

Oil and Water

A huge find off the *island of Borneo* sparks new exploration contracts and a *neighbourly* dispute

FOR Borneo

By S. Jayasankaran/KUALA LUMPUR
and John McBeth/JAKARTA

IN JULY LAST YEAR, an independent contractor working for Petronas, Malaysia's state-owned oil major, struck oil in 1,340 metres of water 150 kilometres off the coast of Sabah state on the island of Borneo. For Malaysia, the find was huge. The field-dubbed Kikeh, after a fish native to Malaysian waters-has an estimated recoverable reserve of up to 700 million barrels, or 21% of Malaysia's current oil reserves. At current production levels, Malaysia is expected run out of oil in 15 years. The Kikeh find is large enough to arrest the decline in the country's oil reserves and provide a helpful cushion for the country's economy.

It's also so big that, one year later, the find has triggered so much interest in the deep-water prospects of the South China Sea that it has sparked a territorial dispute between Malaysia and Brunei-a dispute that has most recently featured a gunboat stand-off and diplomatic intervention by the Malaysian prime minister and the sultan of Brunei.

The hydrocarbon potential of the Baram Delta-the waters off the Malaysian states of Sabah and Sarawak, and neighbouring Brunei-has long been seen as promising, but the cost of deep-water prospecting repelled most potential investors. Then came the Kikeh discovery by Murphy Oil Corp., of the United States.

Soon after, Malaysia and Brunei had hired prospectors

to explore two nearby blocks. Brunei awarded one block to a consortium led by French major Total this year, and is negotiating with a consortium led by Royal Dutch/Shell for the rights to prospect the second. Meanwhile, Malaysia's Petronas has awarded both blocks to a subsidiary and to Murphy Oil.

Why the dispute? In 2000, Brunei claimed sovereignty over the blocks as part of an "exclusive economic zone," or EEZ, which stretches 200 nautical miles (370 kilometres) from its coastline. Malaysia has long claimed the same area as part of its own EEZ.

That wasn't a problem until the Kikeh find. Making the disputed area more enticing, analysts say that the Kikeh oilfield could extend into the concession that Brunei has awarded to Total. In March, Brunei sent in a gunboat to drive away a Murphy Oil drilling ship in the area. Then, in April, the Malaysian navy sent several gunboats into the disputed area to block the arrival of a Total ship. After a tense stand-off involving a single Brunei patrol craft, Total backed off. Both sides have since stopped all work in the disputed areas.

Finally, on May 24, Malaysian Prime Minister Mahathir Mohamad met Brunei's Sultan Hassanal Bolkiah on Malaysia's Penang island to resolve the issue.

AFTER A TENSE GUNBOAT STAND-OFF, BRUNEI'S SULTAN AND MALAYSIA'S PREMIER MET TO RESOLVE THE DISPUTE

Malaysian officials sound upbeat about an amicable resolution. "We have suggested a joint-development-area type solution," Foreign Minister Syed Hamid Albar told the REVIEW. "We have even suggested that after a certain time passes, we will give up more. What we are looking for is a win-win situation."

The idea isn't new. Malaysia and Thailand already jointly prospect for oil in the Gulf of Thailand under a 50-50 profit-sharing arrangement. A Malaysian government official says the same offer has been made to Brunei. The foreign minister's conciliatory statement also indicates that Malaysia may use the dispute as leverage to settle other outstanding issues, such as Malaysia's land border with Brunei near the Limbang River, an issue that's persisted for decades.

Mahathir has promised to resolve the matter before he retires in October and energy officials in Kuala Lumpur say that it "should be cleared up in two months."

Meanwhile, the discovery could bring about more deep-water exploration for Southeast Asia, and even for China. According to international strategic adviser Wood Mackenzie, "there are also deep-water blocks up for licence in China and the Kikeh discovery may encourage more players to enter what has historically been the realm of only a few foreign operators." Unfortunately, the South China Sea-home of the Spratly and Paracel islands-is an area that has historically been the realm of more than a few unresolved territorial disputes. ■

Michael Vatikiotis contributed to *this* article

IN DISPUTE

Two blocks are claimed by both Malaysia and Brunei

