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ENERGY

Texas refineries see opportunity in Venezuelan oil amid Mexico export declines

As President Donald Trump seeks to boost U.S. investment in Venezuela's oil fields, Mexico is poised to export less heavy crude to Gulf refineries, creating an opening for Venezuelan oil.

BY **BRANDON MULDER**

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A flare burns next to a refinery along the Houston Ship Channel in Deer Park on Feb. 6, 2023.

Mark Felix for The Texas Tribune

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Texas oil refiners could soon have a stronger appetite for Venezuelan oil thanks to decreasing crude imports from Mexico as the Trump administration seeks to open Venezuela's energy sector to U.S. companies.

Refiners along the U.S. Gulf Coast are among the world's largest buyers of heavy crude oil — a variety with a peanut butter-like consistency that is more costly to extract and refine than Texas' light sweet grade. For years, Texas refiners' most prolific sources of heavy crude have been Canada, Mexico and Venezuela.

But after the Trump administration sent U.S. forces to capture Venezuelan President Nicolás Maduro and his wife, Cilia Flores, then promised to take control of Venezuela's oil sales, Gulf Coast refiners are eyeing the possibility of increased Venezuelan oil imports. Within hours of Maduro's capture, Trump placed a heavy emphasis on the country's oil, saying that U.S. oil companies will be “taking a tremendous amount of wealth out of the ground.”

It remains unclear how much U.S. oil companies are willing to invest in increasing Venezuelan oil production. Many have said that they are seeking financial, legal and security assurances from the Trump administration before spending the billions of dollars necessary to significantly boost production levels.

Companies like ExxonMobil and ConocoPhillips are taking a cautious stance after their projects were seized by the Venezuelan government in 2007. Both companies continue to pursue compensation through international arbitration cases.

The Trump administration's attempt to revive Venezuela's oil industry coincides with Mexico's national strategy to build its own refineries. U.S. Gulf Coast imports of Mexican heavy oil, known as Maya crude, are projected to drop this year as Mexico seeks to feed its oil into its

own burgeoning refining sector.

This could create an opportunity for more Venezuelan oil to flow into U.S. refineries, analysts say.

“You could argue that some of the Venezuelan barrels are needed to replace what Mexico might end up keeping,” said Debnil Chowdhury, a Houston-based refining analyst at S&P Global Energy.

Valero Energy Corp., based in San Antonio, said it has already ramped up its Venezuelan oil purchases after the capture of Maduro. Speaking during a Jan. 29 earnings call, Valero Vice President Randy Hawkins told investors that Venezuelan crude will make up “a large part of our heavy diet as we move into February and March.”

It’s unclear how much more Venezuelan oil will begin flowing to the Gulf Coast as the Trump administration begins winding down sanctions that have been in place since 2019. Chevron, the only U.S. company currently authorized to operate in the country, has been producing 250,000 barrels per day, and the company is reportedly capable of increasing that figure by 50% within the next two years without major expenditures.

And Texas refiners are ready for it.

“Obviously having Venezuela supply back in the fold for our system is great news,” Hawkins said.

Latin American decline, Canadian rise

As the supply of heavy crude from Mexico and Venezuela grew in the 1980s, U.S. refining companies entered into long-term agreements with the state-owned oil companies, Mexico’s Pemex and Venezuela’s PDVSA.

The arrangements allowed companies to justify building large refining complexes specifically configured to transform Latin American heavy crude into a range of products, from diesel fuels to asphalt. Global oil companies spent billions of dollars on new facilities that turned the U.S. Gulf Coast into one of the world’s largest refining hubs.

“The refineries along the Gulf Coast, they were built thinking of Venezuelan oil,” said Lorena

Moscardelli, director of the University of Texas Bureau of Economic Geology.

Over time, however, Latin American heavy crude production began to decline. Mexico's offshore Cantarell field reached peak production at 2.14 million barrels per day in 2004 and has since declined to 115,000 barrels per day, according to Pemex data. Although a portion of those losses has been offset by the discovery and development of other, smaller oil fields.

Venezuelan production volumes recorded gradual declines in the years following Hugo Chávez's 1999 ascent to the presidency. After recording peak production of nearly 3.5 million barrels per day in 1997, strikes, mass layoffs and mismanagement of PDVSA brought volumes to under 2.7 million barrels per day by Chávez's 2013 death, according to data from the US Energy Information Administration. Production volumes continued to plummet under Maduro and today stand at under 1 million barrels per day.

Meanwhile, heavy crude production in the Canadian oil sands was beginning to ramp up. The link between Canada and Texas was solidified in 2014 with the completion of the Keystone pipeline's Gulf Coast extension, which allowed refiners to fill a portion of the declining Latin American supply with Canadian crude.

