



# SOUTH CHINA SEA

**THE PROBLEM OF POLITICS**

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## **RECENT DEVELOPMENTS**

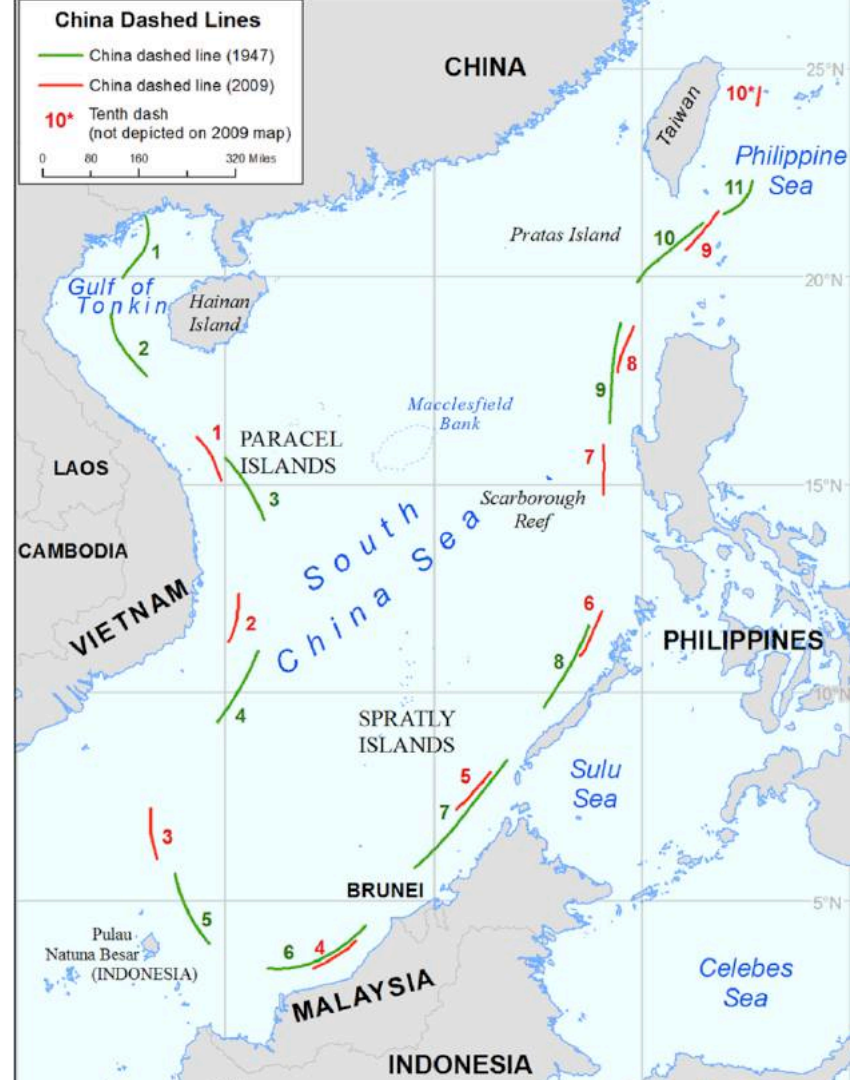
**Increasing pressure from China on Southeast Asian claimants for 'joint development'**

**China using threats of force to block developments within U-shaped line**

**Falling production – eg Vietnam 15.5 million tons in 2014, 13.5 million tons in 2017**

# U-SHAPED LINE

- Not consistent
- 1947 meaning was clear – it was a claim to the islands only (Chung 2016)
- A new interpretation of the meaning of the line has been concocted since 1990
- China's recent artificial island-building means it has the means to enforce its unilateral bans on rival claimants
- The consequences are chilling for offshore Brunei, Indonesia, Malaysia, Philippines and Vietnam





# CHINA'S ENERGY DREAM

- April 1987** First survey 'Rich oil and gas reserves on the Zengmu Ansha' (Xinhua, 24 July 1987)
- Dec 1989** Spratlys contain 25 billion m<sup>3</sup> gas and 105 billion barrels of oil. James Shoal area has a further 91 bboe (China Daily, 24 Dec 1989)
- August 1990** Li Peng's 'invitation' for joint development during visit to Singapore
- April 1991** Enter Randall C. Thompson...
- Feb 1992** Chinese People's Congress approves Territorial Waters Law
- May 1992** Crestone signs lease on WAB-21 with CNOOC
- April 1994** First confrontations in WAB-21 between China and Vietnam

