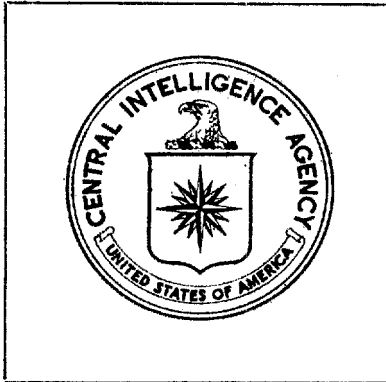


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*The Indonesia-South Vietnam Continental
Shelf Dispute: Petroleum Politics in the
South China Sea*

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BGI RP 74-18
June 1974

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C O N T E N T S

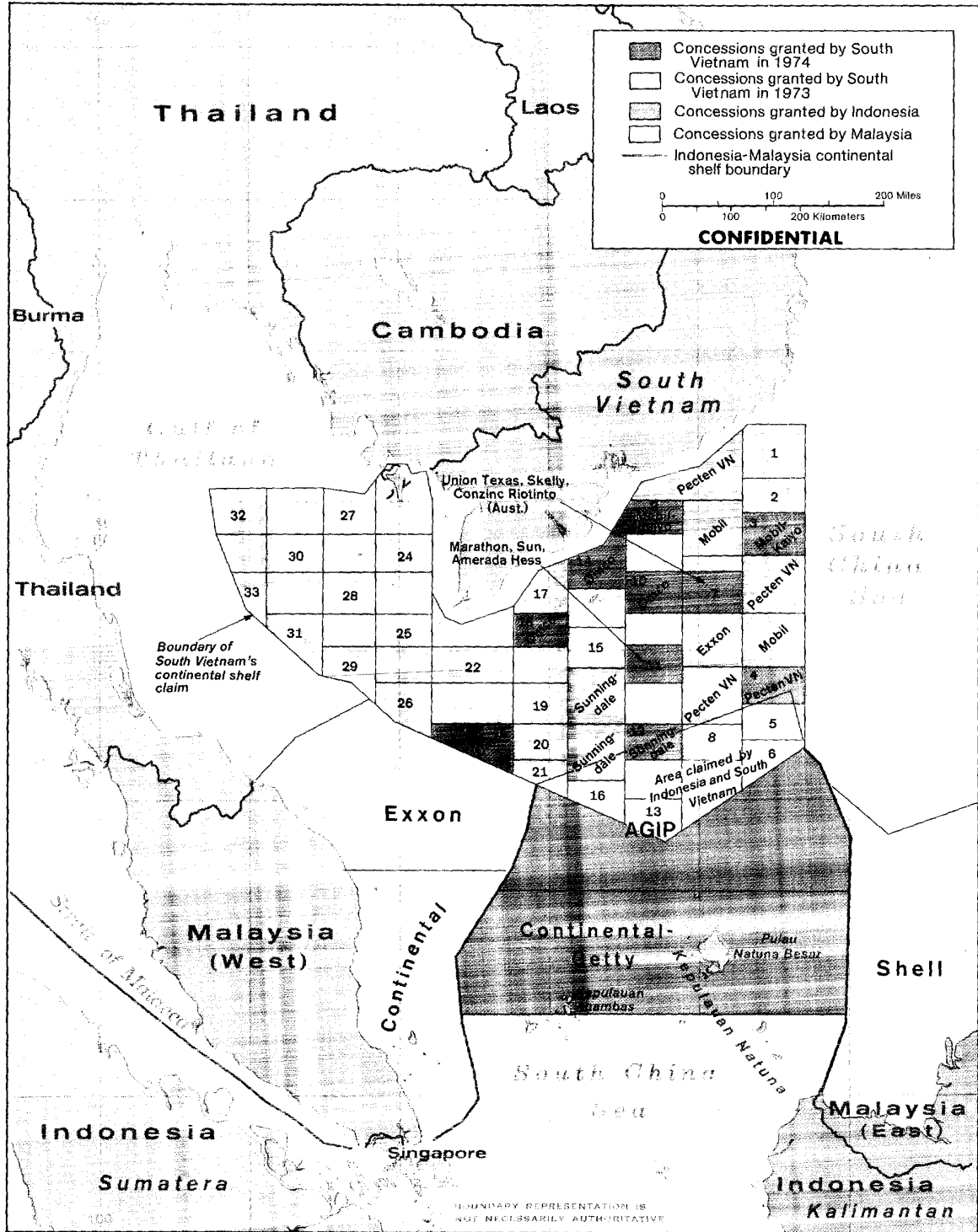
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Indonesia-South Vietnam: Continental Shelf Claims and Petroleum Concessions



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SUMMARY

A large natural gas deposit recently was discovered in a sector of the continental shelf some 12,000 square miles in area, claimed by both Indonesia and South Vietnam. The strike was made by an Italian company operating under a production-sharing contract with Indonesia.

The overlapping claims result from differing interpretations by Saigon and Jakarta of the equidistance principle commonly used to allocate shallow seabeds -- those less than 200 meters deep. Indonesia espouses the archipelago theory and consequently used the Natuna and Anambas Islands, lying far north of her main islands, in constructing a median line to divide the shelf. South Vietnam, however, disregarded these island chains in delineating its shelf claim. A 1972 conference held to resolve these differences failed; subsequent efforts to reopen talks have been twice deferred.

