Joint Development in the South China Sea: Lessons from the Past and Future Prospect

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The South China Sea is often said to be rich in hydrocarbon reserves, although most of the deposits are unconfirmed, due in part to the multiple claims laid over them by several coastal economies. China (and Taiwan) claim sovereignty over all the islands. Vietnam, the Philippines, Malaysia, and Brunei each claim some of the land features. In addition, China also claims unspecified sovereign rights within a so-called “nine-dash line”, the area in which significantly overlaps exclusive economic zones (EEZs) asserted by the other claimants and Indonesia. Available estimates of the hydrocarbon reserves vary greatly, partly due to the difficulty to survey in disputed waters.

Exploratory activities have long been a major cause for frictions, which—traditionally played out in unseen courts of diplomacy—have intensified in recent years into confrontations at sea. In 2011, Chinese law enforcement vessels and fishing boats skirmished with Philippine or Vietnam seismic surveillance ships. In May 2014 Beijing deployed a deep-water drilling rig into waters disputed with Hanoi, triggering a two-month standoff at sea by dozens of vessels and violent anti-China protests in Vietnam. Although tensions cooled after China withdrew the rig in July and restored high-level bilateral diplomacy, relations have yet to fully recover.

Beijing, however, has left Malaysia and Brunei largely unbothered, although many of Malaysia’s natural gas fields are located within China’s nine-dash line. Neither did it object to an agreement by Malaysia and Brunei to jointly develop energy resources in an area that all three claim. The differential treatment likely reflects Beijing’s implicit appreciation of Malaysia’s and Brunei’s downplaying of their disputes with China, and resentment of Hanoi and Manila’s efforts to rally international support for their struggles with Beijing.

China's March to the Sea

"Three Bucket of Oil"
China’s appetite for fossil fuels in the South China Sea grew with its hunger for energy, its overall foreign policy assertiveness and its technical capabilities. Collectively nicknamed the “three buckets of oil”, the national oil companies (NOCs)—China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), and China Petroleum & Chemical Corporation (Sinopec)—have led the march. Their eagerness to develop the South China Sea has been driven by potential political gains as much as economic interests, and intensified by competition among themselves.

The NOCs are under the supervision of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council, but the Central Organisation Department of the Chinese Communist Party (CCP) appoints their top executives, who are also the companies’ leading party cadres and typically rank at the vice ministerial-level. It is not rare for NOC executives to ascend to prominent political positions. Economic and commercial interests, therefor, may not be the only drivers when NOC executives make business decisions. “They could have hoped to use achievement in South China Sea to propel their political careers,” said a Chinese maritime policy analyst.

CNOOC is China’s largest offshore oil and gas producer and was established in 1982 with the exclusive right to offshore exploration, development, production and sales. Due to technical constraints and political consideration, CNOOC’s operations in the South China Sea were confined to shallow and undisputed waters until recently.

CNOOC lost its offshore monopoly in 2004, when CNPC obtained permissions from the government to explore and develop eighteen South China Sea blocks, some in the disputed Spratly region. Sinopec was reported to have also submitted applications for offshore permits, including in areas in the South China Sea. A competition among the three NOCs in the South China Sea began. Executives lobbied the government for permission and support, often in the name of asserting Chinese sovereignty.
In 2008, CNOOC decided to invest about $32 billion in the following ten to twenty years in developing the South China Sea, which CEO Fu Yucheng declared a “priority”.

During the National People’s Congress session the following March, delegate and CNOOC executive Song Enlai urged the central government to boost policy and financial support for deep-water exploration in the South China Sea, a task he said had acquired urgency as other claimant countries were engaged in “predatory exploitation” in Chinese waters. During that year’s Chinese People’s Political Consultative Conference, held at the same time as the congress, delegate and former CNPC Vice President Jia Chengzao said, “China already has the technical capability for large-scale oil and gas exploitation in the South China Sea. It is necessary for the state to treat it as a priority and provide policy support”.

The share of imports exceeded 50% in China’s oil consumption in 2009, prompting the National Development and Reform Commission to convene experts to evaluate the prospect hydrocarbon exploitation in the South China Sea in early 2010. Soon after, Sinopec allotted about $28.3 million to acquire a surveillance vessel to enhance its maritime exploratory capability. The three NOCs’ race in the South China Sea intensified.

Despite their enthusiasm, drilling far away from the Chinese shore is politically sensitive when disputes are involved, technologically demanding where the water is deep and far from the logistical base, and financially risky when the deposits are unproven. A Chinese energy analyst said in 2011 that “China would rather go to Africa”, as drilling in the South China Sea was “too troublesome”. The NOCs at the time also lacked indigenous capability for drilling in areas deeper than 300 metres. Providing logistical support to oil platforms thousands of kilometres from China’s coast could be technically challenging and financially prohibitive.

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