



## China Gorging and Japan-China Resource and Energy Conflicts

Shimbun Yomiuri

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By Yomiuri Shimbun

[Beginning on April 18, 2005, The Yomiuri Shimbun ran a 21-part series on "Planning National Strategies - Resources and Energy," highlighting Japan's resource anxieties in the context of rising China-Japan tensions over issues that include the struggle for scarce oil and other natural resource and the voracious quest for energy by Japan's rapidly growing neighbor. The conflict is set within a global milieu in which oil prices soar to %50-60 a barrel, the consumption of China, India, the U.S. and a number of other powers continues to soar, and nations seek to secure access to oil and national gas supplies that show strong signs of reaching a tipping point at which demand exceeds supply. The Yomiuri is Japan's, and the world's, largest newspaper, a generally conservative paper with a daily print of around 11 million copies. We present four articles from the series. Japan Focus.]

#### 1. PLANNING NATIONAL STRATEGIES--Resources and energy/More open China a threat to Japan

Countries around the world are competing for natural resources. A dispute over maritime resources in the East China Sea, for example, is one of the reasons anti-Japanese demonstrators in China have criticized Japan. Japan, which relies on other countries for most natural resources, is not thinking seriously about the changes taking place.

This group of articles in the "Planning National Strategies" series considers the situation and problems concerning natural resources and energy. The following is the first installment. The East China Sea is now called the "sea of conflict." While China is exploring natural gas fields near the Japan-China median line in the East China Sea, Japan asked Beijing to suspend exploration on the grounds marine resources on the Japanese side could be accessed by China.

On the evening of Jan. 22, tension mounted over the sea of conflict.

The Air Self-Defense Force base in Naha was ordered to dispatch P3-C surveillance aircraft to confirm the presence of and photograph two Chinese Navy Sovremenny Class missile destroyers that were reported to be cruising in waters near the Japan-China median line.

The Sovremenny Class destroyers are high-tech battle ships purchased by the Chinese Navy from Russia.

The anti-ship cruise missiles carried by the destroyers are reputed among the best in the world.

Forty-five minutes after the order to scramble, the P3-C aircraft spotted two gray destroyers that were cruising toward the Ramform Victory, a Norwegian ocean survey vessel chartered by Japan.

Officials of the Economy, Trade and Industry Ministry's Energy Agency in charge of the survey were tense after receiving the report from the Defense Agency.

They reportedly thought that they should ask the ship to temporarily halt its survey and leave the area if P3-C pilots believed the Norwegian ship was in danger.

Senior Energy Agency officials focused their attention on surveillance reports from the P3-C.

The two destroyers cruised on a zigzag course, closing in on and pulling away from the Norwegian ship alternately. The ships returned to China late at night.

On April 1, the government released survey findings that China's Chunxiao and Duanqiao gas fields are linked to Japan's gas fields.

As a countermeasure, the government plans to begin procedures in the near future to grant private developers the right to test-drill on the Japanese side of the median line.

China may step up efforts to hamper test drilling by Japanese developers once drilling begins. This will test the governments resolve to take a firm stand. With a sharp increase in demand for energy as a result of its rapid economic growth, China is not only trying to develop gas fields in the East China Sea, but also is stepping up efforts to buy resources from other countries. Its voracious appetite for energy has become a destabilizing factor in the international energy market.

The impact will be great for Japan, which relies heavily on other countries for natural resources.

The Center for Safety and Security Research (CSSR), a research institute under the Education, Science and Technology Ministry, will release next month a report on two crisis scenarios concerning China that predict China's actions regarding energy and their impact on Japan.

The first scenario is a battle over energy sources. It assumes that if China reinforces its procurement of energy without taking cost-efficiency into consideration, the world will be plunged into a situation in which each country competes for oil by ignoring international market

mechanisms.

As a result, political tension between the two countries over resources in the East China Sea will mount.

The second scenario assumes the isolation of Japan. If China succeeds in concluding free trade agreements with Southeast Asian countries, their reliance on China will increase, leading to the isolation of Japan.

Both scenarios portray shocking futures for Japan.

Tokyo University Prof. Horii Hideyuki, head of the center, said that the crisis scenarios modeled worst-case situations in order to work out what measures Japan should take.

There is no guarantee that one of the worst-case scenarios will not come true if Japan sits on its hands.

