Global Economic Policy Lab

Canadian Trade Diversification: Export-Enabling Oil & Gas Infrastructure

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Executive Summary

- With Canada's oil and gas exports remaining overwhelmingly dependent on the U.S., India and China are key markets for growth and diversification across these sectors.
- Trade-enabling infrastructure presents a binding constraint for growth. Limited pipeline and port capacity prevents direct and competitive access to key non-U.S. markets.
- Infrastructure investments are capital-intensive in the short-term but deliver long-term security and value.

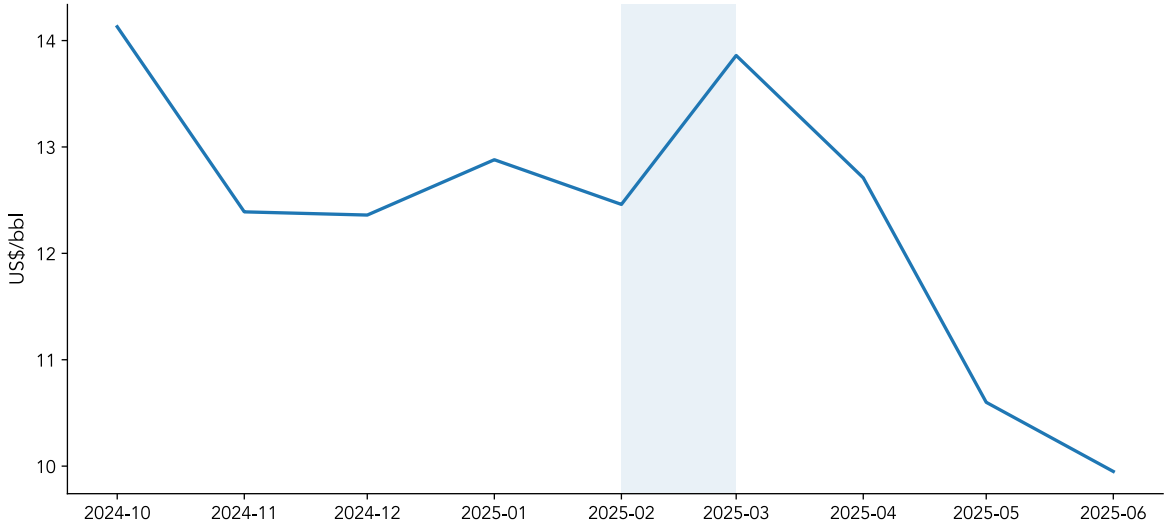
The Problem

Despite being the world's fourth-largest crude oil producer and fifth-largest natural gas supplier, Canada sends 96% of its oil exports and 100% of its LNG exports to the United States (Asia Pacific Foundation, IEA). This concentration creates commercial and strategic risk, making export diversification a necessity rather than a choice. However, this is only achievable through infrastructure enabling direct access to non-U.S. markets. Limited tidewater capacity has forced Canadian crude to move south to the U.S. Gulf Coast for re-export to Asia, embedding Canadian exports within U.S. infrastructure and trade policy. Without pipelines and port capacity that enable direct access to global markets, Canada remains structurally locked into the U.S. market and vulnerable to geopolitical risk, reducing resilience and bargaining power. While exclusive reliance on the U.S. can deliver higher short-term prices, due to lower transport costs, diversification provides insurance against tariffs, political leverage, and transportation bottlenecks in an increasingly protectionist trade environment.

Economic Consequences of Limited Access to Other Non-US Markets

In early 2025, U.S. tariff announcements, later largely exempted under CUSMA, coincided with a temporary widening of the WCS–WTI differential. Prior to the announcement, the spread had been trading near US$12 per barrel (bbl), but it widened sharply, briefly exceeding US$16/bbl ahead of the original February 4 implementation date and remaining around US$14/bbl in early March. Because Canadian oil exports are heavily concentrated in the U.S. and lack diversified routes, producers have limited ability to redirect shipments during trade disruptions and effectively become price-takers. Consequently, even short-term market access shocks can weaken revenues and bargaining power, underscoring the risks of reliance on a single export market.