# THE LEGAL POSITION...

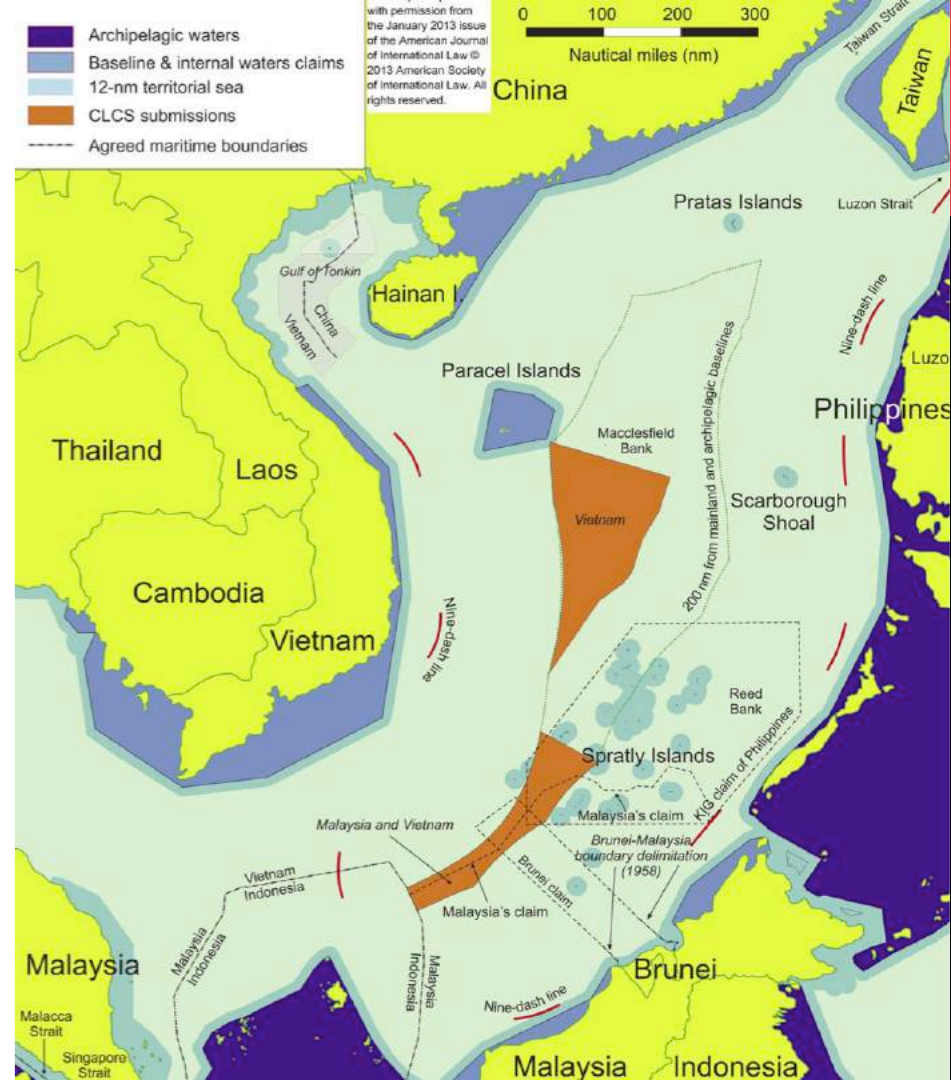
2016 arbitration result is binding on China and the Philippines

