

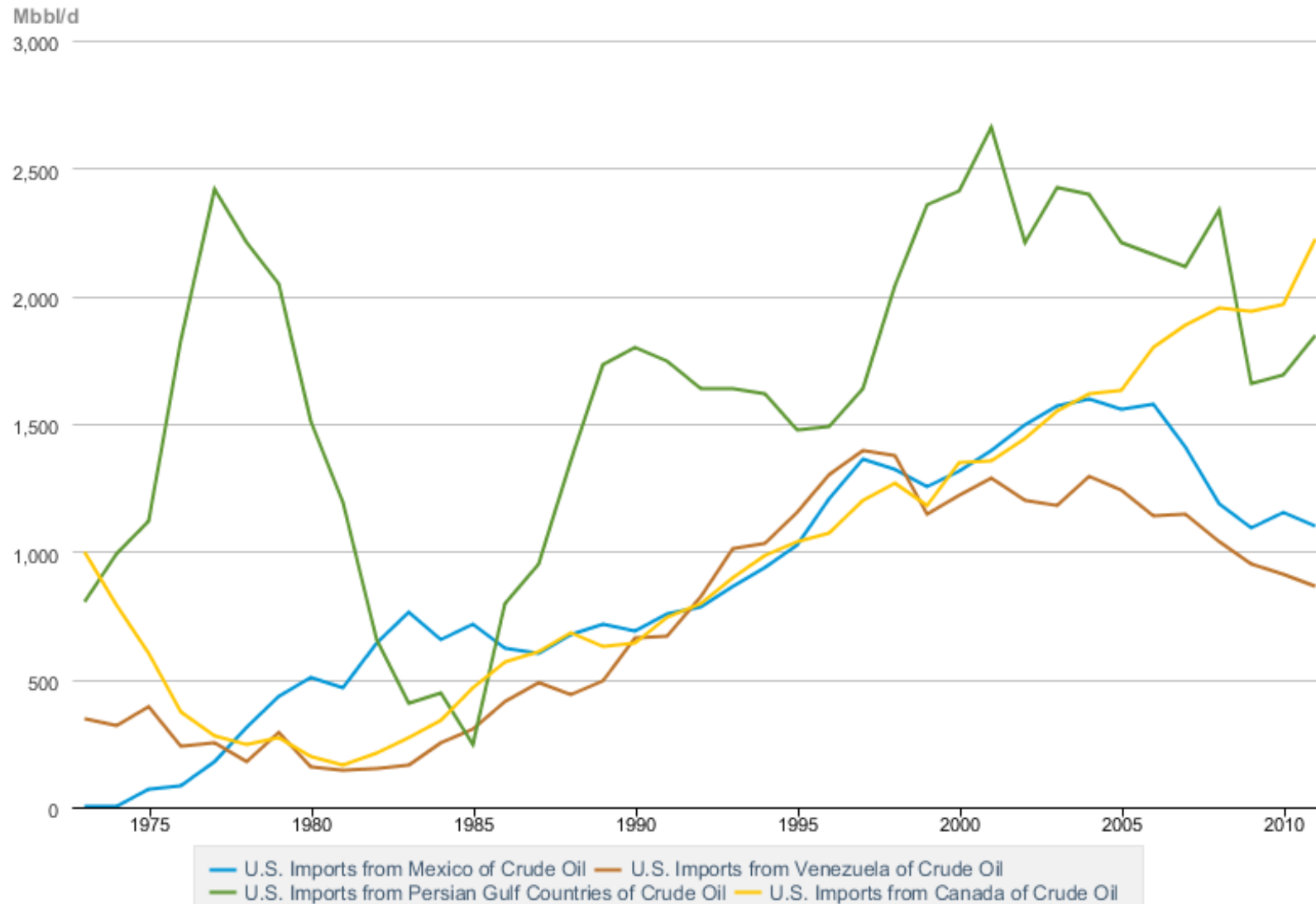
Oil in the US Foreign Policy – Partners and Suppliers

