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OIL IS A STRATEGIC PRODUCT, NOT A COMMODITY: Argentina and the International Oil Picture

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Oil is not a commodity, oil is not a raw product either. Just look at the complexity of the techniques for its efficient extraction. Oil is a strategic product that models international policies and since the late nineteenth century, oil guides the foreign policy of great powers – regardless of rhetoric – because oil is also essential for financial speculation. The mixture of oil and finance has already exploded in two world wars. In 1914 and 1939, 85% of the world oil production was controlled by British and American companies and banks.

This reminder is pertinent because of the build up of an international uproar over the returning of Argentina to the helm of Yacimientos Petrolíferos Fiscales (YPF), the former state oil company. It was previously controlled by Repsol, a company registered in Spain, but whose majority of shareholders are not Spanish. Repsol bought the controlling interest in YPF during Menem's privatization scramble. YPF operates 32% of Argentina's oil production and 23% of Argentina's gas. There are other companies operating in Argentina, like Chevron, Petrobras and Occidental. The following table illustrates how YPF production fell under Repsol.

Repsol made billions with YPF existing facilities, with little further investment. Also, under Repsol's YPF management, Argentina went from energy self-sufficiency and energy exporter to being dependent on imported fuel and gas at a rate of U.S. $ 9.300 millions in 2011. Beyond the rhetoric of Mr. Rajoy over property and investments, the facts are clear.

Since Repsol purchased control of YPF, for $ 15 billion, in 1999, Argentina's oil production fell 38.3% and gas production fell 25.4%, between 1999 and 2011. During that time, Repsol made $ 15,728 million in profits, more than what it paid for YPF. It is well known that future of oil production depends on exploratory activity, which is a costly and risky investment and which Repsol neglected. During its tenure there were only 8 exploratory wells drilled, which cost just 0.2% of its income. Repsol's policy was to exploit existing wells to their maximum capacity, a practice that disturbs the balance on fluids and gases, makes natural pressure drop, and makes extraction of remaining oil an expensive and complicated procedure.

Argentina expropriated 51% of YPF shares with overwhelming support of public opinion and the political environment. The decision is coherent with an old legal principle that considers any goods underground to be a public property. A public law applied by Rome, Byzantium, the Spanish Empire, the Chinese Empire or the Popular Republic of China, Russia, Tsarist or Soviet, the Ottoman Empire. It is a legal approach accepted in Europe, Asia, Africa or Latin America today. The exception is the United States, where you are supposed to own your piece of land down to the core of Earth…

The international oil picture

There are threats concerning international oil supply that make the Argentinean government measure a timely and justified one. This perception is shared by the Argentinean political class, its business community and the public in general. There was approval also in most of Latin America, with the notable exception of Mexico's President Calderón, who later was scolded by the Mexican Congress for interfering in a bilateral issue.

Calderon's argument was that Argentina's example that could scare away foreign investment in the region. He is, at least, uninformed. It is high economic growth and vast local resources which attract investment and South America meets both requirements. It is today the region receiving most capital investment, so much that Brazil has had to set limits.

In Buenos Aires, the discordant note is given by a part of the press that prefers to play the role of political opposition, instead of news reporting. Those journals highlight the threats made by the PP government or the PSOE leaders, which are the same thing. It is a paradox, but if any one wants to read the furious threats to Argentina by Manuel Barroso, President of the European Commission or by Karel de Gucht, European Commissioner for Trade, it is in those Argentinean newspapers that those may be found. The European press is more concerned with the success of Marine Le Pen in France, Sarkozy's busy suspense or Spain's fiscal troubles, because the European public does not care much about Repsol's profits.

Oil war dangers

It is well known that oil is a very dangerous international issue. The governments that obey multinational corporations seek to corner the oil supply to curb the development in emerging countries. Thus they have attacked and invaded, with ridiculous pretenses, two countries, Iraq and Libya, that were major and independent producers and were… selling oil to China.

The invasion of Afghanistan is not alien to the oil issue. It was intended to allow Turkmen, Uzbek and Tajik oil, which is located north of Afghanistan and close to China, to be pumped to Pakistani ports. It also helped to encircle Iran, another country that sells oil to China.

The civil war in Sudan has the same matrix. China was buying oil from Sudan and Chad. Sudan's oil is located in the south and Chad's oil comes out through Darfur, in South-West Sudan. In 2003, an armed rebellion in Darfur used religious and tribal differences in Sudan to ask for a separate state. Oil rich South Sudan became a sovereign state recognized by "Western Democracies" as used to be said, or the "International Community" as is said today.

