



ENERGY

Beyond the Venezuela Conjecture

Strategic Moves to Build Enduring Advantage for Canada's Energy Companies

For most of the last decade, Canada has been the baseload supplier of heavy, sour crude to US refiners, particularly in the US Midwest and the US Gulf Coast. Venezuela's potential return may not imply an immediate loss of Canadian volume, but it widens the range of competitive outcomes and changes the investment signal: from a growth-first narrative toward netback protection, market diversification, and a reassessment of risk-reward, especially given the longer-term uncertainty.

The highest substitution risk sits in the US Gulf Coast, where many of the complex refineries were originally built for Venezuelan heavy crude and later substituted Canadian when Venezuelan crude became unavailable. On average, compared to Canada, Venezuela holds a USD 4/bbl transport advantage into the Gulf Coast.

Also, at times, Canadian crude is traded at a discount to Venezuelan crude. For example, in the early 2010s, WCS-Hardisty (Western Canadian Select) traded at a discount of \$20–\$30/bbl to Meroy-16 (Venezuelan heavy). As an alternative comparison, in that same period, WCS-Hardisty traded at an average of \$18/bbl to WTI (West Texas Intermediate).

Hence, if Venezuelan imports into the Gulf Coast were to pick up, we could see similar discounts. The good news is time: Venezuela's recovery requires multi-year investment and legal certainty, and Canadian firm-service and term contracts provide near-term flow protection.

The strategic imperative is to use the near-term buffer window to build enduring advantage for Canadian crude: lowering landed cost, adding clearing-market optionality, and re-ranking capital toward resilient projects.

Canada's heavy crude faces a wider competitive field; it must shift from growth-first to protecting netbacks, diversifying markets, and reassessing risk-reward.





1. Venezuela's Return: What Would Need to Change

Venezuela has been a significant oil exporter for over a century, but its production has been shaped as much by governance and infrastructure as by resource endowment.

Therefore, a recovery is not just a subsurface story; it depends on reliability across production, pipelines, ports, and refining—and robust foreign-investment frameworks.

Venezuelan crude production reached a peak of 3.5 MMbpd in late 90s, but it is only 1.0 MMbpd currently. Through 2035, we foresee three plausible outcomes: status quo, moderate recovery, and structural rebuild, with materially different implications for Gulf Coast competition and Canadian differentials (Figure 1).

There are three primary drivers that could determine which scenario plays out over the next three to five years:



Investment certainty

The pace of recovery hinges on whether investment laws, contracts, and operating control are sufficient to entice the necessary investments.



Geopolitical lens

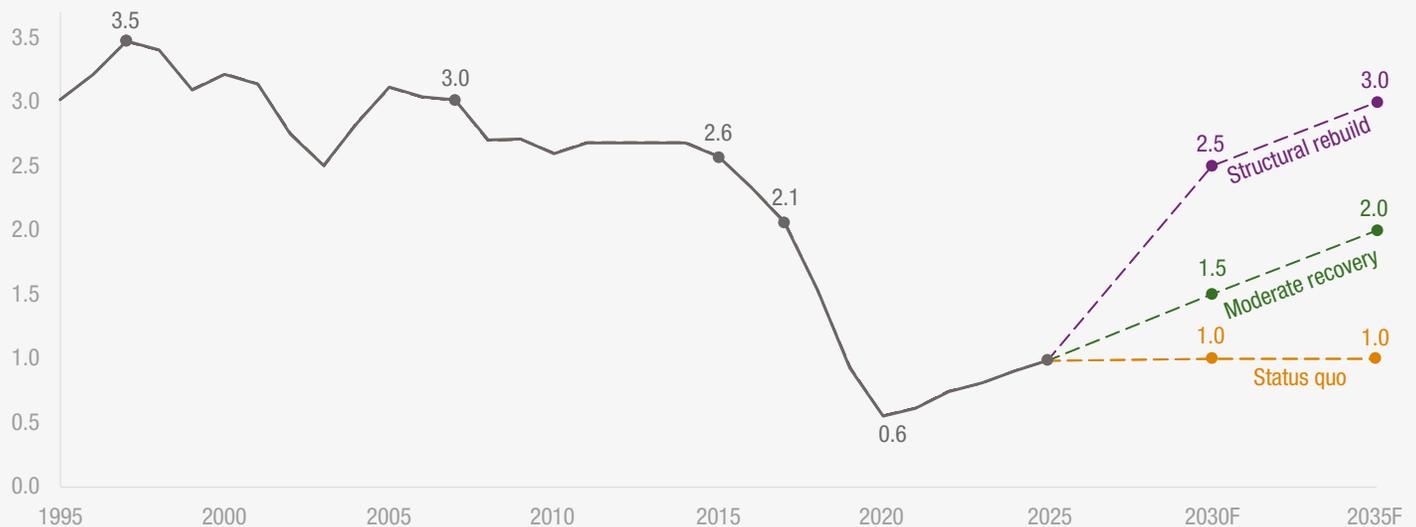
Sanctions and broader geopolitical priorities may influence both timing and destination (US versus Europe or Asia) of Venezuelan barrels, which matters as much as headline production targets.



