The North American Fossil Fuel Market
Part II
Integration

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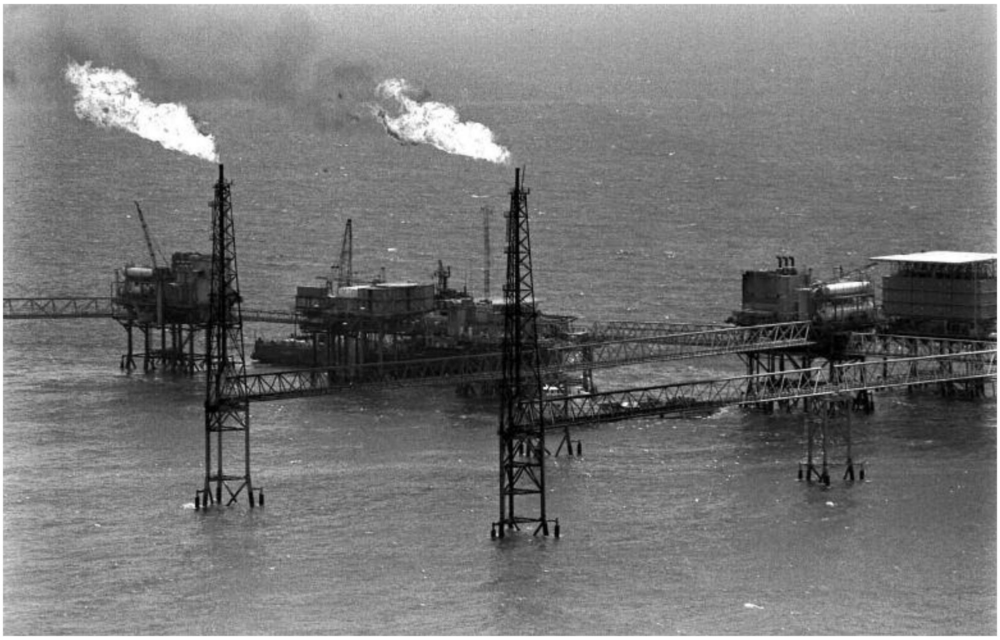

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INTRODUCTION

> In post-Cold-War energy geography, the industrialized nations, with the U.S. in the lead, are the ones that consume the most fossil fuels and have benefitted the most.

Almost 15 years after the United States began the construction of a Western Hemisphere energy bloc to alleviate the chronic crisis in this segment of its economy, and despite its leadership in the world fossil fuel market, the results are not very encouraging.

Of all the regional integration projects that the White House has designed and implemented in this period, the only one that has made significant steps forward has been the one it shares with Canada via the bilateral Free Trade Agreement. Today, Canada sends the United States 3.5 trillion British thermic units of natural gas and a similar amount of crude oil every year.[1]

By contrast, the other projects the U.S. has fostered that include the integration of a Western Hemisphere energy bloc, like the North American Free Trade Agreement (NAFTA), the Free Trade Area of the Americas (FTAA), the Puebla-Panama Plan and the Petroamérica Project, have faltered for economic and socio-political motives. For this reason, the United States is implementing other oil integration options that encompass countries from other regions of the world: Russia in Eurasia and Iraq, Kuwait and Saudi Arabia in the Middle East.

The situation becomes more dangerous for the United States if we consider the weakness of its oil industry, reflected particularly in the high growth of consumption and fossil fuel imports, espe-

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cially of natural gas, and the decrease in production and proven reserves.[2]

For this reason, in recent years, different U.S. administrations have applied oil strategies that use not only diplomacy, but other means such as political pressure and even armed action. Examples are the recent wars in Afghanistan and Iraq, one of whose main aims was to ensure control over those countries' oil fields.[3]

The current U.S. administration's aggressive behavior is a desperate attempt to maintain a constant flow of oil. This tendency to impose its will with regard to oil, even by using violence, is rooted in its current leadership role in both the "new international order" and the "new world oil order."

U.S. Leadership In The World Oil Market

As a result of the measures the United States has used to resolve its chronic fossil fuel crisis, it has even managed to head up the international oil market.

The effort that led the United States to its position of leadership in the oil market began in 1978 under the Carter administration and was propelled forward in 1991 by the first Gulf War. At that time, the United States' two main enemies in the international oil market, the Soviet Union and the Organization of Petroleum Exporting Countries (OPEC), began to weaken because of both internal and external problems. The Soviet Union disappeared precisely in 1991, and together with it, the powerful oil complex it had built. Its successors are the current oil industries of the 15 former Soviet republics. The OPEC entered a period of open decomposition in 1986 during that year's oil crisis and by 1991 had become a holdover from the Cold War,[4] when the U.S. army and its allies defeated Iraq in the first Gulf War.

