The Geopolitics of Oil and Gas After September 11
The Case of Mexico

Rosío Vargas*

Despite oil prices being under U.S.$20 per barrel due to the world economic recession that has made demand drop, in the United States people think they are more vulnerable than during the Gulf War when prices soared as high as U.S.$40 a barrel. An important factor in this perception is surplus production capacity hovering at only 2.5 million barrels a day while in 1991 it was 5 million.[1] Analysts also think that both Saudi Arabia and other Mid-East producers could deteriorate into processes of destabilization as a result of U.S. military intervention, given the rise of Islamic fundamentalism promoting a "Holy War." After September 11 it was clear that the risk of destabilization in the Middle East is high, at least in the foreseeable future.

While for industrialized nations hydrocarbons are only one of the strategic factors in the Middle East, they are the requisite —although not sufficient— element needed to explain both the region's importance and its conflicts. The United States depends on the Organization of Oil Producing Countries (OPEC), which provides 51 percent of all its oil imports. Another factor making the Middle East pivotal is the level of its hydrocarbon reserves and its current and future supply of cheap crude oil to the West. The strategic nature of hydrocarbons has made it necessary for U.S. foreign policy to strengthen and prolong its control over the region's resources. Until 1989, that control was exercised in the framework of the Cold War and the confrontation with the former Soviet Union. Different U.S. administrations have considered the Persian Gulf, and in particular oil, key considerations to their national security. This is clear in the Carter Doctrine (1980), outlined after the Iranian revolution, which said that any attempt by any external force to achieve control over the Persian Gulf region would be considered an attack against the vital interests of the United States and responded to via any necessary means, including military force. Former Presidents George Bush and William Clinton based themselves on this doctrine to, respectively, launch Desert Storm in 1991 and expand U.S. military presence in the gulf for eight years.[2] This is understandable when we take into account that 65 percent of the world's oil reserves are located in this region.

The Middle East is second only to the former Soviet Union in its natural gas resources, with a total of 33 percent of the world's supply. A recent Energy Department report even says that Afghanistan has important reserves of natural gas and some oil and coal.[3] The bombings in Afghanistan has brought this information to light, but it is not found in books or specialized publications.

The region is also crisscrossed by oil and gas pipelines which supply Europe to the west and Japan to the east and they are expected to play an important role in supplying the great Chinese market. This same Energy Department report points to the importance that Afghanistan would acquire both because of the potential of its own resources and, above all, because of its geographical location on the transportation route for oil and natural gas exports from Central Asia to the Arabian Sea. The country's very location may constitute a threat to the stability of neighboring countries.

The importance of Central Asia's gas resources lies in the fact that Turkmenistan is third on the list of the world's gas reserves and both Uzbekistan and Tajikistan have oil fields.[4]

Not only the solidarity and alignment of Russia since the September 11 attacks, but also its willingness to supply more oil to its former enemy, the United States, if it needs it have both been surprising. Given the sig-

* Researcher at CISAN.

nificant increase in its oil production this year (7 million barrels a day), Russia considers that it could help reduce the risk for the United States and Western Europe if Middle Eastern shipments were cut off. Russian oil is considered a standby reserve.[5]

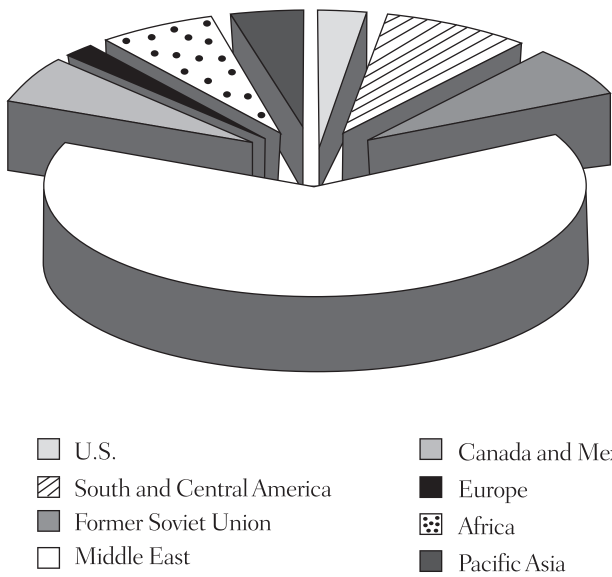
The current importance of the Middle East will increase in the future due to the magnitude of its oil reserves vis-à-vis those located in other parts of the world and the fact that the U.S. economy's oil supply will come mainly from the Persian Gulf. By the middle of the twenty-first century, there will not yet be a fuel that can replace oil, particularly for transportation. The future scenario will depend on the strategic moves and alliances that are now being prepared in the Middle East. Given the United States' oil situation, it cannot allow its control over the region to be challenged.

Because of this, even before the September 11 attacks, President Bush made it clear in his Energy Plan that he was interested in diversifying future sources of supply to include producers in the region: Canada, Mexico and Venezuela.[6]

Of these three countries, Canada is the leader in the U.S. market, supplying 15.2 percent of total oil imports and 97 percent of natural gas imports. The U.S. government considers that these supplies are safe because Canadian and U.S. energy sector business interests converge.

