High Stakes in the Contest for Vietnam's Offshore Energy

Gregory Poling

The South China Sea disputes center on a noxious combination of nationalism, historical revisionism, and a contest over whether fundamental principles of international law, including the equality of states, will apply in Asia. The disputes are not driven by competition over energy resources, no matter how tempting it might be to place them within that well-worn narrative, and they would endure even if there were no oil and gas reserves under the disputed waters.

According to U.S. Energy Information Administration estimates, the South China Sea holds a modest 16 to 33 billion barrels of oil and 14 trillion cubic meters of natural gas (Chinese estimates are much higher, but are generally rejected by outside experts).¹ Nearly all of these hydrocarbons lie in shallow coastal waters around the edges of the South China Sea, with little to no commercially viable reserves beneath the disputed Paracel and Spratly Islands. But oil and gas exploration is vital to key stakeholders in each of the claimant countries, and serves as one field among many on which the contest over the deeper constellation of issues, especially competing visions of history and the role of international law, plays out. This is particularly true for Vietnam, whose entire offshore energy sector is now threatened by successful Chinese coercion.

The South China Sea is home to two overlapping but interconnected disputes, one territorial and one maritime. The territorial disputes focus on contested sovereignty over the Paracel and Spratly Islands, and Scarborough Shoal. The maritime disputes focus on rights to water, airspace, and seabed. The two are related because customary international law, codified in the United Nations Convention on the Law of the Sea, dictates that a country’s maritime entitlements, including its territorial sea, exclusive economic zone, and continental shelf, derive from its coastline and outlying islands.

The Southeast Asian littoral states base their claims in the South China Sea, including the oil and gas beneath it, on this framework, drawing lines out to legally-prescribed distances from their coastlines and the islands that they claim. Beijing, on the other hand, refuses to limit its maritime claims within the South China Sea to those emanating from territory. Instead, China falls back on a “nine-dash line” drawn around the entire perimeter of the sea within which Chinese leaders claim ill-defined “historic rights,” including to the oil and gas fields that sit on its neighbors’ continental shelves. On March 22, BBC News broke the news that Hanoi had, for the second time in less than a year, ordered Spanish energy company Repsol to halt work on a major offshore oil and gas project under pressure from Beijing. Repsol had commissioned a rig that was scheduled to depart Singapore for the project site, Block 07/03, on March 22 when Vietnamese authorities issued a last-minute order to stand down. The block is part of Vietnam’s internationally-recognized continental shelf, but also sits along the southern edge of China’s nine-dash line. A Repsol subsidiary estimates that the block could hold 45 million barrels of oil and 172 billion cubic feet of natural gas as part of the Red Emperor (Ca Rong Do) field. Vietnam has been trying unsuccessfully to exploit that field for a decade.

This episode is a worrying echo of the last time Repsol tried to tap an oil and gas block on Vietnam’s continental shelf. In June 2017, despite complaints from Chinese authorities, Hanoi and Repsol decided to move forward with drilling in Block 136/03, which sits close to Block 07/03. That project covers part of Vanguard Bank, a piece of the Vietnamese seabed over which China has demanded exploration rights since at least 1992 when it leased blocks in the area to U.S.-based Crestone Energy. After Hanoi’s refusal to back down, Chinese authorities reportedly threatened to attack Vietnamese outposts in the area if Repsol did not halt its work. In late July, Hanoi folded and ordered Repsol to plug the well it was drilling and leave the area.

It is unclear whether Repsol will ever be allowed to restart work at the two sites. If not, the company and its partners could be out as much as $300 million they already spent on exploration and drilling at Block 136/03 and another $200 million at Block 07/03. Whether canceled or indefinitely delayed, the case of Repsol will serve as a strong deterrent to any other foreign companies who might be considering investments in hydrocarbon exploration within the nine-dash line. The pool of potential investors is already depressingly small for Hanoi.

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U.S. State Department cables reveal that in 2006 China began to pressure major foreign investors to abandon offshore contracts signed with Vietnam. Beijing reportedly threatened both BP’s $4.2 billion in assets in China and any staff it might send to work on offshore projects in the South China Sea. As a result of such pressure, both BP and Chevron sold off their stakes in projects in disputed Vietnamese waters. In 2011, state-owned PetroVietnam purchased ConocoPhillips’ $1.5 billion in offshore assets to try and push stalled projects forward. That left only a few foreign players still invested in Vietnam’s South China Sea oil and gas ventures. Russian companies, led by local subsidiaries of Gazprom, are heavily involved in Vietnamese offshore assets and have to date weathered any pressure to divest. Others still in the game include India’s state-owned Oil and Natural Gas Corporation (ONGC), Repsol (courtesy of its acquisition of Canada’s Talisman, which owns the rights to blocks 136/03 and 07/03), and ExxonMobil.

With Repsol badly burned and ONGC sitting on assets that are likely not commercially viable just to send a message to China, Vietnam should be watching ExxonMobil closely. The U.S. energy giant has been more resistant to Chinese pressure than its competitors, at least to date, and it might be Hanoi’s last best hope to salvage international interest in its South China Sea energy resources. In January 2017, ExxonMobil announced plans to exploit natural gas in the Blue Whale (Ca Voi Xanh), field off the coast of central Vietnam. The area in question, Block 118, is bisected by the nine-dash line and also overlaps with blocks that state-owned China National Offshore Oil Corporation put up for tender in 2012. The site at which ExxonMobil plans to drill falls about 10 nautical miles outside the nine-dash line and it would come as no surprise if Beijing objected on the basis that it would be siphoning out gas that lies across the line. ExxonMobil was expected to announce the official launch of the project in November 2017, but instead delayed a final decision until 2019. That should have authorities in Hanoi, as well as the rest of the region, very worried.

8 Ibid; ICG, Stirring Up the South China Sea, 12.
13 Hiebert and Poling, “Tensions Bubble to the Surface.”
Were Vietnam forced to make the suspension of its offshore operations in Vanguard Bank and the Red Emperor field permanent, it would be abandoning exclusive rights to resources on its continental shelf—a fundamental principle of customary international law, including the United Nations Convention on the Law of the Sea. That would mark a significant win for China and its demand for historic rights. But it would also be a disaster for other South China Sea claimants, the United States, and the international community. The most important interests of Washington and likeminded partners in the South China Sea are the maintenance of regional stability and defense of the rules-based order, meaning freedom of the seas. The United States cannot defend the rules-based order or maintain the support of allies and partners just by ensuring that U.S. Navy assets can sail through contested waters. It must demand the observance of all lawful uses of the sea, including the rights of coastal states to an exclusive economic zone and continental shelf. Failing that, the U.S. Navy will sooner or later find itself sailing alone through a Chinese lake.

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Gregory B. Poling is director of the Asia Maritime Transparency Initiative and a fellow with the Southeast Asia Program at CSIS. He oversees research on U.S. foreign policy in the Asia Pacific, with a particular focus on the maritime domain and the countries of Southeast Asia. Mr. Poling received an M.A. in international affairs from American University.

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