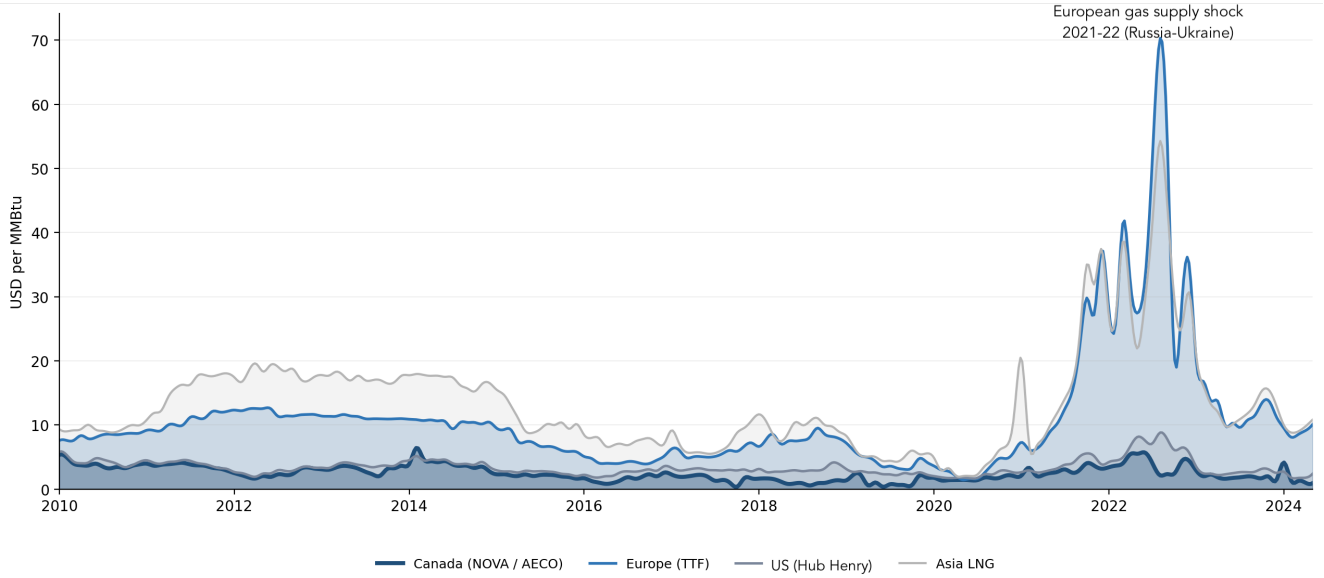
Figure 1: WTI-WCS Differential (Oct 2024-Jun 2025)



Source: Alberta Economic Dashboard, Global Economic Policy Lab

Canadian natural gas prices in 2025 traded roughly 67% below the U.S. Henry Hub benchmark, reflecting pipeline bottlenecks and heavy reliance on a single export market. Prices in European and Asian LNG markets were substantially higher, but without direct export access Canadian producers remain tied to North American pricing. As a result, Canada is unable to capture global price premiums despite abundant supply.