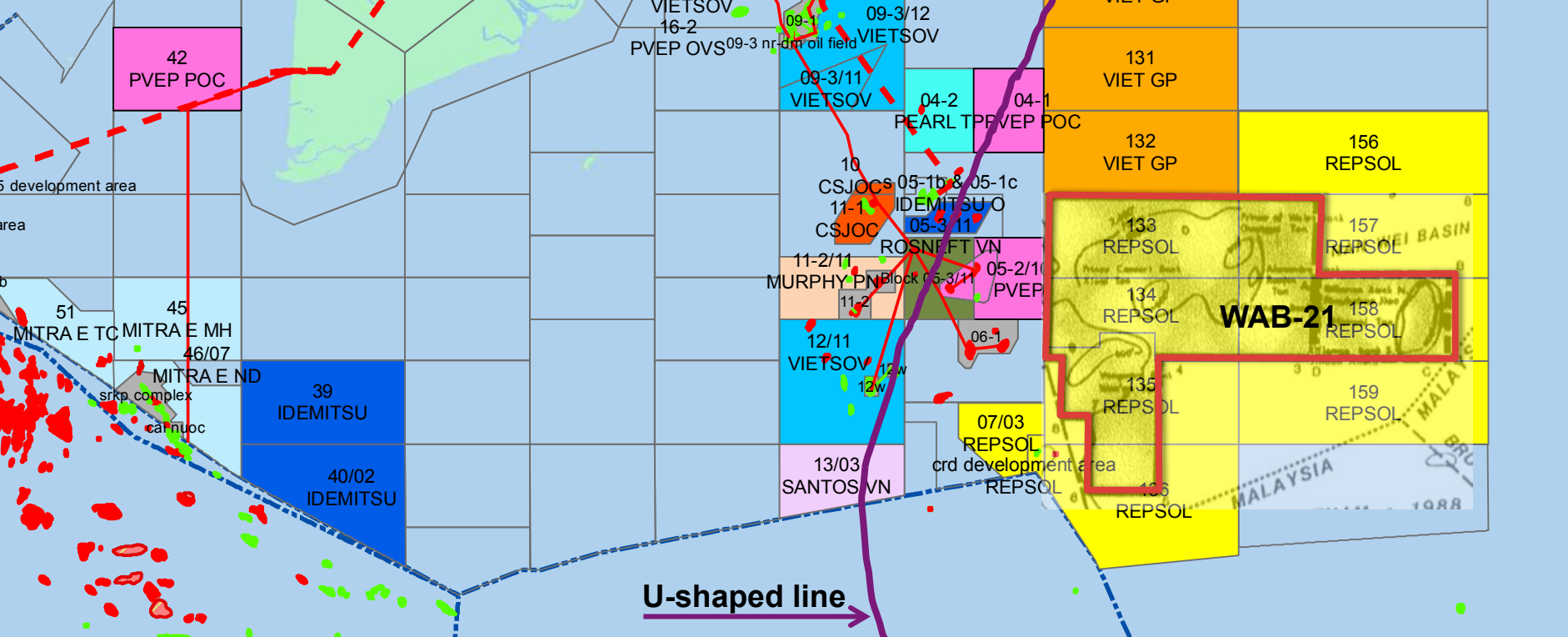
- None of the Spratlys nor Scarborough Shoal is entitled to an Exclusive Economic Zone
- China's 'historic rights' claim is not compatible with international law

Beyond 12nm from the above water features, all resources belong to coastal state (ie not China...)

But that's just the law...

Map by: I Made Andi Arsana  
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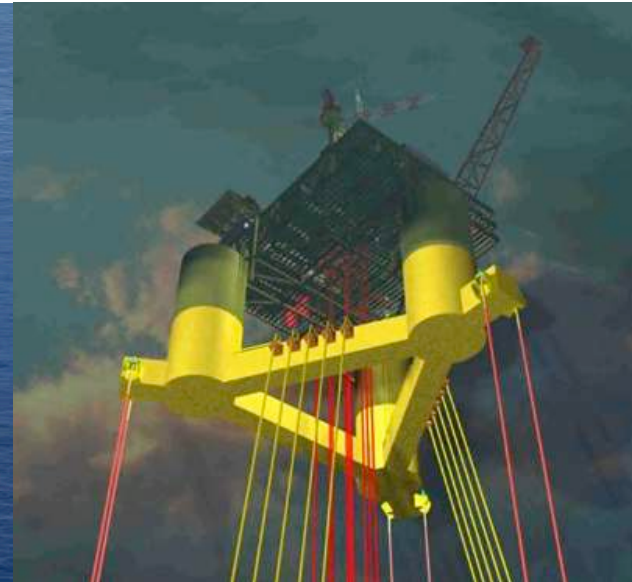