Chinese leaders are taking the initiative in securing the natural resources that are vital for its economic growth.

In November, Chinese President Hu Jintao visited four South and Central American countries.

The agreement China signed with Brazil incorporated joint development of undersea oil fields off Brazil and joint construction of a natural gas pipeline in Brazil.

China also discussed with Chile, the largest producer of copper in the world, a plan to jointly develop copper mines.

In January, Vice President Zeng Qinghong visited Venezuela, a member of the Organization of Petroleum Exporting Countries, to sign an agreement on 19 cooperation items, including one to facilitate oil trade.

Prime Minister Wen Jiabao is currently visiting India.

Countries China is proposing joint development of oil fields with include Sudan, which the United States said is supporting terrorism, and Myanmar, which is controlled by a military junta.

A high-ranking trade ministry official said these were problematic countries the international community keeps at arm's length. China's powerful energy diplomacy seems to indicate Beijing is heading toward the battle for natural resources described by the CSSR in its crisis scenario.

Chinese leaders are also proposing FTAs to countries rich in resources to deepen its economic ties with them.

Mimuroto Yoshimitsu, a board member of the Institute of Energy Economics, Japan, who took part in formulating the crisis scenarios, said China was a country that exercised heavy state power, but it would gradually become a more open country because such a policy leads to a dead-end.

Japan has established a study body to sign an FTA with Chile and is planning to begin free trade agreement talks with Australia, one of the world's top producers of iron ore.

But the Agriculture, Forestry and Fisheries Ministry and Liberal Democratic Party lawmakers representing agricultural interests are reluctant to liberalize the market for farm produce, making it difficult for the government to couple FTA pacts with procurement of resources as China does.

Mimuroto said that while a battle over resources would be terrible, the isolation scenario was more serious because Japan would be left behind China in procuring resources based on market mechanisms.

Horii, who played a key role in drawing up the scenarios, said Japan should use its scientific technology as a trade weapon, furthering research and development in the fields in which it has an edge, such as development of automobiles powered by fuel cells, clean coal technology and bio-energy.

"Japan should make good use of its technology when dealing with China. Japan has to use scientific technology as its diplomatic card," he said.

The global economy is in the midst of a sea change regarding resources and energy. The memory of high oil prices caused by the two oil shocks has faded.

When oil prices hovered between 10 dollars and 20 dollars per barrel from the late 1980s to the 1990s, Japanese people seemed to cling to the belief that oil could be bought on the free market.

But since the Sept. 11, 2001, terrorist attacks on the United States, concerns about geopolitical risk resulting from political instability in the Middle East have mounted.

With supply failing to meet China's and India's demands for energy, recent oil prices have been hovering at more than 50 dollars per barrel.

Hatanaka Yoshiki, head of the Energy and Environment Program at the International Development Center of Japan, said China, the United States and Europe acted with the understanding that petroleum was a strategic resource.

"Japan still strongly believes oil can be purchased with money. The government should realize the energy problem is a present, imminent danger. It should use all of its resources, including political power, diplomacy, defense and scientific technology to address it," he said.

It remains to be seen whether Japan can overcome an energy crisis that would affect the future of the country. China's oil consumption is the sixth-largest oil-consuming country in the world, churning out about 170 million tons a year.

However, domestic oil consumption resulting from the rapidly growing economy surpassed domestic oil production and China became a net oil

importer in 1993.

According to statistics compiled by BP, a major oil firm, Chinese consumption of oil exceeded that of Japan in 2003, with China becoming the second-largest oil consumer in the world after the United States.

According to the 2004 World Energy Outlook released by the International Energy Agency in October, China's oil imports in 2030 will reach about 500 million tons, an amount equivalent to U.S. imports.

## Part 2. China Fomenting Future Energy Crisis

Bai Zhili, who teaches Japanese politics at Beijing University's graduate school as an assistant professor, visited Japan early in March to do research on the nation's public services, which is his area of expertise. However, his trip to Japan had another purpose.

Bai wanted to know how much Japanese sentiments toward China had worsened because of the antagonism between Japan and China over maritime resources in the East China Sea.

"Chinese people are increasingly interested in energy security, because if the energy supply stops, the country's economic growth also will stop, depriving the population of 1.3 billion of jobs," Bai said. "As for the dispute over maritime resources in the East China Sea, Chinese people think Japan is destroying China's energy security."

