

Off the deep end

Foreign policy, 'energy security', and the desperate dash for offshore oil



Introduction

“Whom had we to deal with? No doubt some new sort of pirates, who explored the sea in their own way.”

– Jules Verne, *20,000 Leagues Under the Sea*

In recent years, a number of world events have provoked an increasingly heated debate in the West about the security of existing energy supplies – in particular oil and gas. Cutting across the worlds of foreign policy, civil society, and the military, these discussions around ‘energy security’ are not altogether novel, nevertheless the parameters of the debate have changed noticeably. New concerns over climate change, ‘peak oil’, emerging economies, the role of China and Russia, 9/11, the Iraq and Afghanistan wars, and the financial crisis have come to dominate the agenda. The result is a complex paradigmatic evolution of thinking and practice that strongly impacts foreign policy priorities today, and is likely to do so for years to come.

This is the first in a series of reports from PLATFORM exploring some of the intellectual, philosophical and historical underpinnings of this modern energy security discourse. We aim to evaluate its real-world impacts and unpack some of its core premises. The hope is that by better understanding one of the principal motive drivers behind modern foreign energy policy today, it will open up possibilities for a wider and more substantive debate. A debate that is not only preoccupied with the future of energy policy, but one that also casts a critical eye on the often less scrutinized roles of the foreign policy, state and military institutions, and corporate actors.

This first report in the series looks at the role that energy security discourse has played in helping to drive the dash for offshore oil and gas – particularly so-called ‘deepwater’ (at depths greater than 1,000 feet) exploration, and ‘frontier’ (new unexplored regions such as the Arctic and the South Atlantic) sources. We explore two case studies.

The crisis in the Gulf of Mexico provides a poignant reminder of the inherent risks involved in pursuing oil and gas in deepwater. In such difficult operating environments, the boundaries of technology and engineering are pushed to dramatic extremes. This paper argues, however, that it is the political and economic boundaries that have been pushed to extremes, and which has allowed the world’s major oil and gas corporations to plumb new depths in the race for access to ever-diminishing supplies of fossil fuels. At the heart of this is an adherence to an ideologically flawed and dangerous pursuit of ‘energy security’ at all costs.

The unfolding crisis in the Gulf of Mexico is but one indication of the sorts of costs involved in prioritising ‘energy security’ above all else. The events leading to a recent oil discovery in the waters of the South Atlantic is illustrative of the degree to which the political and military establishment are willing to go to secure ‘frontier’ energy assets. The Falkland Islands, may or may not turn out to be a major new oil producing region, but it won’t be for lack of political and military support. In such a politically contentious part of the world – site of a bloody war and major source of tensions between the UK and Argentina – oil corporations depend on the steady support of government to secure potentially lucrative assets. Justifying this extraordinary support for

private commercial interests, governments cite the need to provide ‘energy security’ as their main justification.

As both the events in the Gulf of Mexico and the Falklands are still unfolding, this paper is being released in draft form in order to stimulate a debate around the issues they engender. As it is a draft, this paper is likely to change as new details emerge.

Deepwater disaster

“The Gulf of Mexico is a very big ocean. The amount of volume of oil and dispersant we are putting into it is tiny in relation to the total water volume.” – Tony Hayward, BP CEO, 14 May 2010. ¹

At the time of this writing, a menacing mass of crude oil is washing up against the shores of the southern United States, threatening plants, animals and livelihoods. The giant slick is the result of a ‘blowout’ at a BP-owned well on 20 April in a deepwater oil exploration and production hotspot in the Gulf of Mexico. Many people are rightly asking how such a disaster can have been allowed to happen. Details continue to emerge about the serious regulatory and safety failures that resulted in the explosion at the *Deepwater Horizon* rig.

Eleven workers have died, and many others injured and traumatized. People working in the cleanup operation – many from the swelling ranks of recently unemployed fishers – have also begun to report a host of symptoms classically associated with exposure to toxins present in oil and chemical dispersants.² In anticipation of the damage the spill is likely to cause to the marine ecosystems and the economy that depends on their health, the US Commerce Department has declared a ‘fishery disaster’ in three of the most affected states and has closed off nearly 22 per cent of Federal waters to commercial and recreational fishing in the region.³ Despite efforts to contain the spill, the Macondo well continues to spew a high volume of hydrocarbons into the Gulf of Mexico. Its area of impact is steadily growing, potentially threatening the coasts of Florida and Cuba and possibly further up the east coast of the United States as parts of the slick have now entered the Loop Current.⁴ According to the National Oceanic and Atmospheric Administration of the US government, 215 critically endangered Kemp’s Ridley sea turtles have been found dead in the spill area to date, as have 20 dolphins.⁵

Despite this, BP CEO Tony Hayward has insisted that the, “environmental impacts of this disaster are likely to be very, very modest.”⁶ The political ramifications of the disaster are also still unfolding. New offshore permits are currently suspended pending a regulatory review. Indications are that this will be continued for at least the rest of this year. Pressure is also mounting on the Obama administration’s handling of the crisis. The president is said to have lost his temper at his aides saying: “Plug the damn hole!”⁷ At a deepwater exploration seminar in London on 26 May, insiders expressed worries over the possible ramifications from the spill for their industry. Neil McMahon, senior analyst at Bernstein Research, expressed concerns about any further environmental and safety measures that might be imposed on offshore operations. He warned regulators: “If you do this, you have to tell consumers that their energy price is going up.”⁸