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Sources of Import

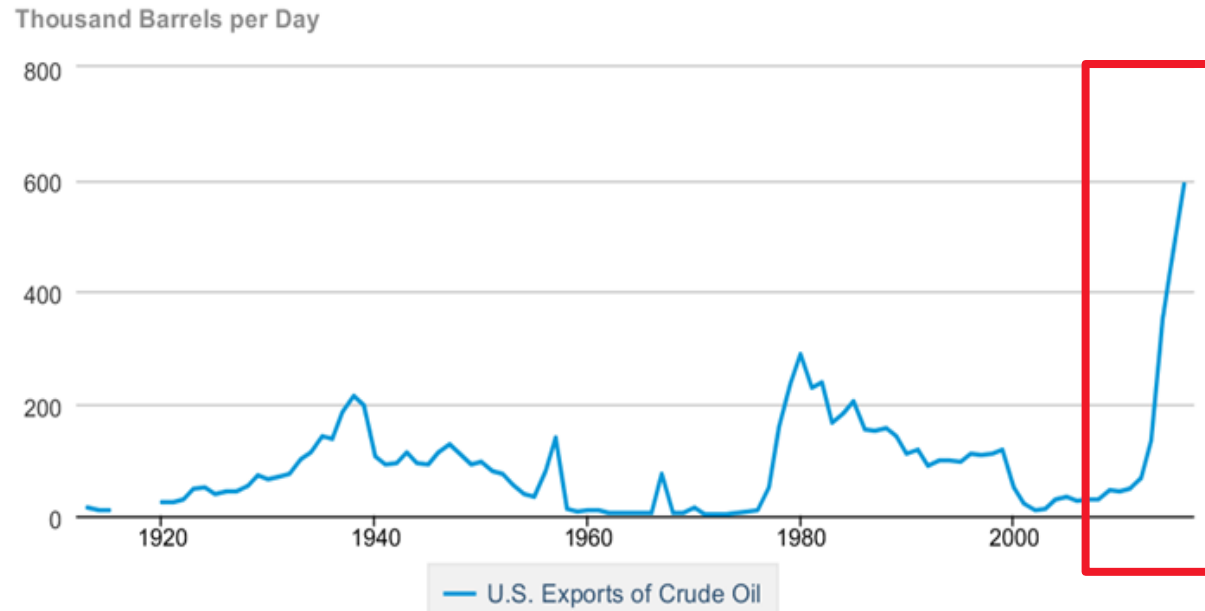
- Canada (43%)
- Saudi Arabia (9%)
- Mexico (7%)
- Venezuela (6%) ↓
- Iraq (5%) ↓

Sources of Imports

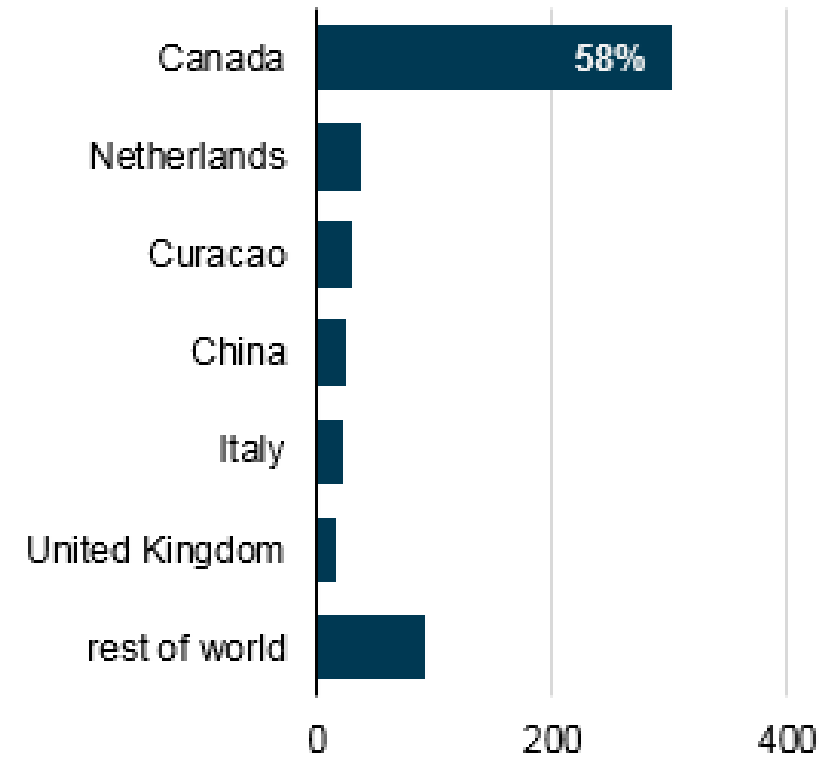


US Oil Exports – Change of a Trend

U.S. Exports of Crude Oil



Export destinations (2016)
thousand barrels per day



eia Source: U.S. Energy Information Administration

Canada – Overview

- 5th biggest producer of natural gas
- 5th biggest producer of oil
- 3rd in total oil reserves (incl. oil sands – sustainability?)
- 5th biggest producer of energy commodities
- Energy related industry produces over 10% GDP