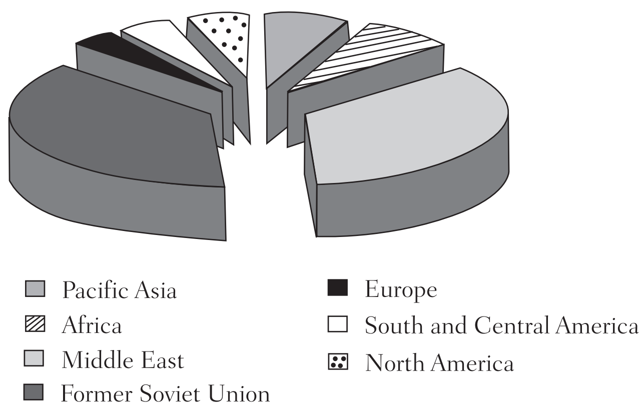
While Venezuela is one of the United States' most important oil suppliers (in third place), the general perception is that "the future of Venezuela is a bit uncertain because of the uncertainty regarding President Chávez."[7] The specialized press thinks that Venezuela is purposely allowing its capa-

Graph 1. Proven Reserves of Crude Oil (end of 2000) (%)



Source: BP, *Global Statistical Review of World Energy,* British Petroleum, June 2001.

Graph 2. Proven Reserves of Natural Gas (end of 2000) (%)



Source: BP, *Global Statistical Review of World Energy,* British Petroleum, June 2001.

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city to produce crude to seriously decline at the same time that it is offending private capital, mainly foreign companies, because of Venezuela's alignment with OPEC, which affects its national production strategy.[8]

Mexico, like Canada, is a central part of U.S. energy security, and it will seek to develop a policy with both countries that includes an increase in oil, gas and electricity production.

While its neighbor to the north perceives Mexico as a secure, trustworthy supplier, and there seem to be signs of progress regarding the opening of the energy sector, the U.S. also thinks the changes are slow. That is why it has suggested giving its support to finance projects that the Fox administration has not been able to develop because of lack of funds.[9]

What exactly does the United States want from Mexico for President Bush's current strategy?

1) A trade and investment opening, with Mexico liberalizing the activities of the energy chains in the broadest possible way in the shortest time possible.
2) Guaranteed supply, if possible in the way Canada has committed its oil production, granting national treatment in times of energy scarcity.
3) Lining up with U.S. oil diplomacy vis-à-vis OPEC producers.

Mexico's official position on U.S. requirements shows a spirit of ample collaboration. First, we see energy matters included on the overall bilateral agenda in exchange for Mexican demands on migration.

There is also clear evidence of Mexico's willingness to cooperate in upstream activities (exploration and pumping) to overcome U.S. energy difficulties both in structural and momentary terms; this situates Mexico with a main role in the medium term for U.S. energy security.

In accordance with the demands of domestic and foreign business sectors, the official strategy is to open up exploration and exploitation of natural gas not associated with oil production in the Burgos and Sabinas basins (in the states of Tamaulipas and Nuevo León) to private investment. At the same time, policy guidelines point to a substantial increase in the volume of oil production to 4 million barrels a day in the next five years.[10] These objectives will be achieved by using a new legal category, multiple-service contracts, in exploration and development both for oil and natural gas and not the risk contracts (in which payment may be made in kind, in crude oil) prohibited by the Constitution. Seemingly, multiple-service contracts are an alternative to risk contracts.[11] Private companies, then, will carry out similar activities to those stipulated in risk contracts without their having to be approved by Congress.

While U.S. strategy in the Middle East seeks to guarantee it and its allies

Selected Oil Infrastructure in the Caspian Sea Region

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access to oil resources, in Mexico, it is creating the basis for opening up areas previously prohibited by the Constitution and not negotiated in NAFTA in order for foreign oil companies to have access to oil profits and broaden out gas and oil supply to the United States. The problem for the future will be the increasing difficulties in satisfying the demand of a market like that of the U.S. which consumes 20 million barrels a day. Conflicts over natural resources loom large in the future. VM

Notes

[1] Anna Raff, et al., "What to Do About Oil?" *BusinessWeek*, 29 October 2001, p. 40.

[2] Michel Klare, "Preguntándose por qué," *La Jornada* (Mexico City), 22 September 2001.

[3] "Afganistán tiene sustantivas reservas de gas natural y recursos petroleros: EU," *La Jornada* (Mexico City), 3 October 2001.

[4] According to the most recent British Petroleum Report, the former Soviet Union as a whole has 37.8 percent of the world's gas reserves and only 6.4 percent of the world's oil reserves. Therefore its importance lies more in the former than in the latter.

[5] "Russia: How Much of a Reserve Tank?" *BusinessWeek*, 29 October 2001, p. 42.

[6] National Energy Policy Development Group, The White House, "National Energy Policy. Reliable, Affordable and Environmentally Sound for America's Future" (Washington D.C.), May 2001.

[7] Guy Caruso, "The Geopolitics of Energy into the 21st Century," Congressional Testimony (Washington, D.C.: Center for Strategic and International Studies, 21 March 2001), p. 7.

[8] "The capacity drop results from a natural depletion of oil fields averaging about 10 percent and hitting 25 percent in some cases —a cutback in production to meet an OPEC quota of 2.72 million barrels per day, and most importantly, the strategy of the one-year-old government of Hugo Chávez to curtail production in favor of high oil prices." Today the companies are unhappy about the decreasing prospects for exploration, climbing costs, uncertainty about the current political climate and strangled confidence in the financial community. *Petroleum Intelligence Weekly*, 31 January 2000, p. 2.

[9] "Reacomodo de productores de petróleo en el mercado mundial. México, Venezuela y Canadá aumentarán sus ventas a EU: George Baker," *El Financiero* (Mexico City), 20 September 2001.

[10] Information about production levels is a bit confused since some sources put future production at 4 million barrels a day while others say it will increase by that amount. See Pemex Director Raúl Muñoz Leos' testimony before Mexico's Congress on September 24, 2001. "En *stand-by* proyectos petroleros," *El Financiero* (Mexico City), 5 October 2001.

[11] Comisión Binacional, "New Horizons in US-Mexico Relations. Recommendations for Policymakers. A Report of the US-Mexico Binational Council," September 2001.