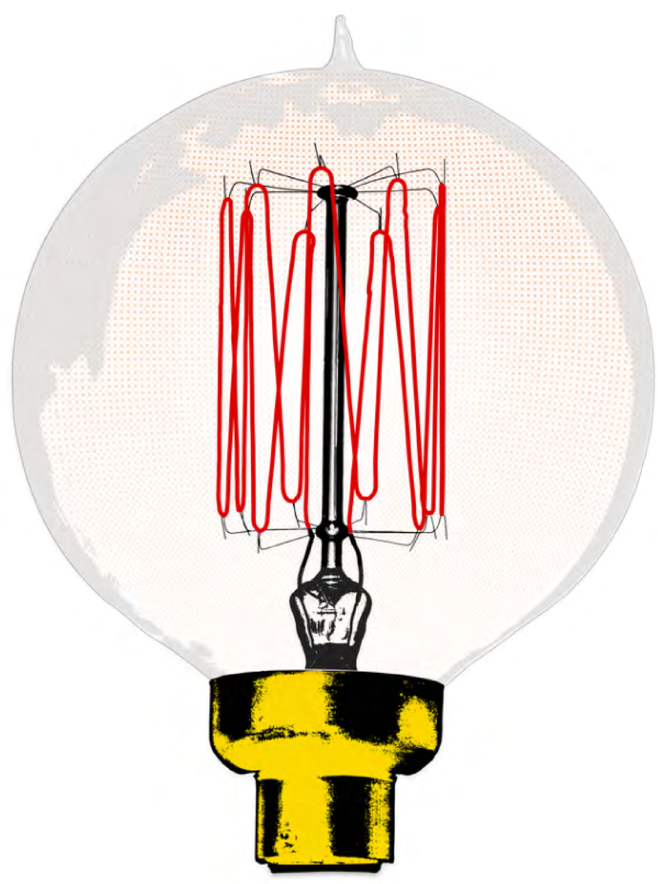


The Cost of Being a Market Hostage

The Staggering Toll of Canada's Heavy Oil Discounts

Canada's oil sector has forfeited US$49 billion over 15 years to heavy-oil discounts. When market access tightens, the gap between benchmark prices can widen dramatically, wiping out billions in value. All stakeholders lose—from industry players, to investors to resource owners and taxpayers. Such losses highlight the need for Canada to move from price-taker to strategic player in global energy.

Summary

- US$49B gone: Fifteen years of heavy-oil discounts has cost the upstream Canadian oil and gas economy dearly.
- Everyone pays: Producers, investors, provincial resource owners, and taxpayers all take the hit.
- Next move: Canada must flip from price-taker to strategic player in a world of geoeconomic coercion.

Table Stakes

Nobody likes to leave money on the table.

It's a pithy saying that captures the cost of selling something for less than it's worth. Everyone knows the sting of being shortchanged by, say, forty bucks. But what about US$49 billion?

