Our View

Trump's Venezuelan Oil Play: Destroying US Oil Producers, Part III

Philip Verleger
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The Trump administration likes to trumpet US energy dominance. Let's leave aside, for now, the fact that the United States is a high-cost producer and thus cannot be energy-dominant. I will turn to the dominance idiocy in a future missive. In this and several subsequent posts, I focus on the US plan to change Venezuela's oil industry. The steps involved will reduce domestic oil production and cause significant economic harm to many US producers if US refiners once again import large volumes of Venezuelan Crude.

In this third post, I discuss the potential capacity of Gulf Coast refiners to replace light crudes such as WTI with heavy crudes from Venezuela. As I explain, the key to replacing WTI lies in the availability of US refinery coking capacity.

Historically, Venezuela's crude has been used primarily to produce paving asphalt, not gasoline. China's "teapot" refiners, which have purchased large volumes in recent years, refine the oil for that purpose. Indeed, one of President Trump's advisers on Venezuela, Harry Sargeant, is in the asphalt business, as Reuters noted:

> Sargeant's businesses buy and export asphalt, which can be made from the kind of heavy crude oil produced in Venezuela, and he has invested in the production of several of the country's oil fields.
>
> He also has a long history of dealing with senior Venezuelan officials, including Maduro and interim President Delcy Rodriguez, he told Reuters.[1]

The advent of specialized cokers to refine heavy crude has created an alternative market for Venezuelan oil. Under normal refining distillation, Venezuelan crude produces a high percentage of residual fuel with high sulfur content. With coking, however, the residual percentage can be reduced, and the share of distillates or diesel can be increased by a factor of two or three.[2]

Coking is a separate thermal cracking process that converts residual fuel oil or heavy crude into higher-value products—for example, boosting distillate yield to 50%.[3]

US refiners invested heavily in coking and thermal cracking between the late 1980s and the middle 2000s. Bloomberg analysts Gibbs and Gutierrez offered a concise explanation for the investments:

> Before the shale boom, US refiners were designed to process heavy, lower-value crude from Canada, Venezuela and the Middle East. They underwent over a decade of modifications to run more US light-sweet grades, but could retain heavy-crude preference if discounts widen as the US intervenes in Venezuela. Coking and hydrocracking units, which represent about 29% of US refining

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[1] Erin Banco, Sarah Kinosian, and Matt Spetalnick, "Trump supporter and oil magnate Harry Sargeant advising US on Venezuela, sources say," Reuters, January 8, 2026 [https://tinyurl.com/7kdp89p7].

[2] EIG, *International Crude Oil Handbook* [https://tinyurl.com/ydn5k3fa].

[3] William L. Leffler, *Petroleum Refining*, Fourth Edition (Tulsa, Okla.: Pennwell Books, November 2008) [https://tinyurl.com/rwp5ykt4].

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> capacity, must be fed with low-quality residual from simple refining or heavy crude oil not native to the US. Today, about 60% of US crude imports are heavy, though egress, regional declines and geopolitical sensitivity have throttled access. This has compelled operators to optimize for lighter crude with inherently higher gasoline and chemical input yields.[4]

Gibbs and Gutierrez added that refiners with substantial coking capacity will switch to the newly available Venezuelan crude if it sells for a significant discount. They noted that the Merey crude produced from the Orinoco Belt is "among the highest in sulfur content and lowest in API gravity globally" and that the crude "requires specialized refinery units to remove impurities and break down the heaviest molecules."

The authors explained that Venezuelan crudes would substitute for West Canadian Select, various heavier Middle Eastern crudes, and Mexican Mayan. They suggested that prices for the latter crudes could weaken.

Gibbs and Gutierrez have probably understated the impact. An examination of the underlying data suggests the reintroduction of Venezuelan crude may cause all oil prices to fall for five reasons.

> First, coking capacity at US refiners has been substantially underutilized in recent years.
>
> Second, existing supplies from Venezuela, if diverted from China, could fill the idled coking capacity.
>
> Third, refiners switching to Venezuelan crude would likely reduce their purchases of light sweet crudes such as WTI and of other heavier crudes.
>
> Fourth, reduced demand for light sweet crude by US refiners could depress Brent and WTI prices, as their suppliers seek new markets. Producers of light crude in the US and countries such as Nigeria would have to reduce prices.
>
> Finally, producers of light sweet crude would also have to cut investment and output. US producers would likely see the largest impact. President Trump's action (blunder) to push Venezuelan crude into the US market will ultimately cause a second depression among US oil producers, one that could be worse than the 2020 shutdown.

