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## South China Sea: Lots of oil, lots of uncertainty

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Coast guard vessels from China (rear) and Vietnam in a disputed part of the South China Sea near China's oil drilling rig, May 14, 2014.

The South China Sea is expected to hold billions of barrels of oil and trillions of cubic feet of gas, but some energy firms are tentative about exploring the region. And for now at least, they seem likely to stay that way.

Energy analysts are cautioning companies to stay away from the highly contested body of water that lies between China, the Philippines and Vietnam. China claims to have energy rights over a much larger section of the sea—more or less all of it—than is recognized internationally, and it has put forth an increasingly assertive physical presence in the region this year.

"At least in the Middle East, you know what you're getting into. In the South China Sea, you don't even know who owns the area you're drilling in." -Chris Nevin, research director, Energy Insights

"I advise companies not to take that risk now," said Chris Nevin, research director of IDC Energy Insights. "It's a question of, 'Is there a better place to dig for oil?' At least in the Middle East, you know what you're getting into. In the South China Sea, you don't even know who owns the area you're drilling in."

The South China Sea, including areas near Malaysia, Brunei, and Taiwan, is estimated to hold between 5 billion and 22 billion barrels of oil, and between 70 trillion and 290 trillion cubic feet of gas, according to the Energy Information Administration. Research firm IHS points out that those estimates are considerably lower than in other areas like the Antarctic.

But many firms remain wary about the region. Chevron, the second-largest U.S. oil company, has been in talks with other firms to sell its stake in an offshore project with PetroVietnam off Vietnam's southern coast. Those talks are ongoing.

Filipino oil company Philex Petroleum, the majority owner of London-based Forum Energy, sought a partnership with China's state oil firm China National offshore Oil Corp. (CNOOC) to explore the disputed Reed Bank area, but the chairman of Philex told the Associated Press last month that it's received no response from CNOOC. The executive, Manuel Pangilinan, noted that the project has failed to draw other investors because of conflicting claims on the region.

<p>How China views South China Sea tensions</p> <p>In this clip, scholars of maritime history discuss Beijing's view of the territorial standoff with Vietnam and attempt to clear up misconceptions about China's intentions.</p>

The biggest oil firms, like Exxon, or those with the right political connections to China, such as Russia's state-controlled Gazprom, may be able to mitigate their risks in the area.

**"It really depends on their ability to absorb risk and if they are in a position to antagonize China or work with them in a politically unstable situation," said Lilac Nachum, professor of international business at Baruch College.**

Some smaller firms have entered into cooperation agreements with local companies that are exploring disputed parts of the territory. But Rachel Calvert, Asia-Pacific manager for Petroleum Sector Risk at IHS, said exploration largely remains on hold in much of the area.