Saigon recently leased to oil companies a number of petroleum concession blocks, including two that lie partially within the disputed area. Additional tension has been created by plans of the Italian company to conduct exploratory drilling in another sector of the disputed area and by Jakarta's buildup of its air force strength on Great Natuna Island. Reluctance by oil companies to engage in full-scale exploration or exploitation operations in disputed shelf sectors may, however, induce the contesting parties to negotiate their differences.

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Central Intelligence Agency
Directorate of Intelligence
June 1974

THE INDONESIA - SOUTH VIETNAM CONTINENTAL SHELF DISPUTE:

PETROLEUM POLITICS IN THE SOUTH CHINA SEA

The Current Situation

1. In early 1974 a large natural gas deposit, estimated to comprise as much as 7 trillion cubic feet (200 billion cubic meters), was discovered on a 12,000-square-mile* sector of the South China Sea continental shelf claimed by both Indonesia and South Vietnam (see frontispiece). The deposit reportedly was struck in the eastern part of the disputed sector by AGIP (Aziende Generale Italiane Petroli Sociata Per Aziona), an Italian petroleum company operating under a production-sharing contract with the Indonesian Government.

2. Although neither AGIP nor the Indonesian Government has announced the discovery, Saigon has recently learned of it. There are as yet no indications that South Vietnam will take any action against the AGIP operation, but, AGIP's plans to begin further exploratory drilling in the western part of the disputed area may precipitate a reconnaissance mission by the Vietnamese Navy. Indonesia, perhaps wary of an incident similar to the South Vietnam - PRC clash over the contested Paracel Islands in early 1974, has built up its air force strength and upgraded its air facilities on Pulau Natuna Besar (Great Natuna Island), in the South China Sea just to the south of the contested zone.

* All miles are nautical miles.

NOTE -- This memorandum was prepared by the Office of Basic and Geographic Intelligence and coordinated within the Directorate of Intelligence. Comments and questions may be directed to [REDACTED] Code 143, extension 3057.

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3. The sector of the continental shelf claimed by both Indonesia and South Vietnam lies in the shallow southwestern part of the South China Sea, a semi-enclosed water body that is everywhere less than 200 meters deep. Seabeds at these depths, according to provisions of the 1958 Geneva Convention on the Continental Shelf, fall under the jurisdiction of the neighboring coastal states.* The Convention, however, does not provide adequate guidelines for the allocation of the seabed among coastal states.

4. Each of the fringing states -- Malaysia, Thailand, and Cambodia as well as Indonesia and South Vietnam -- has made a unilateral claim on the shelf that maximizes its cut of the potentially oil-rich seabed. The result is a muddle of overlapping shelf claims. South Vietnam's claim, for example, not only overlaps the sector of the shelf claimed by Indonesia in the south but large sectors claimed by Thailand and Cambodia in the west as well. Recent reports of oil and gas strikes by exploratory rigs elsewhere in the southwestern South China Sea - Gulf of Thailand region are certain to make future negotiations between any of the shelf claimants difficult.

Indonesia's Continental Shelf Claim and Petroleum Concession

5. Of the five states bordering on the southwestern South China Sea and the Gulf of Thailand, only Indonesia currently extracts petroleum from its continental shelf. All of its offshore crude oil production (about 200,000 barrels daily out of a total production of 1,400,000 barrels daily) is from fields in the southwestern Java Sea and from the Makasar Strait, both well inside Indonesia's claimed sovereign waters and not in dispute (See map following appendixes).**

* *The Convention defines the continental shelf as "the seabed and subsoil of the submarine areas adjacent to the coast but outside the area of the territorial sea, to a depth of 200 meters or, beyond that limit, to where the depth of the superjacent waters admits of the exploitation of the natural resources of the said areas."*

** *Indonesia claims jurisdiction over all seas, seabeds, subsoil, and superjacent airspace within a perimeter of baselines that connect the outermost points of the outermost islands of its archipelago.*

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Because of the advanced stage of its offshore petroleum operations and a desire to avoid haggling over seabed resources jurisdiction, Indonesia has been in the forefront among Southeast Asian nations in negotiating its continental shelf boundaries outside of its archipelago limits. Between 1969 and 1972 agreements with Malaysia, Thailand, and Australia were signed and ratified; only the lengthy shelf boundary with South Vietnam and short boundaries with the Philippines and India remain to be resolved.

6. In 1968, with several foreign oil companies lobbying for exploration concessions on the South China Sea continental shelf, the Indonesian Government made an undefined claim to a sector of the shelf and issued a production-sharing contract to AGIP to operate in the region. The precise limits of Indonesia's claim, however, did not begin to take shape until 1969, when the boundary with Malaysia was defined (Appendix A); the northern perimeter of the claim was not delimited until 1 October 1971. A presidential decree defined the limits of the claim (coterminous with the AGIP concession) between the two segments of the Malaysia boundary (Appendix B). The decree, issued only 1 month after Saigon had issued a similar decree establishing its South China Sea shelf claim, outlined precisely the 12,000 square miles of conflicting claims and set the stage for abortive negotiations in June 1972.

South Vietnam's Continental Shelf Claim and Petroleum Concessions

7. South Vietnam defined its continental shelf in a decree issued on 6 September 1971 (Appendix C). The shelf claim was divided into 40 petroleum exploration-exploitation concession blocks, 30 of which were opened for bids by foreign oil companies in mid-1973. Agreements were subsequently signed with four companies and concessions awarded in eight blocks. Although Saigon had earlier indicated that it would not solicit bids on concession blocks that extended into the disputed area, two blocks (granted to Pecten VN and Sunningdale) do overlap shelf areas claimed by Indonesia (See frontispiece). Seismic surveys, begun in late 1973, probably did not reach into the contested sector. Exploratory drilling, scheduled to start this summer, will also remain outside the disputed waters.

