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MACROCOSM

Getting Venezuela Back On-Line: Watch Out, Canada!

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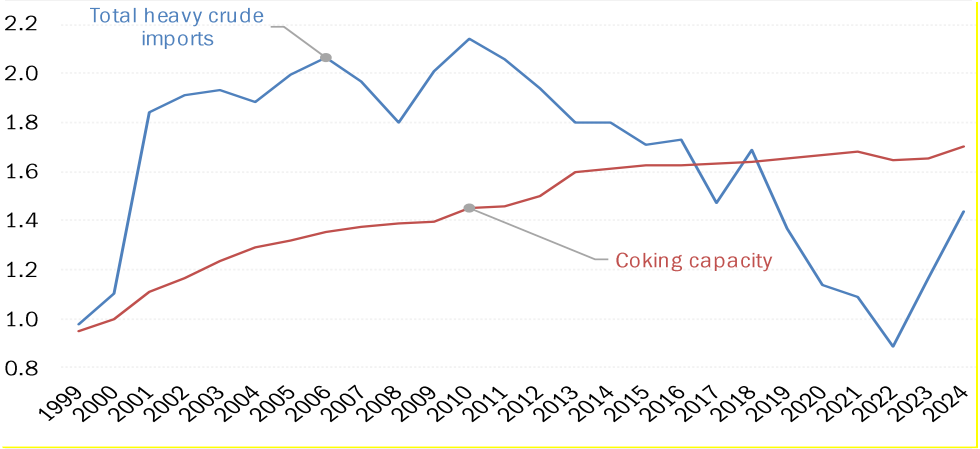
If Venezuela focuses on the needs of Gulf Coast refiners, it won't take long.

With this report, we will add context and detail to our very hot take hours after it was announced that the US had seized Venezuela's President Nicolás Maduro, and undertook to direct oil exports to the US (see "Predictions for 2026 (And a Very Hot Take on Venezuela)" January 5, 2026). We reaffirm our first appraisal of the impact on world oil markets. *We've been right to call the bottom on crude at $60 Brent* (see "2026 Oil Outlook" December 11, 2025). As of Friday, had already advanced more than halfway through our forecasted range for 2026 of $60 to $80.So far this year the energy sector has been by far the best performer in the S&P 500, and still is even as of this writing after something of a sell-off in crude.

There have been dozens of estimates of what it will take to repair Venezuela's oil and gas industry in terms of time and money. Most of them cite *hundreds of billions of dollars in costs and a decade in time to double crude oil production. The job won't be easy, but this is too pessimistic. We think production can increase by 50% within a year, which is three times better than the forecast of state-owned oil company Petróleos de Venezuela* – if the oil and gas companies who will have to do the heavy lifting grasp the unique situation here.

- The press and research institutions make *the mistake of thinking of*

PADD 3 coking capacity and crude imports (millions of barrels per day)



Source: DOE EIA, TrendMacro calculations

Update to strategic view

OIL: Restoring Venezuela's depreciated oil production infrastructure can be accelerated by focusing on what should be its key market – the US refiners in PADD 3, the Gulf Coast. Their appetite for heavy crude is not being satisfied by Canadian imports that has risen to take the place of those formerly from Venezuela and Mexico. But Venezuela enjoys unbeatable cost advantages over Canada. If it comes back on-line faster than expected, Canada could be exporting at a loss. Regime stability and contract certainty is key. A new law just passed to encourage foreign investment should help considerably. Canada cannot act quickly enough to divert to China exports now headed to the US, requiring investments in pipelines and shipping capacity that the climate-obsessed government doesn't support. Trump could block this by supplying China from Venezuelan new production. Ultimately this could lower oil prices globally, but for now we maintain our price target range of $60 to $80 Brent.

Venezuela's oil and gas infrastructure in its entirety. Focus is the key to an accelerated rebuilding.

- *Refining in PADD 3* – or the Gulf Coast District, as designated by the Department of Energy, encompassing Texas, Louisiana Alabama, Arkansas, Mississippi and New Mexico – *does not need any light crude oil from the western part of Venezuela*. That's the oldest and most depreciated part – it's been in production for more than a century near and under Lake Maracaibo.
- PADD 3 refiners are *desperately short barrels of heavy crude* (please see the chart on the previous page). Their coking units process heavy crude oil to *extract more valuable refined products* (gasoline, diesel, jet fuel) instead of fuel oil and bunkers (marine fuel). In Venezuela, that comes mostly from the east, where operators have been extracting heavy crude from the Orinoco Belt only since 2000 – making their *infrastructure newer, more intact and geographically isolated, hence more secure*. To be sure, the humid terrain and lack of maintenance has created issues that hamstring current production and will have to be repaired. But at least it's all relatively modern to begin with.