US – Canada Relations

- Among the world's most interconnected economies
- Energy-related commodities and products assume a significant share of mutual trade exchange
 - Oil
 - Electricity (NE – Quebec)
- Canadian energy-related export to the US – USD 120 bn./y – majority of CAN oil exports go to the US
- Canadian oil exports - over 1/3 of all oil imported to the US

US – Canada Relations

- Free Trade Agreement (1988) and NAFTA (1994) as important milestones – mutual agreement to maintain export levels (as a ‘buffer’)
- US-Mexico-Canada Agreement?



US – Canada Relations

- The history of Canadian oil industry begun around the same time as in the US
- The industry became globally important only after the WWI
- The center of gravity has been located in Alberta
- Growing importance related to growing concerns about the ME
- Canadian oil resources mainly developed by (US) OCs enjoying support from Canadian and state governments (undermining the position of independents)
 - low royalties and restrictions placed on upstream activities



Canada – ‘The Big Four’

- 1950s and 1960s – Canadian oil sector dominated by foreign IOCs (up to 98%) – ‘The Big Four’:
 - Royal Dutch/Shell
 - Imperial (Exxon)
 - Texaco
 - Gulf
- Dominated refining - imported cheap oil from abroad + restrictions on imports to the US – hard times for Canadian producers
- Independents pressured the government – reforms and restrictions on oil allocation to protect domestic producers
- 1st oil shock as a big spur for Canadian production

Canada, 1970s and Petro - Canada

- Canadian government pressed to assume control over the oil sector – est. of Petro - Canada
NOC (1974)
- Resistance against IOCs, higher state interventions in the sector
 - Canadian gov. assumed control over several daughters of the Big 4
 - Establishing of own OCs by local governments
- 1980 – National Energy Program (NEP)
 - related to fears after the oil crises and following economic recession
 - energy security (oil self-sufficiency)
 - redistribution of revenues (i.e. to keep it in Canada)
 - greater Canadian ownership in the oil sector
- 25% share in new oil discoveries subjected to the state
- Some even called for nationalization of the whole industry...
- higher taxation, grants for drilling in remote areas,...