Figure 2: Global LNG and Natural Gas Prices



Source: IMF and NGI via Canada Energy Regulator, Global Economic Policy Lab

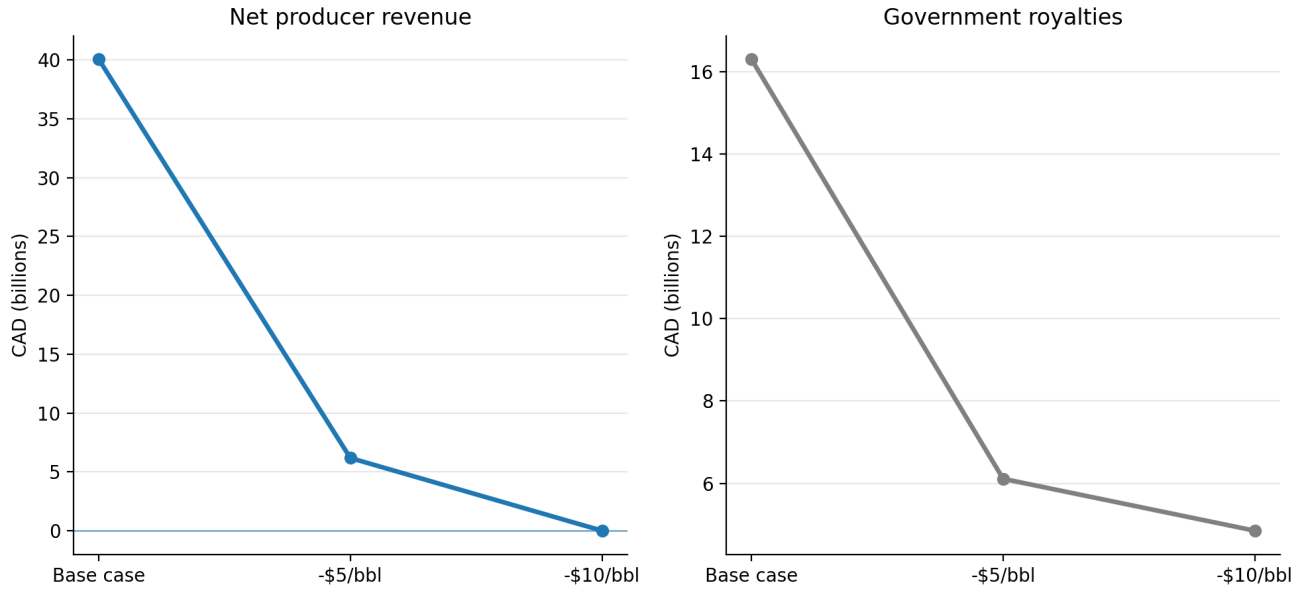
Sustained price discounts translate into provincial fiscal losses and weaker investment incentives. Because oil sands production feeds into provincial government revenues, particularly in Alberta, realized price shocks quickly become a public finance issue. Infrastructure constraints or external trade disruptions, such as tariffs, can widen the WCS–WTI differential and force Canadian producers to sell at lower realized prices per barrel. Since provincial royalty regimes are based on the realized price of production rather than benchmark prices, wider discounts reduce royalty payments and, in turn, provincial revenues.

The effect is amplified by oil sands "dilbit" economics: bitumen must be blended with costly diluent to move through pipelines, and this cash cost does not fall proportionally when prices decline. As margins in the sector are already thin, even modest price discounts can push projects toward very low or negative net revenues, further compressing royalty collections (Figure 3). As a result, provincial royalty payments calculated on realized prices, not benchmark prices, fall. This causes higher fiscal and investment risk.

Using Alberta Oil Sands Project Data from 2024, the fiscal sensitivity of price shocks was tested under two scenarios in which tariffs or market access constraints lower realized oil prices by $5 per barrel and $10 per barrel, holding production volumes and costs constant. These price shocks were selected as they represent the potential price shock due to a 10-15% tariff.

- -$5/barrel shock: $10.2 billion in lost royalties (62.5% of royalties lost), $33.9 billion in lost net revenue.
- -$10/barrel shock: $11.5 billion in lost royalties (70% of royalties lost), $40 billion in lost net revenue, with aggregate net revenue turning negative.

Figure 3. Price Shock Impact on Net Revenue and Royalties (CAD) Compared to 2024 Base Year in Alberta Oil Sands



Source: Alberta Government, Global Economic Policy Lab

Key Markets

China and India are large importers of both oil and gas and are projected to remain so. IEA demand projections show Chinese oil demand peaking before 2030 and then flattening, while India's oil demand rises strongly through 2050. Primary oil appetite for both India and China remains crude, both countries having significant refining capacity. IEA figures suggest India will be the largest source of global oil demand growth between now and 2030.

