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Geopolitics over geology: Limits of Venezuelan oil in volatile market

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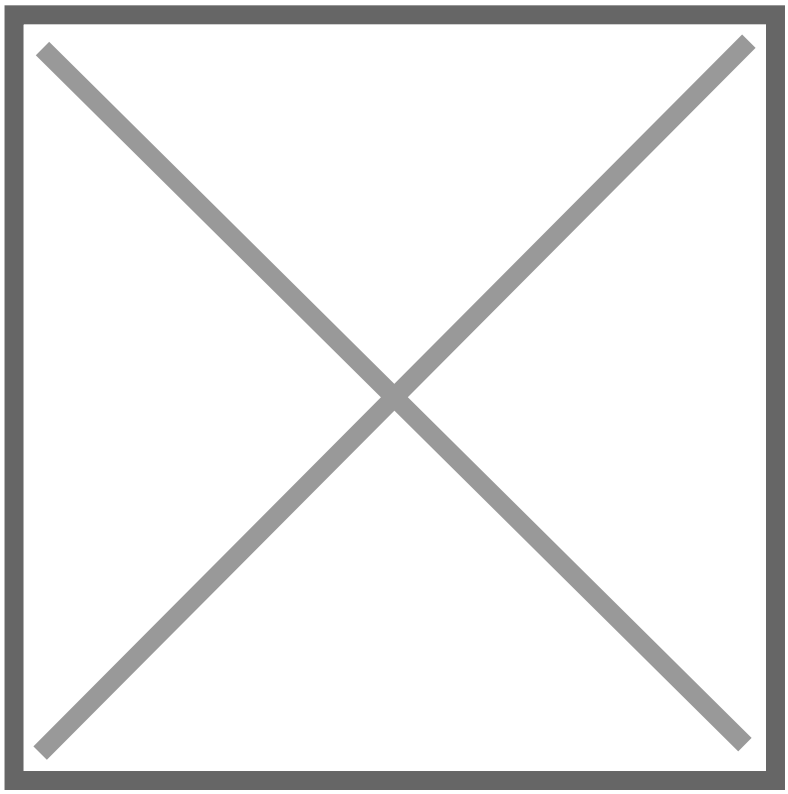
Global oil markets are increasingly defined by a contradiction. Forecasts from major agencies and analysts suggest that the world is not running out of oil; on the contrary, supply capacity appears sufficient to meet demand well into the future. Yet prices remain volatile, reacting sharply to geopolitical tensions, sanctions announcements, and political signals. This disconnect reflects a deeper transformation in how oil markets operate: geology matters less than governance, and confidence matters more than capacity.

Venezuela epitomizes this paradox. The country holds the largest proven oil reserves in the world, yet its production remains severely constrained. While Venezuelan oil is often invoked as a potential solution to tight markets or rising prices, its real influence on global supply and pricing stability is far more limitedâ??and far more conditionalâ??than such narratives imply.

This article examines the global oil supply outlook amid geopolitical risk, focusing on Venezuelaâ??s uncertain production trajectory, the role of sanctions and investment constraints, implications for the United States and India, spillover effects on the agricultural sector, and the longer-term structural forces reshaping energy markets.

