

Venezuela's Oil Reform Efforts: New Opportunities, Unanswered Questions – U.S. Investor Perspective

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Over the last several months, Venezuela's interim government has moved swiftly to reopen the country's oil sector to private investment, amending the Organic Hydrocarbons Law and enacting implementing regulations just last week. There is little doubt that the reformed law includes many positive changes to encourage new investment: it ends PDVSA's decades-long monopoly on primary oil activities, lowers the state's minimum ownership stake in joint ventures, and formalizes a new contractual framework (CPPs) expected to be the primary vehicle for new investment. The regulations include a more streamlined fiscal regime, including a royalty ceiling of 30%, and a simplified integrated hydrocarbons tax capped at 15%, replacing the prior multi-layered tax structure.

However, substantial questions remain over how investable the sector is given the terms of the CPPs that have been circulated and the scope of the discretion the interim government will maintain over key project variables. There are also unresolved questions around the current U.S. sanctions framework and its compatibility with new investments in the sector, issues that may take some time to sort out. While the reformed law offers potentially exciting new investment opportunities, investors considering entering into Venezuela's hydrocarbons sector will need to navigate a novel and still-shifting regulatory environment with care. This client alert highlights several of the issues that investors should be aware of when considering an investment in this sector.

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The expediency with which Venezuela's National Assembly amended the Organic Hydrocarbons Law on January 29, 2026 (the OHL), a mere three weeks after Nicolás Maduro's removal from office, appeared to send clear signal from the new interim Venezuelan government: the country's long-shuttered oil sector was re-opening to private investment. National Assembly President Jorge Rodríguez affirmed as much in declaring that the law would "make hiring domestic and foreign companies to extract resources from the world's largest oil reserve more competitive."

The OHL is the lead effort in a broader campaign by the Delcy Rodríguez government to redirect Venezuela's natural resource and energy sectors towards a more foreign-investment friendly outlook. In April, the government introduced reforms to Venezuela's mining sector regulation and investment framework, and the National Assembly is currently considering a similar overhaul of Venezuela's electricity sector. The reforms signal a notable shift for Venezuela's real economy, which has long been dominated by state-owned enterprises, chief among them the national oil champion *Petróleos de Venezuela, S.A. (PDVSA)*, and centralized economic management.

The rapid adoption of the OHL therefore seemed to many market observers to be a prelude for wide-scale private development of and foreign involvement in Venezuela's oil sector. Early projections indicated that the new law and hydrocarbons regime, assisted by loosening the Venezuela sanctions framework for U.S.-based investment, could usher in a new oil boom that might boost output to upwards of 1.5 million barrels per day by the end of 2026.

The intervening months since the adoption of the OHL have revealed a more complicated picture. In May, preliminary versions of a model contract for participatory private investment in the oil sector

(*Contrato de Participación Productiva* or CPP) were circulated amongst investors and commentators, the terms of which raised questions as to whether the oil sector's supposed reform agenda can be translated into concrete investor-friendly changes.¹ On July 7, the Venezuelan government offered some measure of clarity by issuing the OHL's implementing regulations, including related resolutions for tax and royalties treatment (together, the New Regulations).² Nevertheless, though major players like Shell, Repsol, Chevron, and Exxon announced in the first half of 2026 their intention to expand existing production, the scope of private investment and degree of new investor entry remains less clear. Venezuela's oil reform efforts continue to leave unresolved questions that will determine whether the new framework can support bankable private investment.

Reforming the Organic Hydrocarbons Law Framework

Despite mixed perspectives on its impact, the reformed OHL of January 2026 provides a number of significant improvements for would-be private investors in Venezuela's long-neglected hydrocarbons sector. Chief among these is that, for the first time since the 1970s, private investors are legally authorized to engage directly in oil exploration and production in Venezuela (primary activities), ending PDVSA's virtual monopoly on primary activities under the 2006 iteration of the hydrocarbons law.

Investors can now choose to enter into mixed companies / joint ventures (JVs) with PDVSA, whose required minimum ownership share is reduced from 60% under the prior law to 50.1%. The reformed JV framework also allows the Ministry of Hydrocarbons (MoH) to authorize minority private shareholders to directly commercialize oil output, manage bank accounts, and exercise technical and operational management over oil production.