Bai said he had been concerned that the antagonism caused by the dispute would worsen the two peoples' feelings toward each other and might deteriorate into war. However, during his trip to Japan, he found that Japanese people were far less upset by the dispute than the Chinese.

Because of the explosive increase of China's energy consumption, many Japanese specialists have started to call that nation a "resource-gorging country."

The major cause for China's growing petroleum consumption comes from the drastic increase in car ownership. To ease congestion in Beijing, car access to arterial streets is restricted, with vehicles only allowed to use the city's main streets on designated days, according to the number on their license plates. Despite such measures, the number of cars on Chinese streets is expected to quintuple by 2020.

However, it is not only petroleum China is "gorging."

"The demand for steel is increasing at a surprising rate in China because the country has become the world's factory, where the manufacturing functions of the whole world have been concentrated," said Sugimoto Takashi, professor of Osaka City University's Graduate School of Creative Cities.

The drastic increase of demand for raw materials has caused their prices to skyrocket.

The price of iron ore rose by 70 percent in fiscal 2005 from the previous year, and that of coking coal more than doubled during that time.

"A 70 percent increase in iron ore prices has never been observed in history," Sugimoto said.

This unprecedented price surge has gradually started to affect Japanese industries.

A temporary shortage of steel forced Nissan Motor Co. to suspend operations at its Oppama plant in Kanagawa Prefecture and two other domestic plants for five days in November and December.

Nippon Steel, a major steel producer, has asked automobile manufacturers and appliances makers to understand the reason the company had to raise steel prices.

"According to our calculation, the price surge pushed up cost in the whole steel industry by 1 trillion yen. We can't deal with it by ourselves," said Toru Obata, general manager of Nippon Steel's Raw Materials Division-II.

Since the two oil shocks in the 1970s, Japan has promoted petroleum stockpiles and development of energy-saving technologies. China, which was energy self-sufficient at that time, will finally start to stockpile petroleum this summer.

China is also lagging behind in energy-saving measures. Many specialists point out that the lack of experience with oil shocks has made China increasingly concerned about possible energy shortages.

Considering the economically close relationship with the country, Japan would inevitably be affected if China develops an energy crisis.

"Japan should take actions to enhance energy security in the whole Asian region by helping China and other Asian countries set up systems to stockpile energy resources and provide them with energy-saving technologies," said Ken Koyama, senior research fellow of the Institute of Energy Economics, Japan.

It is time to consider the Japan-China relationship in light of natural resources and energy.

## Part 4. Japan losing sway over M.E. oil

Japan and 120 other nations as well as four international organizations are competing through elaborate exhibitions at 2005 World Exposition Aichi. But it is not well known that the United Arab Emirates, the largest crude oil exporter to Japan, suddenly withdrew from the event.

The UAE said in September 2003 it would not take part in the event, even though it previously had said otherwise. A senior UAE government official gave Japan no reason other than that it had been decided by the country's information and cultural affairs minister.

The royal family has virtually complete power in the UAE, which has no parliament and largely bases its decisions on human ties. Sources close to the Japanese government said some members of the UAE royal family may have changed their view of Japan. Few facts are known, and many incidents followed the UAE's decision.

Britain's Prince Charles and French President Jacques Chirac visited the UAE to attend the funeral of former UAE President Sheik Zayed bin Sultan al-Nahyan, who died in November. Kawaguchi Yoriko, a special assistant to the prime minister, also attended the ceremony.

At the time, many nations saw a change in leadership as an opportunity to strengthen ties with the UAE. "It's difficult to say that Japan has a knack for dealing with oil-producing countries when it comes to diplomatic matters," a government official said.

Nahyan was seen as an ally of Japan. He awarded the rights to develop oil sites to Japanese oil companies, counterbalancing the sway of international oil majors.

But Sheik Mohammed bin Zayed al-Nahyan, the UAE's new crown prince and Nahyan's third son, is the chief of staff of the UAE armed forces. He is said to have developed close ties with the U.S. military. Within the Japanese oil industry, some are concerned that the appointment of the new prince, who tends to favor industry giant Exxon Mobil of the United States, could change Japan-UAE relations.