But the Keystone pipeline can only carry so much oil to the Gulf Coast — its capacity tops out at 640,000 barrels per day. The proposed Keystone XL expansion would have more than doubled that capacity before the project was canceled in the face of stiff political opposition.

“That really took out a lot of the heavy crude” that Gulf Coast refiners could have processed, said Ramanan Krishnamoorti, a professor of petroleum engineering at the University of Houston.

Selling oranges, buying orange juice

Today, U.S. Gulf Coast refineries get more heavy crude from Canada than any other nation, followed by Mexico, according to the latest EIA data. But Mexican imports are expected to take a sharp downward turn in 2026 as Pemex ramps up a major refinery project.

The Dos Bocas refinery, located in the Mexican state of Tabasco, was part of former President Andrés Manuel López Obrador's vision to revive Pemex's decaying refining sector to decrease Mexico's reliance on U.S. fuel imports.

Exporting crude oil to U.S. refiners while importing U.S. gasoline and diesel fuels is inefficient, López Obrador said, “because that’s like selling oranges and buying orange juice.”

It was a controversial policy in Mexico, said Pablo Zárate, a senior managing director at FTI Consulting.

“For a long time, the traditional thinking had been: there’s very efficient refining in the U.S. Gulf Coast that is able to address Mexico’s incremental refining needs in a very efficient way,” Zárate said. “So the idea of building something that would be increasingly difficult to maintain and famously expensive to run — for Mexico to double down on that was quite a contrarian thing.”

After his 2018 election, López Obrador gave a three-year deadline to complete Dos Bocas, but delays and cost overruns extended the project’s timeline into the present day. Originally designed with a heavy crude refining capacity of up to 340,000 barrels per day, by November 2025 it was running at 60% of that capacity, and industry observers are hopeful that it will reach full capacity this year.

That refinery alone could decrease Mexico’s Maya crude exports to the U.S. Gulf Coast by 200,000 to 250,000 barrels per day, according to S&P Global Energy.

“That’s allowing the Venezuelan and Canadian crude to usurp what used to be the Maya barrels,” at U.S. refineries, said Tom Liskey, a Latin American analyst at the energy consultancy Enverus.

As U.S. [sanctions ease](#) and more Venezuelan barrels reach the Gulf Coast, the crude will compete with Canadian barrels flowing down the Keystone pipeline, prompting oil traders and analysts to speculate which of the two varieties will offer more attractive prices to refiners.

“It’s likely to be Venezuelan to start,” said Ed Morse, a senior strategist at the New York-based commodity trading firm Hartree Partners. “Particularly if they’re cut off from [trading with] China.”

The U.S. Treasury Department has slowly been easing sanctions to allow U.S. companies to buy, sell and refine Venezuelan crude. However, the department prohibits companies from selling the crude to a handful of countries, including China, which became Venezuela’s largest buyer during US sanctions.

Rory Johnston, founder of the oil markets analytics firm Commodity Context, said the Treasury Department's waiver program is sending more Venezuelan crude to the U.S. Gulf Coast. And so far, Venezuelan barrels have traded several dollars cheaper than Canadian crude in Houston.

But it's still too early to predict how prices will settle, he added.

"I imagine there's currently stronger pressure for U.S. Gulf Coast refiners to buy Venezuelan barrels now to validate the White House's move, but over time purer economics will dominate ... and then we'll really see the comparative price impacts," Johnston said.

Route to recovery runs through Texas

U.S. sanctions layered on top of weak oil prices, corruption and economic mismanagement under the Maduro government have created a dire economic situation in the country. Yet if a U.S. takeover of the country's oil industry ultimately does spur a recovery, Texas' refining sector will play an outsized role in that revitalization.

Moscardelli, the University of Texas Bureau of Economic Geology director, spent the early part of her career as a geologist for Venezuela's state-run oil company. She knows that the nation's geology has more to offer than just the heavy crude that comes from the Orinoco oil fields in the eastern part of the country.

There's the Maracaibo Basin in the western part of the country and El Furrial field to the east, both of which produce lighter grades of crude; there are promising shale formations that have the potential to unleash light crudes using the same fracking technology that transformed Texas' Permian Basin; and there are various offshore natural gas discoveries to tap into.

Reviving the Venezuelan economy, as the Trump administration has pledged to do, would require harnessing and exporting all manner of fossil fuels, many of which are likely to flow into the U.S. Gulf Coast.

"For the vast majority of Venezuelans, you cannot get prosperity without hydrocarbons," Moscardelli said.

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