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TERRUM.

Geopolitics and oil.

By Karla Bastón.

October 15, 2022
Year 17 No. 05

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Oil shortages and high oil prices are nothing new. The mid 1970s, 1980s, 2008, and most recently 2022 have showcased the fragile nature of the oil industry, fueled by geopolitics. The following article will discuss the effects that geopolitics have had on oil prices, including the recent surge due to Russia's invasion of Ukraine and will provide and outlook on oil demands and the relationship it has on the Mexican market.

Historic

Some of the top producers of crude oil, the naturally occurring substance that allows for the production of gasoline, diesel and jet fuel, are Iraq, Russia, Saudi Arabia and the United States[1]. Other big oil producers can be found in North Africa, China, and countries in the Persian Gulf. The vast majority of these countries have faced economic and political turmoil for years. This instability in oil producing countries results in a spillover effect and the disruption of oil supply to other oil-dependent nations. Furthermore, the worldwide dependency on crude oil allows these regions to weaponize their supply to ensure or facilitate a political entendre. Oil rich countries could also face oil shortages; thus, political relations can be heavily influenced by the dependency of oil. While reaching an agreement from one oil supplier to an oil dependant can be difficult in itself, the supply can further be affected if there are nearby conflicts, as oil can be transported through pipelines that cross international borders, or by sea.

An historic example that encompasses the aforementioned nuances is the oil crisis from the 1970s. Firstly, in 1973, as a response to the US's and other western allies' support to Israel in the Yom Kippur war, the Organization of Arab Petroleum Exporting Countries (OAPEC) imposed a sales oil embargo to the US, Canada, the UK, Japan and the Netherlands[2]. This embargo resulted in oil shortages and soaring oil prices in the affected countries. The embargo evidenced the strong political stronghold that oil producing countries have on the world, and the economic repercussions that come with it. The next blow to the oil industry came as a result of the Irian Revolution in 1979 and the subsequent invasion of Iraq in Iran. In the former, it resulted in a loss of production of about 2.5 million barrels per day[3]. Although at this point many states, had since the 1973 oil shortage diversified their oil supply or looked for other energy resources, the effects of oil is omnipresent in political and economic relations.

Russia's invasion of Ukraine and the effects on the oil industry

On 24 February 2022, Russia invaded Ukraine[4] thereby causing a cascade of humanitarian, economic, and political turmoil. The military aggression was met with sanctions from Western and EU states, which have affected the majority of industries.

Russia produces about 12% of crude oil, making it the 2nd largest exporter worldwide[5] [6]. Russia supplies 20% of Europe's oil, and some [European] countries are 100% dependent on Russian crude oil supply[7]. While an imposition of sanctions to limit oil imports by the EU have not yet been enacted, there have been actions by Russia to EU states to limit the number of Russian exports. Further, it is important to consider that certain Russian pipelines go directly through Ukraine and are thus subject to potential infrastructure damage due to the invasion[8]. This latter point is concerning as it would not only disrupt oil supply but could have hazardous consequences and effect to

1.- U.S. Energy Information Administration, International Energy Statistics, as of June 1, 2022. Note that these are some of the top producers from 1980 to 2021
2.- University of Calgary. 'Oil crisis of the 1970s' as retrieved from https://energyeducation.ca/encyclopedia/Oil_crisis_of_the_1970s
3.- Y. Halabi. 'US Foreign Policy in the Middle East: From Crises to Change'. Burlington: Ashgate 2009
4.- David Brown et al. 'Ukraine in maps: Tracking the war with Russia' BBC news, as retrieved from https://www.bbc.com/news/world-europe-60506682
5.- Statista Research Department. 'Russian oil industry – statistics & facts' 13 July 2022 as retrieved from https://www.statista.com/topics/5399/russian-oil-industry/#topicHeader__wrapper
6.- M. Ashraf et al. 'The war in Ukraine: A moment of reckoning for the oil and gas industry'. Accenture 2022 as retrieved from https://www.accenture.com/_acnmedia/PDF-177/Accenture-Energy-Ukraine-POV.pdf#zoom=40 at pg.147
7.- Ibid at pg.15
8.- Ibid

the ecosystem and the individuals living in and around potentially affected areas. As an effect of the invasion, in March 2022 oil prices surpassed those that were since during the 2008 crisis. Further, other countries decided to curtail any potential oil shortages by finding alternative sources, meaning that the 'excess' Russian oil was exported to 'friendly' states such as India and China[9].

