it's some mix of these in Southeast Asia and East Asia.

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<v SPEAKER_1>Sara, do you sense that these policies go far enough to limit the impact?

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<v SPEAKER_1>I think demand destruction is one thing, but policies meant to bring that forward, make it so that it's not the market that's destroying demand, it's government policy.

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<v SPEAKER_1>Do you think that these go far enough, or do you think there's more pain to come still from this disruption?

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<v SPEAKER_2>We can even do that it's impacting the global economy, inflation, food security, because as you said, commodities beyond

energy at the beginning.

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<v SPEAKER_2>It's not just oil and gas, it's a lot of fertilizers, 70% of fertilizers, helium, which is directly applied in AI, in defense.

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<v SPEAKER_2>So a lot of other commodities that are impacted.

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<v SPEAKER_2>What is happening definitely, different countries, different regions are impacted in different levels.

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<v SPEAKER_2>As I said, in the United States, we even had some prices reducing of energy in some weeks and days.

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<v SPEAKER_2>So because we are not so independent from imports from the region, and also, again, as I said, President Trump administration by every magic they did, controlling the benchmarks to keep the prices down in the United States.

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<v SPEAKER_2>But when we look at Asia, which is directly the largest importer of the oil and energy from the region, they hit the most.

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<v SPEAKER_2>We already seen, not just in Asia, but even in Europe, some flight cancellation due to the lack of access to fuel or some countries putting their fuel consumption on a ration, inviting people to work from home, prices is extremely increasing.

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<v SPEAKER_2>The other thing that is a bit worrisome is that countries that are traditionally exporters of major goods, let's say petroleum products and fertilizer, they put a ban on export to protect their own, obviously, people and this already happens.

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<v SPEAKER_2>We've seen that Russia said that they are going to put a ban on export of gasoline from April to end of August, which is as we are moving towards summer, is a high peak season for driving.

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<v SPEAKER_2>If other countries, let's say other major exporters or in response to President Trump threatening China, they just announced a ban on export of fertilizer to US.

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<v SPEAKER_2>Then we're going to have a food security.

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<v SPEAKER_2>If India doesn't export wheat or rice because, again, the price of fertilizer is high.

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<v SPEAKER_2>There are multiple factors and threats converging together because of this crisis.

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<v SPEAKER_2>I do really hope by next week that our podcast is going to be broadcast.

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<v SPEAKER_2>We at least had one week of full ceasefire and we are going to see more of the flow of energy and tankers of multiple commodities from the Strait of Hormuz.

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<v SPEAKER_1>Yeah, absolutely.

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<v SPEAKER_1>That's my hope as well.

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<v SPEAKER_1>I think that this disruption, it's something that we've been talking about, energy analysts like you and I have been talking about.

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<v SPEAKER_1>It's the central edge case risk that you get.

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<v SPEAKER_1>And it's truly cataclysmic, is a word that you can use in the energy markets.

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<v SPEAKER_1>So I think one of the things that has come up again and again in recent years, is the supply chain security, of course.

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<v SPEAKER_1>And I think that the supply chain security, the idea that we're breaking off from the time when globalism was promising just-in-time deliveries and specialization of certain places in certain production, certain materials.

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<v SPEAKER_1>One of the areas this happened, I think, is where China started building these enormous, extremely efficient refineries and

started supplying its neighbors with fuel.

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<v SPEAKER_1>So for example, Australia gets much of its, I believe that the entire Australian jet fuel supply was coming from China.

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<v SPEAKER_1>And this makes some very interesting situations right now, where we have China restricting refined product exports from its refineries.

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<v SPEAKER_1>And this has implications for customers all around the Indo-Pacific.

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<v SPEAKER_1>Do you think that this turn of events could affect China's image as an energy security partner in the region, or is it more that everybody kind of understands that right now is a crisis, that countries are looking out for their own interests?

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<v SPEAKER_2>You know, yes, yes and no.