¹ See José Ignacio Hernández G., [Comments on the Model Productive Participation Oil Contract](#) (May 25, 2026)

² The New Regulations were published on July 7, 2026 in the Official Gazette as the Regulations to the Organic Hydrocarbons Law (Decree 5,381). The royalty and

integrated hydrocarbons tax resolutions were finalized by Resolutions No. 024/2026 and No. 002/2026 of the Ministry of Hydrocarbons, published in Official Gazette on July 7, 2026.

In a more notable departure from prior law, the OHL now permits private investors to enter into CPPs, representing the formalization of a preexisting informal production sharing framework introduced in 2018 for certain oil investors. This new CPP structure also resembles Venezuela's more capital-friendly private-public contracting regime used in the 1990s. Importantly, legal commentators anticipate that all new investments are likely to be structured as CPPs rather than new JVs.

Under the OHL, private companies seeking to engage in a CPP must be domiciled in Venezuela, have a business plan approved by the MoH, and assume comprehensive management, costs and risks associated with their oil production or exploration efforts. Renumeration under the CPPs can be in the form of a production participation (i.e., a percentage of hydrocarbon outputs that can then be commercialized after governmental obligations are satisfied), profit-participation mechanisms as determined by the MoH, or a combination of those mechanisms.

In another welcome change for foreign investors, the revised OHL replaces a previously rigid oil royalty regime with a new royalty rate ceiling for the Venezuelan state set at 30% of the monthly volume of extracted hydrocarbons and non-reinjected gas. The new regime also provides that these royalties may be payable in cash, in kind, or partly in each. The MoH is able to set royalty rates within the 30% ceiling when deemed necessary to preserve a project's "economic equilibrium."

The new OHL also streamlines the fiscal regime for investment by introducing an integrated hydrocarbons tax, to be set at a rate not exceeding 15% on monthly gross income, replacing a complex, multi-layered investment tax framework. Several investor-unfriendly taxes were repealed, including the so-called "windfall tax" on extraordinary oil prices and the "shadow tax" mechanism that ensured Venezuela received at least 50% recovery on each barrel's value.

The New Regulations construct an implementation framework for the new OHL provisions, establishing "combined" royalty and integrated tax rates based on

project classification: greenfield projects are subject to a combined rate of 20%, extra-heavy crude fields – to a combined rate of 25%, while brownfields are subject to a 30% rate, if without production, or to a combined rate of 35% with active production. Furthermore, the New Regulations clarify that pre-existing JV and CPP investors may request to apply these new combined rates by submitting adjusted business plans that include provisions for new investment potential. While the income tax rate remains at 50%, the New Regulations clarify that greenfield projects may now benefit from a reduced income tax rate of 34%. The Finance Ministry is also permitted to reduce tax rates where necessary to again preserve the project's "economic equilibrium."

The OHL also expressly allows investor parties to contract for resolving disputes through either Venezuelan courts *or* alternative dispute resolution mechanisms, including mediation and arbitration.

As noted, the law also attempts to protect private partners from adverse regulatory changes by the Venezuelan government through the use of the so-called "economic equilibrium" provisions. The aim of these is to place an adversely affected private investor in the same economic position as it would have been if no regulatory changes had occurred. The OHL contemplates restoration of this equilibrium through modifications to royalties, taxes, tariffs, contractual terms, economic conditions, or compensation mechanisms. While the declared intention is that the equilibrium mechanism will be used to protect private investors, the overwhelming concern is that it could equally be used arbitrarily by the MoH to the investor's detriment, under the guise of protecting the public interest.

Unanswered Questions and Investor Considerations

Initial reactions to the OHL cautiously regarded the reform as a welcome move by Venezuela toward openness to contractual flexibility and private-sector participation. However, while the new law formalizes investment tools that investors had long sought, their deployment remains heavily dependent on Venezuelan

government discretion—particularly from the MoH—as well as future terms of implementation, sanctions restrictions and authorizations, and transaction-specific documentation.