General crude oil prices

Whether driven by ongoing supply/demand dynamics or OPEC actions, prices significantly below current levels could make it difficult to attract investment into heavy oil plays.

Figure 1: Venezuela Crude Oil Production (Million barrels per day)



Source: EIA, A&M analysis

2. Why Canadian Heavy Competes With Venezuelan Heavy

Canadian WCS (West Canadian Select) and Venezuelan Merey are close substitutes for complex refineries configured for heavy, sour crude. Competition is most acute in the US Gulf Coast, while Canada maintains a geographic and connectivity advantage in the US Midwest.



Landed-cost gap

On average, Venezuela has a USD \$4/bbl advantage in transport costs to the Gulf Coast (seaborne vs. pipeline). Because both Canadian and Venezuelan crudes are on the higher-cost end of the cost curve, this USD \$4 can decide who is in the money vs. out of the money. In fact, these competing crudes straddle the marginal barrel on the cost curve. Hence, some of the Venezuelan crude could come in and push some of the Canadian crude out of the money, forcing that portion of the Canadian crude to seek new destinations other than Gulf Coast.



Gulf Coast vulnerability

The Gulf Coast has significant heavy-processing capability originally built around Venezuelan crude. As Venezuelan barrels return, WCS is at risk of becoming the marginal heavy barrel setting the price, minimizing WCS margins.



Price realism

In the early 2010s, WCS-Hardisty (Western Canadian Select) traded at a discount of \$20–\$30/bbl to Merey-16 (Venezuelan heavy), a useful stress-test boundary for project economics. As an alternative comparison, in that same period, WCS-Hardisty traded at an average of \$18/bbl to WTI (West Texas Intermediate).

