Oil and Gas Cooperation between Russia and Vietnam: History and Prospects

Russia and the Socialist Republic of Vietnam (SRV) have benefited from their warm friendship and mutually beneficial cooperation since the Soviet era. After the USSR collapsed, the relationship between the two countries remained intact. In 1994, the Russian Federation and Vietnam concluded the Treaty on the Fundamentals of Friendly Relations, and in 2001, the two sides signed the Declaration on Strategic Partnership and in 2012 - the Comprehensive Partnership Agreement.

Both Russia and Vietnam have fossil fuel reserves but they do differ in size. For instance, the latter is an important coal producer. In addition, SRV has oil and gas projects off its coast in the South China Sea. It is thus not surprising that these two countries, which have long enjoyed a close relationship, collaborate in the oil and gas sphere.

Joint Venture Vietsovpetro, an enterprise for oil and gas exploration, was established under an inter-governmental agreement between the JSC Zarubezhneft of the Soviet Union and Vietnam’s state-owned PetroVietnam, signed in June 1981. Its headquarters are in the port city of Vung Tau, which, with time, became a home to a fairly small
Russian community (several hundred people), comprising company employees and their families who live in a guarded residential area. Vietsovpetro is engaged in oil and gas exploration and production on the continental shelf of southern Vietnam, approximately 150 km from its coast. Its core business includes geological exploration for oil and gas; well drilling, fossil fuel gathering as well as building and installing all the necessary infrastructure.

Vietsovpetro developed its first oilfield (called White Tiger) in 1986. As a result, it became one of the most successful oil and gas exploration companies in the region within only a few years.

After the USSR collapsed, the enterprise continued to exist. In 2010, Vietsovpetro was awarded the Gold Star Order (the highest decoration in Vietnam), which showed that the country valued the collaboration with Russia in the oil and gas sphere highly.

According to the June 21 press release from Zarubezhneft, some of Vietsovpetro’s milestones include the drilling of 644 wells and production of 240 million tons of crude oil. It has explored vast stretches of the continental shelf and brought tens of billions in revenue to both Russia and Vietnam, thus making a significant contribution to the latter’s economy. In year 2000, it was reported that Vietnam had “become Southeast Asia’s fourth largest oil and gas producer” (with Indonesia, Malaysia and Brunei ahead in the ranking), thanks in large part to Vietsovpetro. In addition, the company collected more than 35 billion cubic meters of gas, thus facilitating the development of Vietnam’s gas industry.

At present, Vietsovpetro is working on several of the nation’s production fields, such as White Tiger, White Rabbit, White Cat, Beluga, Dragon, White Bear and South Dragon - Turtoise. The company also set up several dozen offshore oil rigs at the aforementioned sites. At present, the enterprise produces approximately 3 million tons of oil equivalent and condensate on an annual basis (roughly one third of Vietnam’s total output). In addition, Vietsovpetro is continuing to explore the country’s continental shelf in order to grow its presence in the region. Moreover, the use of cutting edge petroleum exploration techniques has enabled the company to get to previously inaccessible areas of existing production fields.

Having achieved great success and the status of Vietnam’s 8th largest company, Vietsovpetro continues to strive for more as it expands its reach in the country’s energy market. The enterprise is not only involved in oil and gas exploration but also other energy-related projects. In June 2021, it was announced that Vietsovpetro, together with its parent company Zarubezhneft and Belgium’s DEME, planned to collaborate on an offshore wind power project in Vietnam. The wind farm is expected to have a total capacity of 1 GW.

Still, the main focus of Zarubezhneft and Vietsovpetro at present is increasing natural gas production. According to Sergei Kudryashov, the General Director of Zarubezhneft, the plan is to extract as much gas from fields as oil within the next 1 or 2 years. The project is important not only from an economic but also political standpoint because other neighboring nations in South Asia, i.e. not just Russia and Vietnam, are expected to get involved in it. Gas production and supply facilities of Zarubezhneft will include the Tuna production sharing contract (PSC) area in Indonesia. UK’s Premier Oil farmed out a 50% non-operated interest in the Tuna PSC (located in Natuna Sea, north of Indonesia) to Zarubezhneft in 2020. Vietnam will potentially receive gas supplies from the aforementioned location using existing pipelines installed by Vietsovpetro. If the project is indeed implemented, Zarubezhneft will not only ensure natural gas deliveries to Vietnam but also help establish a link between the latter and Indonesia. Such a supply system between the two countries, supported by Russia, will bring Vietnam and Indonesia closer together. In turn, the Russian Federation will expand its presence in the region thus raising its status.

Recently, Zarubezhneft celebrated the 40th anniversary of the Vietsovpetro joint venture. Negotiations with the Vietnamese side “to extend the Intergovernmental Agreement until 2045” have already begun. The cooperation with Russia in the oil and gas sphere is very important for Vietnam’s economy. There is no doubt in the author’s mind that the talks will bear fruit and Russian oil and gas workers will continue working in Vietnam for many years to come, thus helping strengthen the relationship between the Russian Federation and SRV.

*Dmitry Bokarev, political observer, exclusively for the online magazine “New Eastern Outlook”.*