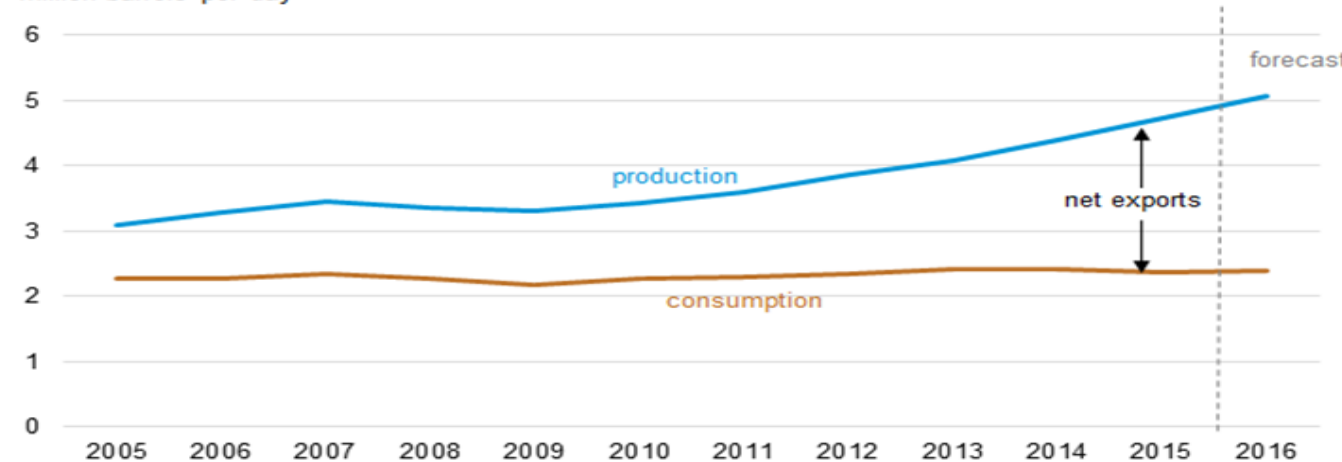
Canada – End of NEP

- NEP – result of pressure from Alberta – disputes over oil pricing and revenue sharing
 - Government of P. Trudeau and a larger political consensus of that time
 - Impact of the NEP – 1970s discourse
- NEP negatively affected relations with the US
- The end of the NEP
 - oil price collapse in mid-1980s
 - new government in 1984
 - market integration CAN+USA (1988 - FTA) a CAN+USA+MEX (1994 – NAFTA)
- NEP seeded a distrust between IOCs and the federal government
- Re-privatization of oil assets (partly including PetroCanada), liberalization in 1990s
 - influx of foreign capital (mainly US) – circa USD 40 bn. in 1997-2001 - CAN as the biggest US oil supplier