Natural gas demand grows even faster than oil in both countries to the mid-2030s, before levelling off in China and continuing to rise more gradually in India, where the IEA expects demand to increase by around 60% by 2030 compared with 2023 levels. This rise in demand is expected to be associated with a doubling of India's natural gas imports.

Both India and China have expressed a desire to diversify imports and secure long-term suppliers. China's diversification strategy is widely discussed but remains largely informal and policy-driven rather than explicitly stated. For India, diversification pressures have become more acute following President Trump's threat to impose significant tariffs on the country if it does not stop importing Russian oil. Recent signals from the Indian government suggest a clear shift towards diversifying energy imports.

In both cases, geopolitical realities will force these countries not only to seek additional trading partners, but also stable, reliable ones. Therefore, like Canada, diversification and the search for import partners is not only price-driven, but also a response to geopolitical tensions and uncertainty. Overreliance on sanctioned and unstable energy supplies from Russia, Iran, and Venezuela has created space for Canada to position itself a key strategic partner.

With Canadian crude not as price competitive as sanctioned Russian and Iranian oil, Canada needs to make the case to India and China that Canadian oil and gas provides the reliability and stability they're seeking, including unsanctioned supply, secure sourcing, and routes that avoid chokepoints such as the Panama Canal.

What is missing from Canada's current posture is capacity, the ability to grow into India and China's demand. With the expanded Trans Mountain pipeline already averaging 82% utilization and Canada's LNG industry currently in its infant state, having completed construction of its first major export-oriented LNG terminal in 2025, export capacity and the associated export enabling-infrastructure presents a binding constraint for Canada's ability to diversity.

Required Infrastructure

Oil

Recent experience with the Trans Mountain Expansion (TMX) illustrates the role of transportation capacity in shaping export outcomes. By expanding pipeline capacity from 300,000 to 890,000 barrels per day, it improved access to Pacific export markets and reduced reliance on US refineries.

Alongside pipeline expansion, additional infrastructure is needed to address Canada's export constraints. Long-haul exports to major buyers such as India and China typically rely on Very Large Crude Carriers (VLCCs), which substantially lower per-barrel shipping costs. Canada currently lacks west-coast terminals capable of loading VLCCs; TMX primarily serves smaller tankers, and some Canadian crude must be rerouted through the U.S. Gulf Coast to reach Asia. This limitation is reinforced by the Oil Tanker Moratorium Act (Bill C-48, 2019), which prohibits tankers carrying more than 12,500 metric tonnes of crude oil from operating along much of northern British Columbia's coast. Together, infrastructure capacity and regulatory restrictions prevent direct, cost-competitive access to Asian markets.

Accessing global markets also requires corridor-scale infrastructure linking the Western Canadian Sedimentary Basin to deepwater export ports. Large Asian markets require reliable, high-capacity export corridors from Edmonton/Hardisty to ports capable of global shipping standards such as pipelines to Prince Rupert or Kitimat. TMX has improved optionality and narrowed price discounts but does not eliminate the VLCC constraint. Without corridor-scale infrastructure, exports to India and China remain indirect and price-discounted.

Natural Gas

Table 1: Recently Complete and Proposed Export-Oriented LNG Infrastructure

Project Title	Location	Status	LNG Export Volumes, Million Tonnes per Annum (MTPA)
LNG Canada Phase 1	Kitimat, BC	Operating (first cargo shipped in June 2025)	14
LNG Canada Phase 2	Kitimat, BC	Proposed / Pre-FID (referred to Major Projects Office)	14
Woodfibre LNG	Squamish, BC	Under Construction (target in service ~2027)	2.1
Ksi Lisims LNG	Pearse Island, BC	Approved / Pre-Construction (referred to Major Projects Office)	12
Cedar LNG	Kitimat, BC	Under Construction (target in service ~2028)	3

Source: Natural Resources Canada, Major Projects Office, Global Economic Policy Lab

