

# TOWARDS A NEW STRATEGIC HORIZON

## An analyses of future of oil investments in the Golfo San Jorge basin

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### Abstract

*This paper is an analyses about recent exploration activities in one of the richest areas in oil reserves in Argentina, the Golfo San Jorge basin in Patagonia. Since 2007, Fundación de Investigaciones Económicas y Sociales (FINES) has focused on the socio-economic impacts of oil projects in this region. The level of knowledge produced and the expectations of communities living in the studied cities, allow the definition of this region as a potential “Smart Territory”. A society is able to develop a common smart vision for future development, as long as it conceives a common sense of territory, within a strategic plan for social and economic development as well. In a world of regional strategies, the Golfo San Jorge basin is likely to become a strong economic region in Latin America. Such vision suggests that a decisive choice is needed in favor of enhancing a strategic approach for the assessment of new investment projects.*

### Keywords

*Fundación FINES, Golfo San Jorge, smart territories, SEA*

### 1. The oil industry in the Golfo San Jorge basin

The Golfo San Jorge is the oldest oil basin in Argentina in terms of exploitation (1907). In 2007, it became the largest oil area in the country. The total amount of oil production scored in 2013 corresponds to 523 Mm<sup>3</sup> (million m<sup>3</sup>), contributing to the 45% of the national production (*Secretaría de Energía de la Nación, Producción anual de petróleo y gas en la cuenca Golfo San Jorge, 2013*). The most important area is denominated *Cerro Dragón*, with 40 years of activity. In this area, an increase in production has been observed in the last five years. Moreover, important interruptions have occurred due to violent social conflicts in several occasions within the last couple of years, provoking a severe impact in the levels of investments and production. This fact has lately caused an important upturn in the conditions of salaries in the productive sector. However, Small and Medium Enterprises (SMEs) who provide oil services to large operators do not seem to be showing the same improvement in performance. Due to a lack of expected political support, they are still suffering a strong decline in their profits.

### 2. Main drivers towards a *smart territory*

The Golfo San Jorge basin, is often referred to as the “main entrance door” to the Patagonian territory. Patagonia is globally known to be one of the most attractive regions for tourism worldwide. Moreover, tourism is just one of the features of excellence this region has to offer. There are at least ten main components of excellence in this region: 1) Conventional and non-conventional energy resources, 2) Renewable energy, 3) Presence of multinational enterprises, 4) Landscape and environment quality, 5) Fishing resources, 6) Mining resources (gold and strategic minerals), 7) Attractiveness for population fluxes, touristic potential and dynamism of four tourism axes, 8) Institutional development for environmental and urban planning in local administrations, 9) Economical culture and expectations for productive innovation, 10) Innovation

and product diversification. All of them offer interesting options for the competitive development of the basin.

These elements are carefully described in an extensive research project which was started in 2008 by the Fundación de Investigaciones Económicas y Sociales (FINES), a non-profit NGO focused on strategic impact assessments for social and economic development projects. Such process included a deep program of socio-economical surveys over the field, to learn about the communities' perception about the impacts of the industrial activities being carried out in the region. This assessment included a vast participation program which allowed, not only the construction of a complete map of stakeholders and the description of their interrelation, but also the outline of the main features of excellence providing the territorial capital of the region. The results of this research are all contained in the book *Golfo San Jorge, Patagonia Argentina, Hacia un territorio inteligente* (Buenos Aires, 2009), which clearly explains how the energy sector can effectively turn out to be the main trigger for the development of the whole basin.

### **3. The offshore potential**

There has been little oil exploration in the offshore of San Jorge waters. The recent nationalization of Yacimientos Petrolíferos Fiscales (YPF), today the Argentinean national oil company, has been encouraging new exploration programs. This is certainly going to become an important issue for the national agenda for the coming future. The international consortium – integrated by the British BP, the China National Offshore Oil Corporation (CNOOC) and the Argentinan Bidas Corporation- has already an ongoing project, which is for the moment banned by a recent provincial regulation which has suspended off-shore research due to the lack of suitable regional regulations.

During 2013, FINES has anticipated this process, going into the deep analyses of potential off-shore future investments, within a complex action plan for development in relation to the energy sector. FINES has been able to work intensively with the participation of key local stakeholders and local communities, building together a participated agenda for the development of the region, including the sea as a key resource. The assessment takes into account all the existing development plans, elaborated by the public sector (national and regional government plans produced during the last ten years), and projects promoted by the private sector. The output of this study has unveiled the fact that 90% of the enterprises with a considerable turnover and an important size of local employers are effectively regional enterprises. The strength of such enterprises varies between different sectors, being particularly important as service providers for the extractive activities, the different commercial activities, and lastly the tourism sector.