Plenty of Oil, Persistent Volatility

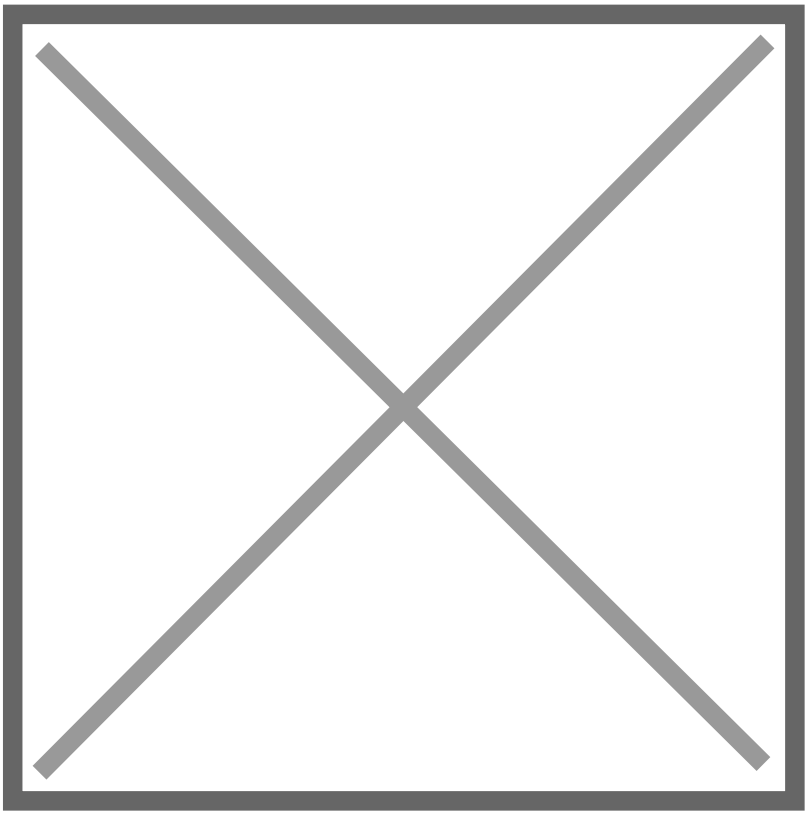


On paper, the global oil system appears well supplied. U.S. shale production remains near record levels, OPEC+ retains spare capacity, and demand growth in advanced economies has slowed as efficiency gains and electrification take hold. Medium-term outlooks generally point to a structural surplus rather than scarcity.

Yet oil prices remain highly sensitive to geopolitical developments. The reason is that markets increasingly price reliability, not just volume. Sanctions, political instability, underinvestment, and infrastructure decay have become central variables shaping expectations about which barrels can actually reach the marketâ??and under what conditions.

Venezuela sits squarely at this intersection of abundance and uncertainty.

Why Prices Stay Reactive Despite Oversupply



Even when supply forecasts point to a structural surplus, oil prices remain sensitive and often volatile. This paradox reflects the interaction of three powerful market forcesâ??each shaping expectations and risk pricing in ways that go beyond simple barrel counts.

First: Spare capacity is uneven and politically sensitive - Although headline supply figures may show a surplus, the location and accessibility of that spare capacity matter. Much of the available buffer resides in regions with political risk, unstable governance, or constrained export channels. For example, major producers in the Middle East, Africa, and parts of Latin America face ongoing geopolitical tensions that can suddenly affect output or logistics. Even when inventories are adequate overall, perceived vulnerabilities along key pipelines and shipping routes (such as the Strait of Hormuz) can prompt traders to price in risk premiums that support price levels higher than what fundamentals alone would dictate.

Second: Upstream investment is constrained and risk-averse- Years of price volatility and uncertainty about the long-term demand trajectory have caused energy companies to tighten capital budgets and focus on short-cycle assets. Many major oil firms have shifted capital toward dividends, share buybacks, or low-cost production hubs rather than large, long-lead projects. This means that while current output may be robust, the pipeline of new capacity that can respond quickly to supply shocks is thin. Financial markets now integrate this investment risk into price expectations; the margin for error is smaller, making prices more sensitive to news about supply disruptions or policy shifts.

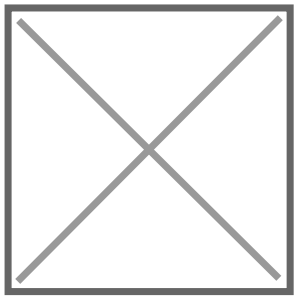
Third: Sanctions and regulatory risk are structural, not temporary - Sanctions and regulatory constraintsâ??once viewed as episodic disruptionsâ??are now core parts of the oil marketâ??s structure. Countries like Russia, Iran, and Venezuela face long-term export limitations or legal uncertainties that shape how traders, refiners, and investors assess future supply. Sanctions can dislocate supply flows even when physical barrels exist, creating ambiguity about which volumes are reliably accessible. This structural uncertainty embeds risk premiums into pricing that can keep prices elevated or volatile despite a broad supply surplus.

When these three forces interactâ??geopolitical sensitivity, constrained investment responsiveness, and structural policy riskâ??they produce a market where prices reflect not just how much oil exists, but how confidently markets believe it will be delivered in the future. Even modest geopolitical developments can therefore trigger outsized reactions in prices because they alter expectations about one or more of these underlying determinants.

Venezuela: Technical Potential, Fragile Reality

Venezuelaâ??s production collapse is not a geological storyâ??it is an institutional one. Years of mismanagement, sanctions, workforce attrition, and infrastructure neglect have reduced output to a fraction of historical levels. Refineries, pipelines, and upgraders require extensive rehabilitation, while extra-heavy crude production depends on diluents and specialized processing capacity.

