Venezuela Oil Deal Won't Lower Gas Prices Anytime Soon


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Despite President Donald Trump's announcement on Friday of an oil deal with Venezuela, oil prices rose on Monday. That's because 65 billion barrels of potential future oil do not move markets the way a shooting war does over a strategic waterway that once carried 20 million barrels a day. Moreover, even in the best of circumstances, this agreement won't lower gas prices this year, according to experts.

Effect of the Iran War

The United States and Iran exchanged fire over the weekend after a weekslong lull in fighting. The U.S. hit Iranian targets in response to the Islamic Revolutionary Guard Corps' attempt to mine the Strait of Hormuz. Iran responded by firing missiles at U.S. allies and regional assets, according to reports. Iran's missiles were intercepted, we are told. The result, nonetheless, was a spike in oil futures by more than two percent.

The high cost of gasoline has taken a toll on Americans' pocketbooks. Prices were finally beginning to settle into a slow yet consistent dip when the war erupted and prices spiked almost overnight. At one point, they had nearly doubled. Gas prices have dropped since peaking this year, but are still nowhere near what they were before the war. And the American people have not lost sight of that. It is a common belief that the president's announcement and the work his administration has been putting in on the Venezuela oil agreement is part of an attempt to neutralize the issue in the midterm elections this November.

"Biggest Oil Deal in World History"

On Friday, Trump gleefully announced that our gasoline troubles will soon be over. He heralded, in all caps, "THE BIGGEST OIL DEAL IN WORLD HISTORY!" He said Secretary of State Marco Rubio and Secretary of Defense Pete Hegseth "secured majority U.S. control of more than 65 BILLION BARRELS of proven Oil Reserves in Venezuela, at no cost to the American Taxpayer." The president said the move "more than doubles" America's oil reserves and will lower gas prices.

The universal principle of supply and demand supports this claim — at least in theory. Yes, the more oil there is available, the lower the prices. This goes for all goods and services. However, experts say it'll be a long time before this deal — assuming it goes through and is not annulled by any of a number of factors — will produce fruit.

No Overnight Change

"Changes to fuel prices won't happen overnight or even in months," said Patrick De Haan of GasBuddy. "Drilling and pumping that oil will take a very long time."

De Haan published a series of social media posts Monday morning chronicling the rise in gas prices around the country. Costs at the pump appeared to be rising to $3.79 a gallon in Austin and San Antonio, he said. In Pennsylvania, it was spiking to $4.39. Idaho prices were even higher, edging toward $4.59.

Today, Venezuela is cranking out about 1.2 million of barrels of oil a day, similar to the amount coming out of North Dakota. Half of that is being exported to the U.S., according to U.S. Energy Under Secretary Kyle Haustveit.

Tracy Schuchart, a senior economist at NinjaTrader, pointed out that the "easy barrels" were already being pumped out. "Everyone cheering the Venezuela deal that thinks a flood of cheap oil is about to hit and pull gas prices down. It isn't," she posted on social media. She added:

> Venezuela pumps about 1.2M bpd [barrels per day] right now, up from just under a million. That gain came mostly from Chevron ramping up existing wells after sanctions were lifted, not from new drilling. The easy barrels are already back. The reserve number is a stock that will take decades to convert to flow. It is a 100 year deal because it takes decades. The barrels that could actually move a US pump price are 5 to 15 years out.

Amena Bakr, an energy journalist, seconded Schuchart's analysis, saying:

> Years of consistent major investments are needed to build new oil infrastructure for oil production to cross the 1.5 million bpd mark in Venezuela.

In a client note from UBS Global Wealth Management's Chief Investment Office, the author echoed the idea that there are "no quick barrels coming." The agreement is "unlikely to materially alter the oil-market outlook in the near term," UBS noted:

> Oil output has risen by only around 100,000-200,000 barrels per day since the start of the year, underscoring the difficulty of rebuilding capacity from a low base. A material increase would require large-scale investment, technical expertise, new transport infrastructure, and a stable operating environment. Taken together, these constraints suggest that the agreement will not materially affect the balance between crude oil supply and demand in 2026.

Vague Agreement

Oil researcher Rory Johnston went a step further, suggesting the president is just throwing out grandiose numbers that have no basis in reality. "The 65 billion barrel number is a red herring and will have little relevance to any actual deals — the real relevant details of which are still almost entirely unknown," he said. "It's just a classic big number that Trump was sure to jump all over and will repeat ad nauseam going forward."

UBS also pointed out the lack of details:

> No formal agreement, decree, or contract has yet been published, and questions remain over how the arrangement fits within Venezuelan law and how future governments in either country might view it. The deal could potentially be structured to avoid US congressional approval, which may become important if Democrats regain either chamber in the midterm elections in November. Regardless, legal challenges cannot be ruled out, and international energy companies will need confidence that the framework can survive political changes in both countries before committing significant capital. We think the level of private investment will be closely linked to the stability of the resulting legal and political framework.

Venezuela's long track record of instability has been a major obstacle to U.S. investment. That uncertainty could manifest itself in several ways. *The Wall Street Journal* brought up the possibility of a challenge on the legality of the deal from the viewpoint of the Venezuelans:

> The substance of the agreement appears to be in direct conflict with Venezuela's 1999 constitution, which states that the country's oil reserves belong to the Bolivarian Republic of Venezuela and can't be sold. Critics say Venezuela's current government, populated by unelected officials kept in power by the Trump administration, has no legal authority to sell the country's oil rights.

The agreement is unique in that it includes investment from the U.S. government. Investor wariness appears to be a major reason for this. "The U.S. government reached a deal to take a 35% passive stake in North American Blue Energy Partners, a private company with Venezuelan oil rights," according to the *Journal*. "It would give Washington a direct financial stake in a private company that would be granted centurylong rights to some of the world's largest proven oil reserves—and tie the U.S. more closely to the unelected government that is granting those rights."

The Underlying Cause

The president's motivation, assuming it's genuinely what it appears to be, is commendable. But Americans wouldn't be paying so much for gasoline if he hadn't catapulted the country into a war of choice on the other side of the planet in the first place. If he truly wants to see gasoline prices drop — and do so much more quickly — there's a better way to do it. He should declare ultimate victory against Iran and pull all U.S. military presence from the region.