Energy insecurities

“At least its not foreign oil.” – Stephen Colbert, comedian⁹

The push into the oceans, drilling into ever-deeper waters and increasingly far offshore has been driven and defended in significant part by governments demanding ‘energy security’. Sensitivities over ‘imported oil’ and ‘unreliable producers’ have helped bolster the demands of oil companies to open up deepwater licence areas, Arctic waters and ‘unconventionals’ including tar sands. Even as the satellite images show the rapid expansion of a giant amoeba-like mass of BP’s hydrocarbon sludge growing in the Gulf of Mexico, Louisiana Senator Mary Landrieu was arguing that more offshore drilling was needed to ensure the country’s energy security: “Our country needs this oil, there is no question about that. We have to produce this oil at home unless we want to be completely reliant.”¹⁰

New marine regions were made available for oil exploitation in the name of ‘energy security’, and it was in this context that BP acquired the still-spilling Macondo prospect. The Gulf of Mexico Energy Security Act, enacted by George Bush in December 2006, added 8.5 million acres of sea floor to those available for leasing to oil companies. This significantly increased the acreage available in the Central Gulf of Mexico Sale 206 in March 2008, during which BP paid \$34 million to snap up the now infamous Block 252, in which Macondo is located.¹¹ Along with close competitor Shell, BP has consistently made the most successful bids for deep offshore Gulf of Mexico blocks.¹²

The waters off the continental US are presented by officials and politicians like Landrieu as truly ‘secure’ – a perception that is easier to promote by the relative invisibility of the giant rigs to most. Landrieu, a right wing Democrat, sits on the Senate Committee on Energy and Natural Resources and the Senate Energy Subcommittee on Energy, which are responsible for providing oversight of energy sector regulation and legislation. Just one month earlier, at a Senate hearing on the issue, she justified expansion of offshore drilling and played down the risks of oil spills on energy security grounds: “I mean, just the gallons are so minuscule compared to the benefits of US strength and security, the benefits of job creation and energy security. So while there are risks associated with everything, I think you understand that they are quite, quite minimal.”

Landrieu was one of the leading proponents of the easing of a decades-long moratorium on offshore oil production. The US ban was the result of a similar incident in 1969 in which a blowout at an offshore oil well operated by Unocal (now owned by Chevron) ruptured, creating an oil slick covering some 800 square miles of Pacific Ocean and 35 miles of pristine Californian coastline. Ten years later, the Ixtoc I oil spill of 1979 – again caused by a blowout – in the Gulf of Mexico spewed approximately 150 million gallons of crude over the nine months it took to cap the well. The hundreds of miles of Mexican and Texan coastline covered in oil, combined with dramatic scenes of endangered baby sea turtles being airlifted to safety, led to the US Congress formalising a freeze on offshore production that would ultimately be extended to most of the United States.

The thawing of this freeze on offshore production may have begun with George Bush, but it would be Barack Obama who would usher in the biggest change to the long-held institutional barrier against drilling that has held for decades.

During the presidential campaign, Democratic candidate Obama had clearly indicated his opposition to offshore drilling. At a speech in Jacksonville, Florida on 20 June 2008, he lambasted his Republican rival for wanting to end the ban on offshore drilling: “Senator McCain’s decision to team up with George Bush on offshore drilling, violates the bipartisan consensus that we’ve had for decades, and that has protected Florida’s pristine coastline from drilling... this is a proposal that would only worsen our addiction to oil, and put off needed investments in clean renewable energy. It’s not the kind of change that the American people are looking for... and when I am President, I intend to keep in place the moratorium, here in Florida and around the country, that prevents oil companies from drilling off Florida’s coasts. That’s how we can protect our coastline, and still make the investments that would reduce our dependence on foreign oil, and bring down gas prices for good.”¹³

On 31 March 2010, the now US President Barack Obama announced that he was going back on his campaign promise to ban offshore drilling on the US coastline opening up 167 million acres of coastline for potential exploration and production. Unusually, he made the announcement at a military base – Joint Base Andrews Naval Air Facility Washington in Maryland. Standing in front of an F-18 fighter plane dubbed the ‘Green Hornet’ due to it being part-powered by biofuel, he stated: “This is not a decision that I’ve made lightly. But the bottom line is this: given our energy needs, in order to sustain economic growth, produce jobs, and keep our businesses competitive, we’re going to need to harness traditional sources of fuel even as we ramp up production of new sources of renewable, homegrown energy.”¹⁴

Coincidentally, on the exact same day, Shell announced that its ultra-deep Perdido development 200 miles from the coast of Texas in the Gulf of Mexico had begun production. The project, drilled at a record depth of six Empire State Buildings,¹⁵ was trumpeted by the company as the “world’s deepest offshore drilling and production facility”. In the announcement, Marvin Odum, Upstream Americas Director for Shell’s Energy Resources Company, made a direct reference to the moratorium: “Perdido demonstrates what companies like Shell can do when US federal lands and waters are opened to responsible energy exploration and production.”¹⁶ Shell was also careful to draw attention to the US-focused rationale for the project: “Perdido marks a new era in innovation and safely unlocks domestic sources of energy for US consumers.”¹⁷

Again on the same day, Shell was also given an air quality permit by the US Environmental Protection Administration for its plans to drill three exploration wells in the Chuckchi Sea off of Alaska in the Arctic.¹⁸ A spokesperson for the Anglo-Dutch giant responding to criticisms of its offshore Arctic plans in January, was quick to use the ‘foreign oil’ argument in its defence: “The Chukchi Sea alone could be home to some of the most prolific undiscovered hydrocarbon basins in the US, and we believe those oil and natural gas reserves could play a major role in reducing our dependence on foreign sources of energy.”¹⁹