To the future

Needless to say, the effects of geopolitics greatly affect the oil and gas industry. While the full effect of Russian oil sanctions have not yet been felt, the announcement by the EU on 26 September 2022, banning Russian crude oil imports by 5 December 2022 will surely have a huge impact[10]. Not only will oil prices increase, but as a result crude oil commodity prices would also increase and cause a strain worldwide, which could mean rationing policy responses[11].

The demand for crude oil had, since before the invasion, increased, this now mixed with a spike in oil prices has affected and will continue to affect a multitude of industries. The aviation industry has seen a jet fuel price increase by 90% from the start of 2022 to July 2022, thereby increasing costs[12]. It is clear that this increase in price is linked to geopolitics of Russia's invasion of Ukraine, and this situation not only highlighted the instability of the oil industry as had been previously highlighted during the 70s oil crises due to the geopolitics of the Middle East. While it is difficult to predict the next event that will offset the next oil crisis, it is important to note that there ought to be more diversification on supply sources. For now, there is a clear outlook that demand for oil will continue to increase until the end of 2022 and through 2023. Estimates by the organization of petroleum exporting countries (OPEC) are of a 3.1% global economic growth for that period[13] despite the geopolitical uncertainties, and the losses incurred due to Russia's invasion of Ukraine.

The Mexican oil market

Mexico, one the biggest crude oil exporters in the world, and a member of OPEC is, similarly to every country and everyone around the world, affected by the geopolitical tension. OPEC announced on 5 October that it would reduce their oil production to two million barrels per day, a move that would further fuel the increase of oil prices world-wide[14]. The crude-oil production cut will begin as of November, a move that could affect Mexico as its president (AMLO) has recently announced further funding to one of its refineries, which as of its newfound funding will be producing 105 thousand barrels per day[15]. This announcement comes at days after OPEC's statement on barrel production reduction. It is however important to note that AMLO has a history of lying to the Mexican people about the country's oil production and private investments in that industry[16], so it could be that his statement could be misguided, or based on falsehoods, what is for certain, is that the restriction by OPEC will increase the prices of oil in Mexico and around the world, and could have a bigger effect and limit, if they are to be believed, the newly re-funded refinery's supply.

9.- P. Stevens. 'Charts: how Russia's invasion of Ukraine has changed global oil flows' CNBC. 1 June 2022, as retrieved from https://www.cnbc.com/2022/05/31/these-charts-show-russias-invasion-of-ukraine-has-changed-global-oil.html

10.- J. Lerh, E.Chow. 'APPEC Russian oil diversion post-EU sanctions to raise shipping hurdles' Reuters 26 September 2022. As retrieved from https://www.reuters.com/business/energy/appec-eu-sanctions-price-cap-russian-oil-raise-shipping-hurdles-2022-09-26/

11.- Supra 6 at pg. 18

12.- J. Bouwer et al. 'Why rising fuel prices might not be as bad for the airline sector as it seems'. 15 July 2022. McKinsey. Retrieved from https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/why-rising-fuel-prices-might-not-be-as-bad-for-the-airline-sector-as-it-seems

13.- A. Lawler. 'OPEC sticks to oil demand view, sees pre-pandemic demand in 2023'. Reuteurs. 13 September 2022. Retrieved from https://www.reuters.com/business/energy/opec-sticks-upbeat-view-oil-demand-growth-2022-2023-2022-09-13/

14.- H. Zaidy. 'La OPEP anuncia un gran recorte de 2 millones de barriles de petróleo por dia, a pesar de la presión de los Estados Unidos' CNN en español. Retrieved from https://cnnespanol.cnn.com/2022/10/05/opep-recorte-petroleo-bariiles-millones-trax/

15.- El Financiero 'AMLO presume producción de petróleo de refinería Madero tras inversión millonaria' Retrieved from https://www.elfinanciero.com.mx/nacional/2022/10/09/amlo-presume-produccion-de-petroleo-de-refineria-madero-tras-inversion-millonaria/

16.- S. Aguirre. 'AMLO dio datos falsos sobre producción petrolera e inversión de privados' 17 noviembre 2021. Retrieved from https://www.animalpolitico.com/elsabueso/amlo-datos-falsos-produccion-petrolera-inversion-privados/

Mexico allows for private investors to participate in the exploitation of lithium.

