

Venezuela's Fiscal Competitiveness

What It Really Means To Be Uninvestable

Plans to restart Venezuelan oil production run into a hard arithmetic problem. The issue is not reserves or technical capability, but whether enough value remains in each barrel to justify reinvestment after decades of fiscal plundering and political risk. History shows that even high oil prices failed to arrest production declines. Unless the distribution of oil revenues is fundamentally reset, private capital will continue to flow elsewhere – and Venezuela's production will remain lame.

Summary

- Venezuela's 'uninvestable' problem isn't the rocks — fiscal terms, plundering and political risk overshadow reservoir quality, making projects uncompetitive for global capital.
- At today's prices, the US dream of Venezuelan oil riches is not possible without major revisions to the crushing fiscal regime. Even best-case assumptions can't pay steep risk premia to investors, taxes and royalties to the state apparatus, and expenditures to sustain capital.
- Venezuela is a case study in what happens when oil barrels are mismanaged and overtaxed: terminal production decline.

A White House push to revive Venezuela's oil industry through private-sector investment has exposed a familiar gap between political ambition and industrial reality. The response from oil executives has been cautious. ExxonMobil's CEO was more blunt. He called Venezuela's oil fields "uninvestable."

It doesn't take a hardened investor to see why. Picture the oil company analyst tasked with building the investment model, staring at a spreadsheet late at night, cursor blinking, pizza cooling. The thought pattern is easy to imagine:

"Hmmm... what numbers do I put into cells H22, H23, and Z5 for physical security, corruption leakage, and the probability-weighted cost of future expropriation?"

At this point, the problem reveals itself. This is not a debate about reservoir quality or drilling inventory. Investing in Venezuela is a question of whether capital

can survive the journey from investment committee approval to first oil — and then survive long enough to earn a return. That assumes, optimistically, that the country's oil infrastructure is remotely functional.

Even if political risk could somehow be neutralized through iron-clad contracts and enforceable property rights, a deeper constraint would remain. Venezuela's fiscal regime strips too much money out of a barrel to sustain production, let alone compete for private capital against jurisdictions that produce similar oil, such as Canada.

The Numbers Don't Add Up

There is only so much money in a barrel of oil. In a Venezuelan heavy barrel, there isn't much at all, especially when high-quality light crude like North Sea Brent trades barely above US\$60 per barrel.

Venezuelan heavy crude sells at a steep discount. In recent market conditions, its flagship Merey grade has traded US\$14–US\$21 per barrel below Brent, reflecting heavy and sour quality, sanctions risk, shipping constraints, and a limited pool of buyers. The result is a realized price closer to US\$40–US\$45 per barrel, and sometimes less once blending, transportation, and destination-market discounts are included.

Following the money in a Venezuelan barrel makes the constraint clear. That US\$40–US\$45 must cover lifting costs, transportation, drilling to offset natural declines, the fiscal take in royalties and taxes, and whatever remains for investors who risk capital in the country.

Tracing this arithmetic over the past four decades leads to a simple conclusion: by the time the government takes its cut, there is nothing left to

reinvest in sustaining production. This is not a theoretical argument — it is an empirical outcome written directly into Venezuela's long-term production decline.

Venezuela's Production Decline: The Tea Leaves Are Ugly

If competitiveness means responding to capital and price signals, Venezuela's production history answers clearly: it hasn't been competitive for decades.