Oiling the wheels

“We must be particularly careful about the political process because the legitimacy of that process is crucial both for society and for us, a company working in that society. That is why we’ve decided, as a global policy, that from

now on we will make no political contributions from corporate funds anywhere in the world. We'll engage in the policy debate, stating our views and encouraging the development of ideas, but we won't fund any political activity or any political party." – Former BP CEO John Browne, February 2002²⁰

"\$15,990,000" – the amount spent by BP on political lobbying in the US in 2009.²¹

"\$643,715" – the amount of cash donations given to individual US politicians by BP employees and its Political Action Committee in the last two years.²²

The assumption that offshore oil extraction would foster greater 'energy security' for the US has been a popular line of argument promoted by oil industry lobbyists and the politicians they finance. Lobby groups like the American Petroleum Institute (API) – whose members include major offshore producers like BP and Shell – have been pushing hard to open up offshore leasing opportunities for the oil and gas industry and fighting environmental provisions and legal and financial liability requirements vociferously. When a US court last year ruled that a five-year leasing program for the waters of the Outer Continental Shelf – which includes tracts in the Gulf of Mexico and Alaska – did not include sufficient environmental risk assessment, the API argued with characteristic hyperbole: "At stake are thousands of well-paying American jobs, billions of dollars in much-needed revenue for federal, state and local governments and the nation's energy security."²³ Recently, the group issued a statement opposing any change to the Oil Spill Liability Trust Fund, the much-criticised cap on corporate financial liability in case of an oil spill, and which is currently limited to \$75 million. It argued that increasing the financial liability for oil spills like the Deepwater Disaster would undermine the country's energy security: "This would threaten the viability of deepwater operations, significantly reduce US domestic oil production, and harm US energy security."²⁴

Alongside their membership of influential lobby groups, individual companies like BP and Shell have been aggressively lobbying politicians directly. Senator Landrieu, for example, is a major beneficiary of oil industry largesse. According to the Center for Responsive Politics, Landrieu was one of the top congressional recipients of BP cash – accumulating some \$17,000 in direct 'donations' in 2008 alone.²⁵ One of her lead staffers, Jason Schendle, who worked for Landrieu for nine years and who then went on to work for the American Petroleum Institute, is now representing BP at the high-powered lobbying consultancy Alpine Group.²⁶ BP, one of the largest leaseholders of offshore assets in the United States, is reported to have spent a total of nearly \$16 million on political lobbying in 2009,²⁷ while analysis of data just released from the US Federal Electoral Commission, indicates that the oil and gas industry as a whole has already put \$11,572,257 into the pockets of politicians and their parties in just the first four months of 2010.²⁸ This at a time when Barack Obama made a dramatic u-turn on his campaign promise to oppose offshore drilling by repealing a decades-long ban. Obama was the highest recipient of BP funding from its Political Action Committee (a type of US lobbying entity) over the last 20 years.²⁹

BOX: "Drill, baby, drill!"

Offshore drilling and opening up national parks to oil companies are emotive political issues in the United States. A chief rationale for increasing domestic

drilling and relaxing environmental and legal regulations is the oft-used fear of dependency on ‘foreign oil’. While such fears are often expressed in other countries, nowhere is the discourse of ‘energy security’ so often used as a trump in any complex debate about energy.

At the Republican National Convention in 2008 as the presidential race was hotting up, party chair Michael Steele addressed a throng of loyal right wingers with a call for more domestic drilling.

“Do you want to put your country first?”

Loud affirmation and applause from crowd.

“Then let’s reduce our dependency on foreign sources of oil, and promote oil and gas production at home.”

Standing applause and cheers from crowd.

“Let me make it very clear. Drill, baby, drill! And drill now.”

Loud cheering, crowd holding placards saying “Drill now!” and “Energy Freedom McCain”. “Drill Alaska. Drill Now. Pay Less.”

Crowd erupts in chants of “Drill, baby, drill!”³⁰

Vice Presidential candidate Sarah Palin a former Alaskan governor and whose husband was a BP employee for 18 years, would later use that stock phrase during the campaign. A phrase now coming back to haunt the party as “Spill, baby, spill!”

Palin however is unmoved. Responding to the Deepwater Disaster on her Facebook page, Palin invoked the well-worn arguments of ‘energy security’ in a post revealing a near-religious adherence to drilling: ‘Domestic Drilling: Why We Can Still Believe’. “We still believe in responsible development, which includes drilling to extract energy sources, because we know that there is an inherent link between energy and security, energy and prosperity, and energy and freedom. Production of our own resources means security for America and opportunities for American workers. We need oil, and if we don’t drill for it here, we have to purchase it from countries that not only do not like America and can use energy purchases as a weapon against us, but also do not have the oversight that America has.”³¹

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Conquering the seas

“We expect 2010 to be a year of opportunity. Oil prices have stabilized near \$80 per barrel, which is expected to make almost all prospective oil and gas areas economic for our customers.” – Transocean Annual Report 2009³²

The ‘Offshore Technology Roadmap for the Ultra Deepwater Gulf of Mexico’, published by the US Department of Energy just as Bill Clinton was getting ready to leave office in November 2000, argued that “acceleration of ultra-deepwater development is essential to the future stability and security of US energy supplies.”