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<v SPEAKER_2>Because definitely for like exporters of energy, reputation and reliability is very important.

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<v SPEAKER_2>And I like to make, for instance, the example of Saudi Arabia that in the hard time in 2029 when their facility was under attack, they were able to, first of all, created long before that the redundancy in their system to quickly repair that, but also the inventories they build around the world to create that, you know, the diversification and energy security.

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<v SPEAKER_2>We talk about it to still export.

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<v SPEAKER_2>And also again, like with the United, with, I mean, let's stay with Saudi Arabia again.

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<v SPEAKER_2>You know, the pipeline they built, the East-West pipeline, being able to still to export a huge portion of their export capacity from this pipeline through the Red Sea and also through the inventories that they have around the world.

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<v SPEAKER_2>So we could say this is how a high, a class one reliable supplier in the market would react to create that redundancy that its clients and consumers are somehow sure that even in the event of extreme crisis, they're somehow safe and shielded through the forward thinking strategies that the supplier had.

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<v SPEAKER_2>However, when it comes to the time of crisis, any contract that countries sign, there's a force majeure clause in that.

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<v SPEAKER_2>Countries have to protect their own people, but also we are in an era of economic warfare that if one country threatening the other one, the other one is going to threat back by not supplying.

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<v SPEAKER_2>Something that really started happening since, I would say we had some of these fears of food security rationing, countries don't export during COVID, but it exacerbated since the Russia War.

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<v SPEAKER_2>When we all came out of COVID, we all talked about it a lot together and in your podcast, that how energy demand increased but the investment was lagging, the supply shortages, then on top of everything, Ukraine-Russia War.

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<v SPEAKER_2>We had the first factories in Europe being interrupted, where the fertilizer factories.

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<v SPEAKER_2>All of these together definitely changed the whole world.

00:22:17.857 --> 00:22:30.757

<v SPEAKER_2>We went through more countries realizing that energy security is not anymore like before into globalization and connection, but to create that diversification in their home, at home.

00:22:31.057 --> 00:22:42.697

<v SPEAKER_2>We've seen things like skyrocketing in consumption of coal, which was very much in contradiction with all those climate change and COP goals that the world had.

00:22:42.717 --> 00:22:49.817

<v SPEAKER_2>We start having, unbelievable how much Europe start using coal, the quest for nuclear energy.

00:22:50.437 --> 00:22:57.477

<v SPEAKER_2>The question after that start raising, how can we create that diversity and energy security resilience at home?

00:22:58.097 --> 00:23:16.717

<v SPEAKER_2>We also have a lot of regionalism instead of globalization, because if you look at it, one of the responses after the second week of war was IAEA country members coming and announcing a 400 million barrels of oil release.

00:23:16.817 --> 00:23:22.037

<v SPEAKER_2>It was very helpful for the headlines and keeping the prices low in the stock market.

00:23:22.077 --> 00:23:23.337

<v SPEAKER_2>We talked already about it.

00:23:23.337 --> 00:23:25.317

<v SPEAKER_2>Definitely, the algos reacted to that.

00:23:25.317 --> 00:23:32.097

<v SPEAKER_2>But if you think about it in reality, where are those OECD barrels located?

00:23:32.677 --> 00:23:34.577

<v SPEAKER_2>Where are they going to go?

00:23:35.657 --> 00:23:43.377

<v SPEAKER_2>Because most of those barrels are stored inventories, that 400 million barrels are either in OECD countries.

00:23:44.837 --> 00:23:51.797

<v SPEAKER_2>After that, China has a lot of those storages, US has a lot of those storages, both in terms of commercial and strategic.

00:23:52.077 --> 00:23:54.257

<v SPEAKER_2>So how much of that would really go to Asia?

00:23:54.957 --> 00:24:15.917

<v SPEAKER_2>So even when we look at the availability and flexibility of inventories in the market, which especially for the first month of the war, really helped the prices to contain and not go really dramatically high, I would say definitely for the first two to three weeks of the war, was all these inventories that we put into account.

