Venezuela: A Canadian energy perspective

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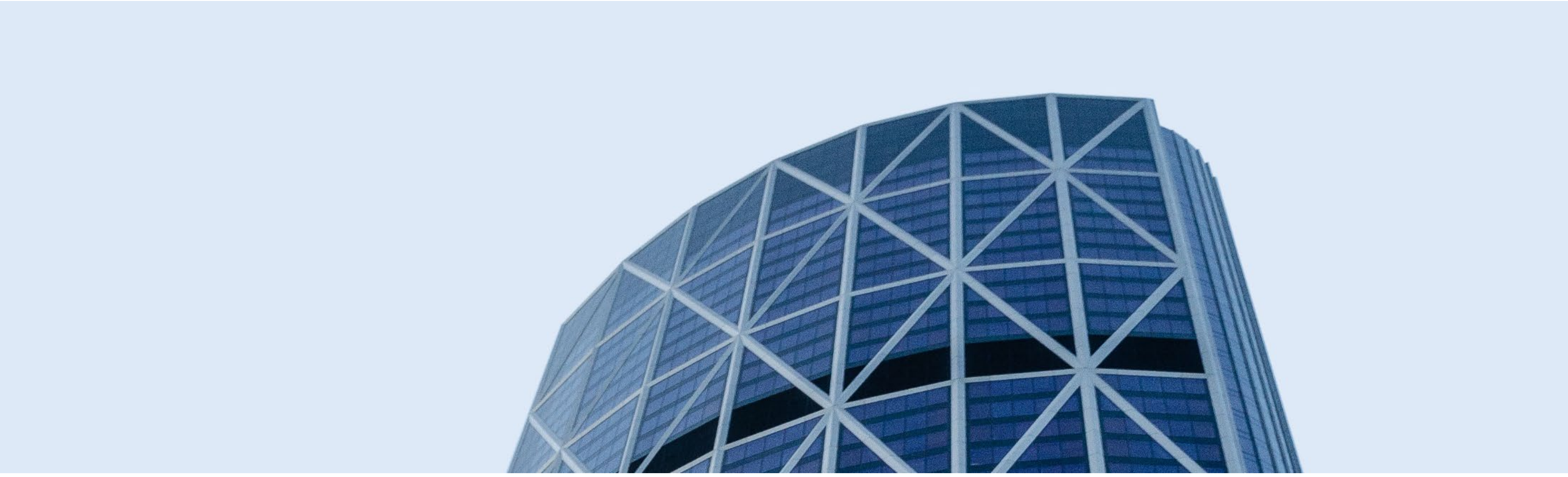

Over the weekend, the US military performed an operation on Venezuelan soil to capture and detain its president, Nicolás Maduro. The White House has since announced significant involvement in Venezuela going forward. While the geopolitical situation remains fluid, the motivation appears significantly driven by long-term energy needs.

Venezuela's oil industry, once a global powerhouse, has been dramatically weakened over the past decade due to political turmoil, economic mismanagement, and sweeping US sanctions. Under President Nicolás Maduro's regime, oil revenues were diverted to support the government and military, rather than reinvested into infrastructure and workforce development. This led to a steep decline in production—from about 3 million barrels per day in 2015 to roughly 900,000 barrels per day today. The country's oil sector has suffered from years of neglect, loss of skilled workers, and deteriorating facilities, leaving it far from its former capacity.

Recent developments have brought renewed attention to Venezuela's oil potential. US President Donald Trump has suggested that US oil companies would play a role in reviving Venezuelan production, contingent on political changes and the easing of sanctions. However, the situation remains highly uncertain, with questions around future governance and operational risk, the stability required for major investment, and the legacy of past nationalizations still looming large. Until there is greater clarity, significant foreign investment in Venezuela's oil industry is unlikely.

Currently, with West Texas Intermediate (WTI) crude trading at $57 per barrel, the incentive to make large-scale investments in Venezuela may be muted. US and Canadian producers are focused on shareholder returns rather than capacity growth, and are unlikely to pursue risky capital-intensive ventures in the current price environment.

Potential impact to Canadian energy sector

Even if Venezuela were to return to previous production levels, its share of global supply would remain modest—less than 3%—though it would compete directly with Canadian heavy crude. Canadian producers might respond by maximizing infrastructure like the Trans Mountain Expansion (TMX) and rail to the west coast, but these are long-term considerations contingent on optimistic scenarios in Venezuela.

US involvement in Venezuelan heavy production as a competitor to Western Canadian Select (WCS) could contain energy prices over the long-term. Still, any meaningful increase in Venezuelan output would take years to materialize. Meanwhile, Canadian crude supply to the US continues to rise, while Mexican barrels decline and require reliable alternatives.

If US oil production growth slows due to lower medium-term prices, associated gas supply could also decline, which may benefit Canadian gas producers, though this remains speculative.

CIBC Asset Management is closely monitoring the evolving situation in Venezuela and its potential implications for Canadian energy producers and distributors, given the sector's significant weight in key indices. At this stage, there is no need for a knee-jerk reaction: the level of uncertainty is too high to warrant definitive action.

CIBC Asset Management will continue to assess developments to ensure clients are well-positioned as the situation unfolds.

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