Initial optimism now appears tempered by this reality. In May, ConocoPhillips' CEO Rylan Lance described the reforms as “not sufficient to attract a whole lot of investment.” Other industry leaders, including Exxon, have expressed similar skepticism. Six months into the life of the amended law, it remains unclear how the revised oil investment framework is being deployed in practice.

Textual and operational ambiguities. The core concern behind much of the oil reform effort stems from a combination of unclear signaling surrounding the OHL's concrete goals and the retention of significant discretion by the Venezuelan government, creating the risk of actual or perceived arbitrary decision-making.

For example, under the new JV investment regime, private investment partners are granted new operational authorities over oil production, but many aspects of that authority remain contingent upon MoH authorization, suitability-and-capacity assessments, and other unregulated and discretionary processes controlled by the Venezuelan executive branch. The OHL attempted to accelerate the mixed-company / JV approval process by replacing prior National Assembly approval with Presidential authorization. Yet, this focus on efficiency comes with a clear tradeoff: participation is subject to gatekeeping by the Venezuelan executive branch in a discretionary manner and not necessarily subject to any checks and balances.

The investment community also remains wary about how certain provisions of the new OHL will operate in practice. As mentioned above, while the “economic equilibrium” requirement was presented by Venezuela as pro-investor, it effectively codifies a degree of transactional uncertainty by permitting the government to modify royalties, taxes, contractual provisions, and other economic terms in any situation in the name of

achieving the equilibrium, which could be a major problem for the bankability of CPPs.

Dispute resolution and inconsistencies with U.S. sanctions regime. While the OHL appears to liberalize forum selection and dispute-resolution mechanisms, it remains unclear whether investors will actually be able to select the forum and the governing law of their contracts.

At a May event with oil executives in Houston, Venezuela's oil minister acknowledged investor need for legal certainty and pointed to the OHL as providing for alternative dispute resolution “not only within our national territory, but it also allows and opens the door for other venues to be used to resolve any disputes that may arise.” However, the New Regulations limit the availability of fiscal relief for investors whose JV contracts or CPPs include international arbitration clauses: when such investors seek to restore their project's “economic equilibrium” through a reduction in tax or royalty rates (as is provided for by the OHL), they may not invoke “[r]isks associated with the execution and recovery of the previously established investment” as a qualifying criterion for rate adjustment.³

The Venezuelan government also continues to insist that the CPPs must be governed by Venezuelan law. This requirement may be unwelcome for foreign investors generally, and it is particularly problematic for U.S. investors, since a number of U.S. Department of the Treasury Office of Foreign Assets Control (OFAC) general licenses (GLs) authorizing U.S. persons' engagement in various activities in Venezuela, including transactions with PDVSA, require that contracts be construed and interpreted under the laws of the United States. OFAC acknowledged that Venezuelan law will apply to certain aspects of underlying investment activities in Venezuela (as is ordinarily the case), but has specifically clarified that interpretation, contractual performance obligations, breach, contractual remedies, payment obligations, termination, validity, assignment or novation, and

³ Art. 33.2, Resolution No. 024/2026 (July 7, 2026).

enforceability of the contract shall be U.S. law governed.

Residual expropriation concerns. For investors, expropriation risk remains particularly acute given Venezuela's long history of terminating agreements, renationalizing companies, and denouncing investor-state protections.⁴ For example, under a prior nationalization scheme, all foreign investments were forcibly converted into majority-state-owned JVs.

Structuring considerations for private investors. Private investors should be aware of the challenges and ambiguities associated with navigating Venezuela's hydrocarbons reform effort.

A major issue in the current reform structure is that the CPP appears to be structured as a services contract rather than a traditional oil concessions grant. Under the OHL, CPP counterparties are not given ownership rights over hydrocarbons deposits or the assets associated with the exploration and production of oil, and cannot create liens on the same. Instead, underlying hydrocarbons resources and assets remain property of the Venezuelan state. Investors under the CPP are thus faced with the dual challenge of entering into long-term lease contracts with PDVSA to lease the assets required for operating the fields, while being unable to rely on such assets to secure capital-raising efforts. These difficulties are made more acute by the OHL's requirement that private CPP counterparties must be Venezuela domiciled, meaning that foreign investors will likely need to structure their investments through newly incorporated SPVs, Venezuelan branches or other subsidiary corporate entities, all of which may create new credit and financing exposures.