Particularly noteworthy is that the report insists that: “Within this strategy, the critical role that ultra-deepwater Gulf of Mexico energy production will play in the future economic security of the US must be effectively communicated. Both the energy industry and government must be more proactive in educating the public as to the critical importance and value of the energy industry to the US.”³³

The UK governmental apparatus enabled this same push towards deeper offshore fossil fuel extraction in similar language. A June 2009 report from the Energy & Climate Change Select Committee recommended exploiting deepwater gas resources off the west of Shetland, having re-affirmed that: “When determining policy on UK oil and gas, the Government’s priority should be security of supply.” This support for expanded exploration came despite industry bodies admitting that the region was hampered by a, “hostile marine environment, extreme weather and the shortage of infrastructure” making projects, “high risk and technically challenging”. The Committee pushed the government to “take a more active role” that would “not preclude assistance with funding.”³⁴

By January 2010 Chancellor Alistair Darling had heeded the call to support deepwater drilling, offering oil companies operating in the West of Shetland region up to “£160 million worth of tax relief for each gas field”. Darling argued that it was only fair, given “the dependable foundation [the oil & gas industry] provides for the UK’s energy security”.³⁵

With the change in government in mid May, all signs suggest that this pro-drilling policy in the North Sea is likely to continue, and that the predilection for justifying such expansion under the rubric of energy security will, if anything, likely intensify. In his first week on the job, Chris Huhne, the new Minister for Energy and Climate Change, spoke at an industry conference in Aberdeen where he gave unequivocal support for continued expansion into the North Sea. “There could be 20 billion barrels of oil equivalent left to exploit,” he said adding, “but the UK competes against every other basin in the world for investment and I am committed to make sure that we have a licensing regime and investment environment that attracts quality companies and investment to fully exploit the remaining potential. We will work closely with the industry to ensure that we can achieve just that.”³⁶ Emphasising the importance of energy security in the new government’s thinking, he stressed: “Energy security, for too long a second order issue, will be put back at the heart of our national security strategy. The oil and gas sector should take encouragement from that.”³⁷

Plundering the ‘Dead Sea’

“It is like the Normandy landing. We don't know when we'll be successful but we will be successful. We will prevail. We can't predict exactly when that will be.” – BP CEO Tony Hayward on the prospects for containing the spill³⁸

“What the hell did we do to deserve this?” asked BP CEO Tony Hayward a week after the incident.³⁹ A question certainly on the minds of the millions of coastal residents who will likely see their seafood industries, restaurants, tourism and landscapes severely damaged for years to come. Hayward had been casting aspersions on rig operator Transocean and its sub-contractor

Halliburton in an attempt to deflect criticism: “This was not our drilling rig, it was not our equipment, it was not our people, our systems or our processes. This was Transocean’s rig, their systems, their people, their equipment. We are taking our responsibility to deal with it very, very seriously.”⁴⁰

But most industry officials consider BP ultimately responsible.⁴¹ The *Deepwater Horizon* is there because BP leased it. Drilling operations have taken place at such extreme depths because BP chose to forge ahead in ‘frontier oil’ and push the boundaries of engineering and technology in a stretch of sea that for a long time, oil industry observers used to call the ‘Dead Sea’ – from when the company was only drilling dry holes in its initial forays into the region. That moniker may now be resurrected in light of the severe ecological devastation liable to be caused due to the sheer quantity of toxins spewing from the hydrocarbon volcano below as well as the chemical dispersants used in the ‘clean up’ operation above.⁴²

The chemical dispersants themselves are known toxins. One of the main products used in the cleanup, Corexit – manufactured by US-based Nalco – was banned in Britain ten years ago due to its failure to pass the UK government’s ‘limpet’ shoreline safety test.⁴³ Nalco is under pressure to reveal the chemical composition of its dispersant in order to make it possible to evaluate the toxicological impacts of its use, however the company is resisting this, claiming it needs to protect its trade secrets.⁴⁴ To date, an estimated 160,000 gallons of the dispersant has been sprayed over the spill area.

Hayward also can’t pass all the blame on to his predecessor and others in BP too easily. Before he became CEO, he was Chief Executive of Exploration and Production at the company since January 2003, Executive Vice President since April 2002, and previously served among other functions as Director of Exploration in August 1997 and Group Vice President of BP Amoco Exploration and Production where he would have played a key role in decision-making about BP’s operations in the Gulf of Mexico. As a result, he bears a lot of the responsibility for shaping BP’s current safety culture, norms and practices.

Depth equals breadth?

“I mean, accidents happen.” – US Senator Joe Lieberman explaining that he will keep offshore drilling provisions in his co-authored climate and energy bill⁴⁵

While BP finds itself mired in controversy over the Deepwater disaster, the company is still aggressively pursuing ‘frontier oil’ in other parts of the world. In the month prior to the Gulf of Mexico spill, the company announced it had acquired substantial interests in deepwater fields of offshore Brazil as well as further interests in the Gulf of Mexico as well as the Azerbaijani portion of the Caspian Sea.⁴⁶ The oil major portrayed itself as being the leading company involved in deepwater oil. “Through our entry into Brazil, BP will add a major position in another attractive deepwater basin. Together with the additional new access in the Gulf of Mexico, it further underlines our global position as the leading deepwater international oil company,” it said with a degree of corporate braggadocio. BP is certainly heavily invested in deep offshore assets. Both the Brazil and Gulf of Mexico basins represent some of the deepest waters ever plumbed in the history of the oil industry – pushing the boundaries of current technical and engineering limits.