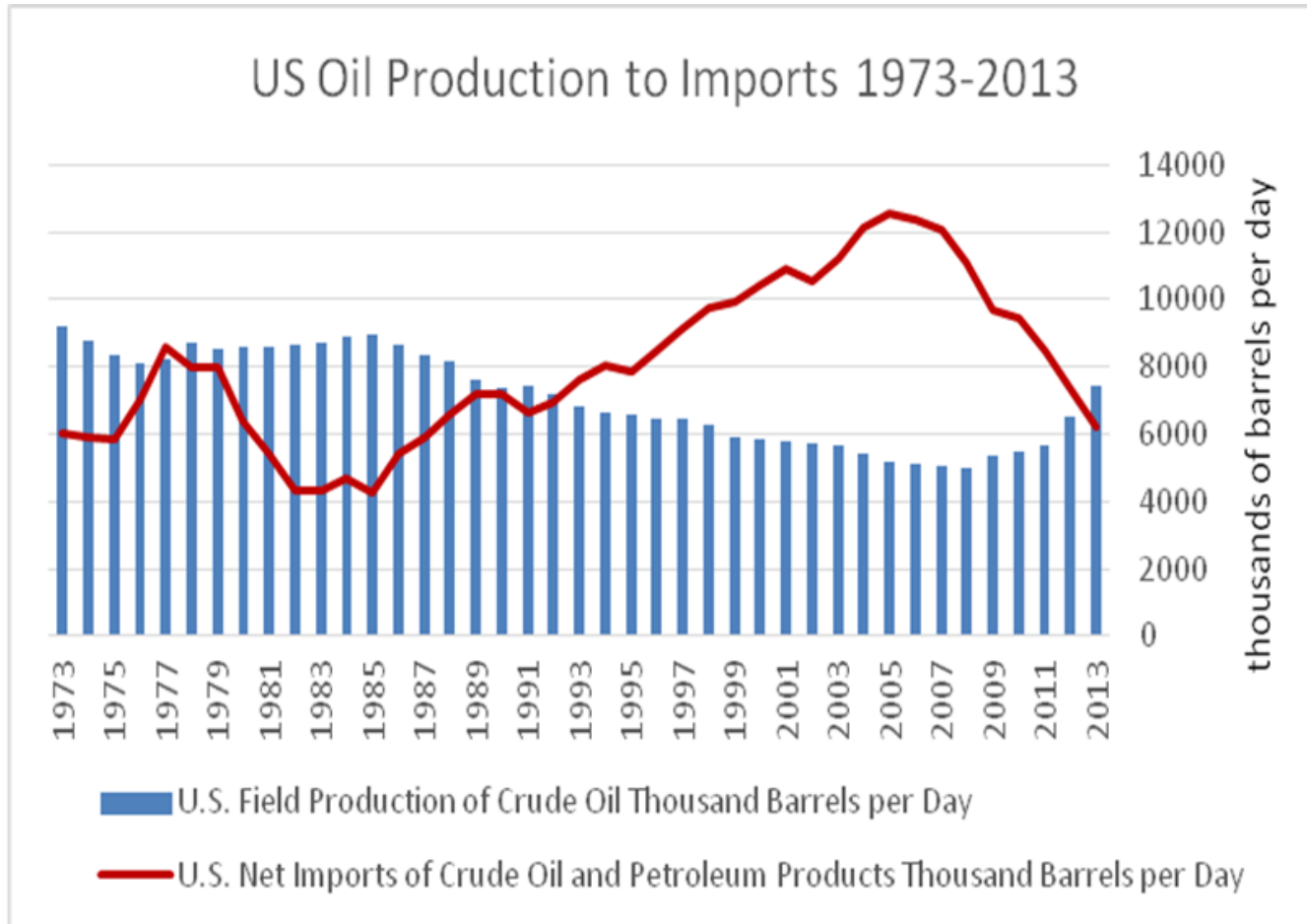
US – Canada Relations

- Canada imports cca 1mbd. – caused by internal factors – type of Canadian crude and the setting of local refineries (adjusted for light crudes)
 - Canadian heavy oil extracted from tar sands vs. light US oil extracted from shale formations
- Key role of infrastructure – Keystone XL (economy of the project?)
- Further changes caused by:
 - unconventional
 - consumption in Asia

Figure 2. Canada's oil production and consumption, 2005-16
million barrels per day



Keystone XL, US Production vs. Imports



US – Canada Relations

- Future of current export/import patterns?
- Expansion of domestic refining capacity does not seem viable
- Canadian turn to the East?
 - need for expanding transport infrastructure to transport oil to Western ports
 - Trans Mountain Pipeline expansion – environmental concerns, sued (natives, locals) – bought by the Canadian Government, approved, progressing but still contested by indigenous people
 - Northern Gateway Pipeline (financially unsound, cancelled?)
 - Keystone XL – progressing but contested (on environmental grounds)
- Oil prices and conditions for new projects?

Trans Mountain & Northern Gateway Pipelines



THE GLOBE AND MAIL » SOURCE: KINDER MORGAN CANADA INC.

Venezuela

- One of the biggest oil producers on Western hemisphere and worldwide
- Bulk of its production heads to the US
- Heavy and sour crude requires specific refinery setting – refineries around the G. of Mexico dependent on heavy crude
- Venezuela has one of the most promising unconventional oil resources and the biggest reserves
 - nearly 300 BBO (more than SA)
- Despite the deposits – production has been declining since 2001
 - sector is chronically underfinanced
 - Venezuela in a deep economic crisis

Venezuela – Total Reserves up to 513 BBO?



History

- Beginnings of the oil industry – late 1910s
- Oil plays developed mostly by Royal Dutch/Shell and Jersey Standard (SONJ)
- Juan Vicente Gómez – extensive issuing of licenses to attract foreign capital (plagued by corruption)
- Authoritarian regime created a stable environment for IOCs
 - friendly legislation – reform of 1922
 - rapid development in following decade

History

- Late 1920s – 2nd biggest producer and biggest oil exporter (worldwide)
 - dominance of IOCs Gulf (Chevron), Pan American (Amoco, later BP) and Royal Dutch/Shell
 - later Royal Dutch/Shell, Creole (Jersey Standard)
- Partial turnover after Gomez's death at the beginning of 1940s – legislation amended, higher taxation of IOCs
- Turbulent changes of 1940s – 1950s
- Truman considered sending military troops to secure region against communist tendencies

History

- The nationalist revolution of 1945 (military officials along with Accion Democratica) – higher taxation of IOCs up to 50% of revenues
 - concerns about rising nationalism and leftist orientation
 - 1948 - Col. Marcos Perez Jimenez – authoritarian régime ‘stabilized’ political situation, conditions for IOCs were worsening though
 - US maintained military cooperation with the regime between 1948 – 1958
 - 1958 – the dictatorship collapsed, Accion Democratica won elections and was reinstalled, US eventually supported
 - Military cooperation with the régime between 1948 – 1958
- Gradual increase of taxation 50% - 65% of IOCs’ revenues

History

- Stable increase of production despite turbulent political development
- US OCs as prominent players in the oil sector
- Semi-automatic prolongation of mining licenses
- Dramatic change at the end of 1950s - Rise of nationalism
- Low revenues, dominance of IOCs, rise of nationalism, feeling of exploitation