Even when sanctions are partially eased or licenses granted, uncertainty over policy durability continues to deter long-term investment.



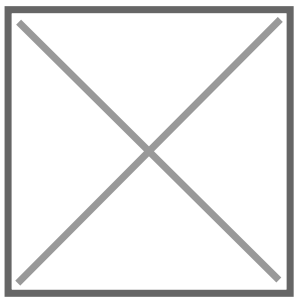
As ***Gilbert Michaud, PhD, Assistant Professor of Environmental Policy at Loyola University Chicago, explains:***

â??Global oil markets are highly sensitive to geopolitical issues such as conflicts and sanctions. Venezuela has the technical potential to increase oil output, but large-scale increases that bring down prices or increase investor confidence are unlikely. Uncertainty around access to capital, policy, safety, and related issues will reinforce price instability, especially if global disruptions arise elsewhere. On paper, the Venezuela case offers hope of oil supply, but it likely will not translate into price stability with investment hesitation and policy uncertainty.â?•

This gap between technical potential and operational reality defines Venezuelaâ??s role in todayâ??s oil market.

The United States: Structural Fit, Not Volume Impact

Since December 2018, U.S. imports of Venezuelan oil have remained below roughly 500,000 barrels per day, compared with total U.S. crude imports of approximately 8.5 million barrels per day. The constraint has not been resource availability, but political risk and regulatory uncertainty.



As ***Javier Palomarez, Founder and CEO of the United States Hispanic Business Council***, notes:

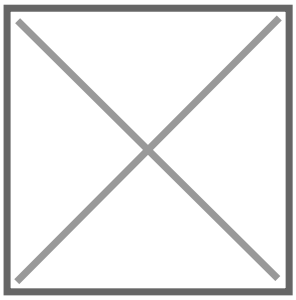
â??Despite Venezuela having the largest proven oil reserves in the world, the United States has imported less than 500,000 barrels of oil per day from the country since December 2018. To put that in perspective, we import a total of 8.5 million barrels a day from around the world. Increasing Venezuelan production and imports, particularly given their large amount of resources, could be a way to significantly increase American oil supply.

However, this is contingent on a variety of variables, some of which are simply out of our control. American oil companies need stability, predictability, regional peace and cooperation from the people of Venezuela in order to effectively operate in the nation. While subsidies and guarantees have been floated by Trump, only time will tell if the proper infrastructure for meaningful production can be

developed in the country. Years of neglect, sanctions, unrest and more have left Venezuelan oil production stunted.â?•

In practice, Venezuelan oil matters to the U.S. less as a volume driver than as a structural inputâ??particularly for refiners that require heavy crude to balance light shale output.

Two Market Scenarios for Venezuelan Supply

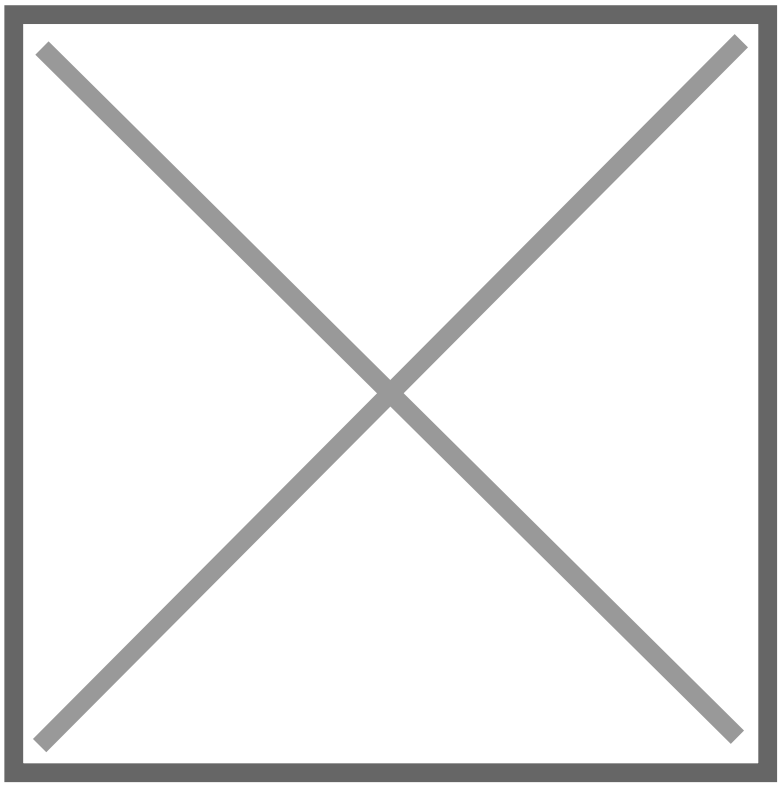


According to ***Igor Isaev, Head of the Analytics Center at Mind Money***, access to Venezuelan oil affects market expectations more than global balances:

> ***â??Access to Venezuelan oil by the United States is unlikely to fundamentally change the global oil balance, but it does meaningfully affect the structure of supply and market expectations. At this stage, two scenarios appear realistic.***
>
> ***In the first scenario, the Venezuelan factor supports prices by amplifying geopolitical risk. It draws attention to vulnerabilities in other sensitive regions, most notably Iran and the Strait of Hormuz, through which much of the worldâ??s oil transits. Heightened risk perception tends to widen risk premiums and support prices.***
>
> ***In the second scenario, Venezuelan supply contributes to relative price stability rather than upside pressure. As markets adapt and additional barrels are absorbed, prices could remain range-bound around $50â??60 per barrel, assuming no major shocks and continued confidence in medium-term supply.***
>
> ***A critical element here is oil quality. Venezuela produces heavy crude, essential for deep refining and diesel production â?? segments where the U.S. faces a structural deficit. American output is dominated by light shale grades, while U.S. refineries require heavy crude blending for optimal utilization. In practice, only two large-scale sources exist: Canada and Venezuela. Canadaâ??s Alberta fields are mature, with declining production rates limiting supply growth.â?•***

This framing underscores why Venezuelan oil can influence price stability or risk premiums without fundamentally altering supply-demand balances.

Agriculture: An Overlooked Casualty of Energy Volatility



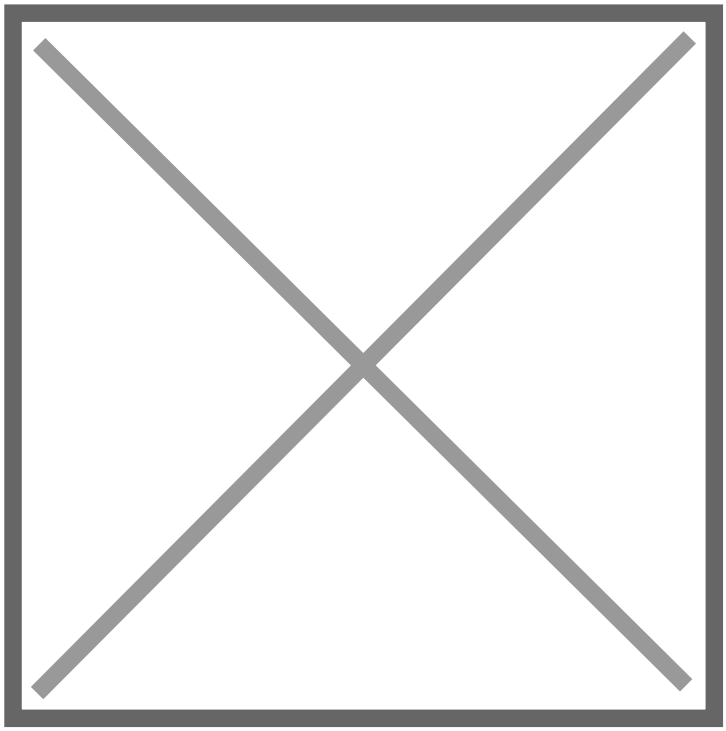
Oil market instability has direct and often underappreciated consequences for the global agricultural sector. Fuel is a core input for modern farming, powering tractors, irrigation systems, harvesters, and transportation networks. Even modest increases in oil prices can significantly raise operating costs, particularly for energy-intensive crops.

Beyond fuel, oil prices strongly influence fertilizer markets, especially nitrogen-based fertilizers derived from hydrocarbons. Energy price volatility often translates into fertilizer price spikes, squeezing farm margins and, in some regions, reducing application ratesâ??ultimately affecting yields.

Transportation is another critical channel. Global food supply chains rely on trucking, rail, and shipping. Higher fuel costs raise food prices downstream, amplifying inflationary pressure in import-dependent regions across Asia, Africa, and the Middle East.