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8. Saigon hoped that the shelf dispute would be resolved before a second group of blocks was opened for bidding. But, anxious to get the foreign exchange, Saigon offered several more offshore blocks to foreign oil companies on 19 February 1974. All 33 companies that submitted qualifying questionnaires qualified for the second round of bidding that got underway on 21 May. According to an unofficial tally by the U.S. Embassy in Saigon, ten more exploration blocks have now been awarded to six bidders. About one-half of Block 12 and a small part of Block 4 extend into the disputed sector (See frontispiece). At the request of the Indonesian Government, oil companies holding concessions granted by Jakarta refrained from submitting bids for South Vietnam concessions located in the disputed area.

Basis of the Dispute

9. Most agreements on the continental shelf have been based on principles established in the 1958 Convention on the Continental Shelf, which calls for the use of an equidistance principle in the absence of other provisions. In the division of the shelf between opposite states, the Convention states in Article 6, paragraph 1 that:

Where the same continental shelf is adjacent to the territories of two or more States whose coasts are opposite each other, the boundary of the continental shelf appertaining to such States shall be determined by agreement between them. In the absence of agreement, and unless another boundary line is justified by special circumstances, the boundary is the median line, every point of which is equidistant from the nearest points of the baselines from which the breadth of the territorial sea of each State is measured.

10. The presence of islands is the single most complicating factor in establishing shelf boundaries. In water bodies such as the South China Sea where islands complicate the division of the shelf, coastal states have usually resorted to the Convention's "special circumstances" clause to equitably define the boundaries.

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11. The existence of the Indonesian islands of Kepulauan Natuna (Natuna Islands) and Kepulauan Anambas (Anambas Islands), which extend some 200 miles northwest of Kalimantan in the South China Sea, precludes an easy division of the South Vietnam - Indonesian continental shelf based on the simple equidistance principle. Each country, nonetheless, has based its shelf claim on this principle, but each has applied it in a different way. South Vietnam has disregarded the Natuna and Anambas Islands and has drawn its median line halfway between the Vietnam mainland and a baseline joining the Indonesian islands of Kalimantan and Bangka, a large island off the east coast of Sumatera. Indonesia, on the other hand, has constructed its median line from baselines connecting the Natuna - Anambas Islands. Perhaps to give added credibility to the use of its own islands in drawing its shelf boundary, Indonesia appears to have drawn the median line halfway between its islands and baselines extending from the South Vietnam coast to Con Son Island, about 50 miles off the coast.

12. In negotiating shelf boundaries with Malaysia, Thailand, and Australia, Indonesia's premise has been that the geographic unity of the archipelago -- land and water -- cannot be violated. Indonesia will not adjust its shelf boundary with South Vietnam if the compromise involves any suggestion of non-recognition of the archipelago concept of its territory.* South Vietnam, although willing to recognize Indonesia's archipelago definition of its territory as applied to national integrity and security, will not accept it as a basis for drawing the shelf boundary.

** While only a few countries presently recognize this sovereignty definition, a modified version of the archipelago concept may be adopted at the June 1974 LOS Conference in Caracas. Draft articles were submitted by Indonesia, the Philippines, Fiji, and Mauritius to the UN's Seabed Committee in August 1973. They define the use of straight baselines in outlining an archipelago state, assert the state's sovereignty over its waters, seabeds, subsoil, and airspace within those baselines, guarantee the right of innocent passage, and declare the right of the state to designate sealanes for the transit of foreign vessels.*

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13. Despite Indonesia's public insistence that the baselines linking its outermost islands must be used unequivocally in negotiating its continental shelf agreements, Jakarta has in fact been flexible in negotiations with other countries. Malaysia and Indonesia, for example, in delimiting the median lines between them, gave only partial weight to some of the Indonesian islands. The State Department's Office of The Geographer, in analyzing the Malaysian - Indonesian shelf boundaries, has pointed out that:

A true equidistant line between the Natuna Islands and East Malaysia would extend northeastward. The Natuna Islands, however, have not been assigned full value as basepoints on the boundary...As the boundary projects farther seaward, the islands have been granted lesser values, even though the more seaward islands are larger in size than those closer onshore. The boundary effect gives islands a decreasing importance which averages almost three-quarters value. The terminal point has approximately half effect. Consequently, partial effect ranges from about half value at the terminus to nearly full value (86 percent) onshore, to produce a boundary of apparent equity in a condition in which islands greatly favor one state.*

The Indonesian Government, however, has offered no such compromise to South Vietnam.

Negotiations: Progress and Prospects

14. Efforts to resolve the dispute are impeded by the lack of diplomatic relations between the two countries. Nevertheless, Indonesian and South Vietnamese negotiators met in Saigon in June 1972. Jakarta's proposal at that time to adjust its northern shelf boundary a few miles southward was not acceptable to Saigon. South Vietnamese negotiators then offered to consider

* *"Islands: Normal and Special Circumstances," Research Study, Bureau of Intelligence and Research, RGES-3, December 10, 1973. U.*

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the Natuna Islands in drawing the median line but only those less than 24 miles from other Indonesian territory. This method, however, would have barred consideration of Pulau Natuna Besar (Great Natuna Island), the largest and most populous of the Natuna chain, in the construction of a median line since it lies about 50 miles north of the nearest island in the Natunas. Saigon's proposed median line would have split the disputed area into two roughly equal parts. It was unacceptable to Jakarta because the method still violated its archipelago principle.

