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British "black Gold" Prospectors Fawn Over Falklands

An aged North Sea oil rig known as the Ocean Guardian is making a snail's-paced journey from northern Scotland to the Malvinas/Falkland Islands, where its pending arrival promises to put the isolated archipelago the site nearly three decades ago of a brief but bloody war between Great Britain and Argentina very much back in the public eye. Known in South America as Islas Malvinas and in Britain as the Falklands, the territory is a collection of rocky islands some 450 km off the coast of Argentina, which, despite losing the 1982 war, continues to claim the tiny territory as its own. After the conflict, life returned to quiet normalcy for the islands' roughly 3,000 inhabitants, who share the land with more than a half-million sheep and an estimated 750,000 penguins. Growing fishing and tourism industries have bucked up the economy in recent years, allowing the islanders to enjoy their unassuming self-sufficiency in relative peace with the outside world (see 1999-07-23). If a handful of optimistic oil companies are to be believed, all that could soon change. Geologists have long speculated that the islands are sitting on a treasure far more valuable even than its lucrative squid fisheries, which have already helped raise the per capita GDP to US\$35,000, one of the highest in the world. Around the islands, according to the Edinburgh-based British Geological Survey, is literally a sea of oil, possibly as much as 60 billion barrels. Even half that amount would make it one of the world's most valuable untapped reserves. Pot of gold or just a pipe dream? With the help of the Ocean Guardian, four small petroleum firms are now ready to put that speculation to the test.

London-based Desire Petroleum, Rockhopper Exploration, Falkland Oil & Gas, and Borders and Southern Petroleum have been poking around the islands for years, staying on even after Shell and other major oil companies, which explored the area a decade ago, pulled up stakes. That patience now appears to be paying off. Last year Rockhopper discovered a major natural-gas deposit on the sight of a well Shell drilled 10 years ago. Desire also claims to be making headway and is convinced the area north of the Malvinas alone contains several billion barrels of accessible oil. Investors are sharing in the excitement, to the tune of 327 million pounds (US\$520 million), according to a Dec. 2 article in London's Daily Telegraph titled, "Falkland Islands oil reserves 'to help British economy.'"

Some observers, however, caution that talk of a South-Atlantic "black gold" bonanza is still premature. In an article in the Falklands Island News Network, author J. Brock pointed out that, logistically, the archipelago is ill-suited for oil production. It has no real infrastructure in place, is geographically isolated, and therefore costly to access. Offshore oil rigs, he added, are prohibitively expensive and in short supply. "It's a nice pipe dream but no thanks," Brock wrote. "While oil riches make interesting reading for some, it doesn't help investors, who need good honest reporting about prospects." This, of course, is not the first time talk has turned to the area's presumably vast oil reserves. In 1998, Shell and several other oil companies created their own big-time buzz when they drilled six wells that promised to turn the remote islands into an oil-rich state. Eventually the companies left after failing to make any "commercially viable" strikes. At that time, the price of crude oil hit a low of roughly US\$10 per barrel. Right now the price is creeping toward US\$80 per barrel, no doubt shifting the criteria for what does or does not make economic sense. Oil could gum up international relations Economic and logistical concerns are not the only factors complicating the scenario (see NotiSur, 2007-12-14).

From an international-relations standpoint, the islands have long been a diplomatic hot potato, not just between Argentina and Great Britain, which waged a 10-week war that cost the lives of approximately 1,000 soldiers, but also for other countries compelled to choose sides in the ongoing sovereignty debate.

Argentina's South American neighbors tend to back its claims on the Malvinas, while in Europe, British sovereignty over the archipelago is widely accepted. The latest charter of the European Union (EU), the Treaty of Lisbon, recognizes the islands as a British, and therefore European, "high seas territory." In early December, the same week that the Treaty of Lisbon went into effect, the South American members of the UN's International Civil Aviation Organization (ICAO) made their own stand on the issue, reasserting their "backing of the legitimate rights of the Republic of Argentina in its sovereignty dispute with the United Kingdom of Great Britain and Northern Ireland over the 'Malvinas Islands Question.'" But positions can also shift, particularly where economic interests are involved. On Dec. 9, the Chilean daily *El Mercurio* provoked something of a tempest in a teapot when it reported on a pair of informal meetings between Chile's state-run *Empresa Nacional del Petroleo* (ENAP) and top executives from Falkland Oil & Gas, which is seeking a regional partner for both exploration and eventual extraction. ENAP is strategically positioned for such a partnership as it already operates relatively close to the Falklands. Argentina responded to the news with a less-than-subtle reminder of its sovereignty claim regarding the entire ocean shelf that stretches beyond the country's Atlantic coastline. The government's *Ministerio de Planificacion Federal* issued a statement drawing attention to *Ley 23.968*, an energy law requiring oil companies to first seek Argentine approval before operating in its waters. The Chilean government seemed eager to put the issue to rest, insisting that ENAP has no plans to go into business with Falkland Oil & Gas. Chile's undersecretary of foreign affairs *Angel Flisfisch* went on to say, "The position of the Chilean government is full support of Argentina's sovereign rights over the Malvinas...and their surrounding waters." Chile, however, will soon see a changing of the political guards and with it a possible policy shift. Leading the polls ahead of the upcoming Jan. 17 presidential runoff is billionaire businessman and former senator *Sebastian Pinera*, who, if elected president, would be Chile's first democratically elected conservative leader in half a century (see *NotiSur*, 2009-12-18). Interestingly, *Pinera* who also owns a television station and part of Chile's top soccer club controls a major stake in *LAN Airlines*, the only commercial operator with flights to the Falklands. *Dep. Marcelo Forni* of the hard-right *Union Democraata Independiente* (UDI) said *Pinera* may not be so quick to dismiss a deal regarding Malvinas oil that "would help diversify Chile's energy equation." "Yes, the Argentines might feel annoyed, the same way we felt when they did not honor the natural-gas protocol back in 2004 and cut supplies to Chile," he told Argentina's *La Nacion*. "We don't have to feel weak. If the British are inviting us for such a deal, it's the obligation of ENAP to consider and assess it. I think it's a mistake to mix issues such as our *Ministerio de Relaciones Exteriores* has done. We have nothing to do with the problems between Argentina and Britain." *Forni* narrowly lost a senatorial bid in Chile's Dec. 13 elections and will thus be leaving the Congress when the next session begins in March. But, should *Pinera* beat *Sen. and former President Eduardo Frei* (1994-2000) for the presidency, the UDI legislator may very well find himself with a key Cabinet post, according to *El Mercurio*. The tempest in a teapot, in other words, could still blow up into a proper diplomatic storm.

For now, though, everything depends on the Ocean Guardian, which is set to complete its cross-Atlantic escapade next month. The freshly painted oil rig, built one year after the Malvinas/Falklands war, will then have approximately six months to pry and prod the ocean floor. A major strike would not only mean a sea change for the islands and their inhabitants but could also trigger political and economic waves throughout the region.