To overcome the constraints posed by a lack of ownership rights in hydrocarbons assets, private investors will need to consider pursuing alternative security arrangements when seeking to raise new-money financing for Venezuela oil endeavors. These could include pledges or assignments of oil receivables generated from a CPP as collateral.

Another consideration for private investors is how to secure commercialization rights over Venezuelan hydrocarbons. Reportedly, under the model CPP, private investors can seek government approval to market their own shares of oil production, as well as that of the PDVSA contracting counterparty, and private stakeholders in JVs can also seek similar commercialization rights under the OHL. These commercialization rights could provide investors with significant control over investment returns and attracting project finance. However, this right is not guaranteed and will require individualized MoH approval and, potentially, efforts to reaffirm such approval over the life of the project. Given the importance of oil commercialization, private investors need to prioritize obtaining MoH authorization as a necessary condition precedent for engaging in commercial hydrocarbons activities.

U.S.-based investors will also need to understand how these new commercialization rights interact with the existing U.S. Venezuelan sanctions regime. Under GL 46C and GL 52A, U.S.-based private investors are authorized to engage in hydrocarbons commercialization under contracts with PDVSA and its majority-owned subsidiaries or affiliates (PDVSA-Affiliated Entities). Both GLs (as well as a number of other recent OFAC GLs relating to Venezuela)⁵ require

⁴ Notable examples of this latter precedent include Venezuela's 2008 termination of its bilateral investment treaty with the Netherlands and 2012 withdrawal from the International Centre for the Settlement of Investment Disputes. See Cleary Gottlieb, [What Remains of Venezuela's Bilateral Investment Treaty Network—What Prospective Investors Should Know](#) (June 17, 2026).

⁵ See Cleary Gottlieb, [OFAC Authorizes Commercial Negotiations With the Government of Venezuela and Certain Financial Services](#) (April 20, 2026); [OFAC Expands Authorized Activities in Venezuelan Mining Sector](#) (April 2,

2026); [OFAC Issues GL 52, Further Loosening Sanctions Against PdVSA](#) (March 23, 2026); [OFAC Expands Venezuela Sanctions Relief to Fertilizers and Petrochemical Products, Investment in Petrochemical and Electricity Sectors](#) (March 19, 2026); [OFAC Eases Sanctions on Venezuelan-Origin Gold](#) (March 11, 2026); [OFAC Issues General Licenses 49 and 50A Authorizing Contingent Investments and Additional Operations in Venezuelan Oil and Gas Sector](#) (Feb 20, 2026); [OFAC Authorizes Upstream Venezuelan Oil and Gas Sector Services, Issues New FAQs](#) (Feb 13, 2026); [OFAC Issues General License 47](#)

that any payments to PDVSA-Affiliated Entities be made into a U.S. Treasury-managed account pursuant to Executive Order 14373.⁶ U.S. investors would therefore be well advised to ensure that they independently market their share of Venezuela oil production to avoid their revenues being attributed to PDVSA-Affiliated Entities and routed through Treasury accounts.

The revised Organic Hydrocarbons Law represents a number of clear opportunities for potential private investors, but it is not a panacea. Investors looking to position themselves in Venezuela's hydrocarbons sector will need to remain vigilant to the shifting conditions of a novel regulatory environment.

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[Authorizing Sale of U.S.-Origin Diluents to Venezuela](#) (Feb 5, 2026); [OFAC Eases Venezuelan Oil Sanctions Following Maduro Apprehension](#) (Jan 30, 2026).

⁶ For a more detailed analysis of Executive Order 14373 and its implications, see Cleary Gottlieb, [Executive Asset Shields, Alter Ego, And Creditor Recoveries: Venezuela After President Trump's Executive Order](#) (Jan. 13, 2026).