15. Jakarta offered to reopen negotiations in early 1973, but Saigon was preoccupied with preparations for the first round of bids on its petroleum concession blocks. Talks were again scheduled for March 1974, but Saigon once more postponed them, this time for political reasons: South Vietnamese leaders were rankled by Indonesia's threat to reduce its International Commission for Control and Supervision (ICCS) contingent in South Vietnam and by its vote for attendance by the Viet Cong's Provisional Revolutionary Government at the Geneva Convention on the Laws of War.

Precedent for Continental Shelf Divisions

16. Precedents exist in international law to modify a median line in cases where uninhabited islets are situated near the median line of a water body or where small, sparsely populated islands prevent the construction of an equitable median line on the equidistance principle. A 1966 agreement between Italy and Yugoslavia, for example, uses a modified median line that disregards several islets in the Adriatic Sea. In the 1965 and 1968 agreements between Saudi Arabia and Iran that define their shelf boundary in the Persian Gulf, Kharg Island -- off the coast of Iran, 6 square miles in area and only lightly populated -- was assigned "half weight" in the shelf division.

Outlook

17. Although seabed allocation in semi-enclosed seas is on the agenda of the upcoming LOS Conference in Caracas, the Conference is unlikely to clarify the 1958 guidelines for

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division of the continental shelf among neighboring states. Settlement of seabed disputes in such cases will be left to the contending states. Both South Vietnam and Indonesia, consequently, must modify the criteria for the establishment of their claims to the shelf if any settlement is to be reached. The Natuna and Anambas Islands cannot be ignored as Saigon has done, nor can they be assigned full "mainland" value as Jakarta has done. The Saudi Arabian - Iran case and the Indonesian - Malaysian 1969 shelf agreement in which the Natuna Islands were accorded only "partial weight" offer some precedent for any future Jakarta - Saigon negotiations.

18. The lack of diplomatic relations, the present political differences, and the heightened outlook for sizable oil or gas deposits in the disputed zone combine to cloud the prospects for fruitful negotiations in the near future. In March 1974 President Suharto decided against any compromise on the continental shelf beyond that offered in 1972, even though he realized the risk of military confrontation. South Vietnam, with encouraging results from seismic surveys in several of its concession blocks, is probably taking an equally hard line. An exacerbating factor is the reported AGIP plan to begin further exploratory drilling in the western half of the disputed area. The world's energy problems and the accompanying rise in petroleum prices are certain to make the contesting states increasingly covetous of their claim to the seabed. But, in the long run, reluctance by the oil companies to engage in full-scale exploration or exploitation in disputed shelf sectors, and thus involve themselves in Southeast Asian political -- and possibly military -- confrontations, will encourage the contesting parties to negotiate their differences.

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Appendix A

Indonesia - Malaysia Continental Shelf Boundary
in the South China Sea

Western Side - Off the East Coast of West Malaysia

<u>Latitude N</u>	<u>Longitude E</u>
01°23'.9	104°29'.5
01°38'.0	104°53'.0
01°54'.4	105°05'.2
02°22'.5	105°01'.2
02°55'.2	104°51'.5
03°50'.1	104°46'.5
04°03'.0	104°51'.9
05°04'.7	105°28'.8
05°40'.6	105°47'.1
06°05'.8	105°49'.2

Eastern Side - Off the Coast of Sarawak

<u>Latitude N</u>	<u>Longitude E</u>
02°05'.0	109°38'.8
03°00'.0	109°54'.5
04°40'.0	110°02'.0
05°31'.2	109°59'.0
06°18'.2	109°38'.6