# VIETNAM'S TROUBLES

Block 136 suspended June 2017 and Block 07/03 suspended March 2018

Both seem to lie outside WAB-21 but within the U-shaped line

Rosneft reportedly concerned about Block 06/01



# CONTRACTORS' TROUBLES

Many companies involved in Repsol project

Plenty of routes for information about drilling schedule to leak out

Projects look politically dead rather than just suspended



# INTIMIDATION TIMELINE

- 5 March**                    **USS Carl Vinson arrives in Danang**
- 8 March**                    **USS Carl Vinson leaves Danang**
- 11 March**                   **USS Carl Vinson & JMSDF exercise in SCS**
- 14 March**                   **USS Carl Vinson exits SCS via Luzon Strait**
- 20 March (?)**               **Liaoning enters SCS via Luzon Strait**
- 21 March**                   **Repsol cancels oil drill**
- 20 March**                   **PLAN flotilla assembles off Hainan**
- 26 March**                   **Satellite photo of Liaoning & 40 vessels in SCS**



# WHO OWNS WAB-21?



**1992: Block concept developed by Crestone**

**1996: Crestone bought by Benton Oil & Gas**

**2002: Benton becomes Harvest Natural Resources**

**2014: Rights to block sold to 'a subsidiary of Brightoil'**

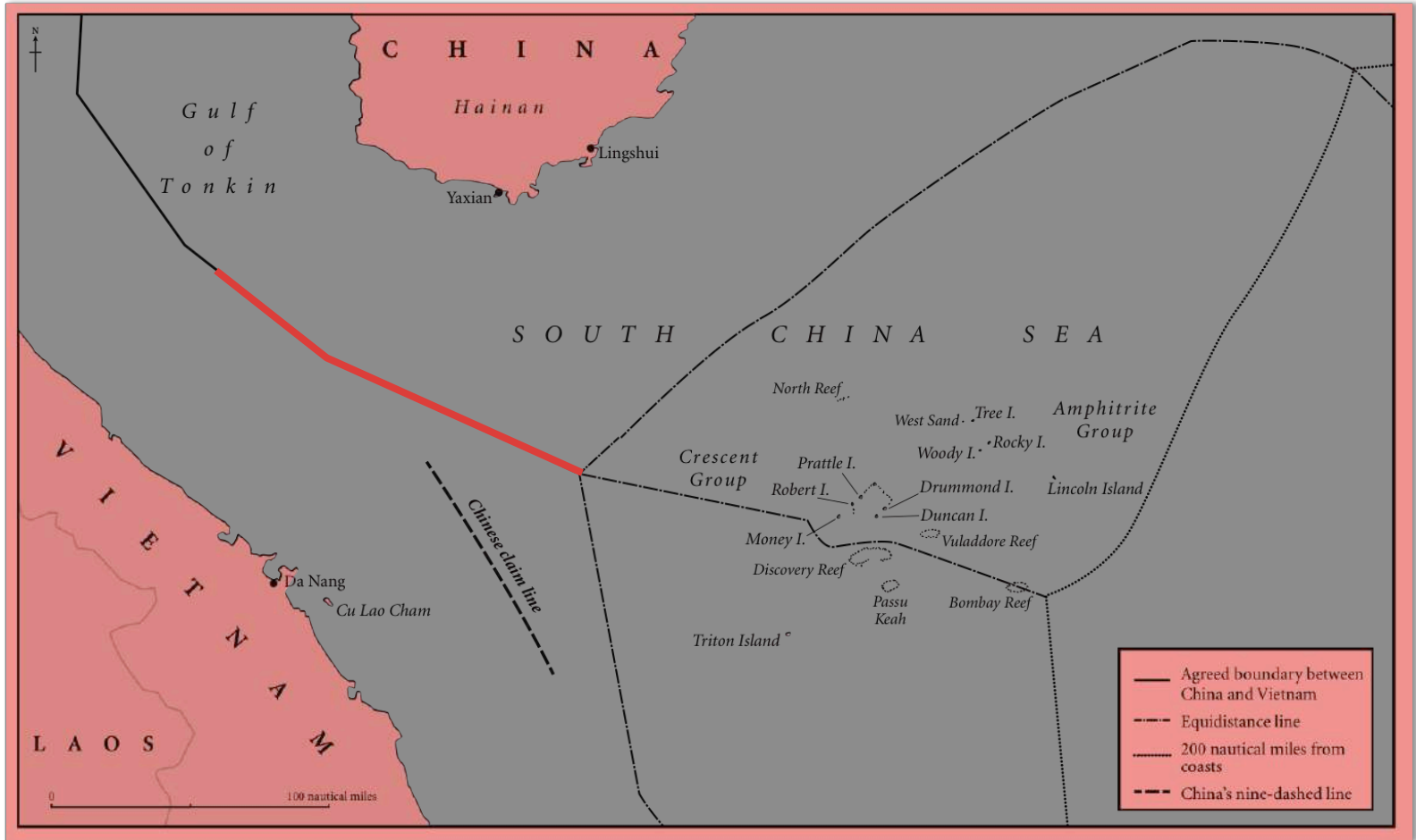
**2017: Brightoil says rights were acquired privately by its company chairman Sit Kwong Lam**