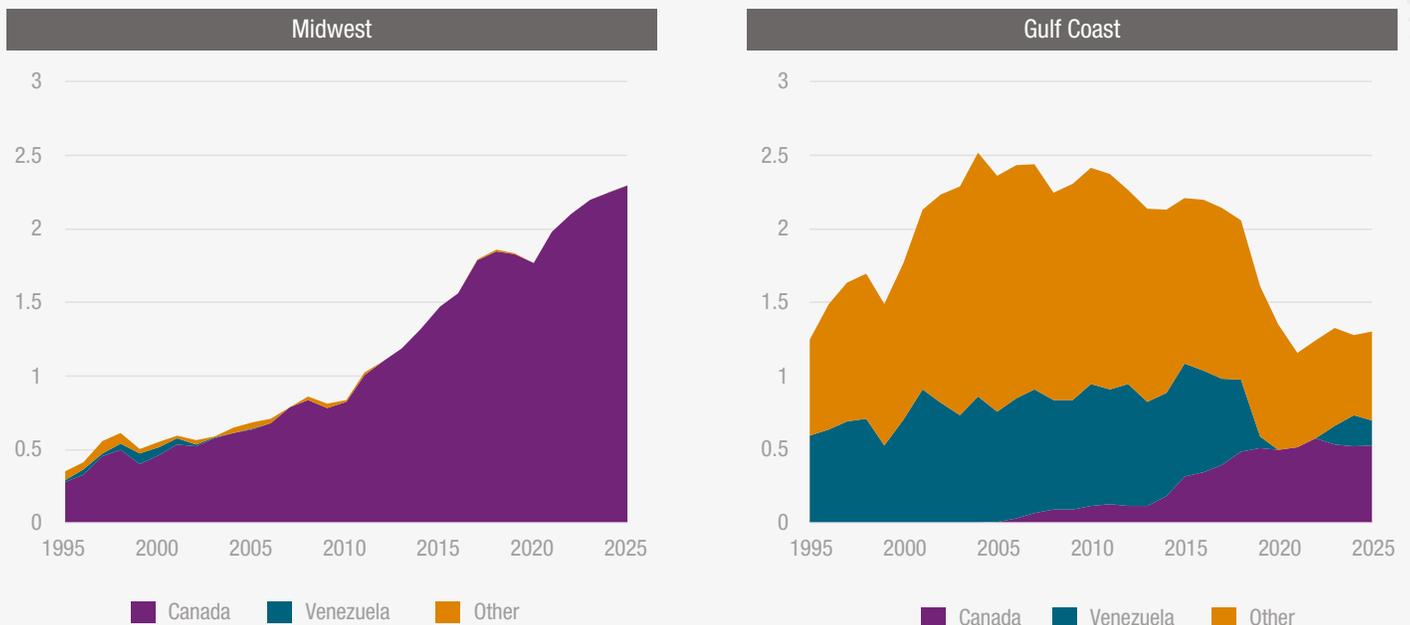


Midwest moat

Canada retains structural protection in the US Midwest due to geography and entrenched connectivity (Figure 2). However, tighter egress and downstream competition can still transmit volatility into netbacks even without immediate volume displacement.

Canada has a geographic and connectivity advantage in the US Midwest, but Venezuela has a USD \$4/bbl advantage in average transport costs to the US Gulf Coast.

Figure 2: US Heavy Crude Imports by Refining District (Million barrels per day)



Source: EIA, A&M analysis

3. Implications by Timeframe: Sentiment First, Displacement Later

The core risk is not a single forecast, but a wider distribution of outcomes. Volumes will not shift overnight, but pricing and capital-allocation signals can change quickly, influencing differentials, customer/refinery behavior, and investment decisions years before physical displacement becomes visible.



Near-term pipeline contract buffer

Western Canadian egress is constrained and largely under firm service/term commitments (e.g., Mainline and Keystone largely committed through 2032), with Transmountain adding significant West Coast export capacity (Figure 3).



Window to act

The winners will be companies that use the near-term buffer period to re-rank capital, expand commercial optionality, and strengthen investor messaging around resilience rather than throughput-driven growth.