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Appendix B

Limits of the Continental Shelf of Indonesia in the
South China Sea

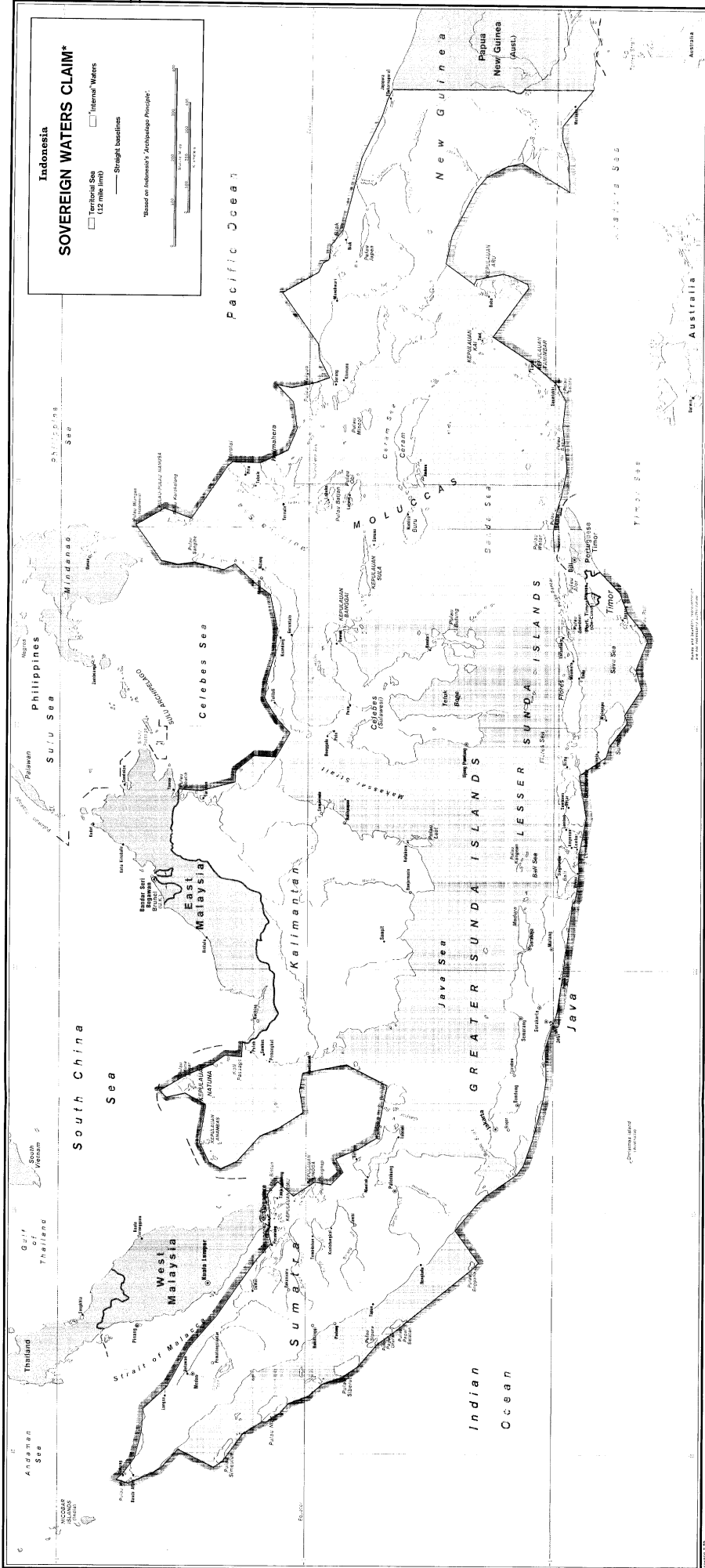
<u>Latitude N</u>	<u>Longitude E</u>
07°20'	109°10'
06°52'	109°18'
06°24'	109°22'
06°18.2'	109°38.6'
05°31.2'	109°59'
04°40'	110°02'
04°40'	105°14'
05°04.7'	105°28.8'
05°40.6'	105°47.1'
06°05.8'	105°49.2'
06°10'	106°00'

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Appendix C

Limits of the Continental Shelf of
The Republic of Viet-Nam

<u>Latitude</u>	<u>Longitude</u>
8°19'N	104°50'E
8°33'N	105°27'E
9°00'N	105°40'E
9°25'N	106°45'E
10°09'N	107°06'E
10°32'N	108°00'E
11°00'N	108°36'E
11°00'N	110°00'E
7°05'N	110°00'E
5°20'N	107°20'E
7°03'N	103°52'E
7°34'N	103°19'E
7°42'N	102°58'E
8°31'N	101°56'E
9°36'N	101°30'E
10°09'N	101°27'E
10°09'N	102°58'E
10°03'N	103°31'E
10°22'N	103°41'E
10°29'N	103°45'E
10°31'N	103°45'E
10°31'N	103°47'E
10°30'N	103°54'E
10°30'N	103°57'E
10°29'N	104°04'E
10°24'N	104°11'E
10°28'N	104°20'E
10°28'N	104°21'E
10°14'N	104°22'E
10°23'N	104°24'E
10°00'N	104°31'E
8°36'N	104°31'E
8°26'N	104°35'E



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STATEMENT OF PROBLEM 25X1A		TARGET DATE 20 May 1974	
<p>A recent [REDACTED] reports that a large natural gas deposit has been discovered by an oil company drilling in a South China Sea concession block granted by the Indonesian Government. The block lies on a sector of the continental shelf that has been claimed by both Indonesia and South Vietnam. Neither country has been willing to compromise on its claim. Indonesia reportedly is building up its Air Force capability on nearby Natuna Island to signal South Vietnam not to harass offshore drilling activity in the disputed zone. The U.S. Embassy in Jakarta, as well as State Department officials in Washington, are fearful that the shelf dispute between the two countries may be reaching serious proportions. Both State and OCI have expressed a need for a background paper that would discuss the Law of the Sea issues involved, including statements on the validity of the shelf claims of both countries. We propose a brief RP that would highlight these issues. Also, this is the type of timely item from which a Daily article could be spun-off. (Note: This project can be done without compromising completion of the Malaysian LOS country study by the end of the month.) A map showing the Indonesian and South Vietnamese claims and the petroleum concessions of both countries will be needed.</p>		ANALYST/BRANCH [REDACTED] GD/EA	
		EST. ANALYST MANHOURS 60	
		25X1A	
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OTHER CIA: OER for information on petroleum drilling activities.			
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2. Project No. and Report No. or Map No.:
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4. Name of classifier:
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STATEMENT OF PROBLEM [REDACTED] related to heightened hostility between South Vietnam and Indonesia over their overlapping continental shelf claims. Chief/DDO/EA has expressed an interest in RP-18, The Indonesia-South Vietnam Continental Shelf Dispute: Petroleum Politics in the South China Sea, and wishes to send a copy along with additional information on the dispute [REDACTED] Xerox copies of pertinent State Department documents, along with copies of RP 74-12 (East Asian Contested Islands), are being sent to [REDACTED] for forwarding [REDACTED] 25X1A 25X1A 25X1A			REQUESTING OFFICE [REDACTED]
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PROJECT PROPOSAL		RESEARCH ACTIVITY NOTICE	
SUBJECT Indonesia-South Vietnam Continental Shelf Dispute		PROJECT NUMBER PN 61.2719/3	
REQUESTER Self-initiated		SUBJECT CODE	
STATEMENT OF PROBLEM A shortened version of the shelf dispute Research Paper (PN 61.2719) has been prepared for possible inclusion in the National Intelligence Daily.		REQUESTING OFFICE	
25X1A		TARGET DATE 5 June 1974	
		ANALYST/BRANCH GD/EA	
		EST. ANALYST MANHOURS 10	
COORDINATION REQUIRED FROM CD/BI : None OTHER CIA: None NON-CIA : None			
[REDACTED]		CHIEF, East Asia Branch	
		DATE 4Jun74	