Approximately 35 per cent of the company's current production is estimated to be in offshore. According to BP, its focus on deepwater assets is a broad plank of its corporate strategy. "Depth equals breadth," proclaims its promotional material touting its deepwater expertise and global reach.⁴⁷ And it was in the Gulf of Mexico where the company took its first furtive steps into deepwater production. The company holds the largest 'acreage' in the Gulf of Mexico including several major production wells and pipelines in operation, as well as significant development and production in both deep and shallow offshore Angola, Egypt, the North Sea, the Alaskan Beaufort Sea, Azerbaijan, Trinidad and Tobago and future offshore production and/or exploration planned for the Brazil, Canadian Beaufort Sea, Libya, India, Pakistan, Indonesia, and Australia.⁴⁸

To the ends of the earth

"When oil collides with wildlife, oil always wins." – National Wildlife Federation President, Larry Schweiger⁴⁹

A consequence of this aggressive pursuit of 'frontier oil' is the charred carcass of the *Deepwater Horizon* rig now rusting on the bottom of the Gulf of Mexico, a geyser of hydrocarbon effluents erupting from the nearby well at an estimated rate ranging wildly between the official 5,000 to possibly as much as 70,000 barrels a day⁵⁰, and the deaths of 11 oil workers.

"We are going to the ends of the earth to find the next barrel," says energy economist Peter Tertzakian.⁵¹ But at what cost? The drive for 'frontier oil' comes out of a political environment whereby concerns over 'energy security' are routinely top of the agenda. This is complicated by competing demands for a rapid curtailment of our overall dependency on fossil fuels as a primary energy source and the need to address climate change on the one hand, with political pressure to 'keep the lights on' and curb energy prices on the other.

In a speech on energy security at the London Business School this February, Tony Hayward insisted that there was a false tension between these intractable concerns. He argued that when you factor in so-called 'unconventional' and 'frontier' oil (which includes deepwater oil as well as tar sands and oil extraction from extreme environments like the Arctic), the outlook for the industry is extremely positive. "The good news is that we have enough reserves of oil, and especially natural gas, to last for decades and reserve estimates are rising as we develop ways of unlocking both conventional and unconventional resources. Our analysis indicates that the world has sufficient proved reserves for over 40 years of oil and 60 years of gas at today's consumption rates," he declared.⁵²

While acknowledging the challenge of climate change, he nevertheless played up fears of a looming energy crisis if the industry's ability to extract oil and gas were in anyway curtailed. "As well as ensuring that we don't leave future generations with the prospect of rising sea levels, we need to ensure that we keep the lights on in the next decade. If we can meet both these challenges, as I believe we can, then we will truly have delivered energy security."⁵³

A month after Hayward's speech, when President Obama controversially announced his government's intention to open up the US coastline to offshore drilling, the President began by declaring: "We're here to talk about America's energy security, an issue that's been a priority for my administration since the

day I took office.”⁵⁴ Echoing Hayward’s win-win approach to energy policy for the next few decades, he insisted: “...the answer is not, also, for us to ignore the fact that we are going to need vital energy sources to maintain our economic growth and our security.”⁵⁵

Nearly a month into the crisis and with little success in containing the well and the resulting damage, Hayward nevertheless insisted that deepwater drilling is here to stay, and that the principle reason for this is ‘energy security’: “Oil is an important part of America’s energy security. It’s part of a diverse energy mix that runs from coal to solar and everything in between. And when it comes to oil, then the deepwater today is between 25 per cent and 30 per cent of America’s domestic oil production. And over the next 10 or 20 years it will rise to probably closer to 50 per cent as conventional sources continue to decline and the industry continues to further develop the deepwater. The industry will continue to develop the deepwater. The space program was not cancelled because of Apollo 13. People didn’t stop flying because the Air France plane coming out of Brazil went into the south Atlantic.”⁵⁶

The Deepwater disaster is arguably the bitter harvest reaped from the seeds scatter-planted by such ‘energy security’ discourse. Companies like BP and Shell couldn’t operate where they do without the kinds of explicit government and political support from both the UK and US outlined above. The framing of support for the expansion of the oil and gas industry in terms of ‘energy security’, the drip-drip scaremongering over reliance on ‘foreign oil’, and worries about a genuine inability to meet rising demand literally builds and fuels this discourse.

New Frontiers: The Falklands

“For centuries the Falklands were about some sheep, penguins and fish and even so we had a war. Should someone find ‘black gold’, things will get more uncomfortable and nationalists will be stirred.” – EF Thomsen, Argentinian economist

As attention is rightly focused on the unfolding crisis in the Gulf of Mexico, a new offshore oil bonanza may be in the making in the South Atlantic approximately 850 miles from the Antarctic Circle. Just two weeks after the *Deepwater Horizon* exploded, another offshore rig, the *Ocean Guardian* briefly made the headlines in a remote British territory. The rig, licensed by a group of relatively small AIM-listed oil companies, struck what appears to be a modest undersea deposit of oil. The significance of the find is still to be determined, but the news has prompted speculation that a new offshore oil bonanza may be in the making. While the depths plumbed were not quite as massive as those in the Gulf of Mexico, the remoteness of the location and the highly charged geopolitical context that pervades it, illustrates the degree to which the clamour for ‘energy security’ can influence and impact world events.

Caught in the rigging

“Energy reserves are increasingly found in remote areas and it is therefore essential that the UK is able to contribute to a system that allows UK companies to participate safely in the extraction of these fuels and that provides for secure delivery routes for fuels to the UK.” – UK National Security Strategy: Report on Progress 2010⁵⁷

In late November 2009, as freezing rain and darkness settled in for what would be a long and unusually cold snowy winter in Scotland, the steel grey surface of the Cromarty Firth was ruffled by the slow departure of an oil rig and its tug from the port town of Invergordon. Such events are not unusual in these parts, as the port town has long been where ocean rigs undergo crucial maintenance work and repairs undertaken by skilled workers.

The departure of this particular rig was different, and as a result, generated a great deal of media interest worldwide. The rig in question was setting sail for the Falklands, the hotly disputed islands off the coast of Argentina in the South Atlantic.