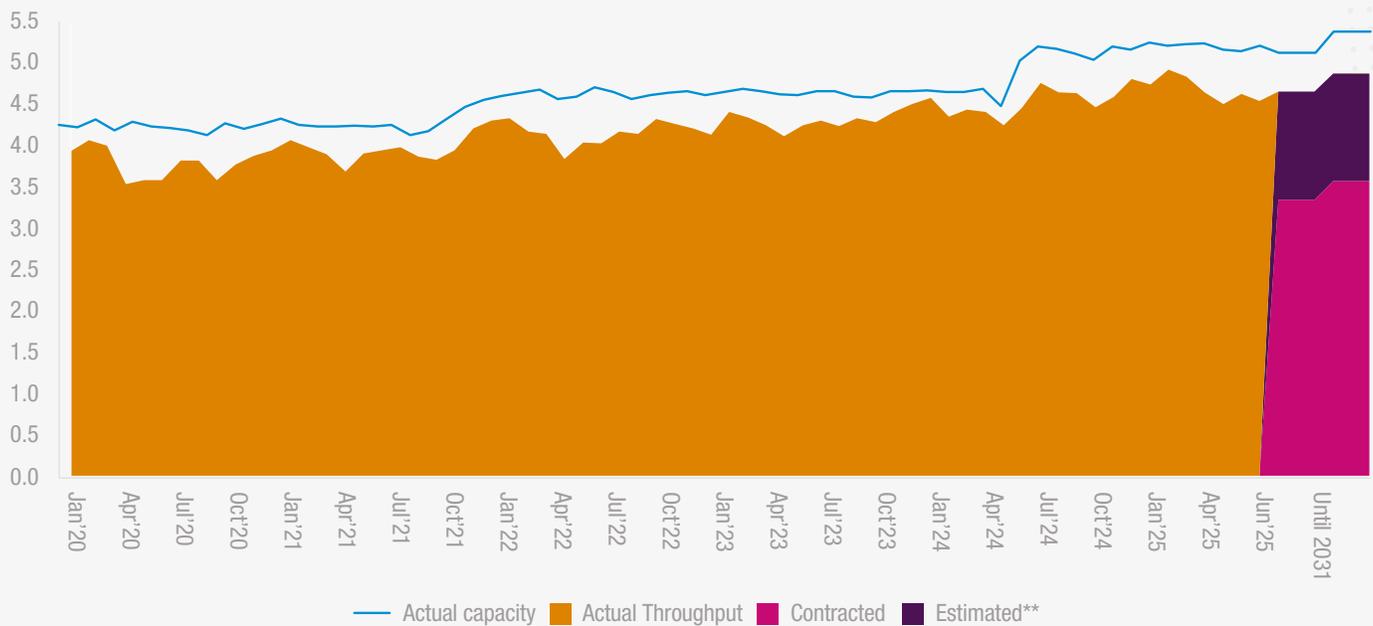


Contracts aren't margins

Even if physical volumes remain stable near-term, differentials can widen on expectations as refiners test crude slates and traders reprice risk, putting pressure on upstream netbacks and midstream growth confidence.

Volumes will not shift overnight, but pricing and capital-allocation signals can change years before physical displacement becomes visible.

Figure 3: Key Canadian Pipelines' Capacity and Throughput (Million barrels per day)*



* Keystone, Mainline, Transmountain, Express, Aurora, and Milk River

** Estimated volumes represent an average volume pulled forward for Mainline, Express, Aurora, and Milk River due to lack of contract clarity

Source: Canada Energy Regulator, Literature Research, A&M analysis



Strategic Implications

Specific strategies to enhance portfolio positioning and operational performance vary by position in the value chain.

Upstream: Win on landing cost and de-risk growth



Stress-test capital

Re-sequence sustaining and growth capital plans against lower-price cases (WSC discount) and prioritize low-risk brownfield debottlenecking and the most resilient barrels.



Lower unit costs

Drive operating efficiency (e.g., debottlenecking, sustaining-capital discipline) so that the total delivered price remains competitive vs. the lower-transport-cost Venezuelan crude.



Protect and diversify demand

Deepen term supply/processing relationships in the US Midwest and pursue marketing optionality so that incremental barrels are not forced into a single clearing point.



Strengthen downstream integration

Where feasible, deepen processing agreements (including tolling) or equity investments to convert differential volatility into more stable margin capture and reduce exposure to Gulf Coast competition.



Capture diluent economics

Venezuelan crude requires dilution, some of which comes from Canada; hence, secure condensate supply and blending/logistics optionality, and assess diluent recovery opportunities that lower delivered cost and improve netback resilience.



Monetize volatility with storage

Expand storage capacity at key hubs (Hardisty and downstream nodes) so that upstream producers can time markets (e.g., blend and arbitrage).

Midstream/infrastructure: Shift from US-only growth to international optionality



Re-rank growth

Projects that only add southbound capacity should face a higher hurdle; prioritize investments that add destination flexibility, storage, and export linkage (e.g., pipelines to the West and East Coasts to enable seaborne transport).



Secure capacity at hubs and exit ramps

Expand storage and terminals at strategic hubs (e.g., Hardisty, Cushing, Gulf Coast) and invest in secondary infrastructure (diluent recovery, marine loading, export-linked terminals).



Diversify the portfolio

Diversify (organically or via M&A) toward storage, terminals, and export logistics—assets that gain value as volatility rises. Also, focus the capital flows on non-crude business units (e.g., gas).

The task now is to turn the temporary near-term cushion into a more resilient position for Canadian crude—drive down delivered costs, secure existing and add more market options where possible, and reallocate capital into projects that hold up under stress.

Specific strategies vary by position in the value chain. For the Upstream, the key levers include winning on landing costs and de-risking growth. For the Midstream, the key levers include shifting from US-only growth to international optionality.



KEY CONTACTS



Mark Clevenger
Managing Director

mclevenger@alvarezandmarsal.com



John Corrigan
Managing Director

jcorrigan@alvarezandmarsal.com



Amandeep Singh
Managing Director

amandeepsingh@alvarezandmarsal.com



Burak Powers
Senior Director

bpowers@alvarezandmarsal.com

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