UAE Energy Minister Mohammed bin Dhaen Al-Hamili also pledged to provide Japan with a stable oil supply, but hinted at a possible decline in otherwise favorable bilateral relations, saying, "The Japanese are not very well-known to the UAE public." Meanwhile, China is steadily establishing itself as a partner with the UAE.

In December, Dragon Mart, a wholesale shopping complex of Chinese products, opened in Dubai. About 3,000 home appliance, textile and other Chinese companies are planning to set up operations in the UAE.

Hatanaka Yoshiki, director of the energy and environment program of the International Development Center of Japan, said China was trying to deepen economic relations with the UAE due to the fact that their current relationship is one-sided--China buys oil from the UAE--and could be jeopardized in the face of unforeseen circumstances. It will be difficult for Japan, as the country's population continues to age, to return to the high economic growth it once enjoyed.

Naito Masahisa, the chairman of the Institute of Energy Economics, Japan, said Japan had little time left as a powerful country that could take advantage of its influence to secure oil from the Middle East.

Japan will not be able to survive an energy war unless it breaks from an idea that was valid until several years ago, in which it was believed it could cope with surging oil prices by growing economically strong enough to pay more.

## Part 5. Asia an oil battleground

Like the Middle East, Central Asian nations that became independent following the collapse of the former Soviet Union have become the center of a power game among countries competing for resources.

Oil reserves are estimated at between 70 billion to 200 billion barrels in countries bordering the Caspian Sea. Oil-importing countries are paying close attention to Kazakhstan, which is increasing its oil production.

Oil from the Tengiz oil field in the country is mainly exported through a pipeline built by the Caspian Pipeline Consortium (CPC) to the north of the Caspian Sea to Novorossiysk, Russia, which is located on the coast of the Black Sea.

The Russian government, a large shareholder of the consortium, has agreed to a Kazakh request to triple its exports, but with many technological problems to be overcome, increased production will take some time to realize.

Pointing to a map of crude oil export routes, Baktykozha Izmukhambetov, first deputy minister of the Energy and Mineral Resources Ministry of Kazakhstan, stressed that his government could redirect oil exports if Russia did not increase exports from his country.

The route Izmukhambetov referred to is seen as a tactic to influence Russia. The Baku-Tbilisi-Ceyhan (BTC) pipeline is a route put forward by the United States that will go into operation in the second half of the year, and will be the first oil pipeline in the Caspian Sea region that does not go through Russian territory.

Taking advantage of Russia's failure to immediately meet Kazakhstan's request, the United States has proposed that Kazakhstan export crude oil through the BTC pipeline.

Energy and Mineral Resources Minister Vladimir Shkolnik expressed interest in the new route, and said his government was negotiating with the United States.

### **Asian powers join the fray**

In a desperate attempt to secure oil, China has barged into the battle over resources between the United States and Russia. Taking advantage of its border with Kazakhstan, China is building a 3,000-kilometer-long pipeline to its Uighur Autonomous Region.

However, Japan is not standing idly by.

Japanese companies participated in developing the Kashagan oil field, which is the largest oil field discovered in the last 30 years and scheduled to begin production in 2008. Japan also is involved in the construction of the BTC pipeline, a project seen as in Japan's national interest.

In August, then Foreign Minister Kawaguchi Yoriko visited four countries in the Central Asian region.

"I've made the greatest efforts to realize regional cooperation among the nations of Central Asia. If they cooperate with one another and gain

stability as an integrated market, it will contribute to the stability of the international energy market," she said.

However, China saw Kawaguchi's trip to the Central Asia as a push for resources. An article in the Sept. 1 issue of the Chinese weekly Global Times, headlined "Seeking political support with an eye on oil," said Kawaguchi's visit showed vision.

A high-ranking Japanese Foreign Ministry official said her visit gained little news coverage at home, but rival China gave her due credit.

The world map of energy resources is changing every day. Under the initiative of President Vladimir Putin, Russia is rebuilding itself as a resources powerhouse, while the collapse of the regime of Saddam Hussein in Iraq has made Iran the second-largest oil-producing country in the Middle East after Saudi Arabia.

Japan, lacking such natural resources, needs to show all the more sensitivity toward the actions of other countries.

*This report brings together parts 1,2,4 and 5 of a multi-part Yomiuri Shimbun series on national resource planning with a special emphasis on China-Japan resource conflicts. The series, which began on April 18, 2005, continued over several months. Posted at Japan Focus June 29, 2005.*