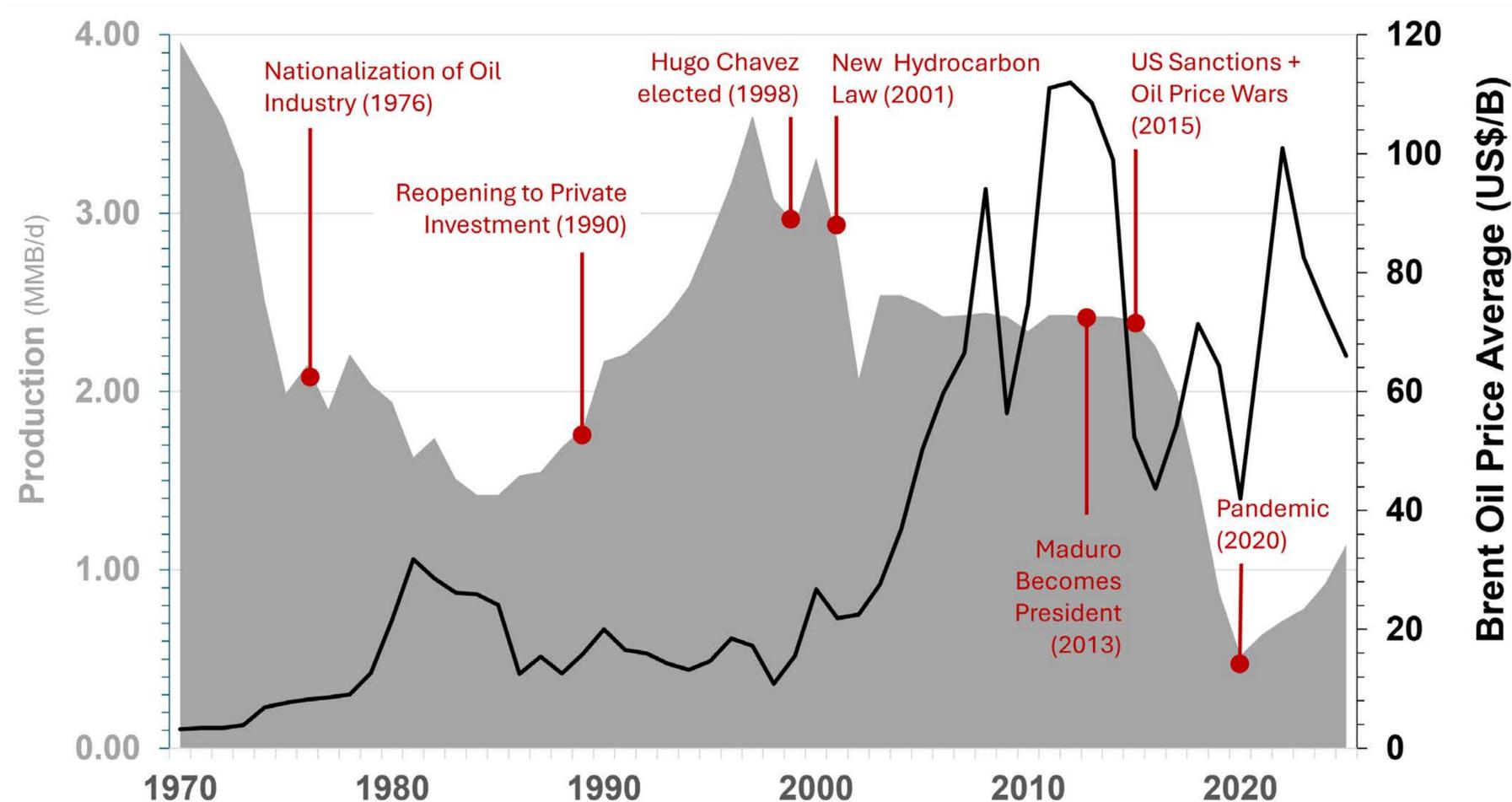
Venezuela once produced close to 4.0 million barrels per day (MMB/d), peaking around 1970. The decline did not begin with falling prices or geological exhaustion. It began with nationalization.

In 1976, the industry was nationalized under *Petróleos de Venezuela, S.A. (PDVSA)*. Production had already begun to soften in anticipation and continued falling through the oil-price shocks of the late 1970s and early 1980s — an early sign that above-ground fiscal policy was overwhelming below-ground economics. Capital fled, and for more than a decade it stayed away.

A brief reopening to private investment in the early 1990s produced a genuine but temporary recovery — note it took over 10 years to revive production, but never to the prior peak. That new peak came just before 1998, when the election of Hugo Chávez ushered in uncertainty, corruption and a new Hydrocarbons Law in 2001. Royalties were ratcheted up to 30% of revenue, with an incremental extraction tax on all minerals, plus income tax rates of 50% for hydrocarbon production. This was all supplemented in 2008 by windfall taxes at higher oil prices. Capital fled, barrels were plundered of cash and production stalled despite a surge in oil prices — a clear indication that excess cash was skimmed at the expense of production growth.

From that point forward, Venezuela's oil sector behaved less like an industry and more like an ATM with multiple government insiders making withdrawals. Maintaining political stability depended on maintaining oil rents. Fiscal plunder replaced capital reinvestment. Maintenance was deferred, skilled labor fled, and decline rates took hold.