The victory of the "West" over Iraq put an end to the bi-polar oil system that had operated during the Cold War, headed on the one hand by the Soviet Union and OPEC and on the other hand by the United States and the International Energy Agency.[5]

The U.S. owes its predominance in the fossil fuel market to a great extent to the implementation of a series of national and international oil strategies with their attending political, diplomatic and military facets. Through these strategies, different U.S. administrations have not only managed to recently ensure oil and gas supply for domestic consumption, but also to change the forms of foreign oil collaboration.[6] One example is the disappearance of the socialist energy bloc and, at the same time, the recomposition of the Western European bloc.[7] Other examples of the U.S.-propelled reconfiguration of the world oil market are Russia's alliance with the Asian Pacific nations and the creation of a Western Hemisphere energy bloc, beginning with the U.S.-Canada bilateral Free Trade Agreement and continuing with NAFTA, FTAA, the Puebla-Panama Plan and Petroamérica.

In this new post-Cold-War energy geography, the industrialized nations, with the United States in the lead, and their oil multinationals are the ones that consume the most fossil fuels and have benefitted the most.

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U.S. Oil Strategies

The first president of the United States who resorted to international strategies to combat his country's oil crisis was James Carter: in 1978, in the midst of the Cold War, he came to grips with the inefficiency of the U.S. energy infrastructure and at the same time with the political instability of the world oil market. This was the result of the emergence of the OPEC and the prominence of the Soviet Union in oil matters.

At the end of the 1970s, the U.S. energy crisis looked like this: fossil fuel consumption had increased notably, partially because of the industrialization policy the country had implemented for a century; local crude oil and gas production had decreased because the wells already being pumped were giving out and little investment was in the offing, particularly in the area of geological-geophysical exploration; proven oil and gas reserves were also decreasing. In addition to all this, oil imports were increasing considerably.

Given this situation, President Carter decided to implement an oil policy which, among other things, restructured the domestic energy system, reviewed domestic energy prices, particularly those derived from crude oil and gas, and decreased fossil fuel consumption. The main idea behind these domestic measures was to make the U.S. oil industry more efficient at the same time that it created awareness among the public about the need to save energy.[8]

Abroad, the Carter administration thought it necessary to put the world on notice that the Middle East, where two-thirds of the world's proven crude oil reserves are to be found, is a strategic area for U.S. interests. This warning was aimed mainly at the Soviet Union, which at the time was supporting the OPEC and simultaneously trying to extend its sphere of influence in the Middle East and Africa.[9]

Through these measures, the Carter administration managed to introduce changes both in its domestic energy situation and in the international market. Domestically, it modernized its oil infrastructure, at the same time reducing local fossil fuel consumption. Internationally, it established the basis for the creation relatively shortly thereafter of a new world oil order in which consuming countries like the United States would control the market.

All of Carter's successors, but above all Republicans Ronald Reagan and George Bush, Sr., contributed to the construction of this new world order. They did it through the application of their own oil strategies wherein, particularly in Bush's case, they began to recommend the creation of an energy bloc in the Western Hemisphere.

While William Clinton did not carry out major actions to ensure U.S. hegemony in the world oil market, this does not mean that he did not strive to favor his country's energy interests. For example, his military adventures in Europe propitiated significant geo-political changes in the region, and he also opened up the doors of the old continent, particularly of the countries previously in the Soviet orbit, to U.S. oil multinationals.

Lastly, we should mention the enormous efforts of the current U.S. president, George W. Bush, who, advised by his father's strategists, has consolidated his country's leadership in the oil sphere. He has achieved this through the wars in Iraq and Afghanistan and the increasing presence of U.S. oil companies in the Europe and Asia, including in places like Russia, China, Vietnam and the former Soviet Central Asian nations. Only three years into his term, Bush, Jr. has managed to subject Russia even more to its oil interests, has weakened the OPEC, has bent the Venezuelan President Hugo Chávez to his will and has managed to gain control of Iraq's oil fields.[10]

In this sense, we have to recognize that the big losers in the struggle to control the oil market are Europe and Asia. We must remember that both depend on oil from the Middle East. One example is Japan, which imports 70 percent of the fossil fuels it consumes from the Persian Gulf. For this reason, it is possible that in coming years in the struggle between economic blocs, the one led by the United States will be calling the shots about trade in "black gold."

> If the United States felt its national security threatened because of oil, it would implement Plan B, which includes forming energy blocs with other countries in the world.

Toward a North American Energy Bloc

Given U.S. energy weakness over the last 15 years, its governments have designed and applied parallel short, medium- and long-term oil plans. As I have mentioned, among the measures that it is planning are the formation of an oil bloc in the Western Hemisphere. This measure, which took on strength during the Bush, Sr. administration, aims to ensure supply from abroad and at the same time decrease dependence on far-away sources like the Middle East. These two factors (domestic weakness and the need to have more trustworthy, closer oil partners) have spurred the United States to promote a hemisphere-wide energy bloc.