## CLARIFICATION

Recently, there is misrepresenting information concerning the petroleum right of the Wan-an Bei 21 sea area (also known as Block 136-03 by Vietnam) in relevant media reports regarding the China-Vietnam territorial waters. Brightoil Petroleum (Holdings) Limited (hereinafter referred as the “Company”) has conducted verification of the reported items and would like to make the following clarifications:

The Company does not own any petroleum interest or exploration right of the abovementioned Wan-an Bei 21 sea area (or Block 136-03 referred by the report). The Company and its subsidiaries are not involved in any operation of the abovementioned sea area. Based on the verification of the Company, the rights and interests of the Wan-an Bei 21 contract was acquired from another company in 2014 by a private company wholly owned by Dr. Sit Kwong Lam, the Chairman of the Company.

Brightoil Petroleum (Holdings) Limited hereby declares that the Company has been actively developing the upstream oil and gas field business, and the production and operation of the Company are currently under normal conditions.





Biểu đồ hình ảnh về địa điểm  
 (Điểm A, B, C, D)

STT	Điểm	Điểm	Điểm (km)
1	A	B	1 - 2
2	B	C	2 - 3



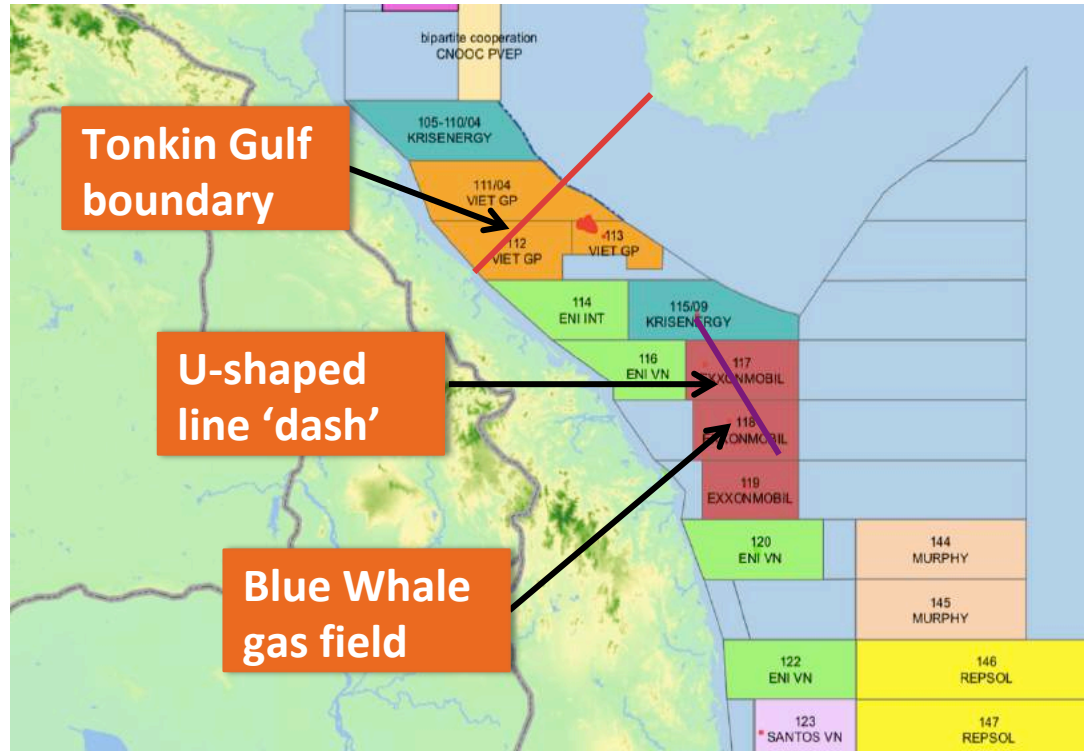
# SOME ARE STILL DRILLING

## Rosneft – Block 06/01

- Former BP block
- Drilling now, despite threats

## ExxonMobil – Block 118 (Blue Whale / Ca Voi Xanh)

- Delays seem to be mainly contractual not political
- Field seems to be outside U-shaped line
- 19tcf (gross) estimate