00:24:15.917 --> 00:24:19.437

<v SPEAKER_2>But those inventories are also regional inventories.

00:24:19.557 --> 00:24:30.897

<v SPEAKER_2>And no one knows that those countries that hold the inventories and host the inventories, to whom they are going to export this energy or oil, and also at which rate they are going to release them.

00:24:31.137 --> 00:24:34.737

<v SPEAKER_2>So the number is nice and beautiful, but we don't know at which rate.

00:24:34.737 --> 00:24:52.257

<v SPEAKER_2>And again, looking at the global consumption and the sheer number of molecules and oil in per se, oil barrows passing through the Strait of Hormuz, all those inventories would not be sufficient more than if we look at like at the highest rate, release of them at the highest rate would not be sufficient more than weeks or months.

00:24:53.017 --> 00:24:53.537

<v SPEAKER_1>Absolutely.

00:24:54.317 --> 00:24:59.717

<v SPEAKER_1>I mean, there's been quite a few numbers tossed around for how quickly these inventories are going to be released.

00:24:59.717 --> 00:25:07.977

<v SPEAKER_1>But I think that consensus is somewhere between 2 to 3 million barrels per day of supply getting onto the market.

00:25:09.017 --> 00:25:27.417

<v SPEAKER_1>And again, if this is a situation where we're talking down the road about rationing the fuel that you have, if this does last for a few months longer, then it might be a regret of some of these countries that they gave up their extra inventory so soon rather than waiting it out.

00:25:27.557 --> 00:25:38.857

<v SPEAKER_1>I think that generally these releases are coming from the United States and Europe, whereas Asia decided to cut off exports, which is something else.

00:25:39.857 --> 00:25:42.817

<v SPEAKER_1>So the very different strategies in Europe and in Asia.

00:25:43.057 --> 00:25:54.497

<v SPEAKER_1>It's very much concerned about their national energy security, whereas Europe, I guess, is trying to bring the prices down, which is very different strategies, and we'll see how those play out.

00:25:55.617 --> 00:26:03.737

<v SPEAKER_1>But just to turn away from the pure energy conversation, I think we should get into some of the other resources that are being affected by this current war.

00:26:04.817 --> 00:26:18.917

<v SPEAKER_1>One of the concerns that this war has highlighted, for the United States especially, is the very low production rates for these incredibly advanced missiles used for precision strikes and intercepting incoming missiles.

00:26:18.917 --> 00:26:27.897

<v SPEAKER_1>So this is at the edge of what's technologically possible, and it requires some very special materials to make these.

00:26:28.257 --> 00:26:36.557

<v SPEAKER_1>But I'd like to dig into your thoughts from Washington, DC., where there's lots of conversations going on about this problem.

00:26:37.437 --> 00:26:43.937

<v SPEAKER_1>Sara, how big of a problem is the kind of shortage and the low production rates for these missiles?

00:26:43.937 --> 00:26:53.317

<v SPEAKER_1>And are there concerns that the United States is diminishing its deterrence in other theaters that it could have to bring military force to?

00:26:55.717 --> 00:26:58.317

<v SPEAKER_2>So, you know, I call that...

00:26:59.177 --> 00:27:02.937

<v SPEAKER_2>So there's two things if you wanted to talk about that, Joe.

00:27:03.037 --> 00:27:09.737

<v SPEAKER_2>One is the burning rate, you know, how fast you're burning them and how fast you can build them back.

00:27:10.137 --> 00:27:20.157

<v SPEAKER_2>And when you're talking about replenishing them and building back those munitions that we use, there are multi-layers of consideration.

00:27:20.157 --> 00:27:24.377

<v SPEAKER_2>And I call that the hidden cost of this war for the United States.

