

Argentina's Oil Battle with the United Kingdom

Buenos Aires Running Out Of Options In Falklands Oil Fight

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Theme: [Oil and Energy](#)

Global Research, March 30, 2010

[OilPrice.com](#) 26 March 2010

As Argentina's oil battle with the United Kingdom rages on, the only other obstacle the South American country can throw at oil companies planning to drill near the Falkland Islands is to interdict U.K. ships or equipment – but regional expert Riordan Roett doubts the Argentines are “stupid enough to do that.”

This would be a “very dangerous move” on the part of the Argentine government, said Roett, director of Latin American studies at Johns Hopkins University in Washington. Argentina, which went to war with the U.K. in 1982 over Falklands' sovereignty, is “very careful” about challenging the British in reaching the islands, Roett noted.

The dispute between the old foes erupted in February when U.K.'s Desire Petroleum towed an oil rig from Scotland to the South Atlantic to drill near the Falklands.

Experts tout the area beneath the islands contains as much as 60 billion barrels of crude oil but there are many doubts about this claim.

Geologists and political-risk specialists say such a vast deposit is possible — after all, the Atlantic Coast downward from Brazil boasts a great deal of oil – but whether the Falklands is the next place to find such resources will be a question mark for “a couple of years,” Roett said.

Oil and Latin American experts, moreover, have mixed opinions about whether U.K. oil firms actually need the Argentine government's help to siphon out any oil from the contested waters.

U.K. firms can do without Argentine infrastructure but much will depend on current technologies, Roett argued. If companies can retrieve and pour oil into super tankers, it can then be shipped back to the U.K. or wherever their clients are based “without worrying about Argentina — unless the Argentinians were stupid enough to try to stop the tankers,” he said.

Even if commercially viable oil at current prices or natural gas is found, projects would “somehow require the use of infrastructure in Argentina” such as ports and pipelines, Daniel Kerner, a Latin America analyst at the Eurasia Group in New York, told OilPrice.com. At the very least, he said, this infrastructure would help make the project more viable, otherwise all of the needed equipment would have to be shipped in, he added.

The price of a barrel of oil when potential Falklands' reserves are brought up in another few

years will also play into how challenging exploration will be, Roett noted.

“Is it worth the investment? Are there rigs available? The South Atlantic is not a particularly hospitable place to do any kind of deep-water drilling. So we still have to find out whether or not the technology which exists is applicable to the Falklands.”

Even though Argentina is pushing for a meeting with the U.K., and the United States has encouraged such a move, Roett dismissed the chance of an exploration partnership because Kirchner’s administration is “not a transparent government.”

The U.K., with an election looming, would not want to seem weak by agreeing to negotiate either, Roett added.

Yet Kerner argued that such collaboration is “possible but it’s hard.” While this kind of a relationship would certainly assist with exploration, it’s the “most that Argentina can aspire to” and success will ultimately depend on the reservoir size and value, he maintained.

In the midst of this, it’s doubtful any Latin American country will cooperate with the U.K., Kerner said.

Argentina’s President Christina Fernández de Kirchner in fact has been rallying support from her continental neighbours, and in recent days began to mend fences with Peru, a country it fell out of favor with 16 years ago.

Kirchner has done everything in her power to make it difficult for companies pursuing the potential oil windfall. Kirchner forced boats using Argentine ports or passing through the country’s waters en route to the Falklands to get special permits, and introduced a United Nations resolution reprimanding the U.K. for permitting oil exploration off the islands. The president also tabled a bill that would impose a 30-day deadline on firms to sever ties with the islands or be run out of Argentina.

The U.N. has passed several resolutions urging both sides to negotiate but the British have declined, Kerner said.

Except for Latin America, most of the countries in the world recognize the British position on the Falklands, Roett told OilPrice.com. British sovereignty over the Falklands was declared in 1833. The Argentine military “ran into Margaret Thatcher in 1982. I don’t think Christina Fernández de Kirchner wants to run into the British fleet here in 2010.”

The U.K., which reportedly dispatched a nuclear submarine to the islands to safeguard oil exploration there, has “reinforced on the Falklands their military capabilities, particularly their air force,” Roett said. And the British are better prepared to dominate the air space over the islands, he added, but doubted the row will lead to actual war again.

That no significant international oil company is participating in the drilling, meanwhile, is telling, Kerner charged.

Apart from Desire Petroleum, Spain’s Repsol plans to start drilling in Argentine territorial waters — but not in the contested area — via its Argentine operator, YPF, which is leading a consortium.

Large IOCs so far are “moving very carefully” due to the risks associated with a “very unpredictable Argentine government,” Roett said. But if Desire Petroleum demonstrates there probably is a “reasonably large deposit,” companies will descend, he said.

With the world’s oil supplies shrinking, and more oil in the hands of producers like Saudi Arabia, Iran, Venezuela and Russia, places like the Falklands become especially important, said S. Rob Sobhani, president and founder of Caspian Energy Consulting in Potomac, Maryland.

With North Sea reserves dwindling and having already peaked, Sobhani said, countries like the U.K and Argentina see these South Atlantic reserves as a possible “game changer.”

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