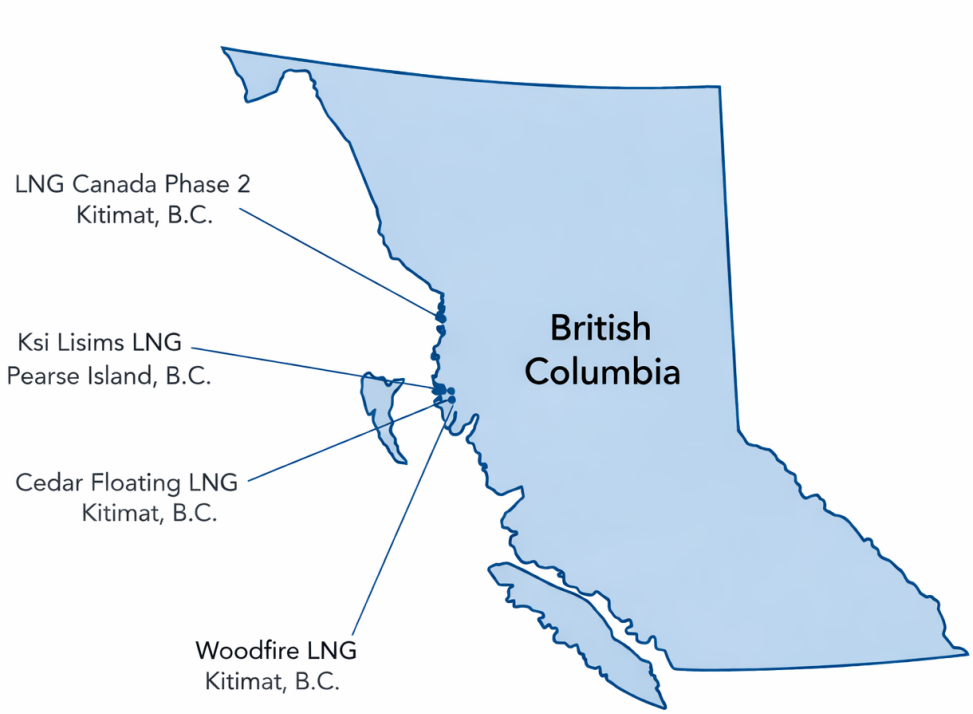
LNG export capacity is constrained by the entire gas-to-tidewater system, not just liquefaction terminals. As terminal capacity expands, sufficient feedgas pipeline capacity becomes a binding requirement. In this context, projects such as the Prince Rupert Gas Transmission (PRGT) and Pacific Trails pipelines are critical to enabling proposed and potential future LNG terminals.

These projects may help reduce structural price discounts by providing Canadian natural gas producers with access to non-U.S. markets and global LNG pricing, which has historically traded at higher prices than North American gas (Figure 2).

A full build-out of the above-discussed projects could support approximately 45.1 MTPA, or 5.9 billion cubic feet per day (Bcf/d), compared to the average 8.8 Bcf/d directly exported to the U.S. via pipeline in 2024. While the United States will most certainly remain Canada's primary export market for the foreseeable future, the expansion of LNG export capacity would materially diversify Canada's natural gas export portfolio and reliance on a single destination market.

x

Figure 4: Map of Proposed LNG Export Projects



Source: Natural Resources Canada, Major Projects Office, Global Economic Policy Lab

Key Considerations: Indigenous, Environmental and Political Constraints

Unresolved trade tensions, heightened geopolitical risks, and policy shifts make the oil and gas markets economically political commodities.

Canada's energy infrastructure is constrained politically by provincial interests. The Government of Canada needs to navigate Indigenous and provincial consultations, and regional political economies. Alberta and Saskatchewan strongly support export-enabling infrastructure, while Quebec and Ontario are politically resistant. Several Indigenous nations along British Columbia's coast have expressed firm opposition to oil tankers and pipeline development, citing environmental risks, spill response capacity, and constitutionally protected rights and title. In short, Canada's ability to capitalize on global market conditions must assess domestic political, provincial, and Indigenous governance considerations.

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