00:27:24.377 --> 00:27:33.237

<v SPEAKER_2>Because if you look at it, Iran, compared to China specifically, or Russia, is not a tier one adversary or strategic competitor.

00:27:33.237 --> 00:27:40.137

<v SPEAKER_2>You know, like, the US has always been in a readiness to defend itself and its allies from China.

00:27:40.997 --> 00:27:52.437

<v SPEAKER_2>So, Iran, at least in terms of weight of strategic competence and being an adversary, was never equalized with China for the United States.

00:27:52.577 --> 00:27:55.477

<v SPEAKER_2>Now, let's say we have used all these munitions.

00:27:55.517 --> 00:28:16.737

<v SPEAKER_2>And what is important is that they have both been used at two levels, not just offense, but also as defense, you know, not just the missiles that we used, but also our defense system, the radars, the Patriot system that help us to defend ourselves, our country, and our allies in the United States.

00:28:17.317 --> 00:28:22.817

<v SPEAKER_2>So if you look at how fast we could replace them, obviously there is a financial factor.

00:28:22.817 --> 00:28:28.457

<v SPEAKER_2>You know, a lot of these munitions are costly.

00:28:28.457 --> 00:28:30.157

<v SPEAKER_2>So one factor is money.

00:28:30.157 --> 00:28:37.337

<v SPEAKER_2>The other factor is the engineering and production capacity, let's say at a factory level, you know, how fast you can produce them.

00:28:37.857 --> 00:28:43.477

<v SPEAKER_2>So when we look at the, and then the third one is the raw material, you know, what we need to produce them.

00:28:43.657 --> 00:28:56.997

<v SPEAKER_2>When we look at these three layer, the first and second one, the money, the cost, and the assembly and producing them at the commercial, I mean, at the level that we need in the United States, we don't have much of an issue.

00:28:57.097 --> 00:29:12.377

<v SPEAKER_2>But when, I mean, it is definitely significant, but when we look at the third layer, the raw material, that's where the hidden choke point or choking challenge for the United States is the material we use to build it.

00:29:12.377 --> 00:29:17.657

<v SPEAKER_2>Because most of current US offense and defense munitions are smart.

00:29:18.237 --> 00:29:19.197
<v SPEAKER_2>What are smart?

00:29:19.197 --> 00:29:28.477
<v SPEAKER_2>You know, they are using certain GPS says they're using smart way to be more accurate in terms of targeting and also the defense, as I mentioned.

00:29:29.257 --> 00:29:40.637
<v SPEAKER_2>Most of them are using critical minerals, rare earth materials that are at least 90% processed and dominated by China.

00:29:40.737 --> 00:30:00.197
<v SPEAKER_2>And we just see like today, China in response to President Trump's threat for increasing the tariffs, if China would continue, let's say, working with Spain, China's retaliatory was immediately announcing a ban on export of fertilizer to US.

00:30:00.617 --> 00:30:11.597
<v SPEAKER_2>So already in terms of critical mineral, we had historical evidence that China put a ban on some of these dual-use minerals export to US.

00:30:11.597 --> 00:30:15.217
<v SPEAKER_2>So this is really a choking point for US military.

00:30:15.697 --> 00:30:17.617
<v SPEAKER_2>It's not really how costly it is.

00:30:17.617 --> 00:30:23.717
<v SPEAKER_2>The money is not like how fast, how many per day or per year we could build is really the raw material.

00:30:23.717 --> 00:30:39.417
<v SPEAKER_2>And for that raw material, for every systematic, every system that I actually wrote a piece on that, hopefully will be published soon, that munition by munition, each of them are using these raw material.

00:30:39.417 --> 00:30:46.417
<v SPEAKER_2>And then is the use of AI, because US use of AI and its defence has increased significantly.

00:30:46.417 --> 00:30:48.337
<v SPEAKER_2>And we just talked about it.

