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# Can Argentina block energy development in the Falklands?

Inter-American Dialogue's Latin American Energy Advisor

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*Q and A: Can Argentina Block Energy Development in the Falklands?*

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Last month, the Argentine government said it had begun legal proceedings against five British oil companies it has accused of carrying out "illegal operations" in waters near the disputed Falkland Islands. It also asked stock markets in New York and London to warn investors of its claim that the exploration companies are working illegally. Will investors be scared away by the threats? What is the oil potential for the disputed islands and how will Argentina's campaign affect their development?

**A: Stephen Luxton, director of mineral resources for the Falkland Islands government:**

"The Falkland Islands government's position is quite clear. It has no doubt about the right of the people of the Falkland Islands to self determination under basic United Nations principles, and no doubt that the Falkland Islands have the right to license, exploit and develop its own offshore resources, including fisheries and hydrocarbons. The Argentine government is attempting to enforce Argentine domestic legislation over a territory in which that legislation has no jurisdiction and is unenforceable. It seems unlikely that investors will be unduly concerned by this threat as the legal position is clear and it is simply the latest in a long line of Argentine attempts to undermine and disrupt the Falklands economy since around 2003. Such attempts include banning flights, disrupting shipping links and making numerous threats against legitimate Falkland Islands businesses. At the present time, we know we have one good oil discovery—Rockhopper's 'Sea Lion' field in the North Falkland Basin, plus two other associated discoveries which have yet to be appraised. There remain numerous interesting prospects in both the North Falkland Basin and South Falkland Basin which have been mapped on seismic surveys but are as yet undrilled, and the only real test of a prospect is the drill bit. Potential upside in the Falklands therefore remains just that at this stage—potential—but could be considerable in the event of further success. The drilling campaign underway in the South Falkland Basin will go some way to informing whether that potential is likely to become reality. For the time being, the Falkland Islands government does not propose to include oil revenues in its budget until those revenues become reality."

**A: Juan Cruz Díaz, managing director of Cefeidas Group in Buenos Aires:**

"There is no doubt that the legality of the drilling activities of companies exploring the waters of the Malvinas Islands is questionable. Investors should know that Argos Resources Limited,

Borders & Southern Petroleum PLC, Desire Petroleum PLC, Falkland Oil and Gas Limited, and Rockhopper Exploration PLC are operating not only under very difficult and expensive technical conditions but also under high legal and political risks. While the exact amount of potential oil resources in the Malvinas is unknown, conservative estimates point to approximately 3.5 billion barrels. At the current level of oil prices, there are incentives to tolerate such risks. However, Argentina's increasing pressure to condemn the illegality of these activities is raising the visibility of the issue. In response, the United Kingdom claims that the companies' exploration activities are all legitimate and legal. The recent rhetoric escalation between Argentina and the United Kingdom around the 30th anniversary of the Malvinas War also added more drama to the dispute. But what is critical in my opinion is the explicit region-wide support for the Argentine claim, especially from Brazil, in many international forums. For Argentina, this is an issue that transcends the current government and claims will continue regardless of ideology or political positions of future administrations. If Argentina manages to maintain and consolidate the support of a region that is becoming increasingly relevant in geopolitical and economic terms, the demands highlighting the violation of international norms of those explorations might increase. In that scenario, it is in the companies' and investors' best interest to aim for a more negotiated framework between Argentina and the United Kingdom to make these activities viable and sustainable in the future."

**A: Roger Cartwright, former regional coordinator with BP:**

"Small AIM-listed companies, established to focus on the Falklands waters, are responsible for the current exploration activity. They are part of a high-risk sector, attracting investors willing to accept higher risks for higher returns. Political risk is integral to the upstream oil and gas business but has obviously increased with the recent threats from the Argentine government. Whereas these could have a chilling affect for some investors, others will focus on drilling results. The major oil companies, generally more sensitive to political risk, are not currently participating in Falklands exploration. For them, relationships with the relevant governments (Argentina, the U.K. and potentially Brazil) would be a factor, along with their business exposure in the event of a dispute with any government. While sensible companies try to avoid disputes with governments, the scale of the potential prize will be key. The attraction of a huge oil find could lead companies to continue with their exploration program while seeking to manage the resulting political risk. The only significant oil find to date, Rockhopper Exploration's Sea Lion discovery, is currently being evaluated. A \$2 billion development has been discussed, anticipating production in 2016 and producing more than 400 million barrels, but funding isn't yet in place. Finding gas would generally be less attractive to investors, with potentially lower returns. Estimates of the volume of oil in the Falklands range from 8 billion to 60 billion barrels but it is still the early days in this oil province. Greater certainty must await further well results."

**A: Rosendo Fraga, director of the Centro de Estudios Unión para la Nueva Mayoría in Buenos Aires:**

"Thirty years ago, the economic value of the Falklands was determined only by fishing, which projected the possibility of income well above sheep rearing, the islanders main economic activity then. Today, the volume of fishing around the Falklands amounts to billions of dollars.

Since the 1990s, there has been the possibility of oil, which was confirmed by exploration results at the end of the last decade will begin to be extracted in this one. The market value of the five companies exploring in the four basins of the Falklands is measured in tens of billions of dollars. In the long term, the islands' strategic importance is related to the future of Antarctica—where both the United Kingdom and Argentina claim sovereignty—and the possibility of exploiting its natural resources, as has already begun to happen in the Arctic. Today, the islanders have the world's fourth-highest GDP per capita after Qatar, Liechtenstein and Luxembourg, which is also four times that of Argentina. The economic significance that natural resources have acquired in recent years has been key to Argentina's recovery in the first decade of the century and also accounts for the sharp increase in economic importance of the islands to the United Kingdom. Within this framework, the British foreign secretary just again denied the opportunity to discuss sovereignty, proposing that the two countries work together economically. Meanwhile, Argentina rejects any dialogue that does not include sovereignty. Today, the islands' economic value of the islands is the battlefield of the conflict, but, in the distant future, it may be the rallying point for the beginning of a solution, when reason begins to prevail over passion."

*The Energy Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*