BOX:

The Falklands

A British territory since 1833, the Falklands (known as Las Islas Malvinas in Argentina), was the scene of a short but bloody war in 1982 after Argentina's military junta invaded the islands. In response, Margaret Thatcher's Government assembled the largest fleet of naval warships since the Second World War and quickly overwhelmed the Argentinian forces. In total, over 900 people died and many more severely injured.

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So when the rig, known as the '*Ocean Guardian*', set sail for Stanley, in the Falklands, it made headlines and reignited tensions between the two countries. The rig, originally built by BP in 1983 when it was then known as the BP Sea Explorer, played a major role in securing BP's offshore assets in the North Sea. It is now owned by rig specialist Diamond Offshore.⁵⁸ Oil was trading at \$77.77 a barrel.⁵⁹ The 25,000-ton *Ocean Guardian's* tug was the massive *Maersk Traveller*, its paint still fresh from the dockyards of Brattvåg, Norway where it was built only two months before. The Traveller is an 'anchor-handling tug', purpose-built to tow oil rigs great distances and anchor them in place. Accompanying it, the *Maersk Pacer*, a support vessel that has been spending time off the coast of Angola supporting the Maersk's own oil extraction projects there alongside the extensive offshore operations of oil giants BP, Exxon and Total.

Maersk specialises in North Sea oil and gas production and so it knows the Cromarty waters well, making its way down the British coast with little trouble. But just as the storm brewed over the mounting diplomatic tension between the UK and Argentina, the *Ocean Guardian's* voyage was hampered by rough seas off the coast of Cornwall. It was forced to hole-up close to the site of one of the world's first massive offshore oil spills, the Torrey Canyon (see box).

BOX:

Torrey Canyon

In 1969 a British Petroleum-chartered tanker, the Torrey Canyon, crashed on a reef between Land's End and the Isles of Scilly, unloading its 120,000-ton oily cargo of Kuwaiti-refined crude into the surrounding Cornish waters. The ensuing clean-up operation only made things worse. An estimated 10,000 tons of highly toxic chemical dispersants were sprayed over the slick, which had little apparent effect on the spill, but was found to have ultimately killed

more wildlife than the oil itself. At one point, the cleanup effort grew so desperate, that Royal Air Force and Navy were called-in to drop 1,000-pound bombs, rockets, barrels of petrol and canisters of napalm over the area in order to try to set the oil ablaze.⁶⁰

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BOX:

In whose interest?

By mid December, as the *Ocean Guardian* was making its way to Recife in the Canary Islands, the climate talks in Copenhagen were running aground on the diplomatic reefs of short-term national self-interest. Gordon Brown's speech in the final hours of the summit was unusually impassioned in this regard:

“In these few days in Copenhagen, which will be blessed or blamed for generations to come, we cannot permit the politics of narrow interest to prevent a policy for human survival. Because for all of us and for our children there is no greater national interest than the common future of this planet.”⁶¹

In the weeks preceding the climate talks, BP and Shell had announced that they had secured contracts to some of the world's largest oil fields in war-ravaged Iraq. Between them they had just acquired access to an estimated 50 billion barrels of Iraqi reserves. Shell would also announce having produced its first million barrels of oil from its ultra-deepwater complex 120 kilometres off the coast of Brazil.⁶² The day after Brown's speech, BP announced the 1000th tanker load of oil delivered through its highly controversial Baku-Ceyhan-Tbilisi (BTC) pipeline.⁶³ None of these projects would have been possible without the direct assistance of the UK Government, specifically the Foreign Office, Business, Industry and Skills, the Ministry of Defence, and the Department for Energy and Climate Change all of whom regular meet with representatives of BP and Shell, and allow the companies to have privileged information and participate in sensitive trade negotiations.⁶⁴

In the most recent example of the level of government support these companies enjoy, a *Times* investigation in April found evidence that former Prime Minister Tony Blair had lobbied on behalf of Shell to win favourable oil contracts, using documents written by the company. The document included detailed instructions regarding items of diplomatic protocol that had nothing to do with the technicalities of specific oil and/or business concerns. Shell ultimately succeeded in winning a \$500 million contract to build a liquefied natural gas terminal in the country, while BP won \$900 million worth of exploration rights to offshore areas in Libya. *The Times* observed: “While it is common for government ministers to champion British interests abroad, Shell's draft reveals an unusual assurance in its ability to dictate Mr Blair's conversation with the Libyan leader.”⁶⁵ Against this overwhelming government orientation towards serving the needs of British corporate interests, Brown's appeal for a politics that transcends narrow self-interest for the sake of human survival would ultimately ring hollow.

:ENDBOX

It would take 83 days for the *Ocean Guardian* to reach the first drill site known as 'Liz' 14/19-1 in North Falklands Basin. Upon approach to The Falklands

conservation area, the price of oil was hovering consistently around the \$76 mark – a level that would certainly help to make hard-to-reach oil more attractive. When Shell first explored the area in the 1998, it found oil in five of the six wells it drilled, but it couldn't justify the expense of developing the prospects as the oil price at the time was at what now seems like a staggeringly low \$10 a barrel, and the quantity it could extract did not justify the expense.

