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U.S. Oil's Return to Venezuela Is Turning Into a Slog

By

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Secretary of State Marco Rubio testified before the Senate Foreign Relations Committee on Jan. 28. (AL DRAGO/BLOOMBERG)

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Secretary of State Marco Rubio at a Senate hearing Wednesday highlighted a three-stage plan for the U.S. to shepherd Venezuela's transition from a narco-kleptocracy under President Nicolás Maduro, whom the U.S. seized on Jan. 3, to an open-market democracy. Rubio, direct as he always is, made clear this won't happen anytime soon. "It's not even been four weeks," he said.

The Trump administration is understandably anxious to establish stability in Venezuela. Foreign investors can see that Maduro's defense and interior ministers, his loyalists, and the armed forces officer corps aren't budging. Nor will opposition leader Maria Corina Machado assemble hordes of armed insurrectionists to boot out Maduro's second- in-command, Delcy Rodriguez.

Something has to give if there is to be a return of U.S. investors and oil companies to Venezuela. In a meeting in the White House earlier this month, President Donald Trump lobbied oil company executives to invest $100 billion to resuscitate Venezuela's oil industry. That didn't go as he hoped.

Exxon CEO Darren Woods told him that the Venezuelan market is "uninvestable" in its current state. Venezuela seized Exxon's and Conoco's assets in 2007, and Caracas owes the companies billions of dollars in outstanding claims from arbitration cases. Trump responded that he was inclined to sideline Exxon in favor of more willing participants.

As a businessman, Trump must know that Exxon has a fiduciary responsibility to its shareholders, not to the president. After 25 years of disastrous socialist regimes and fresh from U.S. intervention, Woods and other business leaders are right to be trepidatious about Venezuela's political environment.

Yet the administration, as Rubio acknowledged, still doesn't have a clear picture for Venezuela's future leadership. The administration's plan is "stability, recovery, then transition"—but Rubio hasn't clarified what that means. Asked about when that plan would be implemented, Rubio was elusive. "It can't take forever," he said.

The biggest "buyer beware" for oil companies is Venezuela's past leadership and its inglorious tradition of corruption. Political elites have long treated the country as a giant piñata, embedding corruption in all branches of government. Transparency International ranks Venezuela 178 out of 180 countries on their corruption scale.

Even Símon Bolívar, Venezuela's "El Libertador," looked the other way when his cronies squandered the finances of the country. Following his downfall, all subsequent presidents of Venezuela have been mired in corruption, most famously former President Carlos Andrés Pérez who perennially asked when negotiating public infrastructure projects: "Y cómo quedo yo?" (What's my cut?).

There are other immediate problems. One is a straightforward supply issue: The International Energy Association projects a "significant" global oil surplus for 2026. In 2020 oil was $80 a barrel; today the price is $65 a barrel. And Venezuelan crude constitutes heavy oils that need specialized, complex refineries with coking and desulfurization units. Less than half of U.S. refineries have cokers.

Capital flight, both human and financial, is also an issue. Financial capital flight took off when Hugo Chávez was elected president in 1998. In 2002 alone, $9 billion left the country. To date, between $150 billion and $400 billion of capital has been shipped out of Venezuela. A combination of nationalizations, strict currency controls, and a reliance on oil imports has caused the economy to implode. With a paucity of working capital and bank lending rates now exceeding 60%, both foreign and domestic firms are stuck in a quagmire. The flight of an estimated 8 million Venezuelans, many educated and technically-skilled in engineering, health, business and information systems, will also impede the country's recovery.

Striking what he intended to be an upbeat tone in his testimony, Rubio said there is no guarantee that something will change in Venezuela, "but there is the opportunity that something will change."

Rubio is right. Venezuela offers great potential for foreign investors across a variety of sectors, not just oil. However, until stability and tranquility are achieved, with accommodation reached between the various political factions in the country, the private sector—domestic and foreign—will remain on the sidelines.