

Canada, China and Oil: Betwixt the Elephant and the Dragon

As a bit of an appetizer, here is a link to a news story on fallout from Trump47's Venezuelan adventure: [Trump's Venezuela oil grab is pushing Chinese refiners to Canada.](#)

From the story: *"China's refiners, all but cut off from Venezuelan crude in the past week as the US positions itself for access to the world's largest oil reserves, are eying a pricier alternative source — Canada."*

Chinese inquiries around Canadian supply have increased since the snatching of President Nicolas Maduro at the weekend, traders said, with processors considering the country's grades seen as among the best replacements for Venezuela's Merey crude."

With sourcing of oil from Venezuela less certain, China is looking for other potential suppliers, and Canada seems a great opportunity given that it also has bountiful supplies of heavy sour crude oil. This is not to downplay the undeniable tensions between China and Canada.

In the background here, Canada has been working to geographically diversify its oil exports, and there has already been some success in that regard. Since the opening of the TMX expansion, Canada has been sending more oil to non-US destinations. Accordingly, the US share of Canada's oil exports has declined to 86.2% in October 2025, down from normal readings of close to 100% (chart 1).

In terms of volumes, Canada exports between 4.0 and 4.5 million barrels of oil per day (MMbbl/d). Chart 2 reinforces that the vast majority of it goes to the US. However, non-US exports are climbing, hitting a record 600,000 barrels per day last October. So, there has been some, but not a great deal of diversification. That said, you have to start somewhere.

The falling share of Canadian oil exports going to the US is one reason why the US share of total Canadian exports has been in decline in recent months. (Of course, Trump47's sectoral tariffs on imports from Canada are also playing an important role in disrupting the largest trading relationship in the world.)

Of the non-US countries that are receiving Canadian oil, let's focus China. Canada's oil exports to China recently hit a record high (428,000 bbl/d) in October (chart 3).

Perhaps a well-timed trip by PMMC to China

PMMC's trip to China might be extremely fortuitously timed.

Delving into a few reasons why, consider:

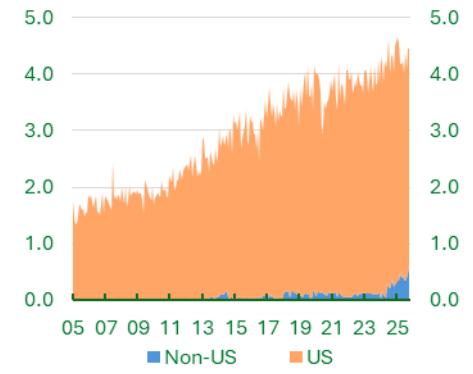
- Canada is very eager to find other destinations for its oil;
- China is looking for other sources of oil;
- Both have reason to be wary of the US.

1. Canadian oil exports to US (% of total volume of oil exports)



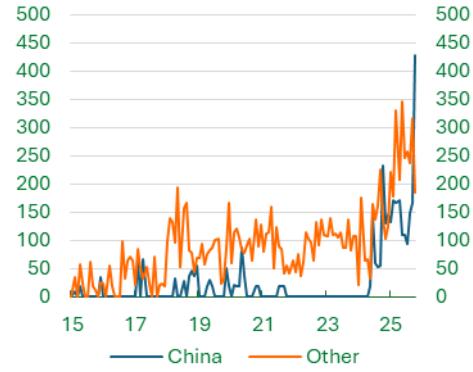
Source: Canada Energy Regulator

2 Canadian oil exports (MMbbl/d)



Source: Canada Energy Regulator

3. Canadian oil exports: Non-US (MMbbl/d)



Source: Canada Energy Regulator

Let's be realistic though — China will not displace the US as the largest market for Canadian crude, anytime soon, if ever. We simply do not have the capacity to ship that amount of oil to Asia.

But, Canada might be able to replace much of the oil China imported from Venezuela. Reports suggest that China imported between 600,000 and 650,000 bbl/d from Venezuela. China's oil imports from Canada were around two-thirds of that in October.

As well, China is also looking to replace the oil it used to import from the US. Chart 4 shows that China had been a pretty good market for US oil exports between 2020 to early 2025. However, there have been no reported US oil exports to China since March. Hence, China is looking to replace supply from two former oil suppliers.

Opportunity: Canada has what China needs

Does this signal a potential easing in Canada-China relations? Not this week. However, via oil, the two countries might find some common ground, particularly if Canada is able to provide greater assurance of consistent oil supply to China. Canadian oil will likely be more expensive than oil from Venezuela, but it might come with fewer headaches. Canadian oil will likely be less expensive than US-sourced oil, but the products are quite different.

From that starting point, it is possible that other tensions between Canada and China could start to thaw, but not much should be expected next week.

Tensions between Canada and China are nothing new. I won't go through them at length, but I will highlight the tensions in the mid-2010s. Back then China's efforts to purchase Canadian oil company (Nexen) prompted the federal government to introduce much stricter regulations on takeovers by sovereign controlled entities, particularly from China. Looking ahead, potentially (somewhat) closer Canada-China ties via oil is, therefore, no small feat.

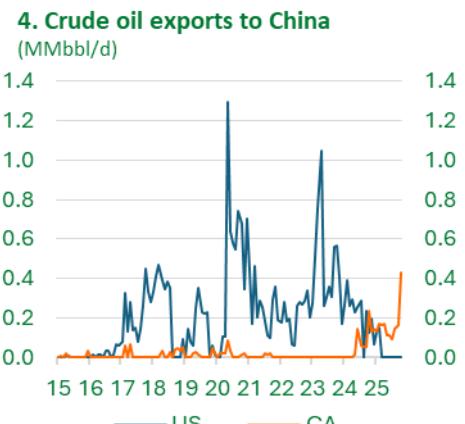
On another point, if Canada wants to be a global energy superpower, it has to be prepared to use the leverage it has from energy resources. Otherwise, Canada would just be a big global supplier — a global gas station if you will. To have power; you must be willing to use the leverage at your disposal.

Of course, in Canada nothing can be straightforward. Natural resources are under the primary authority of the provincial governments which complicates any effort to use natural resources as leverage. Not an insurmountable challenge, but a complication.

Then we must address the Elephant in the room. Specifically, a certain someone might not appreciate Canadian diplomatic interactions with China, and Canada does still need good-will in the US given the USMCA/CUSMA/T-MEC review that is set to start. We might find out soon in this regard with Canada's Dominic Leblanc heading to the US to begin formal discussions/negotiations on the trade pact in mid-January.

Canada might find it quite a challenge sharing a bed with the Elephant and the Dragon, potentially running headlong into the woolly-headed "Donroe" Doctrine.

No matter what, challenging times lay ahead for Canada. Clarity on strategic goals is absolutely crucial. Those goals need not align with the US, which means Canada might in for some diplomatic turbulence, though, hopefully, we won't have to worry about forces amassing on our southern border.



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