Flexing muscles

“The [UK] Government will play a role in supporting the secure development of oil and gas exploration facilities in the Falkland Islands territorial sea and continental shelf.” – Geof Hoon, former Defence Secretary⁶⁶

On approach, the *Ocean Guardian* and its retinue will likely have been tracked by the nuclear-powered stealth submarine *HMS Sceptre*, recently redeployed from Southern Africa, lurking somewhere in the nearby waters. Patrolling the harbour area around Stanley, the Type 42 destroyer *HMS York* with its Lynx helicopter perched on its helipad, the patrol ship *HMS Clyde*, the survey vessel *HMS Scott* and the *RFA Wave Ruler*. Four RAF Typhoon fighter jets recently deployed to the Falklands from Coningsby in Lincolnshire, might be spotted buzzing by above on routine manoeuvres supported by Hercules and VC10 craft as well Sea King helicopters. Mt Pleasant base's 1,076 stationed troops – including infantry units training for Afghanistan – would be on alert as would the Royal Artillery Rapier Detachment permanently sited on the islands.

The combined effect of all that military hardware was to make a show of strength in advance of the *Ocean Guardian's* arrival and to reassure the local populace still traumatised by the 1982 war with Argentina. “This is oil drilling that is exploration for the future,” said Gordon Brown. “I think you will find that we have made all the preparations that are necessary to make sure the Falkland Islanders are properly protected.”⁶⁷

The *Ocean Guardian's* three-month journey was largely uneventful though somewhat delayed. The real drama was happening all around it. As it edged closer to its destination, the diplomatic brouhaha was gathering in intensity. The Argentine government lodged protests at the United Nations, claiming that no drilling should proceed until sovereignty issues were settled. Argentinian Foreign Ministry sources were particularly critical of the fact that the companies involved in drilling around the Falklands, were all British: “It's not accidental that the oil companies involved are British, that is to say, the only ones that can really believe the chimera that the UK is peddling about the alleged legality of these commercial operations.”⁶⁸

Venezuela's Hugo Chavez waded in to the debate with characteristic bravado. He vowed “revenge” for the “cowardly” sinking of the *ARA General Belgrano* (the Argentinian battleship controversially torpedoed by nuclear-powered submarine *HMS Conqueror*, killing 323 Argentinian sailors) and full support for Argentina's sovereignty claims. Fresh from agreeing a \$3 billion arms deal with Russia, including 24 Sukhoi-30 fighter-bomber aircraft, 55 Mi-17 and Mi-35 helicopters, and reports of a further order of five Russian Varshavyanka class submarines, and four Amur 677 stealth submarines capable of vertical launching of cruise missiles, he stated: “Why submarines? Because we've got a huge sea, (we need them) to protect the oilfields in open waters, and because the North American empire has aggression plans (against us) and

has carried out this kind of attempt years ago, when a (US) aircraft carrier entered Venezuelan territorial waters,” explained Chavez.

On the 28th of January, the Argentinean naval vessel *ARA Drummond* and the *HMS York* found themselves operating in the same waters fifty miles off the coast the Falklands. The *Drummond* was one of the ships in service during the Falklands War. The MoD described the resulting radio communication they had with each other as ‘friendly’, but *The Sun* reported the incident as “first head-to-head of the Falklands row”, and suggested that the York sent the “Argie warship packing”.⁶⁹ While any military escalation between the two countries is by all accounts not even remotely likely, under such tense diplomatic situations and given the historical baggage, such minor events can easily escalate into full-blown incidents, underlying the dangers of increasing the stakes by pursuing potentially lucrative oil and gas exploration in the region. Sea boundaries are all too easily crossed and with the Kirchner Government facing political pressure at home in Argentina, a flare up with the UK over ‘Las Islas Malvinas’ may be just the sort of distraction it needs.

In mid-February, Argentina detained the *MV Thor Leader*, a Danish cargo ship bound for the Falklands from Porta de Compana. The ship had earlier delivered pipes and other supplies from Aberdeen to one of the Falklands oil prospectors – Desire Petroleum in Stanley. There are four companies planning to drill for oil around the waters of the Falklands. They include Desire, Rockhopper, Falklands Oil & Gas, and Border & Southern. All four London-listed companies will be using the *Ocean Guardian* for prospecting their respective blocks in the waters around the islands.

A new hydrocarbon province?

“By dabbling in oil we may have tapped into the nervous system of one of the world’s most dangerous industries. One wonders if it has brought happiness and grassroots benefits anywhere.” – Graham Bond, Falklands resident⁷⁰

Desire, first up to drill, has a strong connection with the Falklands. Founded by former Labour MP Colin Phipps, Desire was created in order to bid for the first licensing round announced by the Falklands government in 1997. Phipps, previously worked for Shell for several years. He first encountered the Falklands as an MP in the mid-1970s during a visit as part of a Parliamentary delegation. Phipps is said to have written a report for the then-current Foreign Office highlighting the region’s potential for oil. He is also said to have been in Margaret Thatcher’s war room during the Falklands conflict several years later despite being a Labour MP.⁷¹ He named his company after the sailing vessel to have made the first confirmed sighting of the Falklands in 1592.

Frontier sources are extremely important for British companies that can no longer rely on the dwindling prospects in the North Sea, and who find it difficult to access markets where nationalised oil companies operate. Deepwater basins in the Gulf of Mexico, off the coast of Brazil and Angola are already proving to have huge volumes of untapped reserves. New frontiers in the Arctic and sub-Arctic regions are already generating a great deal of excitement in terms of their potential. The Falklands represents another potential frontier in the shallower, but relatively remote and colder waters close to the Antarctic. However, its remoteness, and the tense relations with its neighbour require the full support of the UK government machinery, particularly that of the Ministry of Defence and the Foreign Office.