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PN 01,279/3

LARGE GAS DEPOSIT DISCOVERED IN DISPUTED SECTOR
OF SOUTH CHINA SEA CONTINENTAL SHELF

A large natural gas deposit, estimated to be up to 7 trillion cubic feet in extent, has been discovered on a 12,000 square nautical mile sector of the South China Sea continental shelf claimed by both Indonesia and South Vietnam. The deposit was struck by an Italian company operating under a production-sharing contract with Indonesia. Saigon thus far has taken no action. Indonesia, however, has built up its air force strength and upgraded its air support facilities on Great Natuna Island, just to the south of the contested sector.

The disputed sector of the shelf lies in waters less than 200 meters deep and, according to provisions of the 1958 Convention on the Continental Shelf, falls under the jurisdiction of the neighboring coastal states. The overlap has developed because Saigon and Jakarta have used different interpretations of the principle of equidistance to define their claims. The Indonesian Natuna and Anambas island chains in the South China Sea are the major stumbling block. Indonesia has drawn a median line to define its northern shelf boundary halfway between baselines connecting these islands and the territory of South Vietnam. South Vietnam, however, has disregarded the islands and drawn its median line halfway between the Vietnam mainland and the large Indonesian island of Kalimantan.

A major tenet of Indonesia's claim is that the geographic unity of the archipelago -- land and water -- cannot be violated. South Vietnam, although willing to recognize Indonesia's archipelago definition of its territory as applied to national integrity and security, will not accept it as a basis for drawing the shelf boundary. Despite Indonesia's insistence that baselines linking its outermost islands must be used unequivocally, Jakarta has shown flexibility in its shelf negotiations with other countries. Malaysia and Indonesia, for example, drew the median lines between Malaysia and the Indonesian South China Sea islands without adhering rigidly to Indonesia's archipelago limits. Jakarta has offered no such compromise to Saigon. Attempts in June 1972 to settle the dispute were unsuccessful, and subsequent efforts to reopen negotiations have been twice deferred.

Classified by 019641

Exempt from general declassification schedule of E.O. 11652, exemption category:

85B (1), (2), (3), or (4) (circle one or more)

Date Impossible to Determine

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The Law of the Sea Conference slated to convene in Caracas in June is unlikely to amplify on the 1958 guidelines for division of the continental shelf among neighboring states. In March 1974 President Suharto decided against any compromise on the continental shelf beyond that offered in 1972, even though he realized that military confrontation might be risked. South Vietnam, with encouraging results from seismic surveys in concession blocks granted in the past year, is probably taking an equally hard line. Reluctance by the oil companies to engage in full-scale exploration or exploitation operations in disputed shelf sectors may, however, encourage the contesting parties to negotiate their differences.

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PROJECT PROPOSAL		X		RESEARCH ACTIVITY NOTICE	
SUBJECT				PROJECT NUMBER	
Indonesia-South Vietnam Continental Shelf Dispute				PN 61.2719/2	
				SUBJECT CODE	
REQUESTER				REQUESTING OFFICE	
[REDACTED] 25X1A				OCI	
STATEMENT OF PROBLEM				TARGET DATE	
A condensed version of the Indonesia-South Vietnam shelf dispute RP (PN 61.2719) has been requested by OCI for use in their "Developments in Indochina" publication.				5 June 1974	
				ANALYST/BRANCH	
				[REDACTED] GD/EA	
				EST. ANALYST MANHOURS	
				10	
COORDINATION REQUIRED FROM					
CD/BI : None					
OTHER CIA: None					
NON-CIA : None					
25X1A					
A [REDACTED]		4 June 74		DATE 4 Jun 74	
B [REDACTED]		XXXXXXXXXX		CHIEF, East Asia Branch	

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SOUTH VIETNAM - INDONESIA

25X1A Potential Gas Clash
[REDACTED] (x3057)

A large natural gas deposit estimated at 7 trillion cubic feet was discovered in April on a 12,000-square-nautical-mile sector of the continental shelf in the South China Sea. The deposit--in the eastern part of a sector claimed by both Indonesia and South Vietnam--was located by AGIP, an Italian petroleum company operating under a production-sharing contract with the Indonesian government. Saigon has only recently learned of the strike, and any plans to begin further exploratory drilling may provoke some strong South Vietnamese objections. In a show of force, Indonesia has upgraded its air combat facilities near the area.

Indonesian and South Vietnamese officials met in Saigon in June, 1972 to negotiate the shelf dispute, but attempts to reach a suitable compromise were unsuccessful. Jakarta offered to reopen negotiations in early 1973, but Saigon sought and obtained a postponement until March 1974. At that time Saigon stalled again--apparently for political reasons: South Vietnamese leaders were rankled by Indonesia's threat to reduce its peace-keeping contingent and by its vote to support the attendance of the Viet Cong's Provisional Revolutionary Government at the Laws of War Convention in Geneva.