Before foreign investment comes in to fix oil and gas infrastructure problems, Venezuela needs to establish political stability and contract certainty. Some commentators argue that we need to get rid of the government in its entirety, but that would be disastrously disruptive, and it is not what the Trump administration is doing.

- While much has been said about the *left-leaning orientation of new president Delcy Rodrigues and her family, that isn't necessarily a disqualifier*. After all, the ascendancy to the Brazilian presidency of Luis Ignacio Lula da Silva and Dilma Rousseff, who both had strong left-leaning credentials, didn't derail Petrobras crude production even after they were in power for more than a decade. And both supported developing the pre-salt oil discoveries off the coast of Brazil, albeit with some local content requirements that were distasteful to international operators.
- *Venezuelan interior minister Diosdado Cabello is a horse of a different color*. He sits atop the military structure – both the regular army and paramilitaries known as *collectivos* – and could upend any positive developments by Rodrigues regarding US relations. His mere presence also dissuades the previous oil and gas professionals of the state-owned oil company PdVSA from returning to help jumpstart production. He recently appeared in a cap bearing the slogan "to doubt is to betray" – a menacing gesture meant to tell anybody in the country, including Rodriguez, to stay true to the communist dictates of *Chavismo*, or else. The US justice system indicted Cabello for drug-running with his former boss, Maduro. Sidelining Cabello would be a positive event for political stability, and we may be just one headline away from seeing him in New York facing charges like Maduro.

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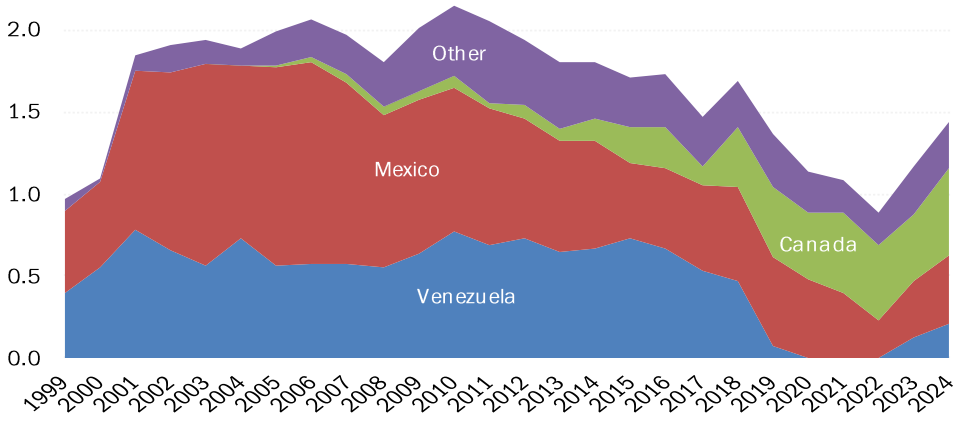
- Contract certainty is moving forward. Rodrigues met with Shell, Chevron, and Repsol in advance of the new hydrocarbon bill that was voted into law yesterday by the National Assembly.
- The bill was passed unanimously. And immediately after signed it into law, US sanctions were removed on selling, storing, shipping and refining by US entities. *It is obvious that the Trump administration is working hand and glove with the Rodrigues administration*.
- You know the new law is a strong step in the right direction when *Al Jazeera* frets it will break *Chavismo* – more specifically – the 2006 hydrocarbon law that nationalized the oil and gas assets of Conoco Phillips and ExxonMobil. Hopefully Cabello does not read *Al Jazeera*.

If political stability and contract certainty can be established, Venezuela and the oil majors can turn to a focused approach to meeting the needs of the most important customer of the future – the US PADD 3 refining complex.

- *Light oil is in abundance, heavy oil is in shortage*. The US shale revolution has produced so much *light* oil that the importation of *heavy* oil has had to increase dramatically in the Gulf Coast. Just 25 years ago heavy crude represented only 20% of total PADD 3 oil imports. That grew to 69% in 2024 (2025 full year data is not available). While the Gulf Coast is by far the largest consumer of heavy crude oil, China's "teapots" and India's complex refineries might find themselves short heavy crude barrels in the future. And newly built complex refiners in the Middle East consume more locally produced heavy crude oil than ever before.
- Historically there are three major PADD 3 import sources for the Gulf Coast heavy crude oil market (please see the chart below).