On March 29, after over a month of steady drilling by the *Ocean Guardian* at Liz 14/19-1 to a depth of 3,570 metres, Desire announced their less than spectacular results. Oil deposits were found, but they were thin and of ‘poor quality’, while more significant gas deposits were found, these were considered not commercially viable due to the current low price and the difficulty in delivering gas from the Falklands. The well was ‘plugged’ and abandoned as a gas deposit. Desire’s share price plummeted by 44 per cent. The other companies also took a share-price hit. However, analysts were quick to point out that there were more wells to explore. Alan Sinclair, analyst at Seymour Pierce, cautioned investors not to be too hasty: “Whilst the market may have been looking for seagull-scorching test results from Liz, it should be borne in mind that this is the first of a potential six-well programme by Desire.”⁷²

The news helped to temporarily deflate the intensifying hype about a potential oil boom in the region. While oil is commonly found in various geological layers, the conditions need to be just right to enable reliable extraction. The quantity, pressure, permeability, viscosity, chemical composition of the hydrocarbon reservoirs all need to be within certain margins for any extraction to be worthwhile. However, with an oil price consistently hovering between the \$70-\$80 a barrel spectrum, the exploitation of so-called ‘frontier plays’ such as may be found in the Falklands and other remote offshore locations such as in the Arctic and Near-Arctic, begin to become economically viable. According to Desire: “We believe we need about 50 million barrels at an oil price of \$50 to break even.”⁷³

After the lacklustre results at Liz, the *Ocean Guardian* moved on to the Sea Lion prospect owned by Rockhopper, also in the North Falklands Basin in relatively shallow waters. Like Phipps, Rockhopper Chairman, Dr Pierre Jungels CBE also started his career at Shell, followed by a long stint at PetroFina (which eventually merged with Total), and then British Gas. Like Desire, Rockhopper is solely focused on the Falklands. But unlike Desire, their results were more positive. On 6 May, the company announced that it had made a discovery. “While we are presently acquiring additional data, current indications are that we have made the first oil discovery in the North Falkland Basin.”⁷⁴

The enthusiasm was palpable. Rockhopper’s share price doubled within hours, and at the time of writing, the company is trading four times its pre-discovery value. One Rockhopper investor invoking memories of the 1982 Falklands War crowed: “This’ll maintain Britain’s energy security and the war helped to secure that!”⁷⁵

The Argentinian Foreign Ministry issued a stern statement in response to the news: “Argentina warns the British authorities and the exploration company involved in these illegal activities, that the Argentine Government will continue to denounce in all international fora this illegal British action, and will take all the necessary steps under international law to prevent the continuation of these actions.”⁷⁶

At the time of writing, the *Ocean Guardian* is *en route* to the deeper East Falklands Basin for Falklands Oil & Gas and its partner BHP Petroleum, a division of the Anglo-Dutch-Australian mining giant BHP Billiton. Commenting on its Toroa prospect, which will be the first to be drilled, the Falklands Oil &

Gas enthused: “We are not just exploring a block, licence or prospect but potentially an entirely new hydrocarbon province.”⁷⁷

BOX: While relations between Argentina and the UK continue to sour as the prospecting for oil in the Falklands continues apace, Argentina is embarking on its own exploration programme in the deep waters to the West of the Falklands near Tierra del Fuego. Coincidentally one of the main companies involved in this offshore exploration programme, is Pan American Energy which is 60 per cent owned by BP.

:ENDBOX

Conclusion

“I want security, yeah. Without it I’m at a great loss. Oh now, security yeah, and I want it at any cost...” – Otis Redding

BP, Shell and their competitors have identified the deep sea floor as a key exploration area for current and future efforts to replace their reserves. At the same time, the civil servants and politicians who formulate and implement foreign policy in both the UK and US describe the exploitation of offshore oil and gas as a solution within the frame of ‘energy security’.

This perception of overlapping interests has defined much of UK and US foreign energy policy, and led to mutual support in colonising the oceans for fossil fuel extraction. Actors from both the corporate and public sectors have been outspoken in promoting the urgent need to explore the outer reaches of the continental shelves

British and American state support through various government departments and agencies has helped ensure that the oil companies have both formal and informal regulatory, fiscal, diplomatic and social ‘licences to operate’ in the deep waters off the US, Brazil, Angola, Azerbaijan and elsewhere. The oil majors have developed the technology and hired the contractors to build rigs that will drill and pump thousands of feet down through water and rock. Yet no-one created the means to deal with the situation when the engineering breaks and the house of cards collapses. The rupture in the sea floor should lead to a rupture in the cozy co-operation between government policy and corporate oil.

The Gulf of Mexico disaster shows that government policy driven by the current dominant ‘energy security’ discourse fails to deliver ‘security’ on many levels. And while we can expect certain ripples from the unfolding crisis in the Gulf to impact the industry as a whole, the long view from insiders suggests that continued expansion into ever more riskier environments is widely seen as an inevitability. However, that is predicated on the assumption that the ‘energy security’ paradigm retains its primacy in decision-makers minds and public attitudes. Recent events may throw that assumption into question.

– ENDS

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This is the first in a series of papers looking at the issue of ‘energy security’ and its impacts on foreign policy. The next paper in the series will focus on the Arctic.

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⁷⁵ Rockhopper Discussion Forum, Interactive Investor, posted 7 May 2010 15:44, accessed 21 May 2010.

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⁷⁶ Ministerio de Relaciones Exteriores, Comercio Internacional Y Culto, 'Malvinas: Rechazo del Gobierno Argentino al "Intento de Apoderarse de Recursos No Renovables Propiedad del Pueblo Argentino"', MRECIC Información para la Prensa No 154/10, 6 May 2010.

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⁷⁷ Falklands Oil & Gas, 'Operations | Geology', Falklands Oil & Gas Ltd., accessed on 21 May 2010. <http://www.fogl.com/fogl/en/Operations/geology#gp>