



REED BANK: NEXT FLASHPOINT FOR CHINA AND THE PHILIPPINES IN THE SOUTH CHINA SEA?

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The Philippines is seeking to develop the seabed hydrocarbon resources of Reed Bank in the South China Sea, an area under dispute with China. Should Manila put plan to action, Beijing is likely to dispatch enforcement vessels to disrupt such activities. Given the deteriorating bilateral relationship, tensions between the two countries are in danger of escalating to the point of brinkmanship.

On May 9, amid rising tensions between China and Vietnam following China's deployment of the deep-sea rig CNOOC 981 in disputed waters near the Paracel Islands, the Philippines' Department of Energy launched a tender for exploration rights to 11 oil and gas blocks. Included in this tender round is "Area 7," located in an area of the South China Sea known as Reed Bank, which China also claims. Less than two weeks later, on May 21, Philex Petroleum Corp of the Philippines announced that its London-listed unit, Forum Energy Plc, plans in early 2016 to start drilling appraisal wells in the Sampaguita gas field, also located at Reed Bank.

The two announcements are the latest in a series of moves from the Philippines in response to China's growing assertiveness in the area of the South China Sea that the Philippines refers to as the West Philippines Sea. Both Manila and Beijing would appear to be adopting uncompromising stances over their competing claims. Should the Philippines proceed to develop Reed Bank unilaterally, there is a likelihood that tensions will escalate to the point of brinkmanship.

Rising Tensions

Relations between China and the Philippines are being increasingly overshadowed by their differences in the South China Sea. Under President Benigno Aquino III, the Philippines has been proactively defending its maritime claims in response to China's assertiveness. Tensions have increased in recent years. In 2011, two Chinese patrol vessels were reported to have accosted a seismic survey vessel contracted by Forum Energy, operating in Reed Bank. Elsewhere, in 2012, two Chinese maritime surveillance ships blocked a Philippines navy ship from arresting Chinese fishermen operating in the

Scarborough Shoal. More recently, in March this year, China tried to block the Philippines from sending supplies and fresh troops to a Philippine naval vessel lodged on the Second Thomas Shoal. Just this month, Manila charged 11 arrested Chinese fishermen for illegal poaching at another disputed shoal, as well as publicly accused China of carrying out reclamation work ostensibly done to prepare for the construction of an airstrip on Johnson South Reef.

Manila has sought to gain support for its claims. During the Vietnamese Prime Minister's visit to Manila on May 21, President Aquino called on the international community to condemn China's actions in the South China Sea. This came after Manila had submitted a 4,000-page memorial in March to the UN's Permanent Court of Arbitration seeking to invalidate the nine-dash line that China uses to justify its claims in the South China Sea. On April 28, furthermore, the Philippines signed the Enhanced Defense Cooperation Agreement (EDCA) with the U.S., which allows for enhanced "rotational presence" of U.S. military forces and for U.S. supplies to be stationed at military bases in the Philippines for a period of ten years. In the context of the above, the latest announcements on the Sampaguita gas field and Area 7 are set to further raise the stakes between China and the Philippines.

Drilling in the Disputed Reed Bank

The Reed Bank area that Forum Energy plans to drill refers to Service Contract 72 (SC72), which is where the Sampaguita field is located. While it was first explored in the 1970s it remained undeveloped due to opposition by the Chinese, including harassment by Chinese vessels against Forum Energy's operations in 2011. The proposed drilling of the two



appraisal wells is subject to the Philippine government's approval to re-extend the work permit for SC72 which will expire in August 2015. If successful, it would take 12 to 18 months to mobilize a drilling rig, the earliest being in March 2016.

According to Forum Energy, the Sampaguita field is believed to contain 2.6 trillion cubic feet (tcf) of contingent in-place gas resources and 5.5 tcf of prospective in-place gas resources including possible condensates associated with the gas. Area 7, offered on May 9, lies diagonally east of SC72 and the tender result is expected to be announced on May 9, 2015. No wells have been drilled in the area to date but it has an estimated resource potential of 165 million barrels of oil and about 3.5 tcf of gas.

While the Chinese government has repeatedly declared its openness to joint development in the South China Sea, and Philex Petroleum Corp has in the past also approached the China National Offshore Oil Company (CNOOC) to help develop SC72, the Chinese are nonetheless unlikely to participate in developing the Reed Bank area with the Philippines. This is mainly due to Manila's insistence that Chinese participation should be in accordance with the Philippines Constitution, with recognition of the area as belonging inside the Philippines' Exclusive Economic Zone, and subject to the laws of the Philippines. Accordingly, China regards Manila's tendering of Area 7 as an attempt to assert its sovereign rights over the disputed area. The current tensions are also likely to deter major international companies from applying for the block.

Toward Brinkmanship?

In recent years, there has been a growing perception in Beijing—rightly or wrongly—that the other South China Sea claimants have been taking advantage of China's "self-restraint" to exploit maritime resources that belong to China. In the absence of plans for joint development and with the unilateral seabed hydrocarbon development plans announced by the other claimants, particularly the Philippines and Vietnam, Beijing is now more inclined to accelerate its own exploration and production plans in the South China Sea, and will likely step up its maritime enforcement activities to try and prevent others from conducting development activities in areas under dispute. Indeed, the oft-heard refrain by this author in Beijing is that if China does not act soon to develop the seabed oil and gas resources in the

South China Sea, they will soon be exploited by the other claimants.

It has been suggested in the international media, in this regard, that China's positioning of CNOOC 981, near the Paracels on May 2 could be, in part, linked to Vietnam's 2013 announcement of its intention to build a \$20 billion power plant to be supplied by oil and gas from Vietnamese Blocks 118 and 119, which are adjacent to where CNOOC 981 is deployed. As for the Philippines' latest stated intentions in Reed Bank, it is unclear if Beijing would, in the short term, retaliate by having CNOOC announce its own plans to develop this area. Given, however, that Chinese vessels have in the past disrupted Forum Energy's operations there, they will most likely do so again if operations resume.

It would appear that the Chinese leadership under Xi Jinping is increasingly prepared to demonstrate its resolve in asserting its South China Sea claims through the deployment of enforcement vessels and by taking unilateral action, the latest being the deployment of CNOOC 981 near the Paracels. Meanwhile Manila, under the Aquino administration, also appears to be prepared for an escalation of tensions with Beijing. Unless the two sides can agree to manage their differences amicably through dialogue, tensions over Reed Bank may escalate into a dangerous game of brinkmanship.

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