History

- 1959 – moratorium on issuing new licenses
- 1959 – Juan Pablo Pérez (VEN) and Abdullah Taríki (SA) – agreement that gave birth to OPEC (1960)
- 1960 est. of Corporación Venezolana de Petroleo (manages joint ventures)
- 1960s – further tightening of taxation (up to 80%)
- 1971 – licenses to be transferred to the state after their expiration
- 1976 – complete nationalization of the industry, licenses transferred to Petróleos de Venezuela S. A. (PDVSA)

History

- Massive state investments following the nationalization
- Venezuela increased in importance after the oil shocks
- Crisis in mid-1980s – Venezuela as a ‘the finest example’ of the Dutch Disease
 - liberalization as a cure – prescribed by PDVSA
- PDVSA enjoyed great autonomy (‘state within a state’)
 - aimed at US market
 - increase of exports 1991-1997: 1 – 1,8 mbd
- Massive US support – biggest recipient of US military support, highest number of bilateral training programs and missions
- Venezuela contributed to the OPEC erosion (market-based behaviour, high production,...)

History

- Dramatic change after the 1998 presidential elections - Hugo Chávez
 - leftist nationalism ('Socialism of the 21st century') – US support ceased
- Venezuela reoriented to Russia and China
- Tightening of state intervention, autonomy of PDVSA restricted, Venezuela aiming at price control once again
- Tax reliefs for IOCs ended, mandatory state shares (>50%) in new joint-ventures etc.
- 1999 other OPEC members reacted – production reduced prices increased

History

- Restoring control over PDVSA as Chavez's main goal
- 1999: new constitution – privatization of PDVSA is prohibited
- Society rather divided
 - unsuccessful revolution of 2002 (intervention of US secret services?)
 - strike in PDVSA 2002/2003 – 19 000 employees replaced by loyal staff, impact on global oil price (4% rise)
- Increasing royalties
- 2007 – majority takeover in all joint-ventures
- 2014 – Venezuela suffers from low oil prices and (sector & state) mismanagement

Venezuela looking for new partners

- Reaction to US efforts to isolate Venezuela after Chavez assumed power
- Venezuela became the biggest receiver of Chinese investments in S. America
- Venezuela became the 2nd biggest Chinese trade partner in S. America
- China became Venezuela's 2nd biggest trading partner (after US)
- “Loans for oil”
- Contracts with CNPC and CNOOC (2009) on oil supplies and investments in V. oil fields
- Oil as the object of Chinese major interest in Venezuela
- Big development loans - over 40 bn. USD by 2016
- Russia
 - V. closed a deal with Rosneft on oil development
 - Contract on building NPP – still only on paper
 - arms supplies

Mexico

- 3rd – 4th biggest supplier
- 85% of exports head to the US
- Heavy crude for refineries on the G. of Mexico
- NAFTA member – far more cautious during negotiating process X CAN
- Imports US oil products – domestic oil sector chronically underfinanced
 - aimed at supplying refineries with crude oil

History

- First oil explorations in 1860s
- Early 1900s – one of the birthplaces of the industry
- Pan American Petroleum – important for the development
- Mexico as one of the main foreign suppliers during the WWI
- 1920: 20% of US consumption
- Early 1910s: 2nd biggest producer, world's biggest exporter
- Turnover: geology issues, unstable political situation – surpassed by Venezuela

History

- 1910's – civil war and revolution against the authoritarian régime of Porfirio Díaz
- Changes in resource ownership caused uncertainty
 - -> 1884: state
 - 1884: landowners
 - revolution (1911): state
- Increasing taxation IOCs accused for exploitation (extreme leftist rhetoric), economic crisis in late 1920s
- Some in the US called for military intervention
 - not realized (opposed by US banks)
 - proponents of liberal regime and indirect support in the administration (1920s – era of liberal approach)

History

- New sources came online in 1920s-1930s – stabilization
- New wave of nationalism in mid-1930s – leftist president Lazáro Cardénas
- Nationalization of oil industry 1938 – 1st nationalization
- Est. of Petróleos Mexicanos (PEMEX)
- US administration (Roosevelt) supported US OCs rather formally
 - the administration didn't want to aggravate relations in the complicated situation before the WWII
 - Good Neighbor Policy
 - interventionists (Roosevelt) under criticism
 - private nature of mutual disputes between Mexican government and US OCs
- Disputes on settlement – majority of compensations awarded to the Jersey Standard and SOCAL

