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What Fracking Means for Southeast Asia

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Despite the rhetoric, SE Asian governments have been slow to tap their oil reserves. Fracking could make progress even slower.

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Oil and gas have long held the promise of untold riches for Southeast Asian countries. Yet, success in the region has been mixed: Brunei has flourished and Malaysia has seen steady progress, but Burma, Cambodia, the Philippines, Vietnam and East Timor have struggled to exploit their reserves.

Negotiations with oil companies and powerful neighbors are already tough as it is. However, the advent of hydraulic fracturing (a.k.a. fracking) will make this process even more difficult, especially when it comes to developing reserves in the South China Sea, the Gulf of Thailand, the Timor Sea and the Andaman Sea.

The term "fracking" refers to the practice of making fractures in rocks and rock formations by injecting various fluids into cracks to force them to further open. The bigger fissures permit added oil and gas to gush out of the formation and into the wellbore, where it can then be extracted. This innovative technique for tapping reserves has revolutionized the oil and gas industry. To be sure, many harbor deep concerns for the damage it can cause to the environment. Nonetheless, its ability to extend the life of existing oil fields has changed the industry's outlook.

The use of fracking is most suitable for mature energy producers with established markets, developed oil fields and infrastructure already in place. Countries such as the United States, Australia, Canada, and in Europe and Central Asia will benefit most from this innovative method. For example, disused oil refineries on the U.S. East Coast are being reopened to accommodate producers whose fields were once thought spent.

Alongside extending the life of existing oil fields, fracking has helped to substantially lower oil prices. According to a report by PricewaterhouseCoopers, fracking could keep oil prices up to 40 percent lower than the levels they were previously expected to reach by 2035.

This means crude could be valued at less than U.S. $90 per barrel, compared with the current price of about U.S. $100 a barrel and the peak oil price of U.S. $145 per barrel that producers were earning in 2008 amid dwindling supplies.

"There's no doubt fracking offers a technical solution to countering rising hydrocarbon costs and helping end energy dependency on often volatile source countries," Gavin Greenwood, a risk analyst with Hong Kong-based Allan & Associates, told *The Diplomat*.

For the last ten years, Cambodia and Thailand have failed to reach a production sharing agreement over reserves held in overlapping claims. Likewise, the future of agreements East Timor has forged with Australia is uncertain.

Meanwhile, an agreement on production sharing in the South China Sea is as elusive as the much vaunted Code of Conduct for dispute resolution. China, the Philippines, Vietnam, Malaysia, Brunei and Taiwan all have competing claims.

Gunboat diplomacy has dominated regional politics in the South China Sea and is particularly disheartening for the Philippines and Vietnam. Their claims surrounding the hotly contested Paracel and Spratly islands are particularly convincing. These island chains are believed to contain vast reserves of natural resources, including oil.

Conservatively, Cambodia has an estimated 400 million barrels within its jurisdiction. Prime Minister Hun Sen, who loathes criticism of his government's handling of the issue, has promised Khmers that oil would flow and standards of living would rise by 2012. To date, however, nothing has been produced.

Greenwood says that family elites involved with running many of these countries may have glimpsed a rare opportunity to pursue policies that would enrich themselves at the expense of their respective countries.

“For most of the countries the problems of developing an oil and gas sector are technical and legal,” Greenwood said. “None of those above have the resources to develop their usually offshore oil and gas sectors without foreign investment and skills.”

He added, “In the case of Cambodia, Vietnam and the Philippines, competing territorial claims either with neighbors or with China also hamper development as oil/gas companies cannot justify the massive investment involved unless there is legal certainty over ownership and contractual obligations.”

In short, these countries are becoming much less attractive as potential sources of oil given the diminished financial returns and improved oil and gas recovery rates from fracking, coupled with the political risks of doing business in these countries.

East Timor has its own issues, in particular its sometimes prickly relations with Canberra and the Treaty on Certain Maritime Arrangements in the Timor Sea, which was supposed to guarantee the revenue split between Australia and East Timor for the next 50 years.

Recently an agreement between East Timor and Australia expired and now Dili must decide whether to construct a liquefied natural gas (LNG) processing plant with operator Woodside Petroleum. Such a plant is necessary to develop the Greater Sunrise field. Dili wants to build the plant on East Timorese soil, but Woodside insists this is neither economical nor technically advisable. It wants to construct the plant on a floating pontoon.

Nevertheless, some analysts are more optimistic about East Timor’s prospects.

Charles Scheiner of La'o Hamutuk, the East Timor Institute for Development Monitoring and Analysis, explained that, on one hand, fracking has capped the price of oil and made these fields less lucrative. Yet, he also noted that the Greater Sunrise field was considered commercially viable in 2003 when oil was trading for around U.S. $30 per barrel.

Scheiner added that East Timor is “not nearly as difficult as many other places where oil companies go to make money,” such as Nigeria, Saudi Arabia, Iraq and Iran.

“Phillips Petroleum, Woodside and many other companies began exploring in TL's (East Timor’s) part of the Timor Sea in the early 1990s, under contracts with an illegal occupier in a war zone,” he said, referring to Indonesia’s occupation of East Timor from 1975 to 1999. He said, “They take political risk – and sometimes violate the law – to reap profits. Timor-Leste today is a piece of cake in comparison with then.”

Scheiner has a point, but fracking has enabled oil companies to reopen old sites and put equipment to work that has lain dormant for years – in their own backyards where the return on investment is much greater. Thanks to fracking, the U.S. is expected to eventually be self-sufficient and could become the world’s largest oil and gas producer within the next five years.

This game changer will effectively leave countries like Cambodia, East Timor, Vietnam, the Philippines and perhaps even Burma back where they were five to ten years ago. Political rhetoric in Southeast Asia during that time promised much from the oil industry. To date, however, it has delivered little.

Editor's Note: The text has been updated and corrected from the originally posted version.

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