US Gulf Coast Coking Capacity: Available for Venezuelan Crude

US refiners today have surplus coking capacity. Several facilities on the Gulf Coast were built by Venezuela's PDVSA to process the country's heavy oil. Some of these units have been underused in recent years due to Venezuela's need to repay China for loans and the sanctions imposed on it. If the price is right, the US firms may welcome the suddenly available Venezuelan crude. For example, Argus Media reported on January 6 on Phillips 66's ability and willingness to take the oil:

> Phillips 66 owns and operates two large Gulf Coast refineries that can process about 200,000 b/d of Venezuelan oil if the crudes are available and the economics support it, the company's chief financial officer Kevin Mitchell said at the Goldman event. The refineries include the 265,000 b/d Sweeny refinery in Old Ocean, Texas, and the 264,000 b/d refinery in Lake Charles, Louisiana.[5]

Currently, I estimate that around 600,000 barrels per day of coking capacity is idle and would probably be available to process the heavy Venezuelan crude if the price were right. These data are shown in Figure 1

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[4] Brett Gibbs and Sabrina Gutierrez, "Venezuela crude to shift refinery slate," Bloomberg Intelligence, January 7, 2026 [https://tinyurl.com/bdw37kzy].

[5] Eunice Bridges, "Venezuela oil could compete with Canadian crude: P66," Argus Media, January 6, 2026 [https://tinyurl.com/afdrk3zr].

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below. The graph presents the US Department of Energy estimates of coking capacity and the volume processed in cokers, along with my estimate of the implied utilization rates.

It is the US Gulf Coast refineries that would primarily buy Venezuelan crude. The Gulf refiners account for 60% of US coking capacity. Today, the utilization rate of cokers in the region stands at 80%, slightly higher than the national rate. As Figure 1 shows, utilization reach 97% in 2002, just before President Chavez took over the management of Venezuela's oil industry. It appears that Gulf refiners could process around 300,000 barrels per day of Venezuelan crude.

Gulf refiners could process even more Venezuelan crude if they imported less Canadian crude. As Figure 2 (page 4) illustrates, Gulf refiners now import around 500,000 barrels per day of Canadian crude. Much of this oil is coked. As the Phillips 66 CFO noted, some of this Canadian oil could be displaced by Venezuelan crude.

Thus, between increasing utilization rates and displacing Canadian crude, Gulf refiners could probably process up to 700,000 barrels per day of Venezuelan crude.

Figure 1
US Refinery Coking Capacity and Utilization, 1987 to 2024

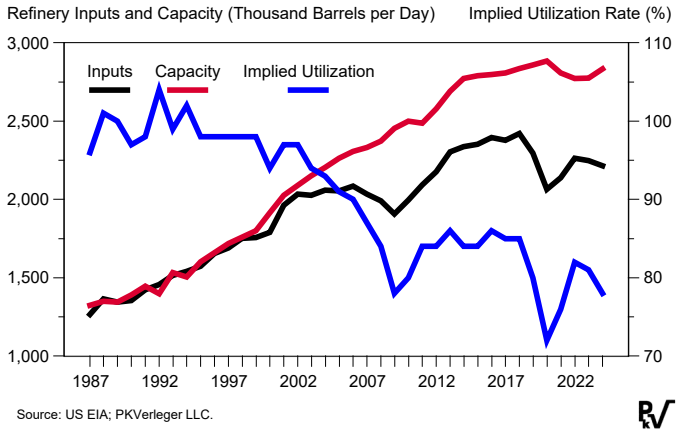

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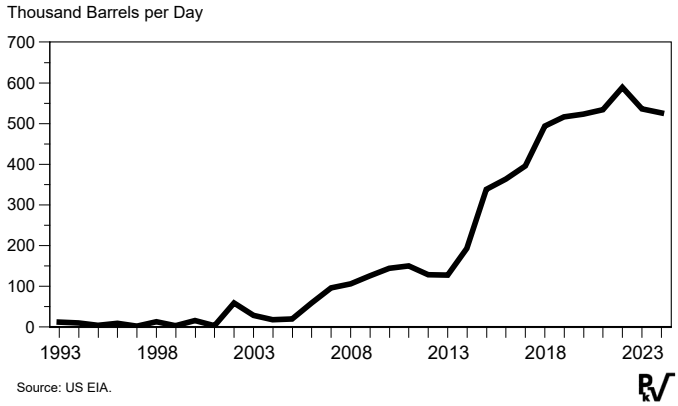
Figure 2
US Gulf Coast Refinery Imports of Canadian Crude, 1993 to 2024



Source: US EIA.

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