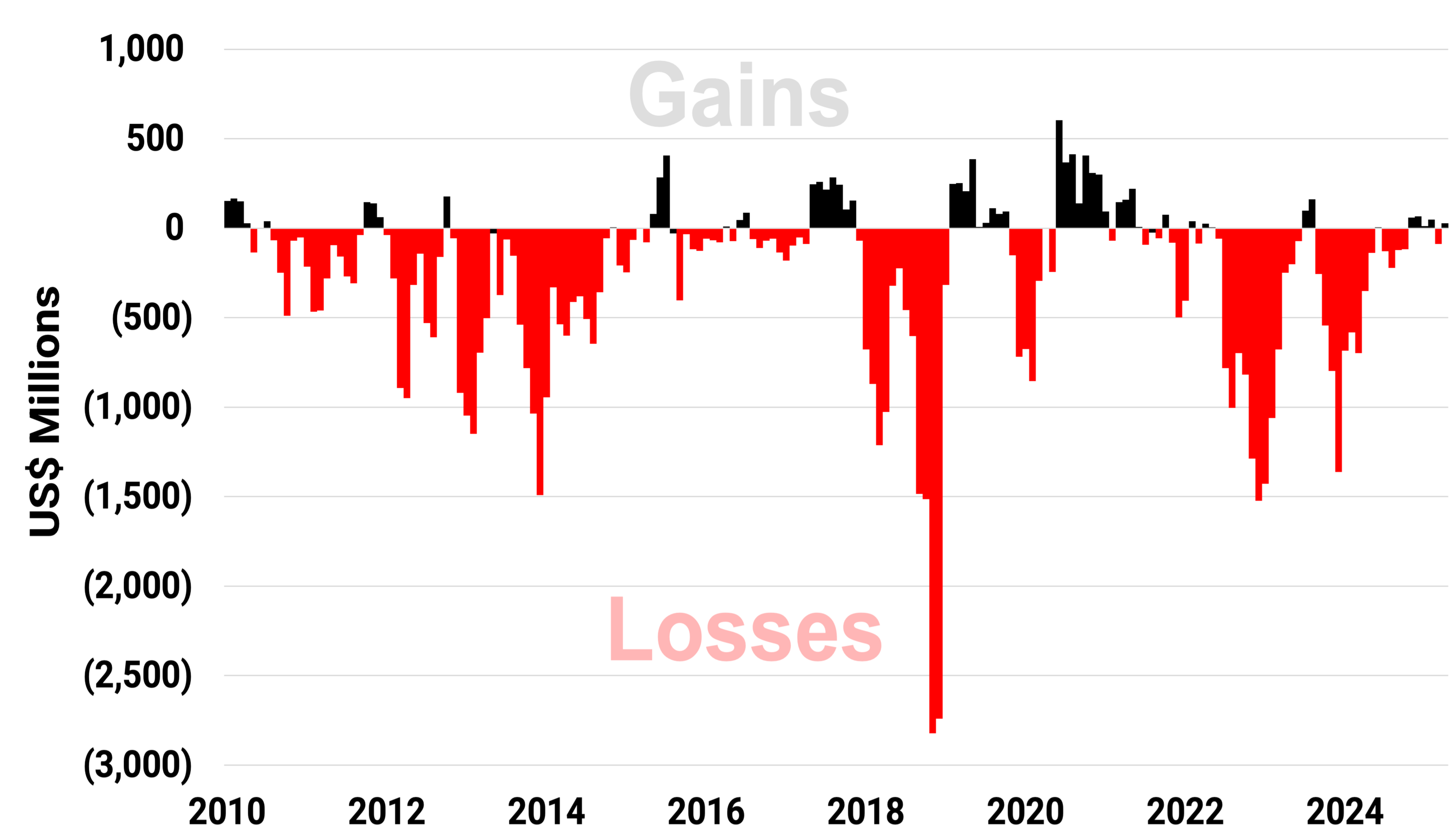
That's how much money the Canadian oil and gas industry has forfeited in revenue over the past 15 years because of discounted prices just for heavy oils. Spread out, it works out to roughly US$3 billion a year—value effectively transferred to buyers, largely into the pockets of US refineries.

The culprit is what the industry calls 'price differentials'. Jargon aside, it means being forced to sell commodities like crude oil at a discount. The figure below illustrates the losses (and occasional gains) due to negative differentials.

Canadian heavy crude always sells at a discount to its US counterpart, West Texas Intermediate (WTI), the North American benchmark for light oil. There is

Estimated Monthly Revenue Losses and Gains Due to Oil Price Differentials

Canadian Upstream Heavy Oil Only, 2010–Present, Monthly



Sources: Canada Energy Regulator, Bloomberg, Studio.Energy

a built-in discount of about US$13.00 per barrel that's considered 'normal,' reflecting both the lower quality of heavy crude relative to lighter grades, and the cost of moving the unrefined oil to American market hubs. The real story—and the real losses—happen when that discount balloons far beyond its baseline and sellers become hostage to the buyers.