Heavy crude imports into PADD 3 (millions of barrels per day)



Source: DOE EIA, TrendMacro calculations

Imports from Mexico dominated a quarter century ago but have been in systemic decline because of falling production. Imports from Venezuela started to slow after 2015 when Maduro first took over from prior president Hugo Chávez and failed to reinvest in the industry. Imports from Venezuela stopped altogether under US sanctions in Trump's first term (US exportation of diluent to Venezuela stopped as well). That's when Canada gained significant feedstock market share in PADD 3.

- During the Biden administration sanctions were relaxed and less diligently enforced, and some degree of importation from Venezuela resumed. But PADD 3 appetite is so great, imports from Canada continued to grow. *That may be about to change, as we will discuss later.*
- *Gulf Coast refiners have had to substitute heavy-medium blends, so their operational efficiency has suffered and refined product output is down 2% to 3%. This hurts, especially with lower diesel volumes facing increasing demand from the rapid rollout of datacenters with back-up generator requirements* (see "2026 Oil Outlook" December 11, 2025).
- Not every heavy crude oil is the same. Both *Mexican and Canadian heavy crude have historically had a higher sulfur content than Venezuelan*. From 2005 to 2019, Venezuela's Orinoco Belt Merey-16 sulfur content averaged 2.6 parts per million while Mexico and Canada were 3.5 and 3.3, respectively. Higher sulfur content requires more processing – thus higher costs – to get it out of the refined product, and its use requires more refinery maintenance.
- Another distinction is gravity – roughly speaking, weight and viscosity. Refineries designed for heavy crude prefer lower gravity feedstocks. The American Petroleum Institute assigns all feedstock specific gravity ratings. Perhaps unintuitively, a lower number means it is heavier, while a higher number means that it is lighter.
- Again, *Venezuela's Orinoco Belt heavy crude is more desirable*. Its API averaged 17.1 from 2005 to 2019, while Mexico's and Canada's were 20.4 and 19.9, respectively. Complex refiners have invested over decades to optimize for lower gravity – that is, heavier – crude feedstocks, and utilizing higher API – that is, lighter – feedstocks reduces product yields, profit margins and return on investment.
- *Venezuela's heavy crude is also half as costly to transport to PADD 3 than Canadian*. Canadian average shipping volume – whether it is from pipeline, train or maritime vessel – was only 125,000 barrels in 2024. Venezuela, which uses ocean-going ships of assorted sizes, averaged 331,000 barrels per shipment. Increasing the size of the average shipment creates scale economies that cut average transportation costs.
- To get Venezuelan oil to US Gulf Coast refiners costs $4 to $6 per barrel. For Canada, it's $10 to $12 per barrel.

- As to lifting cost in production – what it costs at the wellhead to get the oil to the surface – estimates are all over the place. Canadian oil sands have the highest lifting costs for heavy oil at between $20 to $40 per barrel, depending on the extraction technique. Canadian oil sands operators must utilize a massive amount of natural gas in the frozen tundra. Venezuela's tropical environment does not need as much – the viscous oil simply flows better down south. That said, *Canada has invested heavily in infrastructure while Venezuela's has been neglected, so their full-cycle breakeven costs are probably quite similar*. *Coming capital investment in Venezuela will change that in Venezuela's favor*.

Since the overthrow of Maduro, international commodity traders are already querying PADD 3 refiners for increasing volumes of Venezuelan heavy crude oil. Chevron, Valero, ExxonMobil, and Conoco Phillips are the majors that brought on Venezuelan oil over the last year in PADDs 1 and 3 – the East and Gulf coasts – when Biden relaxed sanctions. Europe will receive its first shipment of post-Maduro oil in February with at least one off-loading at an Eni refinery.

Now for the difficult part: to identify bottlenecks in heavy crude oil production in Venezuela.

First is the lack of diluent – the lighter oil used to dilute the heavy crude. Access to US condensate, light crude or naphtha should eliminate that problem immediately.