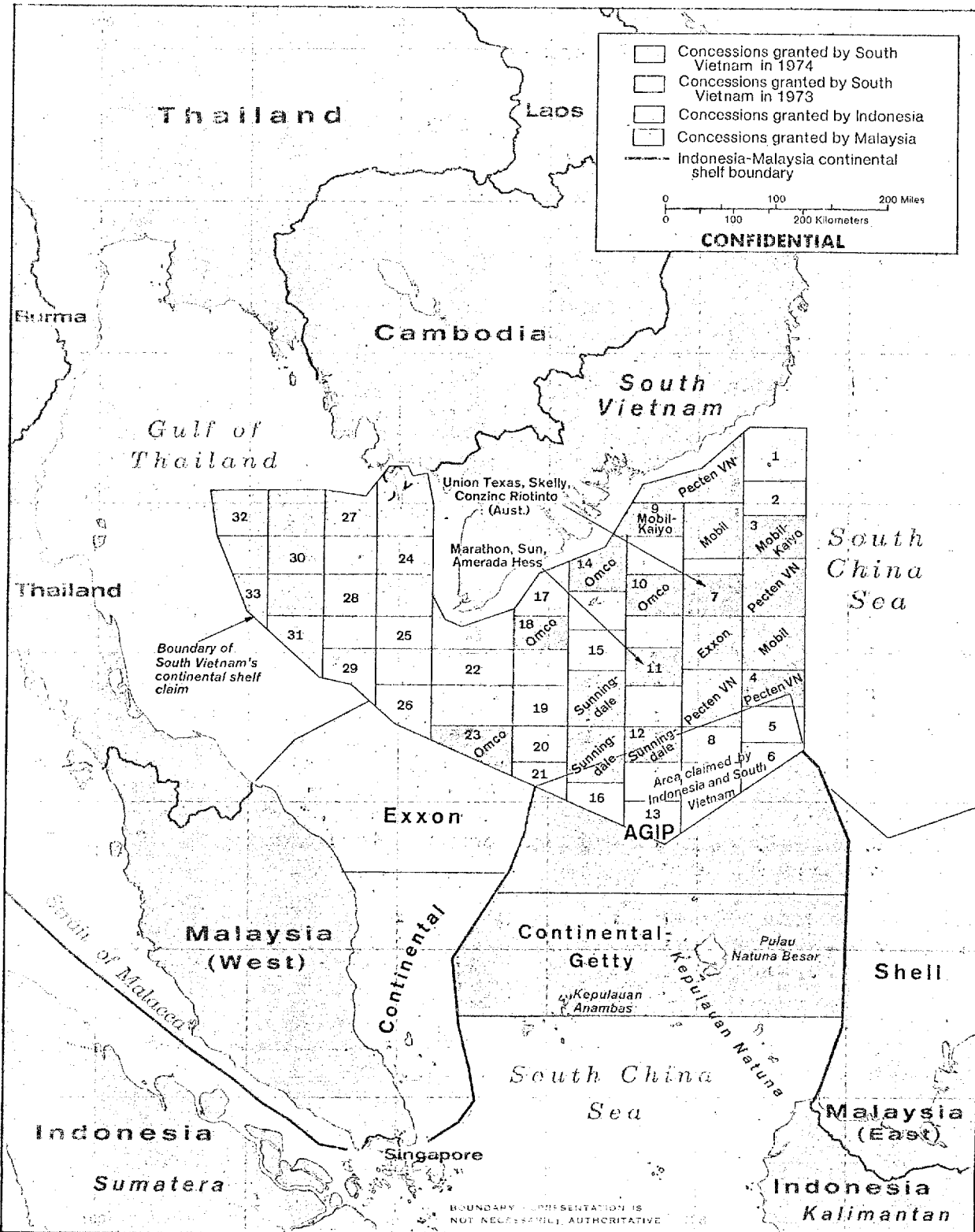
The Law of the Sea Conference in Caracas this month is unlikely to set forth any new guidelines by which Saigon and Jakarta can reach an agreement on the continental shelf. Consequently, either or both will have to modify their claims if any settlement is to be reached. The lack of diplomatic relations between the two countries, their present political differences, and the heightened outlook for sizable oil

June 4, 1974

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Indonesia-South Vietnam:
Continental Shelf Claims and Petroleum Concessions



502269 5-74 CIA (540886)

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 declassification schedule of E.O. 11652
 Exemption category 5B (1)(2), (3)
 Declassification date impossible to determine

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or gas deposits in the disputed zone combine to cloud the prospects for fruitful negotiations in the near future.

The world's energy problems and the accompanying rise in petroleum prices is certain to make the contesting states increasingly covetous of their claims to the seabed. In March 1974, President Suharto decided against any further compromise despite the possibility of confrontation with Saigon. South Vietnam, with preparations underway to begin exploratory drilling this summer, probably will take an equally hard line. Reluctance by the oil companies to engage in full-scale exploration in the disputed shelf sectors, however, may ultimately force the two countries to negotiate their differences. (CONFIDENTIAL NO FOREIGN DISSEM)

June 4, 1974

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61 2719/2

LARGE GAS DEPOSIT DISCOVERED IN DISPUTED SECTOR OF
SOUTH CHINA SEA CONTINENTAL SHELF

An April 1974 cable from the U.S. Embassy Jakarta reported that a large natural gas deposit, estimated to be up to 7 trillion cubic feet in extent, had recently been discovered on a 12,000 square nautical mile sector of the South China Sea continental shelf claimed by both Indonesia and South Vietnam. The deposit was struck in the eastern part of the disputed sector by AGIP, an Italian petroleum company operating under a production-sharing contract with the Indonesian Government. South Vietnam has only recently learned of the strike. Although there are as yet no indications that Saigon will take any action against the AGIP operation, AGIP's plans to begin further exploratory drilling in the western part of the disputed area may precipitate a reconnaissance mission by the Vietnamese Navy. Indonesia, perhaps wary of an incident similar to the South Vietnam - PRC clash over the contested Paracel Islands in early 1974, has built up its Air Force strength and upgraded its air support facilities on Great Natuna Island, just to the south of the contested zone.