The Cost of Being a Market Hostage

When Canadian oil backs up due to pipeline congestion, the discount goes far greater than US$13.00/B. A US$20.00 discount per barrel has been commonplace, and occasionally, as in November 2018, the discounts went as high as US$45.93/B—in other words, when WTI was trading at US$56.96/B, Canada's heavy oils were fetching only US$11.03/B.

Multiply the price discount by the production volume in each month and you get the chart above. Loss-filled months over the past 15 years are in red. That's when the discounts were acute and frequent. Occasionally, there were months when the differentials swung positive. Summing them up tallies to about US$8.7 billion over the 15-year period Such gains can also be considered as opportunity, the prize for being strategic about fetching prices that are priced above "normal" North American benchmarks.

Part of the story on negative differentials has long been publicized: insufficient pipeline capacity. But that's not the whole story. A narrow set of buyers, concentrated in a few downstream, continental refineries, means that outages or maintenance downtime can hammer Canadian producers. Equally, a lack of diversified, international customers has meant that a small, limited set of refineries has the advantage at the table—sellers become "price-takers," a label that automatically conjures up weakness.

From a national perspective, such vulnerability speaks to a low level of geoeconomic ambition.[1]

As to how Canada ended up in this money-losing state, pointing fingers is difficult, and dwelling on the past is counterproductive. Oil already in the pipe is like the proverbial water under the bridge. The real challenge, in a world of economic coercion and shifting geopolitics, is foresight: not only to avoid repeating the problem, but to ascend the ladder of ambition[2] —to position Canadian energy as a strategic asset rather than a perennial discount story.

The Price of Being Passive Today

Avoiding future price discounts matters more today than it did 15 years ago. Total heavy-oil production has doubled and overall royalty rates have moved much higher as more oilsands projects achieved post-payout status.[3] As well, due to lower levels of capital investment since 2021, the industry is paying much higher cash taxes. In other words, the table stakes are significantly larger than at any time in the past: even a modest discount from normal differentials today translates into multimillion-dollar losses. How much, exactly?

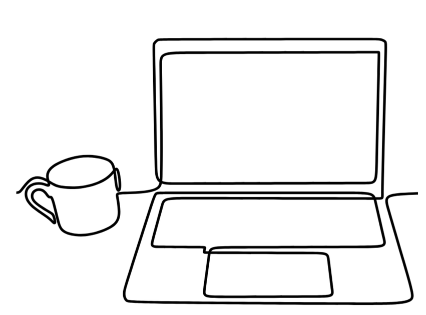
Consider that today's heavy oil production is 3.3 million barrels per day (MMB/d). Leaving just one US dollar-per-barrel on the table translates to about C$137 million of industry revenue per month, if sustained over the month. That's revenue to the industry. What about royalties and taxes?

Notably, that seemingly small $US1.00 per barrel of differential translates to approximately C$23.7 million per month of lost royalties and taxes, or an annualized C$284 million if sustained over a year.[4]

Put simply, the table we're playing at is much bigger today. Therefore, so are the millions of dollars that can be left on it—for all stakeholders.

How to Think About Opportunity

Canada is the fourth-largest producer of oil in the world. In this new age of economic warfare—tariffs, sanctions, embargoes, and supply-chain weaponization—the nation has an opportunity to strategically realign its exports and climb the ladder of ambition.[5] In doing so, Canada's economy will first ensure that future billions are not left on the table. More importantly, achieving a higher level of ambition will parlay those billions into enduring prosperity, fiscal resilience, and geopolitical leverage in the face of potential economic coercion.



Authored by:

Peter Tertzakian
Founder & CEO, Studio.Energy

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For more information contact *think@studio.energy*.

[1,2,5] See Now You're Thinking Issue 001—Gauging Canada's Energy Ambition; Studio.Energy; September 8, 2025.

[3,4] Studio Energy Canadian Oil and Gas Economic Model, 2025