00:30:48.777 --> 00:31:10.757
<v SPEAKER_2>The war is happening in a region, the majority of helium, which is needed for this semiconductor, and AI finally, you know,

controlled munition is produced, it's exported and already some of its capacity, production capacity, which was a byproduct of those LNG production in Qatar offline.

00:31:10.757 --> 00:31:14.657

<v SPEAKER_2>So yes, a great point you brought up.

00:31:14.657 --> 00:31:34.497

<v SPEAKER_2>I really call this and see this as a hidden cost of the war for US because how fast we can replenish this and build back our capabilities for, let's say, an event that we have a serious tier one, a threat from a tier one strategic adversary, China.

00:31:35.237 --> 00:31:36.517

<v SPEAKER_1>Absolutely, absolutely.

00:31:36.517 --> 00:31:46.577

<v SPEAKER_1>And on the helium point, you know, I think that many of our listeners will be surprised to hear that the vast, vast majority of the world's helium is a by-product of natural gas processing.

00:31:46.937 --> 00:32:12.557

<v SPEAKER_1>And so, of course, Qatar is a huge source of that because they got the largest single LNG production facility in the world, which has been, of course, struck by Iranian attacks and has been damaged with a certain portion of that capacity taken offline for over three to five years, so that has a potential long-term impact on those sorts of helium supplies.

00:32:13.697 --> 00:32:26.457

<v SPEAKER_1>It also tells you how integrated the energy industry is in all sorts of ways with these sorts of high-tech materials that are very much needed for the modern economy and for defence.

00:32:27.277 --> 00:32:31.697

<v SPEAKER_1>So, yeah, this is all very, very interesting discussion, Sara.

00:32:32.117 --> 00:32:45.237

<v SPEAKER_1>I guess, going forward, I guess over the next week before we get into the actual release of this podcast, going a little bit off script here, what do you expect could happen with this ceasefire?

00:32:45.237 --> 00:32:47.597

<v SPEAKER_1>Do you think there's a good chance that it might succeed?

00:32:51.537 --> 00:32:56.957

<v SPEAKER_2>It's very hard to, again, predict because things change rapidly.

00:32:57.297 --> 00:33:27.677

<v SPEAKER_2>I would call this war not just the war, actual war, but we also had the headline wars because some of these headline that even by leaders, let's say President Trump, the tweets he made, it's very hard to distinguish which ones are for controlling the market, which ones are for testing Iran or for testing the market or different countries, which ones are there, let's say, to distract people or let's say Iranian to launch another operation because we're in a war, definitely time.

00:33:27.677 --> 00:33:31.937

<v SPEAKER_2>So a lot of these headlines might have different purposes.

00:33:32.237 --> 00:33:50.917

<v SPEAKER_2>Nevertheless, unfortunately, I do really hope I'm mistaking, but what is happening, it seems that even though US and Israel are partners in this war, but there is a wide divergence and gap between the strategic goal of Israel and the United States in this war.

00:33:51.697 --> 00:34:05.697

<v SPEAKER_2>For the US, I would say perhaps the goal of administration, maybe at the beginning, was an easy operation similar to Venezuela, that there was a quick change of leadership, and then US companies could easily go to Iran.

00:34:05.697 --> 00:34:25.597

<v SPEAKER_2>If that would happen, I already wrote about it, it could be highly aligned with US energy dominance, because US companies could quickly establish relation in Iran, where it has huge and sheer reserves of not just oil and gas, but critical minerals like lithium, which are mostly in the hand of China or cobalt.

00:34:25.877 --> 00:34:27.457

<v SPEAKER_2>But this did not happen.

00:34:29.377 --> 00:34:48.257

<v SPEAKER_2>Considering the pressure on global economy, the pressure on the US military, defence and offense, we already talked about it, our upcoming elections, the midterm, I do not think that US President Trump and administration are interested in being in this war for longer.

00:34:48.657 --> 00:34:51.577

<v SPEAKER_2>Nevertheless, for Israel, the story is totally different.