Washington began this process of regional energy integration in 1988 when it proposed a free trade agreement with Canada whose main objective is the import of Canadian gas. The reason behind it was the increase in U.S. gas consumption for ecological reasons. The Canadian decision to sign the agreement with the United States is based on the fact that it has abundant natural gas reserves and the market abroad cannot absorb them all. Today, Canada is the leader in gas exports to the United States.[11]

This situation, which favored the creation of the first North American energy bloc, was fortunate given the

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existence of a country with an oil deficit and another that could offer it its surplus. It was also fortunate in 1993, when the United States, Mexico and Canada agreed to sign NAFTA. However, at the request of the Mexican government, and in contrast with the previous bilateral agreement, the energy area was not given significant weight in the functioning of the regional bloc, although, of course, it was not completely excluded from the treaty.

We should clarify that regardless of its policies for North America, Washington worked on parallel projects for regional energy integration: the FTAA negotiations, the creation of the multinational Petroamérica and the Puebla-Panama Plan. Through these plans, excluding only Cuba, the United States is trying to consolidate a hemisphere-wide oil market which would be up and running by 2005. This energy bloc, the world's largest, would include electricity, oil and gas. While it is doubtful the bloc will be operating by 2005, its construction is quite well along, particularly in North America, and as a separate bloc for electricity in South America.[12]

Today we can see that it is not only the White House that is promoting the creation of Petroamérica, but also one of its supposed enemies, Venezuelan President Hugo Chávez, who on several occasions has invited Mexico, Brazil and even Colombia to be part of this hemisphere-wide oil project.[13] The United States' strongest allies for the Puebla-Panama Plan continue to be Mexico and Guatemala.

It should be emphasized that one of the reasons the Mexican government refused to include the energy sector, particularly fossil fuels, in NAFTA is the strategic importance of oil for the Mexican economy.[14] Another factor that led President Salinas de Gortari to keep the energy sector out of the treaty is politics: the ideological importance Mexicans still give to the exploitation of our natural resources.

Two other factors should be added: the enormous interests of the Mexican bureaucracy (which, in the case of the oil industry, date from the birth of the Mexican para-state company), and how difficult it is in Mexico to deregulate, finally allowing the entrance of private capital into the national energy sector.

It has been the combination of all these phenomena on the Mexican side that has put the brakes on the current process of energy integration of North America, which is beginning to have negative consequences for our country. These effects become even more severe if we take into account the differences in development between Mexico and its two neighbors, particularly if we accept the fact that our country depends to a great extent on oil income even though it has a more backward energy infrastructure.[15] This delay in the consolidation of the energy bloc has occurred despite the existence of the North American Energy Working Group, which meets frequently to discuss the actions that would speed up integration of the continent.

However, we should highlight the fact that despite these problems, Mexico and the United States are already interconnected. For example, we already have electricity grids in the western part of the country; and integration of natural gas is happening in the eastern part of Mexico, where gas fields extend over both sides of the border.

In the framework of the efforts to successfully integrate, the heads of the three nations met April 22, 2001, in Quebec to set up an accord that would allow them to coordinate and make local energy markets more efficient in order to satisfy their domestic needs.[16] This document points to the North American Energy Working Group as a valuable vehicle for promoting communication and coordination of efforts contributing to improving energy markets and tending to their fair, equitable integration.

However, despite the benefits that this joint work would bring everyone, the September 11 attacks led to the suspension of these efforts at integration since the United States requested the solidarity of its two trade partners for the war against international terrorism. This forced the three countries to slow down, but not stop, the process of regional energy integration.

Despite all these political and economic vicissitudes, at no time has the United States lowered its guard with regard to the work it has done to create its own energy space, starting in North America and ending with South America. The reason behind this is the increase in uncertainty, particularly political uncertainty, in the Middle East where the new international order is being forged. The United States' fear is that in the near future oil exports from that part of the world could stop for some reason.

Conclusions

In spite of the problems —above all the political ones— the United States has faced in its efforts to build a hemisphere-wide energy system, in this case for fossil fuels, it has never stopped trying. To do so, it has taken advantage of its stature as the leader of the new international order and, of course, also of the new world oil order.

With our northern neighbor's emerging problems in Latin America, particularly of a political and social nature, everything seems to indicate that its efforts to constitute this bloc will meet with increasing difficulties. Today, Washington has energy difficulties with Mexico, Bolivia, Venezuela, and, to a lesser degree, with Colombia and Brazil. In one way or another, these nations are all reluctant to form an energy bloc with the United States and Canada because they think that, given the conditions the U.S. is trying to impose, they would come out the losers.

