

## ECONOMIC VIEWPOINT

# Venezuela's Regime Shift: Global Economic and Oil Market Implications

By Marc-Antoine Dumont, Senior Economist

After months of intensifying pressure and signals of interest in regime change, the United States executed a bold military operation (codenamed Operation Absolute Resolve) in the early hours of January 3, 2026. The impact of this intervention will reverberate across the oil markets, global economy, and geopolitical landscape. However, these effects will differ in magnitude and timing.

### Key takeaways

- ▶ Only 10% of Canadian barrels are at risk of near-term displacement, specifically those going to the US Gulf Coast (PADD 3).
- ▶ We anticipate a gradual widening of the price spread between the US benchmark WTI (West Texas Intermediate) and the Canadian benchmark WCS (Western Canadian Select) from US\$2 to US\$8 per barrel, depending on supply and contractual constraints. The Alberta economy is likely to suffer as a result.
- ▶ Venezuela's oil industry has suffered for decades from underinvestment, mismanagement, and sanctions. Three to five years are likely needed for incremental production gains, and up to a decade for material capacity expansions.
- ▶ The US intervention is likely to prompt similar actions by Russia and China, which could increase market uncertainty.

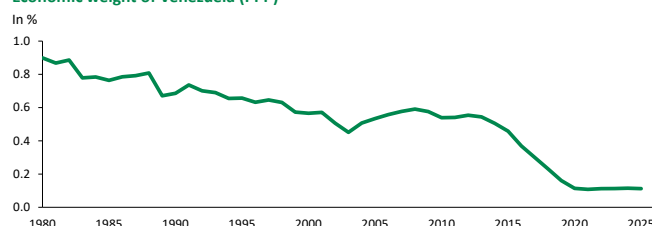
### A Small Economy with Massive Potential

Venezuela's economy is small by global standards. Nominal GDP was about US\$120 billion in 2024, which represents the 85<sup>th</sup> rank in the global economy. After a deep contraction in the mid-2010s, activity showed a tentative rebound in 2025. On a PPP basis, Venezuela's share of world GDP is 0.11% (2025), a fraction of its weight in the 1980s (0.90%) (graph 1). The decline reflects long-running policy and governance weaknesses, sanctions-driven financing constraints, and capital/labour flight,

alongside severe deterioration in energy infrastructure. However, hyperinflation persists, with CPI up more than 170% y/y in April 2025 and triple-digit inflation still projected for 2026.

#### Graph 1

**On a PPP basis, Venezuela's share of world GDP is 0.11%, a fraction of its weight in the 1980s**  
Economic weight of Venezuela (PPP)



International Monetary Fund and Desjardins Economic Studies

### The Largest Single Source of Oil

Venezuela's resource potential is undeniable, as it holds the world's largest proven oil reserves, with 303 billion barrels, or 17% of the global total, largely extra heavy crude in the Orinoco belt. The oil industry has nevertheless suffered for decades from underinvestment and operational deterioration, and sanctions have compounded these pressures. Production fell from 2.4 mb/d in 2014 to 1.1 mb/d in November 2025. Sanctions were broadened in 2019 with intermittent relief, then

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tightened again in 2025 following Donald Trump's return to the White House, which further constrained financing and access to technology.

Following the January 2026 operation, the US administration signalled it would be "very strongly involved" in Venezuela's oil sector. However, past experience suggests the recovery will be gradual and conditional on stable governance, sufficient capital and service sector capacity. The price backdrop is also unsupportive, with WTI at US\$57 per barrel, which limits cash flows for high-cost oil projects. Even with a significant policy shift, three to five years are likely needed for incremental production gains, and up to a decade for material capacity expansions.

### What does it mean for Canada?

However you slice it, this is bad news for Canada, even if the magnitude remains uncertain. Venezuelan heavy crude competes directly with Canadian crude oil, and many US Gulf Coast (USGC) refineries are configured with high-coking capacity to run heavy/sour grades like those from Venezuela. If sanctions and operational constraints were eased, Venezuelan barrels delivered by tanker to the USGC would be cost-competitive, putting downward pressure on Canadian barrel prices.