- Venezuelan production fell from over 1 million barrels per day in February 2019 to 337,000 in June 2020. The reason: the lack of diluent to mix with their Orinoco extra-heavy crude oil. Not until May 2020, when Iran sent five tankers of diluent to Venezuela, did production start to rebound. Now Venezuela produces on average 927,000 barrels per day.
- Another example is Venezuelan heavy crude exports into US PADD 3 in 2024. The API of the Merey-16 blend declined to 12.7, from its historical average of 17.1, and the sulfur content jumped to 4.2 from a historical average of 2.6. These massive changes are directly associated with lack of diluent. When the US opens diluent exports to Venezuela production should increase and sulfur content should decline to historical averages.

It is thought that a big facilities expense will be fixing three depreciated "upgraders" – that improve the quality of heavy sour oil – out of the four in the José Antonio Anzoátegui industrial complex. The conventional wisdom is that upgrading each upgrader, as it were, will cost $10 billion. But investing just $3 billion in a "partial upgrader" will capture most of the benefits.

- *But why first repair and then run expensive upgraders that turn bitumen into a light-medium crude blend of 26 API, when the Gulf Coast needs heavy crude blends (API of 10 to 22.3) such as the Merey-16 blend?* Just give your biggest customer what he wants – it will be easier, faster and cheaper.

Other infrastructure – especially pipelines – will need thorough inspection, repair and, if necessary, upgrade to export more heavy crude oil to the Gulf Coast.

- *Outgoing pipelines need to be pigged* (cleaned, inspected, and maintained) to ascertain what their maximum flow rate is. The 72-inch pipeline that pushes heavy crude to the coast has a moderate flow rate capacity of 600,000 barrels per day. Adding drag resistant agents or pumping stations should double or triple the flow rate, which is exactly what the 36-inch diameter TransMountain Pipeline is trying to do in Canada to increase exports to Asia.
- *The same applies to incoming diluent pipelines* used to blend condensate with bitumen. Heavy oil typically requires a dilution rate of 20 to 40% for pipeline transport, depending on its viscosity. We do not know the throughput capacity of diluent lines. But remember, Venezuela exported more than 600,000 barrels per day of heavy crude to PADD 3 from 2009 to 2016. So there must already be at least four 8-inch diluent pipelines into the Orinoco Belt that would have a total flow rate of 240,000 barrels.
- *The development of natural gas fields for the purpose of increasing production and lowering the cost of blending bitumen with diluent would be another major investment*.
- Eni and Repsol are already maintaining gas production under Venezuela's Perla offshore gas project despite not being paid due to the US embargo. Both have now requested US export licenses from Venezuela to help the country compensate it for longstanding debt. Eni also produces heavy oil in the Junin bloc of the Orinoco Belt. Last week, Eni sold 10% of their investment in the Ivory Coast Baleine project to the State Oil Company of the Republic of Azerbaijan (SOCAR) in order to invest in a project that has a "shorter time horizon".
- Shell would like to develop the large offshore Dragon gas field mostly to send it to Trinidad and Tobago for LNG export, but also to source Venezuela.

Let us now turn to Canada. *As US imports of Mexican heavy crude systemically declined and then imports from Venezuela hit a hard-stop, Canada became the number one US import source, with the help of pipeline reverses and newly build pipelines in the US*.

- The 150,000 barrels per day Seaway pipeline was one of the first pipelines reversed (and later expanded to 400,000 barrels) in

bringing crude oil south from Cushing, Oklahoma to the Texas Gulf Coast in 2012. Enbridge and Enterprise Product Parts built a 450,000 barrels twin Seaway pipeline right next to the original pipeline in 2014. These pipelines also carry Bakken shale oil.

- Enbridge also built the 585,000 barrels per day Flanagan pipeline – which carries mostly heavy crude from Canada through Patoka, Illinois to Cushing. It expanded by 60,000 barrels in 2021 and has plans to expand again by 100,000 in 2027.
- The 600,000 barrels per day Capline pipeline was the biggest reversal, occurring in 2021, although not fully utilized. It flows through Patoka to St. James Parish, Louisiana.
- Starting this year, Enbridge initiated the 193,000 barrels per day Spearhead pipeline that flows Canadian heavy crude from the Flanagan South pipeline to Cushing.
- Cushing is the major storage point for North American crude oil. There are 20 inbound pipelines and 16 outbound pipelines. These pipelines can reverse flow from south to north or north to south if a compelling economic or national security reason materializes. *If Venezuela expands heavy crude oil production to recapture its past import level of 600,000 barrels per day to the Gulf Coast, some of the expansion plans on Enbridge Mainline (which is like the superhighway for Canadian heavy crude) might be delayed or even cancelled, leaving planned production increases in the Canadian oil sands off the table*.
- *Given Venezuela's lower transportation costs and more sought-after Merey-16 blend in the Gulf Coast, Canada's heavy crude will be under intense price pressure*.

