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ABN # 65 648 097 123



Background Briefing:

Vietnam: Exxon Mobil Signs Agreements to Develop Vietnam's Largest Gas Project

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January 16, 2017

[client name deleted]

Could you please provide some background and an assessment of reports that ExxonMobil signed an agreement with PetroVietnam last week during the visit of Secretary of State John Kerry to Vietnam. What is the significance of this deal?

ANSWER: On 13 January, PetroVietnam Exploration Production Company signed two agreements with Exxon Mobil Vietnam to develop Vietnam's largest gas project, the Blue Whale (*Ca Voi Xanh*), a project framework heads of agreement and a gas sales heads of agreement.

The Blue Whale has an estimated 150 billion cubic metres of gas reserves and is located eighty kilometres off the coast of Quang Nam province in central Vietnam. The cost of the project is estimated U.S. \$10 billion. ExxonMobil will lay an eighty-eight kilometer pipeline from the Blue Whale gas field to Chu Lai beach. PetroVietnam will build a gas treating factory and a two-turbine power plant in Quang Nam province. Gas production is estimated to commence in late 2023. The signing of the two agreements took place during the visit to Hanoi by Secretary of State John Kerry.

Vietnam has been very adept at distributing its oil and gas exploration contracts among Russian, Indian and American companies. The latest deal – the largest so far – with Exxon Mobil comes at a time when Secretary of State John Kerry paid his last visit to Vietnam and party Secretary General Nguyen Phu Trong paid his first visit of the New Year to Beijing. This is part of Vietnam's strategy of providing equities to the major powers. If major powers do not protect their investments they risk losing out to a competitor. Vietnam calls this policy "multilateralizing and diversifying" its foreign relations. Western international relations specialists would call this hedging.

Rex Tillerson, Donald Trump's Secretary of State designate, would have institutional knowledge of Chinese attempts to intimidate Exxon Mobil from investing in Vietnam dating back to 2007-08. Tillerson will not be receptive to Chinese protests at the Exxon Mobil deal with PetroVietnam. See my Letter to the Editor, *The Australian Financial Review*, published January 17, 2017:

History casts an ironic shadow over John Kehoe's suggestion that "BHP should call Tillerson about the South China Sea" (16/11). Tillerson is the former Chief Executive Officer for Exxon Mobile. In 2007, I was reliably informed that Chinese intelligence had acquired a confidential copy of Vietnam's Maritime Strategy to 2020. This document

set out a plan to integrate Vietnam's coastal economy with the natural resources in its Exclusive Economic Zone, including oil and gas. Chinese officials set about privately warning western oil companies that their interests in China would suffer if they assisted Vietnam. I passed this information to Greg Torode, then working for the South China Morning Post. In June 2008 he was able to get Exxon Mobile to go public confirming Chinese pressure. In May 2009, the new Obama Administration sent deputy assistant secretaries for state and defence to testify to a Congressional committee. Their oral remarks laid out a "stick and carrot" policy towards China on this issue. Within a year American diplomats privately confirmed that China had ceased attempting to intimidate American oil companies operating in Vietnam. Perhaps Tillerson could advise BHP that China respects firmness based on strength.

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Suggested citation: Carlyle A. Thayer, "Vietnam: Exxon Mobil Signs Agreements to Develop Vietnam's Largest Gas Project," *Thayer Consultancy Background Brief*, January 16, 2017. All background briefs are posted on Scribd.com (search for Thayer). To remove yourself from the mailing list type UNSUBSCRIBE in the Subject heading and hit the Reply key.

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