Venezuelan Oil Production, Major Events and Brent Oil Price by Year



Sources: US Energy Information Administration, World Bank, OPEC, GIS, Studio.Energy

The breaking point came in 2015, when US sanctions coincided with an OPEC price war that collapsed prices. From an already weakened base, production entered terminal decline, plummeting at terminal rates that reflected zero investment.

By the mid-2020s, Venezuelan production had fallen below 1 MMB/d, a small fraction of its historical peak.

What stands out is the lack of correlation between production and oil prices, especially during the period of major price escalations in the early 2000s. Post-pandemic production recovery was slow to respond to price escalation as well.

Investors can assess the risks associated with oil price volatility in a spreadsheet. But nationalization, fiscal plunder, institutional decay, expropriations and sanctions make the calculus 'uninvestable.'

Follow the Venezuelan Money

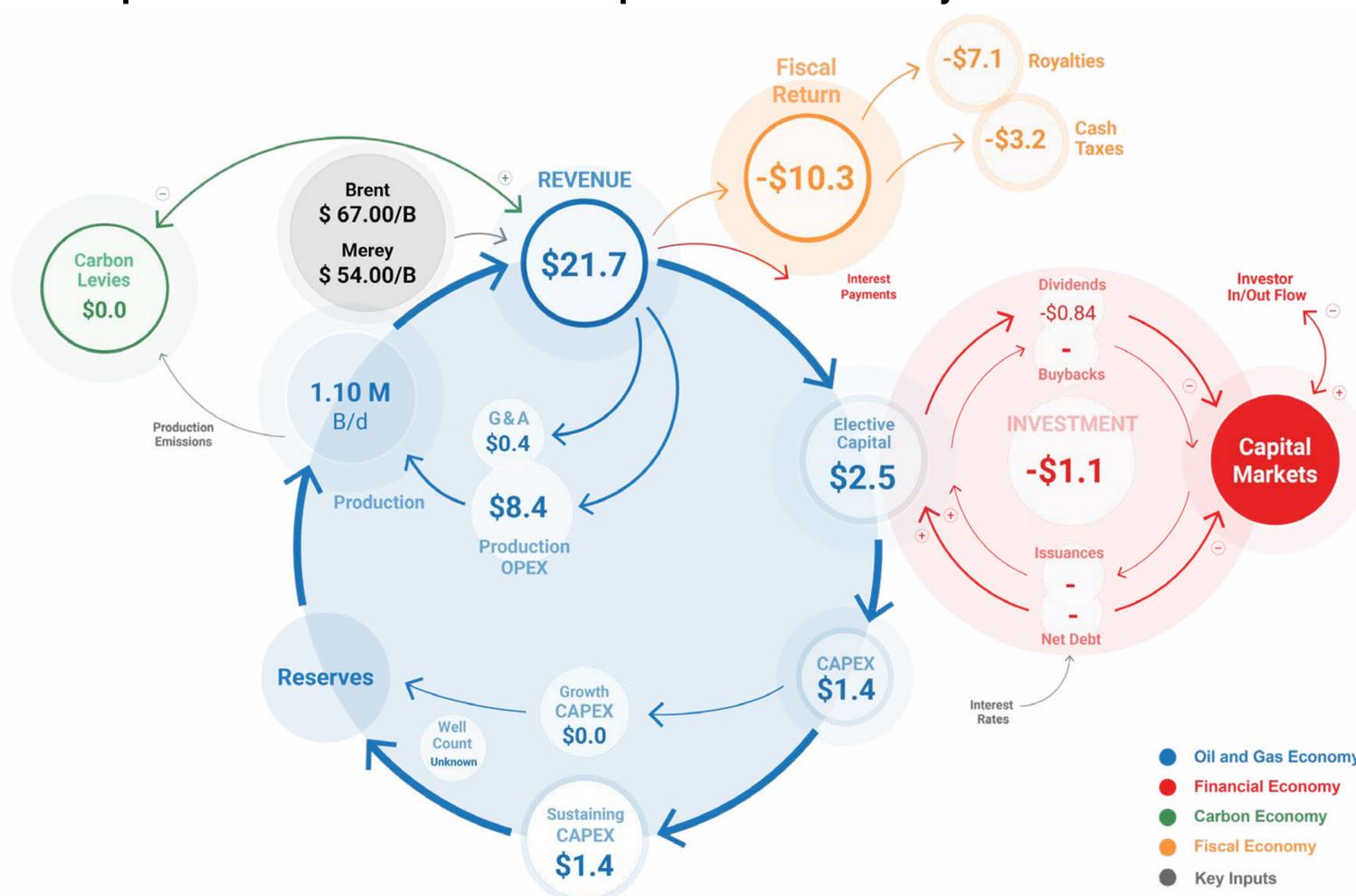
To move from narrative to arithmetic, Studio.Energy ran a simple back-of-the-spreadsheet exercise tracing where the money goes in a Venezuelan barrel. The analysis assumes average 2025 production

