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Vietnam's Exploration and Production Contracts: Using energy interests to strengthen maritime claims

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Synopsis

Vietnam's burgeoning energy industry is helping to bolster its claim to disputed parts of the South China Sea (SCS), by getting foreign companies involved in its offshore exploration and production (E&P). Will this approach invite possible reprisals by China or other claimant states?

Commentary

Vietnam has made great strides in its energy industry since it opened up this sector to foreign investment in 1987. With the Hanoi government playing a leading role, Vietnam has gone beyond partnering the former USSR to engaging in joint cooperation with countries around the world.

For a country wracked by decades of conflict, Vietnam's achievements in its energy industry can be considered remarkable. Besides joint cooperation, PetroVietnam now offers production sharing and business cooperation to foreign investors, something unthinkable for a socialist economy to undertake in the past. The company has also conducted seismic research and drilling in the country's continental shelf yielding discoveries that, in turn, attracted more foreign capital, technology and expertise.

At present, aside from 76 petroleum contracts at home with 53 taking effect, PetroVietnam is also engaged in 23 energy contracts the world over from neighboring ASEAN countries like Cambodia, Laos Indonesia, Malaysia and Myanmar to as far away as Madagascar in East Africa and Venezuela in South America. Indeed, if it continues at such a pace, the company can become a formidable global player, like its Chinese counterparts, and propel Vietnam to centre stage as a major oil exporter.

While its growing economy consumes ever greater amounts of energy, Vietnam is also exporting surplus oil to the international market. The Joint venture (JV) strategy used by Vietnam to attract investors in its energy sector is not only to welcome capital and technology in such expensive and challenging endeavours as offshore exploration and production (E&P), it also permitted the country to mitigate political or security risks arising from upstream activities. This is especially so in the contested SCS where six claimant countries have competing territorial and maritime claims. China and Vietnam, in particular, have long been at odds over marine and hydrocarbon resources in the area with both countries putting the same waters in their respective service contract system offered to foreign energy players.

Vietnam's decision to partner with the state-owned energy companies of Russia and, recently, India is not only economic in nature, but also political, as it gives the country the backing of bigger regional powers in exploiting

the resources within its maritime claim. GazpromViet and Vietsovpetro are two JVs that state-owned PetroVietnam undertook with its Russian counterparts, Gazprom and Zarubezhneft respectively, allowing Vietnam to conduct E&P in both Vietnam and Russia. Hanoi benefited much from the long industry experience and technological know-how of their Russian partners.

Vietnam also entered into a JV with Nippon Oil Corp establishing the Japan Vietnam Petroleum Company (JVPC). But on top of the investments, knowledge and technology transfer, Hanoi also made it difficult for other SCS claimants, notably Beijing, to disrupt or interfere with these joint ventures, save for some possible diplomatic protests and official press releases against them. The Chinese leadership knows fully well that any action taken against these joint ventures will impact not only on Vietnam, but also on its concerned JV partners, such as Russia and India, China's BRICS partners and regional powers in their own right.

But to avoid being seen as provoking China by partnering only with the latter's rivals, Vietnam also diversified its partners to include Korean, Canadian, American, British, and Australian players. In fact, the country even partnered with Malaysia, a co-claimant in the SCS, to conduct oil and gas exploration in their shared SCS zone. Lam Son Joint Operating Company is a 50-50 JV between PetroVietnam and Malaysian state-owned giant Petronas. Vietnam and Malaysia jointly submitted their continental shelf claims to the UN in 2009 and this could signal the strengthening of the energy cooperation between the two ASEAN neighbours. Hanoi also cultivated energy partnerships with other neighbours, Thai PTT PCL and Indonesian state-owned Pertamina.

The participation of foreign state-owned enterprises in the country's offshore upstream activities reinforce Vietnam's sovereign claim in the SCS. JVs spread risk, not only financial and economic, but also political risk. It makes it difficult for China or other claimant country to prevent or disrupt these energy exploration activities knowing that it will not only be protested by Hanoi, but it may also incur the ire of Vietnam's sovereign JV partners. India's deployment of naval ships in the SCS off the coast of Vietnam can be seen as possible insurance against possible harassment of ONGC Videsh Ltd (OVL) platforms by Chinese naval or coast guard ships, thus helping Vietnam guard its own Exclusive Economic Zone (EEZ).

Advances in deep sea drilling technology enable Vietnam, as well as other coastal and archipelagic states, to conduct exploration farther and deeper into the SCS. But this would also mean widening the chances of conflict over overlapping maritime claims.

While no effective resolution of the SCS dispute is yet in sight, claimant countries will continue to engage in wooing foreign investors to support their maritime stakes with their investments. However, while Vietnam's strategy may be working to its advantage now, once other claimant states fully adopt the same, a web of competing energy blocks will extend over the SCS. That would likely create confusion and heighten tension in the area, which may eventually drive away investors wary of costly political risks and uncertainties.

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