Canada's only countermove is to build a 1 million barrels per day pipeline across British Colombia to the Pacific. This is the same pipeline deal that the liberals defeated in parliament in December 2025 with a smug Mark Carney smiling at its defeat. It is not just the pipeline defeat that hamstrings Canadian heavy oil producers. New Prime Minister Carney has been focusing on saddling heavy crude producers with climate requirements such as carbon capture, increasing their cost of production.

- With Venezuelan additional production in play, Carney went to China to negotiate electric vehicle and agriculture tariff reductions along with oil export volumes to China. No specific volumes have been agreed upon). Given that China has been importing 400,000 barrels per day of Venezuelan heavy crude, it makes sense to try to capture "teapot" refinery demand. But Canada is going to need more pipelines to the Pacific to satisfy any such demand. Even the simple step of expanding the 890,000 barrels per day TransMountain pipeline by 360,000 barrels by adding drag reducing agents and additional pump stations hasn't been approved.
- For that matter, increasing seaborne exports out of the port of Westridge will take 18 months of dredging and building new births.

Currently, 580,000 barrels of TransMountain volumes go to Asia while 240,000 barrels flow through a Washington state connecting pipeline.

- What's more, the transport cost on the TransMountain Pipeline is one of the highest in the world – at $12 to $14 per barrel. Net-back prices will be less than Canadian heavy crude going to the US, because the Westridge port will load Aframax tankers to sail to the Pacific Lightering Area where they will transfer cargo to Very Large Crude Carriers. *In a low-cost energy environment, Canadian heavy crude operators could be exporting at a loss*.
- Given the politics and the work that has to be done, *if everything goes perfectly for Canadian oil sands producers, it will take five years to increase heavy crude exports to Asia.* In the meantime, Venezuelan crude will have the upper hand in the Gulf Coast.
- And what's worse for Canada, over the weekend Trump intimated that he would welcome Chinese investment and crude importation from Venezuela. If Venezuelan production can be revived and increased, it could supply both the Gulf Coast and China – leaving Canada with nowhere to sell.
- The Coast's appetite for heavy crude will allow Canada to survive the first 500,000 barrels per day imported from Venezuela.
- *After that these two competing heavy crude blends will be battling for market share – with Venezuela commanding a serious price advantage – while PADD 3 refiners increase profits by processing lower cost crude*.

With all that in mind, does a Venezuelan re-opening function as a catalyst for lower oil prices?

- Over time yes.
- But right now OPEC+ (a cartel in which Venezuela is not a member) is facing pipeline and shipping problems around the Caspian Sea – affecting Kazakhstani and Russian crude oil exports. The "Big-8" of OPEC+ have committed to maintain December's quota in the first quarter of 2026. The Big-8 (Algeria, Iraq, Kuwait, Saudi, UAE, Kazakhstan, Oman, and Russia) were underproducing by about a half-million barrels per day. Additionally, production in Iran may decrease due to ongoing issues within the country. Crude oil production was down 127,000 barrels per day from December 2024 to December 2025.
- And demand marches on – especially from US hyperscaler datacenters which, for the foreseeable future, will be reliant on diesel to generate electricity.
- Right now, *we maintain our target range of $60 to $80 per barrel Brent*. We note that market risk is rising, which should benefit crude oil pricing. But if Venezuela gets back in the market even faster than we anticipate, heavy crude blends could see prices decline, and that may carry through to Brent.

Bottom line

Restoring Venezuela's depreciated oil production infrastructure can be accelerated by focusing on what should be its key market – the US refiners in PADD 3, the Gulf Coast. Their appetite for heavy crude is not being satisfied by Canadian imports that has risen to take the place of those formerly from Venezuela and Mexico. But Venezuela enjoys unbeatable cost advantages over Canada. If it comes back on-line faster than expected, Canada could be exporting at a loss. Regime stability and contract certainty is key. A new law just passed to encourage foreign investment should help considerably. Canada cannot act quickly enough to divert to China exports now headed to the US, requiring investments in pipelines and shipping capacity that the climate-obsessed government doesn't support. Trump could block this by supplying China from Venezuelan new production. Ultimately this could lower oil prices globally, but for now we maintain our price target range of $60 to $80 Brent.