History

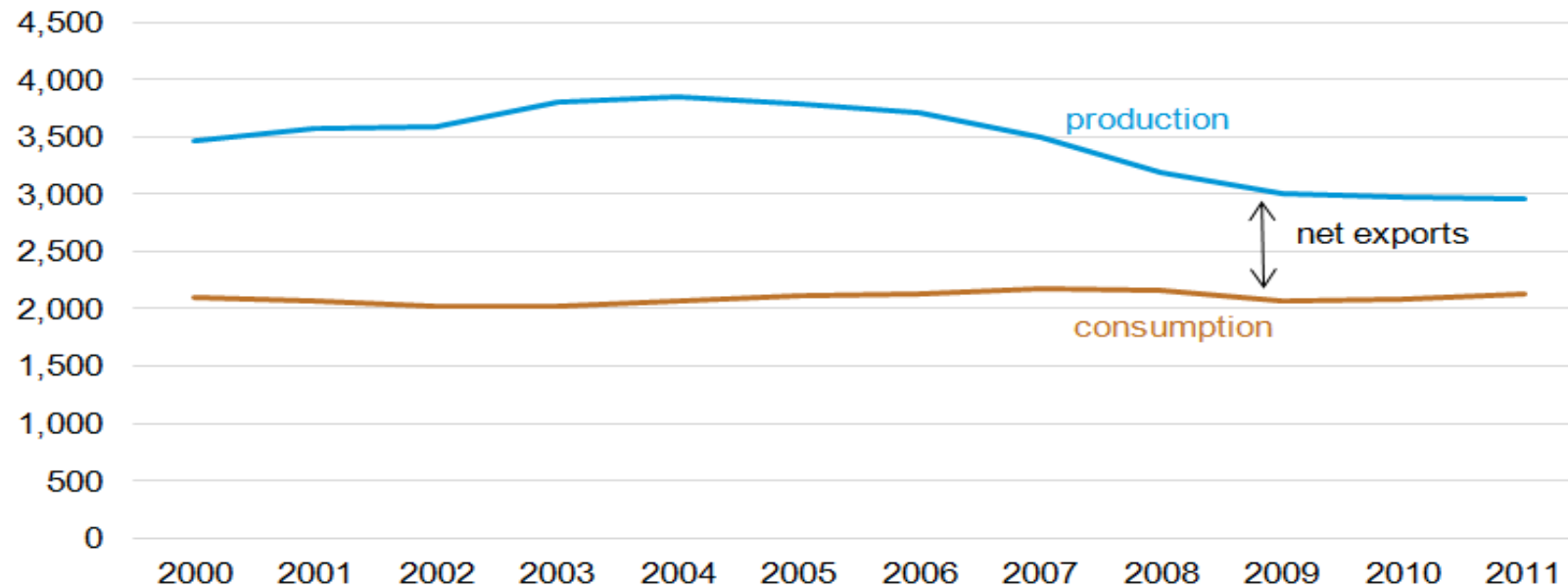
- 1938-1971 production was rising by 6% annually
 - domestic consumption outpaced the production - Mexico became net importer
- Early 1970s – new oil wells opened on the South and in the G. of Mexico
- Oil sector development financed by loans, PEMEX used as a warranty
 - government used PEMEX as a ‘cash cow’
 - minimal investments
- Mexico enjoyed its position among major US suppliers after the oil shocks
- By 1982 oil production exceeded 3mbd, export 1,5 mbd

History

- Mexican production in stable decline – mature oil fields, sector is chronically underinvested
- Export peaked in 2004

Mexico's oil production and consumption, 2000-2011

thousand barrels per day



Source: U.S. Energy Information Administration, *International Energy Statistics*

History

- Specific case of nationalized sector with consistent policy since 1930s
- Oil sector remained rigidly closed despite liberalization in other sectors
 - partial opening of the natural gas sector
 - member of NAFTA
- Partial reforms (2008) – foreign investments and opening to technical assistance (Halliburton, Schlumberger) – followed by public protests
- Radical turnover **2013-2014** – constitution changed – sector opened to foreign investments

History

- Mutual relations complicated by strong nationalism traditionally connected to the oil sector
 - tough negotiations on NAFTA
- After Mexico accessed NAFTA – influx of military support, increase of trade, training programs
- Mexico frequently sympathized with OPEC and its efforts to restore control over the oil market