The sector of the continental shelf claimed by both Indonesia and South Vietnam lies in the shallow southwestern part of the South China Sea, everywhere less than 200 meters deep. Seabeds lying at depths less than 200 meters, according to provisions of the 1958 Geneva Convention on the Continental Shelf, fall under the jurisdiction of the neighboring coastal states. The Convention's lack of adequate guidelines for the allocation of the seabed among coastal states coupled with the promise of large oil and gas deposits under the seabed has led to conflicting continental shelf claims in the southwestern South China Sea - Gulf of Thailand region. South Vietnam's claim overlaps not

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only the sector of the shelf claimed by Indonesia in the south but sectors claimed by Thailand, Malaysia, and Cambodia in the west as well.

Because of the advanced stage of its offshore petroleum operations and its desire to avoid haggling over seabed resources jurisdiction, Indonesia has been in the forefront among Southeast Asian nations in negotiating its continental shelf boundaries. Between 1969 and 1972 agreements with Malaysia, Thailand, and Australia were signed and ratified. A 1971 Presidential Decree outlined the northern perimeter of the Indonesian claim in the South China Sea. The Decree, issued only 1 month after South Vietnam had issued a decree establishing its South China Sea shelf claim, outlined precisely the 12,000 square miles of conflicting claims and set the stage for abortive negotiations in 1972.

South Vietnam's claim was divided into petroleum concession blocks in mid-1973 and agreements were signed with four foreign oil companies to explore and exploit in eight of them. Two of the awarded blocks extend into the area of the shelf claimed by Indonesia. Ten more blocks were granted to six bidders in late May 1974 with small parts of two of them also extending into the disputed sector.

Most continental shelf boundaries have been based on principles established in the 1958 Geneva Convention on the Continental Shelf which calls for the use on an equidistance principle in the absence of other provisions. But the presence of the Indonesian Natuna and Anambas island chains in the South China Sea precludes an easy division of the South Vietnam - Indonesian shelf based on this principle. South Vietnam, in its unilateral claim, has disregarded these islands and drawn a median line halfway between the Vietnam mainland and a baseline joining Kalimantan and Bangka (a large island off the east coast of

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Sumatra). Indonesia, on the other hand, has drawn a median line from baselines connecting the Natuna and Anambas Islands. Perhaps to give added credibility to the use of its own islands in drawing its shelf boundary, however, Indonesia appears to have drawn the median line halfway between these islands and baselines extending from the South Vietnam coast to Con Son, about 50 miles off the coast.

In its shelf negotiations with Malaysia, Thailand, and Australia, Indonesia's premise has been that the geographic unity of the archipelago -- land and water -- cannot be violated. South Vietnam, although willing to recognize Indonesia's archipelago definition of its territory as applied to national integrity and security, will not accept it as a basis for drawing the shelf boundary. Despite Indonesia's insistence that baselines linking its outermost islands must be used unequivocally in negotiating its continental shelf agreements, Jakarta has been more flexible than its officials publicly admit in negotiations with other countries. Malaysia and Indonesia, for example, drew the median lines between Malaysia and the Indonesian South China Sea islands with great flexibility. Indonesia has offered no such compromise to South Vietnam.

Indonesian and South Vietnamese officials met in Saigon in June 1972 to negotiate the shelf dispute but offers of compromise by both sides were rejected by the other. Jakarta offered to reopen negotiations in early 1973 but Saigon's preparations for the first round of bids on its petroleum concession blocks apparently were responsible for a postponement until March 1974. Saigon once more deferred them, this time apparently for political reasons: South Vietnamese leaders were rankled by Indonesia's threat to reduce its ICCS contingent in South Vietnam and its vote for attendance by the Viet Cong's Provisional Revolutionary Government at the Geneva Convention on the Laws of War.

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The Law of the Sea Conference slated to convene in Caracas in June is unlikely to amplify on the 1958 guidelines for division of the continental shelf among neighboring states. Both South Vietnam and Indonesia, consequently, must modify their criteria used in the determination of their claims if any settlement is to be reached. The lack of diplomatic relations between the two countries, the present political differences, and the heightened outlook for sizable oil or gas deposits in the disputed zone combine to cloud the prospects for fruitful negotiations in the near future. In March 1974 President Suharto decided against any compromise on the continental shelf beyond that offered in 1972, even though he realized that military confrontation might be risked. South Vietnam, with encouraging results from seismic surveys in several of its uncontested concession blocks and preparations underway to begin exploratory drilling this summer, is probably taking an equally hard line. The world's energy problems and the accompanying rise in petroleum prices is certain to make the contesting states increasingly covetous of their claim to the seabed. But, in the long run, reluctance by the oil companies to engage in full-scale exploration or exploitation operations in disputed shelf sectors in the region and get involved in Southeast Asian political -- and possibly military -- confrontations, will encourage the contesting parties to negotiate their differences.

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