

NEWSLETTER *Published January 12, 2026 · 7 minute read*

On the Grid: The Limits of Oil-First Foreign Policy

Mary Sagatelova



ON THE GRID



THIRD WAY

Hi Friend!

Happy New Year and welcome back to *On the Grid*, Third Way's bi-weekly newsletter.

2026 began with a reminder that energy is both a means and an end: it keeps the lights on at home, grows America's economy, and gives the US leverage in global affairs. But the pursuit of energy also drives decision-making in foreign policy, with major repercussions for global politics. From the administration's pursuit of oil in Venezuela to Russia's continued attacks on Ukrainian energy infrastructure, energy is *the* story in global affairs today.

This year, *On the Grid* will delve deeper into the pivotal role energy plays on the global stage, while continuing to examine the consequences of domestic policymaking in the US and internationally. Let's get into it.



The implications of US military action in Venezuela and its haphazard effort to assert influence over the country's oil sector are still unfolding. Taking the administration's explanation for US action at face value, that US military action was necessary to secure Venezuela's oil supply, doesn't hold up under even modest scrutiny.

Here are three reasons why:

- **The Costs Are Too High to Justify:** Right now, we're facing a glut in oil supply and persistently low prices, hovering just under \$60/barrel. That alone makes large-scale new oil development economically unattractive. Venezuela's situation, however, is worse. Decades of neglect have left much of the country's oil and gas infrastructure on the verge of collapse. Any company wanting to operate in Venezuela would need to rehabilitate aging fields, pipelines, ports, and processing facilities, *and* build new, modern infrastructure on top of that. Estimates suggest it would take a decade or

more, and could cost anywhere from hundreds of billions to nearly a trillion dollars to get oil flowing at scale again. Just replacing and upgrading existing pipelines could cost \$58 billion.

- **Massive Political and Legal Uncertainty:** Costs aren't the only obstacle. Venezuela's oil sector is entangled in roughly \$190 billion in outstanding foreign debt obligations that would need to be addressed before meaningful new investment could occur. This would require a functional legal system capable of adjudicating disputes—something Venezuela currently does not have. This, of course, could only happen *after* restoring political certainty and changing the country's laws to allow foreign, private investment. Even granting the extraordinary assumption that the Trump Administration has a viable plan to restore democratic governance in Venezuela, the United States' track record for nation-building in Latin America is poor. Compounding the risk, the Trump Administration is leaving an extremist in office as its partner to run the country. Taken all together, this is hardly a recipe for investor confidence.
- **Crude Constraints:** A handful of foreign oil companies, including US-based Chevron, still operate in Venezuela. But they're only producing a relative trickle of oil. What they are extracting is known as extra-heavy crude—dense, viscous, and difficult to extract, requiring thinning agents to move through pipelines. It must be processed in specialized refineries to become usable for products like jet fuel. In theory, US Gulf Coast refineries *could* treat this heavy crude, but they're already operating at over 95% capacity. Even under optimistic assumptions, it could take 7-10 years for US refining infrastructure to absorb shipments from Venezuela at scale. All of this assumes Venezuela's oil reserves are anywhere close to being as big as the country claims—a claim worth treating skeptically given that OPEC requires members to self-report proven reserves.

What This Means: This is *not* a military action precipitated by “Big Oil.” Just listen to what American oil executives and investors have to say: “*No one wants to go in there when a random fucking tweet can change the entire foreign policy of the country.*” Instead, it is a very risky bet. Major American oil companies, which must prove returns to their investors, are unlikely to develop Venezuelan oil reserves on their own because the costs are so great, risks so high, and profit potential so slim. That's why President Trump has already said American taxpayers may foot the bill.

Best case scenario? Analysts estimate that *if* Venezuela were to reach 2 million barrels of oil per day by 2030, it would reduce the cost of a gallon of crude oil by 9-10 cents. When factoring refining margins, distribution, and local price swings, that translates into mere pennies off the cost of a gallon of gasoline at best.

The Bigger Picture: This is unfolding against the backdrop of America's strategic competition with China. China has spent decades methodically building dominance across the key industries of the 21st century, like advanced electricity generation, transmission, and management technologies, batteries for transportation, drones, robots, and power, advanced manufacturing, and the critical minerals that underpin them all. The US, by contrast, is embracing resources from the waning era, burning time and money to assert leverage through oil. The result is a strategic whiplash. The global balance of power in the coming decades will be decided by who builds, finances, and governs the electricity systems that are the future. China continues to consolidate its lead. The US, meanwhile, is falling farther behind.



Earlier this week, Congressional appropriators introduced a joint three-bill funding package ahead of the January 30 government shutdown deadline. In total, the minibuss would provide roughly \$180 billion across various federal agencies, including \$63.3 billion for Energy and Water Development and related agencies. That's a \$2.4 billion increase above FY2025 levels.

What We're Watching: For energy, the significance of this package is less about new investment and more about choosing not to pull the plug. The agreement rolls back the steepest cuts proposed by the Trump Administration and rejects the deeper reductions included in both the President's Budget Request and early House drafts, preserving most core energy, electricity, and infrastructure functions across the federal government. That's a modest outcome, but not an irrelevant one. Here are a few things we liked about the package:

- The package explicitly directs the Department of Energy's (DOE) Title 17 program to prioritize projects that expand the domestic supply of critical minerals—an important signal of Congress's support for hard-to-finance minerals projects.

- Roughly \$720 million in the package is steered toward carbon capture and storage, hydrogen, direct air capture, and other carbon-reducing tools. While this funding does not facilitate a significant scale-up, it helps keep the pathways alive for vital early-stage technologies while questions about the cost, underlying infrastructure, and market get resolved.
- The bill continues explicit support for programs, like the Lab Embedded Entrepreneurship Program and the Industrial Assessment Centers, that help translate federal research and development into real-world projects.

What We're Worried About: The bill includes guardrails on DOE's ability to terminate financial assistance. But the language for these guardrails is significantly scaled back from the stronger language advanced in the Senate version last November. While the current language does require a meaningful procedural check, it falls short of establishing any real enforcement and leaves significant discretion with DOE. The bill also does not provide relief for DOE awardees who have already received cancellation notices last year.

Why This Matters: Private investment depends on predictability. If firms are expected to commit capital, hire workers, and build projects in the US, they need to trust that federal commitments will be upheld. Following a year marked by cancellations of billions of dollars in energy funding, the bill moves us in the right direction. But as written, it falls short of providing the level of certainty required to fully restore trust between government and industry.

What We're Doing: Third Way, alongside ClearPath, helped drive congressional momentum around the Energy and Water Development appropriations bill by leading a sign-on letter with 37 organizations spanning the industry and advocacy communities, elevating the importance of continued federal support for energy innovation. Looking ahead, we'll continue to work on identifying additional legislative and oversight vehicles to strengthen project protections and restore long-term certainty for companies building energy infrastructure in the US.



- Jason Bordoff, in *Foreign Policy*, argues that US control of Venezuela's oil sector would be detrimental to US energy security.
 - Simmone Shah, in *TIME*, outlines the implications of the United States' withdrawal from the United Nations Framework Convention on Climate Change (UNFCCC) and what that means for international climate leadership.
 - Robinson Meyer, on *Heatmap's* Shift Key podcast, unpacks the status of the Venezuelan oil industry with Rory Johnston, an oil market analyst and founder of Commodity Context, and what kind of effort it would take for the US to rebuild it.
-