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Would An Oil Embargo On Venezuela Simply Lift Gas Prices?

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Talk of oil sanctions is in the air.

Some would like the Trump administration to ban the importation of crude oil from Venezuela in response to that country's recent fraudulent election. And some are predictingthat if such a boycott were implemented, gasoline prices would increase by 10–15 percent, or 25–30 cents a gallon.

Venezuelan production is about 800,000 barrels a day, approximately 1 percent of the 80.4 million barrels a day world output. If 1 percent of world output were suddenly and permanently removed from the world market, then a 10 to 20 percent increase in price would certainly be a reasonable prediction, given what economists know about the relationship between reduced quantity and increased price in oil markets in the short run.

But boycotts are not true *supply reductions* ; they are *supply rearrangements* . The United States and Venezuela both purchase *and* sell oil on a world market.

In such a large market, country-of-origin and country-destination information quickly become blurred as crude oil and its refined products slosh from buyers to sellers, oftentimes via third parties.

And even if the United States could somehow be a stickler at tracking and avoiding Venezuela-originated products, they would simply get re-routed to some other buyer—perhaps China or India—while other oil products would reroute to the United States.

Another factor is the nature of Venezuelan oil. Oil is not a homogenous, uniform worldwide product, but an idiosyncratic mixture of different hydrocarbons (and impurities) that varies from one country to the next and one oil field to the next.

Venezuelan crude is "heavy," meaning it contains more of the larger hydrocarbon molecules that are difficult to break down into usable products like gasoline. And some of the products it does yield aren't especially valuable, like bunker oil.

Refineries have to be specially configured to process the oil they receive, and heavy crude configurations are especially demanding. The United States does have such refineries, but the availability of light crude from the shale oil boom, which is much easier to break down into valuable products, has made the use of the extra configurations unnecessary.

Still, a U.S. boycott of Venezuelan oil could cause a short-lived price increase as markets adjust to the news. That increase could be extended depending on the actions of petroleum investors, who are a notoriously skittish lot.

They could respond to a boycott by stockpiling oil in fear of lasting supply constraints. But U.S. inventories are currently relatively high, and stockpiling oil—pumping it into large storage tanks or leaving it on tankers at sea—is costly, which means the investors would shoulder a cost for their skittishness.

Meanwhile, world oil production—including Venezuela's—would likely not change from its current high level, except perhaps to produce a little extra to sell to the skittish investors. So we doubt any gas price increase would last for long.

Does this mean the United States should go ahead with a boycott?

We are wholly agnostic on the wisdom and justice of boycotts, embargoes, and other such sanctions. (For a discussion of this topic, click here.) Rather, we argue that, economically, these policies seem to be pointless. Venezuela would simply sell its oil to other nations; a U.S. boycott would be as ineffective as similar policies against Cuba, Russia, and other countries.

World oil prices shift because of changes in world supply and demand, e.g., wars that block trade routes, recessions that reduce demand, expansions that increase demand, or producer collusion that constrains supply.

A rift between the United States and Venezuela would be small potatoes in comparison, and any boycott would be made meaningless by the world market.

Hence our skepticism that there would be much of a boycott price spike.

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