The country that has fought the most to oppose the creation of an energy bloc (particularly involving oil) is Venezuela, a nation headed up by a leader who emerged from nationalist military groups. Another country that has also created obstacles to regional integration is Mexico, where nationalist groups also demand more equitable treatment by the nation promoting the formation of the bloc.

The rest of the Latin American countries, with the exception of Bolivia, while not opposing the hemisphere-wide energy alliance, have done little to bring it about.

It seems obvious that in the near future, if the United States felt its national security threatened because of oil, it would implement Plan B, which includes forming energy blocs with other countries in the world. In that sense, we are left with the question of what would happen to our country and others in Latin America if suddenly the United States stopped buying our crude oil and gas and got it from other producing nations. We must not forget that economies like Mexico's and Venezuela's depend greatly on their income from the export of fossil fuels. VM

Notes

[1] Canada exports almost half of its total natural gas production to the United States and these exports are increasing rapidly. It also exports more than half its crude oil production and a significant amount of its electricity to the United States. Source: Grupo de trabajo de América del Norte, *América del Norte. Perfil Energético* (Mexico City: mimeographed paper, July 2002).

[2] See the first part of this article "The North American Fossil Fuel Market. Part 1: U.S. Fuel Weakness," in *Voices of Mexico* no. 66, January-March 2004.

[3] In the case of Afghanistan, the attack was not due centrally to its oil wealth, but to allow U.S. multinational oil companies to be close to oil fields in Central Asia, the former Soviet Union and eastern China. Central Asia has proven reserves of more than 200 billion barrels of crude and China, of almost 50 billion barrels. For an idea of how important these fields are, we can simply point out that current proven U.S. reserves total only a little over 22 billion barrels. Source: Miguel García Reyes and Gerardo Ronquillo Jarillo, *Estados Unidos, geopolítica y petróleo. Las estrategias petroleras como un instrumento de reconfiguración geopolítica* (Mexico City: Instituto Mexicano del Petróleo and CISAN, currently at press).

[4] In the 1980s two groups emerged inside the OPEC: the pro-U.S. "doves," Saudi Arabia, Kuwait, Nigeria, Indonesia and Gabon, and the anti-U.S. "hawks," Iran, Iraq, Libya and Algeria.

[5] Miguel García Reyes and Djalma Ojeda Fierro, *El nuevo orden petrolero global. El mercado en poder de los monopolios* (Mexico City: IPN, 1999).

[6] Miguel García Reyes and Gerardo Ronquillo Jarillo, op. cit.

[7] Miguel García Reyes, Yuri Burlin and Nikolai Krilov, "La crisis de la industria petrolera rusa y su impacto en el orden energético internacional," *Foro Internacional* 136, vol. 34, no. 2, Colegio de México (Mexico City), April-June 1994, pp. 269-306.

[8] Marcelo García Silva, "¿Energía y seguridad? Petróleo y política energética en Estados Unidos," *Estados Unidos. Perspectiva latinoamericana. Cuadernos semestrales* no. 19, CIDE (Mexico City), first half of 1986, pp. 225-256.

[9] At that time, with the aid of the Soviet Union, the OPEC controlled 65 percent of the world's oil production; the remaining producing countries, including the United States, only controlled 35 percent.

[10] We should point out that Iraq's oil will not only allow the United States to increase its proven crude oil and gas reserves, but will also allow it to regulate prices in the international fossil fuel market for a long time to come.

[11] Lavinia Salinas Díaz, "El proceso de integración energética entre Canadá, Estados Unidos y México. Implicaciones en la industria del gas natural" (master's thesis, UNAM School of Engineering, 2002).

[12] Pablo Musás del Pozo, "Retos energéticos de América Latina y el Caribe para el siglo XXI," *Revista de la Academia Mexicana de Ciencias*, vol. 50, no. 4 (Mexico City) December 1999, pp. 31-39.

[13] Miguel García Reyes, "Hacia la integración regional en América Latina," *Propuestas de política energética*, Fundación Heberto Castillo Martínez (Mexico City), March 2001, pp. 32-38.

[14] It should not be forgotten that of every peso the Mexican government takes in, 40 cents come from the state-owned oil giant, Pemex. This shows how much our tax system depends on oil, a dangerous situation for a country that boasts of having an economy that is not dependent on oil as it was in the 1980s, mainly during José López Portillo's administration.

[15] "Escaso avance en interconexión energética Mexico, Estados Unidos y Canadá," *El Financiero, Economía* section (Mexico City), 27 July 2002, p. 20.

[16] "Signa Fox acuerdo de coordinación energética con Bush y Chrétien," *La Jornada* (Mexico City), 23 April 2001, p. 3.