of roughly 1.1 MMB/d, a Brent price of US\$67 per barrel, and a realized Merely price near US\$54 per barrel after quality and market discounts.¹ On that basis, Venezuela's oil revenue in 2025 is estimated at approximately US\$21.7 billion.

Once operating costs and the state's fiscal take are flowed through the barrel, the money remaining in the core oil economy collapses rapidly. What is left — roughly US\$2.5 billion — represents the pool of elective capital: the residual cash that must be rationed between investor returns and reinvestment into reserves and production capacity. In a capital-intensive heavy-oil system, this is an exceptionally thin margin.

The principal reason is the fiscal regime itself. Of the US\$21.7 billion in gross revenue, an estimated US\$10.3 billion flows directly to royalties and taxes — close to 50% of total revenue. This burden traces back to the hydrocarbons law introduced under President Hugo Chávez in 2001. By comparison, fiscal take in Canada and the United States typically absorbs 15–20% of barrel revenue, leaving materially more capital

Estimated Capital Flows of the Venezuelan Upstream Oil Economy 2025



Sources: Studio.Energy; Notional estimates based on multiple sources of quantitative and anecdotal information

¹ Table 5-8 World Oil Supply; OPEC; January 2026

available for reinvestment and returns.

At first glance, many operating cost assumptions are not materially different from Canada's heavy-oil business — unsurprising given the similar physical characteristics of the oil. Canadian benchmarks therefore provide a reasonable proxy for estimating the cost side of the Venezuelan equation, a view corroborated by Venezuelan engineers now working in Canada. Where the economics collapse is not geology or operational competence, but fiscal design.

Sustaining capital alone consumes nearly all remaining cash. Maintaining production at 1.1 MMB/d is estimated to require roughly US\$2.2 billion per year. That leaves almost no surplus for reserve replacement, let alone growth. The modest post-pandemic recovery in Venezuelan output is therefore better understood as the restoration of idled capacity rather than genuine reinvestment in the resource base.

Investor returns are the final — and most revealing — constraint. While difficult to estimate precisely, the absence of residual cash strongly suggests that returns are negligible. In comparable price environments, investors in US and Canadian oil projects typically expect cash returns on the order of 15% of revenue. Even assuming a small notional take of another 6%, noting that in Venezuela the state is the investor with its hands in the barrel, the arithmetic leaves nothing for sustaining capital beyond bare maintenance. Growth capital simply does not exist in the barrel, and the production history shows it.

This is why analysts estimate that new development in Venezuela's resource-rich Orinoco Belt requires breakeven prices near US\$80 per barrel (WTI), well above many competing global opportunities available to multinational producers. Capital is scarce, and investors have alternatives that offer higher returns with far lower risk and fiscal take.

Small wonder American multinational oil companies remain wary in addition to compensating for physical risks. Venezuela's oil problem is not a shortage of resources or even revenue. It is a shortage of

deployable capital — the predictable outcome of a fiscal structure that extracts too much, too early, from a finite barrel.

What Will It Take To Get The Oil Flowing?

There is little doubt that any US-backed government would be pressured to rewrite Venezuela's fiscal regime. But reducing the state's cut of oil revenues carries political risks. Many of the same players remain embedded in the government and oil sector, even after the recent US intervention. Reducing government revenues would worsen the country's already dire financial situation and threaten the stability of the coalitions necessary for governance. As the United States pushes to revive Venezuelan oil, a core set of questions will dominate: After operating costs are stripped out of the barrel, how will the remaining spoils be divided? How much will the Venezuelan state and incumbent elites demand in fiscal take? How much will be required for security and enforcement? How large of a return premium will investors need to justify the above-ground risks?

The answers will determine not only the economics of oil production, but the stability of the country itself. One thing is already obvious: at current oil prices, there isn't enough money in a Venezuelan barrel to satisfy all claimants and maintain a healthy oil industry.

Finally, Venezuela's oil history is a case study in resource economics with a sage lesson: Take too much money out of a barrel and production will decline quickly. 📉



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