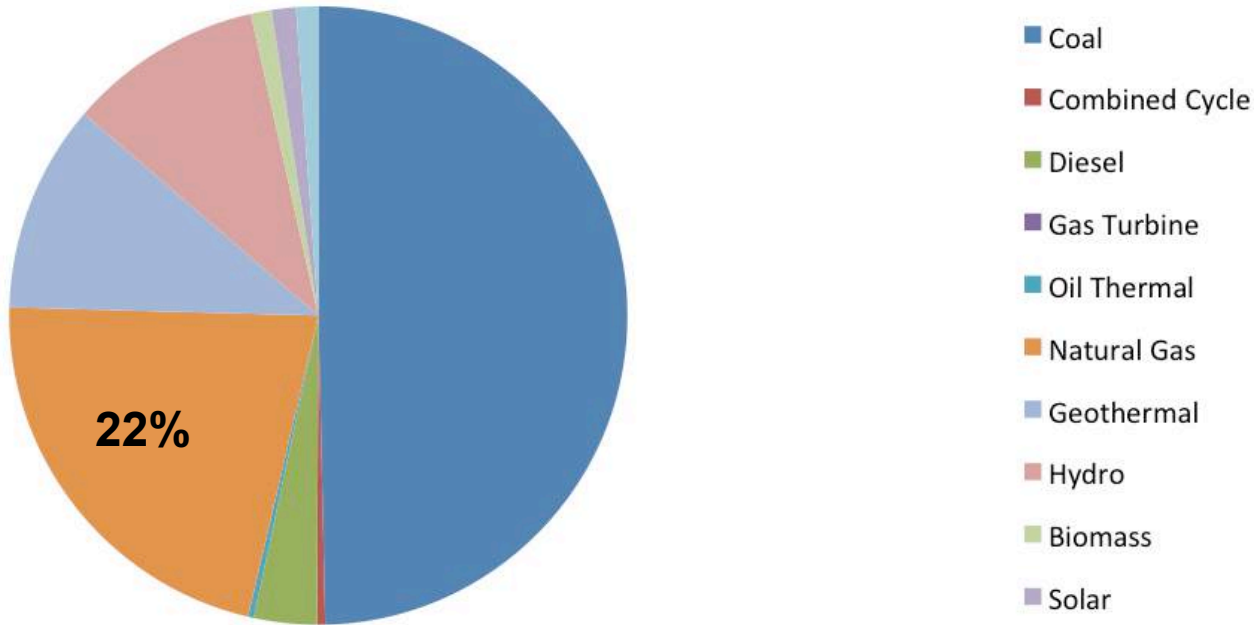
## **THE PHILIPPINES' TROUBLES...**

Malampaya expected to run out soon after 2022/23

Reed Bank could fill the gap – Forum plc's estimate of 8tcf in Sampaguita field on Reed Bank

Constitution is a block to 'joint development' but martial law could get around that

# PHILIPPINES: BLACKOUTS AHEAD?



Philippines Department of Energy statistics for 2017

22% of electricity generation comes from natural gas, 99% of that from Malampaya

No decisions yet taken on replacement via LNG imports or coal





# JOINT MARINE SEISMIC UNDERTAKING

September 2004 – CNOOC & PNOC sign JMSU

March 2005 – PetroVietnam join JMSU

July 2008 – JMSU lapses



# BRUNEI'S PROBLEMS

Fall in oil price plus declining output have created ongoing budget deficit

Brunei wants to open up deep water for exploration and development

Seems to be being prevented from doing so – by China?

# INDONESIA'S PROBLEMS

Indonesia agreed seabed boundaries with neighbours but not EEZ boundaries

China's U-shaped line claim overlaps with EEZ claims from Natuna

Indonesia refuses to recognise existence of dispute

That hasn't stopped China Coast Guard operating there







Chinese governments, and in accordance with national law and international law, including the *United Nations Convention on the Law of the Sea*, China has territorial sovereignty and maritime rights and interests in the South China Sea, including, inter alia:

- i. China has sovereignty over Nanhai Zhudao, consisting of Dongsha Qundao, Xisha Qundao, Zhongsha Qundao and Nansha Qundao;
- ii. China has internal waters, territorial sea and contiguous zone, based on Nanhai Zhudao;
- iii. China has exclusive economic zone and continental shelf, based on Nanhai Zhudao;
- iv. China has historic rights in the South China Sea.