00:34:51.757 --> 00:35:02.397

<v SPEAKER_2>Israel has from ideological reasons to military and economic reason to push this war further, to engage the whole region

potentially.

00:35:02.517 --> 00:35:20.397

<v SPEAKER_2>And also see what President Netanyahu, Prime Minister Netanyahu just said that we should change the energy flow from diverted from going through Strait of Hormuz and Red Sea bubble manned up to all the way to Israel.

00:35:20.677 --> 00:35:27.237

<v SPEAKER_2>So he has his own grand plan for changing the whole energy flow through Israel.

00:35:27.237 --> 00:35:51.477

<v SPEAKER_2>So if you look at Israel's vision and objective, strategic objective from this war, definitely it's much different from the United States, a prolonged war in the region and insecurity in the choke points, both in the Strait of Hormuz and Red Sea, which Saudi Arabia, again, we talked about it with the strategic foresight, they were able to reroute some of their exports from there.

00:35:52.157 --> 00:35:54.217

<v SPEAKER_2>These are all in the interests of Israel.

00:35:55.337 --> 00:36:03.497

<v SPEAKER_2>Definitely the ideological reasons they have, the existential reasons they have, are very different from the United States.

00:36:03.537 --> 00:36:21.377

<v SPEAKER_2>So while on the US side, I'm optimistic that President Trump likes to have a closure, a positive closure to this, that you're going to go back to somehow a certain, or some levels of certainty and peace.

00:36:21.497 --> 00:36:34.857

<v SPEAKER_2>I would say on the other side, this might not be the same goal that Israel has, and Israel could easily at any moment break that ceasefire, because Iran definitely would not sit and be quiet.

00:36:34.857 --> 00:36:37.257

<v SPEAKER_2>They're going to retaliate and react.

00:36:37.497 --> 00:36:43.577

<v SPEAKER_2>So for the same reason, again, I cannot predict, I don't have a prophecy skills.

00:36:43.757 --> 00:37:00.297

<v SPEAKER_2>But if I want to look at probabilities, and I would say there are high probabilities and chances that Israel could at some point break these, or even if these two weeks were successful, would

this be prolonged beyond that?

00:37:00.437 --> 00:37:01.577
<v SPEAKER_2>Big question mark.

00:37:01.677 --> 00:37:15.677
<v SPEAKER_2>Even if all of these happen, I would say a lot of companies, a lot of shipping companies, and a lot of energy investors need to see a longer term stability.

00:37:15.677 --> 00:37:19.077
<v SPEAKER_2>It seems that now we are living in a new world.

00:37:19.137 --> 00:37:30.357
<v SPEAKER_2>Because even with the ceasefire, if we look at it, would the world, would the countries in the region agree that Iran is going to charge a transit fee or decide which tanker will move, which tanker will not move?

00:37:30.357 --> 00:37:36.737
<v SPEAKER_2>We already see UAE officials not being happy with these, other countries in the region.

00:37:37.037 --> 00:37:40.157
<v SPEAKER_2>So even this ceasefire is very fragile.

00:37:40.697 --> 00:37:45.277
<v SPEAKER_2>Would the whole countries in the region come to a turn that Iran will control the Strait of Hormuz?

00:37:46.077 --> 00:37:48.877
<v SPEAKER_2>Would all the tanker companies feel confident?

00:37:48.877 --> 00:37:51.077
<v SPEAKER_2>Would they be okay?

00:37:51.937 --> 00:38:00.697
<v SPEAKER_2>Again, US okay to accept a transit fee as part of a war repayment cost or fee to Iran?

00:38:00.777 --> 00:38:06.177
<v SPEAKER_2>So there are a lot of questions, but I say that it's a positive first step.

00:38:06.457 --> 00:38:11.457
<v SPEAKER_2>And we all need that positivity at this current moment.

00:38:11.677 --> 00:38:13.057
<v SPEAKER_1>Yeah, absolutely.