In South America, Brazilian state company, Petrobras, discovered, in 2007, huge oil and gas offshore fields in Santos Basin, on the continental shelf, at 200 / 300 miles off the coast. The Tupi field is already in production and it has reserves of about 8 billion barrels of light crude oil and there is natural gas as well. Other fields are in an exploratory phase but are known to have higher amounts of oil and gas. As a comeback, in 2008, the U.S. reactivated the Fourth Fleet, that was created in 1942 to monitor the South Atlantic and disbanded in 1950, for lack of enemies in the zone. The pretext is drug traffic … perhaps traffickers use the Graf Spee.

Oil supply's uncertain future

United States has by far the biggest military might. Israel is the best armed country in the Middle East. Hence, only ghost mongering can justify present hysteria about security threats. The real goal is to justify aggression to deliver oil and other resources to big corporations.

With the pretext that Iran could be making a nuclear weapon, because it acquires the nuclear scientific knowledge to which it is entitled by the Non Proliferation Treaty, the United States unilaterally banned Iranian oil from international trade. The aim is to weaken Iran before attacking it to control its oil, as was done with Iraq. The Iranian oil embargo most have been planned long ago, because 4 million barrels a day of oil supplies can not be put away without compensating with more oil from elsewhere; or there would be an economic collapse. The plan was, plausibly, to occupy Libya – who sold oil to China – and supply Europe, which is dependent on Iranian oil. The rest of the missing oil could be procured by pumping up Saudi flows, as usual.

The plan didn't work because Gaddafi did not flee, as assumed by British Foreign Minister William Hague, but chose to stay and fight. The war on Libya took a 1.3 million bb/d from the market. Saudi Arabia promised to compensate by pumping as much extra oil, but could not. For 10 months, NATO bombed and spent billions to impose chaos; even now, there are disruptions of Libyan supply, which after the war only reached 500,000 bb/d.

Saudi oil production began in the 50s under the Arabian American Oil Company – Aramco, a consortium of Chevron, Exxon, Mobil and Texaco. In 1974, the government took 60% of the shares and renamed it Saudi Aramco. In 1980 it was fully nationalized.

Western democracies avoid ideological rhetoric in their deals with Saudi Arabia, an absolute and theocratic monarchy. It happens that, since 1973, Saudi Arabia is the main oil producer with some 8 million bb/d. It is a vulnerable supremacy, because its oil fields are enormous but few, are contiguous and placed around the Persian Gulf shore. The seven largest are: Ghawar, Safaniya, Abqaiq, Berri, Marjan, Zuluf and Abu Sa'fah. There are two, Ghawar and Safaniya, which produce 75% of the total. The Saudi role is to be the swing producer that increases oil supply whenever Wall Street asks for it. But, in the last 20 years, Saudi extra oil production, regardless of promises, never went over 10 million bb/d.

Since 1974, there is not much technical detail about Saudi wells. What is known comes from a US Senate inquiry with Aramco managers, which showed that in 1974, Aramco already faced Production increases "to save the world economy", did not come from new wells, but from simply opening the valves on existing ones. That procedure increased the presence of water and gas in the oil and there was need to build special plants to separate them. There was also need to inject large amounts of water, to compensate falling pressure. Since 1974 no new oil fields were discovered, so it is probable that in recent "salvages" the method remained the same.

At international oil meetings, Saudi engineers present papers that prove that Saudis use very sophisticated methods for oil recovery. It can be assumed that those technical and scientific feats have been reached because they are needed. Saudi failure in replacing Libya's oil supply and recent U.S. flexibility with Iran, hints that increasing Saudi production would not be able to replace the Iranian oil. That may avoid another war, but it is not a peace guarantee, because there are many psychopaths in powerful governments.

Conclusion

Argentina's economy has been growing around 10% per year, but lost its energy autonomy precisely when there are threats to international oil supply. It can happen when something vital for a nation is trusted to companies whose sole management goal is profits. Argentina made the right move and now it can correct management objectives and coordinate its policies throughout the hydrocarbon chain, with Brazil and Venezuela, its partners in Petrosur.

This may be the right moment to recall what Mexican President Lazaro Cardenas said over a drop in oil revenue after his oil nationalization: "Better a modest income that benefits the country and its workers than one that enriches foreigners abroad with fabulous profits"

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