### **4. Defining a territorial model**

In an international context where oil demand is increasing, the oil price decrease is not previewed within the short term. Even when there is a choice to switch to alternative forms of energy, there is an important amount of supplies still depending on the resource (plastics, soaps, detergents, healthcare products, synthetic fibers for clothes and furniture, rubbers, paints, etc). The oil extractive industry scenario is encouraging for the Golfo San Jorge basin, especially for the thinking of new strategies in the territory.

The territorial model proposed by FINES for the Golfo San Jorge basin, is based on the integration and articulation of the entire territory, including the sea as a key resource. It highlights the mainstreams for the common regional interest, focusing in the main system of cities. Cities are effectively the real territorial anchors for the development of the whole region. The oil sector activity is strictly related to the dynamism of this system, not only helping to develop important infrastructure to accompany the activities related to the sector, but also helping to activate other important sectors, such as the renewable energy sector, the mineral extraction and the fishing industry.

The future of the Golfo San Jorge Region is now starting to focus on the sea. Land and water provide a basic resource, as it is the essential support for primary production activities. For this reason, both land and water conservation, and an intelligent use of its potential without spoiling it, must be a priority in the spatial planning.

## **5. A switch to strategic impact assessment**

Environmental Impact Assessment (EIA) has always preceded Social Impact Assessments (SIA). However nowadays, we get to consider social impacts even more risky for the sustainability of oil investment projects. Such is the situation, mainly in the Latin American context, where the social component has been shown to be crucial for the continuity of activities. Implementation of combined strategies proposed by current forms of assessment, such as the Strategic Environmental Assessment (SEA) demand the integration of the socio-economical environment into sector-specific decision-making. This can be achieved only by promoting environmentally sound and sustainable proposals, and by changing the way decisions are made (Partidário, 2005)<sup>3</sup>. The “social license” is nowadays more complex and difficult to obtain than the traditional environmental license. Such concept proposes exceeding the limits of traditional impact assessments by introducing an innovative aspect. While the traditional process establishes clearly the role of the responsible against the role of the affected, extensive analyses on the components of excellence in the territory can effectively trigger an integral socio-economical positive impact on land *and* sea by switching to a strategic territorial assessment.

In the case of Golfo San Jorge, the potentiality lies on the activation of integral programs which can help SMEs enlarge the participation in the oil supply chain in favor of gaining more advantages from the energy sector in general. Studies produced by FINES reveal the effort and the technological level of operational enterprises which are working in the region, which can strongly support the private and the public sector, providing an interesting upgrade towards the achievement of a more complex and competitive industrial activity. It is important to collaborate closely with knowledge and innovation sectors, such as applied R&D laboratories in universities, in partnership with local authorities, enterprises and other independent institutions; support programs which are related to the activation regional economies, such as the renewable energy sector or even micro-entrepreneurial programs which can help diversify the economies linked to the protection of the environment.

## **6. Sustainable exploration, performing beyond the license to operate**

Sustainable exploration claims to be managed in a new relation between land, sea, wind, and the life-cycle involved. The next step to include in the agenda is an opportunity for knowledge to create diversification, new forms of producing energy and encouraging especially the weaker sectors such as the fishing sector, exploring the potential of networking for a smart use of resources.

Studies of social perception and expectations developed by FINES, show the importance of exploration and exploitation of resources for local communities, who understand this as a structural feature and a comparative and competitive advantage of the current economy and the future of this region.

This reality is positively encouraging companies to review their current business models in order to switch to more sustainable strategies: on the one hand, in order to increase productivity by increasing social and environmental value, and on the other hand, by mitigating possible risks. It is necessary to allow consensus with local governments to share common interests and to reinforce trust, which can only be gained and maintained by obtaining social licenses to operate. Companies are gaining more and more awareness of the importance of community value in order to maintain trust in the long term. Community-based mechanisms like protest, litigation, and referendums may disrupt local production and present brand risks leading in most cases to effective financial risks.

The idea of territorial and social cohesion, developed by FINES is a recent achievement for the theory and practice of strategic development. It is crucial to switch to an assessment of the features of excellence in a territory, including a deep analysis of advantages and disadvantages, its risk and opportunities within its geographical situation, the accessibility to market and, the integration within other productive sectors. The idea of cohesion is projected towards objectives related to quality: urban transportation, new forms of energy, modernization of telecommunications, including digital innovation, logistics and access to the national and the international market.

The smart component of a territory relies precisely in its capacity to think itself within a strategy. In *smart territories*, all the different actors participate actively in the discussions for the construction of the future. Smart territories are those in which communities are active, capable of organizing themselves to invent and achieve a consensus towards a common project for the future.

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