00:38:13.057 --> 00:38:19.357

<v SPEAKER_1>It's a, you know, fingers crossed that some sort of good situation comes out of this.

00:38:19.437 --> 00:38:29.857

<v SPEAKER_1>I'm not comfortable exactly with the idea of Iran having, or the Iranian regime as it currently stands, having control over that strait with the use of violence.

00:38:30.257 --> 00:38:48.377

<v SPEAKER_1>It is an international strait and I think, you know, as from the perspective of a very heavily trade-based economy such as Canada, the idea that countries can exert this sort of control over international straits is not a good situation for mid-sized economies for sure.

00:38:49.317 --> 00:38:53.657

<v SPEAKER_1>But yes, I think that hopefully this all turns out well.

00:38:53.897 --> 00:39:10.897

<v SPEAKER_1>If I was one of the crew members on one of those ships with a supertanker that's full of extremely flammable liquid, maybe I'd be a little bit nervous about the idea of trying to cross the Strait of Hormuz right now before there's some sort of substantial political settlement.

00:39:11.077 --> 00:39:14.557

<v SPEAKER_1>But yeah, we'll see how things turn out by next week.

00:39:16.237 --> 00:39:21.177

<v SPEAKER_1>Now, one last question before we let you go, Sara, and this is something our listeners are always interested in.

00:39:21.777 --> 00:39:24.517

<v SPEAKER_1>What book would you like to recommend to our audience?

00:39:25.257 --> 00:39:30.197

<v SPEAKER_2>This is actually my favorite question, Joe, but I don't want to lie to the audience.

00:39:30.197 --> 00:39:38.577

<v SPEAKER_2>For the past month, I could not open any book other than constantly following the headlines.

00:39:38.577 --> 00:39:44.137

<v SPEAKER_2>And so I want to maintain and be trustworthy to the audience.

00:39:44.137 --> 00:39:51.877

<v SPEAKER_2>Yes, I have multiple books aside to read, but I was

completely very bad.

00:39:52.157 --> 00:39:54.097
<v SPEAKER_2>I did not have any time.

00:39:54.097 --> 00:40:01.377
<v SPEAKER_2>But yeah, I know in always in every podcast, I have a book that it's in my hand reading and I share it with your audience.

00:40:01.377 --> 00:40:08.017
<v SPEAKER_2>But as of now, all day, all night, it's looking at the headlines.

00:40:08.057 --> 00:40:09.097
<v SPEAKER_1>Yeah.

00:40:09.997 --> 00:40:11.177
<v SPEAKER_1>I feel your pain, Sara.

00:40:12.017 --> 00:40:17.597
<v SPEAKER_1>I can't turn myself away from, I got phone notifications on for breaking news.

00:40:17.597 --> 00:40:21.117
<v SPEAKER_1>And I have a hard time turning myself away from that.

00:40:21.117 --> 00:40:25.917
<v SPEAKER_1>So we'll catch your book recommendation next time when things have settled down a little bit.

00:40:26.897 --> 00:40:29.217
<v SPEAKER_1>Thank you so much again for coming on to the podcast.

00:40:29.737 --> 00:40:30.717
<v SPEAKER_2>Always a pleasure.

00:40:30.717 --> 00:40:32.657
<v SPEAKER_2>Thank you so much for having me.

00:40:33.617 --> 00:40:40.577
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00:40:41.157 --> 00:40:43.817
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00:40:44.257 --> 00:40:46.177
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00:40:46.357 --> 00:40:50.097

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00:40:51.277 --> 00:41:02.177

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00:41:06.537 --> 00:41:10.237

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00:41:10.777 --> 00:41:13.297

<v SPEAKER_1>Thanks go out to Drew Phillips for our music.

00:41:13.797 --> 00:41:14.877

<v SPEAKER_1>I'm Joe Calnan.

00:41:15.097 --> 00:41:17.557

<v SPEAKER_1>Thanks for listening to Energy Security Cubed.