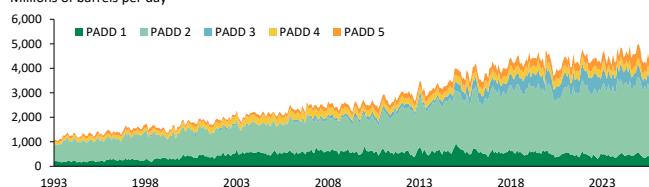
Canada exports 0.55 mb/d to the USGC (PADD 3), representing 10% of our total exports. In the near term, only those barrels are at risk of being displaced by Venezuelan crude (graph 2). Our exports to the Midwest (PADD 2) should remain safe, as refineries in the region are supplied by pipelines flowing south under long-term contracts. Reversing those flows to accommodate Venezuelan shipments coming from the USGC would require significant investment and time, which remain unlikely in the short term.

### Graph 2

#### Canada Mostly Exports Its Crude Oil to the Midwest and the Gulf

##### US Crude Oil Imports From Canada by PADD

Millions of barrels per day



U.S. Energy Information Administration and Desjardins Economic Studies

Moreover, most of Venezuela's exports were routed to China (often via intermediaries) in 2025, with monthly volumes roughly 0.50–1.10 mb/d, almost all of Venezuelan production. These

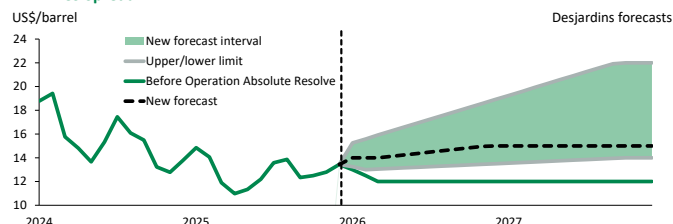
flows will not reroute overnight. It is also important to note that the US currently exports crude and petroleum products to China, and there is no reason to believe that American-owned businesses exploiting Venezuelan oil fields would be barred from doing the same. As mentioned above, Venezuela output growth will likely be slow given persistent infrastructure and operational challenges, limiting the near-term displacement of Canadian barrels in the USGC. Political and economic instability in Venezuela may also lead some refiners to privilege the reliability of Canadian supply.

We anticipate a gradual widening of the spread between oil prices based on the US benchmark (WTI) and the Canadian benchmark (WCS) from US\$2 to US\$8 per barrel, depending on supply and contractual constraints (graph 3). That said, there is no timeline for how fast Venezuela will start pumping more oil or where those barrels will be exported. The WCS forecast is, therefore, subject to change as more information becomes available.

### Graph 3

#### An Incremental Venezuelan Presence in the US Will Likely Widen the WTI-WCS Spread Over Time

##### WTI-WCS Spread



WTI: West Texas Intermediate; WCS: Western Canadian Select  
Bloomberg and Desjardins Economic Studies

Canadian producers will likely absorb margin compression, but balance sheets are resilient after years of capital discipline, with capex plans stable and free cash flow robust. The anticipated spread widening should not precipitate an industry collapse, as some have suggested. More likely are near-term delays in investment and production plans until uncertainty eases. Without continued development of overseas export corridors, the industry risks becoming land-locked over the long run—despite the increased access to international markets afforded by the TMX pipeline. The overall impact on the Canadian economy will likely be marginal in the short term, while the consequences for Alberta's outlook will be felt more profoundly.

### Global Oil Market Implications

The key question is how Venezuelan barrels will be absorbed into an already oversupplied global oil market. Under our more moderate baseline assumptions, we estimate a surplus of around 1.7 mb/d in 2026, compared with the International

Energy Agency projection of roughly 4.0 mb/d. A fragile global economy and volatile financial markets are also weighing on demand. Prices remain weak, with WTI prices below US\$60 per barrel, and a growing number of US producers are voicing concerns—something that should not be swept under the rug in an election year. In the United States, producers may push back against increased competition for refinery access. Finally, international oil flows will be rerouted, with China potentially reducing purchases of Venezuelan crude in favour of Russian and Iranian barrels.

### **The New Geopolitical Precedent**

The United States may have opened the door to a new series of troubling military actions. The return of the Monroe Doctrine means increased US presence and more frequent interventions in the Western Hemisphere, particularly in Central America. This could prompt Russia and China to take similar actions. This risks increasing market uncertainty and volatility and heightening the risk of further segmentation of the global economy and supply chains.

Venezuela is not out of the woods yet. The Trump administration appears to lack a plan for power transition and governance, which could result in weeks, months, or even years of economic and political paralysis.