The above positions are consistent with relevant international law and practice.

## CHINESE GOVERNMENT STATEMENT

Issued 12 July 2016 – the day of the Arbitration ruling

Layers of confusion – both archipelagic claim and historic rights



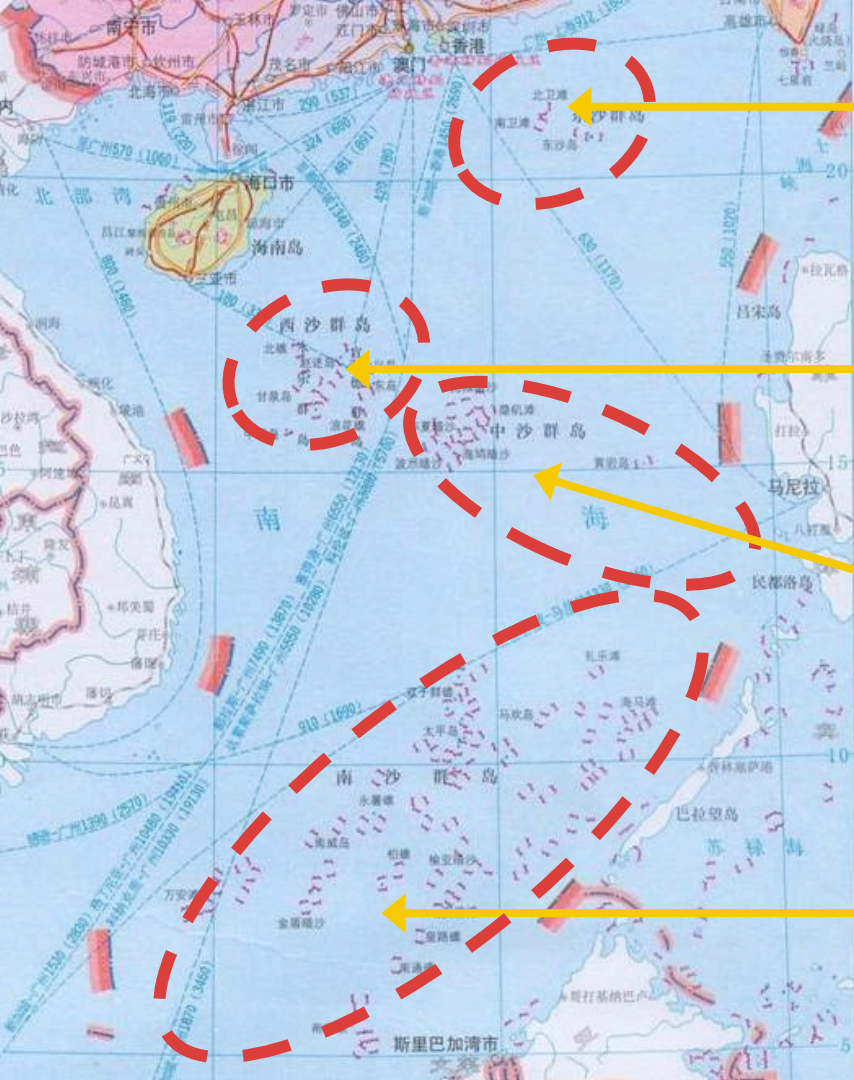
## THE CAUSE OF ALL THIS GRIEF

Professor Fu Kuen-chen – the inventor of the ‘historic rights’ argument

July 1989 – One of three legal scholars on ROC Ministry of Interior committee

Then a KMT ‘one-China’ diehard but resigned to join the New Party

# THE FOUR 'SHAS'



- Dongsha  
'East Sand'  
Pratas
- Xisha  
'West Sand'  
Paracels
- Zhongsha  
'Central Sand'  
Macclesfield Bank etc
- Nansha  
'South Sand'  
Spratlys etc





# **CONCLUSION**

**It doesn't look great...**

**Expect on-going Chinese obstruction of development inside U-shaped line**



# THERE'S MORE IN THE BOOK!