President Andrés Manuel López Obrador (AMLO) created LitioMx, the first State company in charge of the exploration, exploitation, and the production of the mineral. AMLO's reform to the mining law was approved in April allowing for the creation of LitioMx, however, it has been widely criticized considering those who will be leading the company will be State Governors rather than those employed by the Ministry of Energy. The ordinance for LitioMx mentions that it may associate itself with other public and private institutions but does not specify whether companies, organizations, and others can be involved, leaving in a limbo LitioMx's wishes for the participation of private investors. *www.amnesty.org/en/latest/news/2022/09/mexico-militarizing-public-securi ty-human-rights-violations-impunity/* 04/09/2022.

UN working group on arbitrary detention seeks to annul pre-trial in Mexico.

In Mexico, pre-trial detention is regulated in the Constitution as a preventive measure employed to ensure the fulfillment of the possible punitive action of the state, depriving the possible responsible person of his liberty during the time it takes to determine whether he is guilty of the crime. In this regard, the UN working group on arbitrary detention recommended that the Mexican government stop this practice, as it considers it violates human rights, and adapt its legislation in line with conventional norms. *www.news.un.org/es/story/2022/09/1513941* 05/09/2022.

Transportation companies affected by insecurity and economic problems.

Freight transportation represents an essential economic activity in our country, since it contributes 56.2% of the total amount of goods moved in our country. For this reason, the transportation sector warns about the dangers they are facing, such as inflation, insecurity conditions, shortage of equipment and reduction of facilities for tax compliance. Experts point out that these problems in the transportation sector have an impact on society, as prices rise and affect the end consumer. *www.t21.com.mx/terrestre/2022/09/08/rentabilidad-empresas-transportistas-afectada-coyuntura-socioeconomica-canacar.* 08/09/2022.

UN calls on AMLO to reverse the militarization of public security.

In a communication addressed to the Mexican State through Mexico's representation before the UN Human Rights Council, the Working Group on Enforced and Involuntary Disappearances and the Special Rapporteurship on Arbitrary Executions and Rights to Freedom of Assembly and Association, called on the government of López Obrador to reverse the changes approved in secondary laws and withdraw the constitutional reform initiative that seeks to extend the participation of the Armed Forces in security tasks. Experts formulated to the government a series of requirements to clarify their concerns, among them: what are the measures taken "to ensure that all regulations and legislation adopted respect international human rights law and standards", to inform about the mechanisms to "guarantee the control of the armed forces by the civilian government, including in terms of their conduct and responsibility", as well as what would be the civilian instruments "of accountability for the Armed Forces in the country and their effectiveness". *www.proceso.com.mx/nacional/2022/9/27/la-onu-pide-amlo-revertir-la-militarizacion-de-la-seguridad-publica-294094.html* 27/09/2022.

AMLO announces plans to build natural gas export hub at Veracruz port.

President Andrés Manuel López Obrador (AMLO) and his federal government are planning the construction of a natural gas plant with the intention to ship the fuel to Europe to attend to the scarcity of gas abroad. The announcement arose after his discussion with the German President Frank-Walter Steinmeir in Mexico City considering Germany will be one of the European countries mainly affected by the progressive cut off access to fuel implemented by Russia. The plant in Mexico will process the gas and freeze it for its transportation where the plants abroad will receive and degasify it. The President already has determined the location of said plant but plans to seek private sector involvement considering this project has an expected price tag of $4-5 million USD. *www.mexiconewsdaily.com/news/amlo-plans-to-build-lng-export-hub-veracruz/* 28/09/2022.

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