From this perspective, Venezuelan uncertainty matters less as a supply story and more as a volatility amplifier. Even limited geopolitical shocks that push oil prices higher can ripple through agricultural systems, intensifying food insecurity and political sensitivity around food prices.

India: Energy Security Through Optionality



India is the worldâ??s third-largest oil consumer, importing over 85 per cent of its crude requirements to meet the needs of a rapidly growing economy. Its energy security is therefore highly sensitive to global price swings, supply disruptions, and the geopolitical dynamics of key exporters. In this context, the countryâ??s crude import strategy emphasizes diversification, optionality, and strategic resilience rather than reliance on any single source.

Indian refineries are among the most complex in the world, capable of processing a wide range of crude qualities, including Venezuelan heavy and extra-heavy grades. These refineries can handle high-sulfur crude and produce refined products such as diesel, naphtha, and jet fuel, making heavy crude an important component for optimizing throughput and output quality.

Despite this capability, India has historically treated Venezuelan oil as optional diversification, not core supply. Several factors reinforce this approach:

Sanctions and political risk: U.S.-led sanctions on Venezuela, coupled with broader regulatory uncertainty, limit Indiaâ??s ability to rely on Venezuelan barrels for long-term planning. Any sudden tightening of sanctions or administrative hurdles can disrupt cargo delivery or financial settlements.

Logistical challenges: Transporting Venezuelan crude to India is complex and costly. Routes involve long-haul shipping across the Atlantic and Indian Ocean, adding transit time, insurance costs, and exposure to maritime geopolitical risks.

Production reliability: Venezuelaâ??s oil sector has been plagued by infrastructure neglect, underinvestment, and workforce attrition, creating a supply profile that is inherently unpredictable. Even if shipments are contracted, actual delivery volumes can be uncertain.

Yet, the mere potential for Venezuelan barrels to enter global markets has strategic value for India. This optionality allows the country to negotiate more favorable terms with other suppliers, particularly in the Middle East, by leveraging the perception of alternative sources.

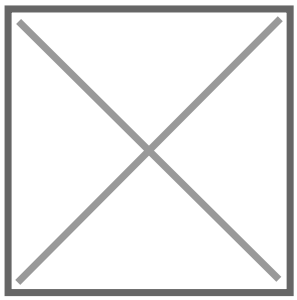
Venezuelan crude acts as a floating variable in Indiaâ??s energy calculus: it can be tapped when favorable, but India is not forced to depend on it when risk is high.

Furthermore, the optionality strategy aligns with Indiaâ??s broader energy diversification goals, which include increasing imports from Africa, the Americas, and Central Asia, while also investing in refining partnerships and storage infrastructure domestically. By avoiding overreliance on politically sensitive sources like Venezuela, India minimizes vulnerability to shocks that could ripple through domestic fuel markets, inflation, and industrial costs.

In short, Venezuelan crude offers technical advantages and strategic leverage, but Indiaâ??s approach demonstrates that energy security is about flexibility and risk managementâ??not simply accessing more barrels. In an era of global supply volatility, optionality can be as valuable as volume, particularly for a major emerging-market importer like India.

A Structural Reframing of the Debate

Some analysts argue that the focus on Venezuela itself overstates its importance in a world where demand dynamics are shifting.



As ***Maria Pechurina, Director of International Trade at Peacock Tariff Consulting***, argues:

> ***â??Venezuela isnâ??t a supply storyâ??itâ??s a distraction. The world already produces more oil than it needs, demand is structurally declining, and no amount of geopolitical theater can change that. Long-term oil prices wonâ??t be set by Maduro, Trump, or sanctions, but by how fast Chinese and European drivers switch to electric vehicles. In energy markets, electronsâ??not egosâ??will decide the future.â?***

This perspective situates Venezuela as a short-term geopolitical variable within a much larger structural transition.

Conclusion: Abundance Without Assurance

The global oil market today is defined by abundance without assurance. Venezuelaâ??s reserves are vast, but their relevance is constrained by political risk, infrastructure decay, investment hesitation, and shifting long-term demand. While Venezuelan oil can influence refining economics, market psychology, and price volatilityâ??with real consequences for sectors like agricultureâ??it is unlikely to fundamentally rebalance global supply.

As oil markets evolve, prices will be shaped less by reserves and more by confidence, credibility, and demand transformation. In that environment, stability will depend not on who controls the barrels, but on how quickly the worldâ??s energy system moves beyond them.

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