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China and Japan Jockey for Share of Russian Gas

by James Brooke

TOKYO, Nov. 2 - In the latest jousting between China and Japan over Russia's energy riches, China is talking with the the Exxon Mobil Corporation about buying gas from the Sakhalin Island field, which many Japanese assumed would power their nation for decades to come.

The gas talks come as China rues its loss of a Siberian oil pipeline that was once promised to run to Manchuria. Instead, Russian officials made clear this fall that the pipeline would go to a Russian port on the Sea of Japan. Russian leaders changed their minds after Japan's government offered billions of dollars to help finance the pipeline, which could be a $12 billion, 2,500-mile oil project running from Lake Baikal to Nakhodka.

On a third energy front, a stalemate emerged last week in Beijing after two days of talks between China and Japan over a Chinese gas exploration project in the East China Sea. With China drilling near an area claimed by Japan, Japan fears that the Chinese gas wells will suck up Japanese gas from a reservoir that straddles the border.

While these hydrocarbons have been around for millions of years, disputes are suddenly coming into sharp focus with oil selling at $50 a barrel and China's oil imports leaping. In the first half of this year, oil imports by China, the world's second-largest oil consumer after the United States, jumped 40 percent.

Asia is witnessing "an increasingly fierce competition between the two countries for access to energy supplies," John E. Carbaugh Jr., a Washington consultant who was once chief of staff to Senator Jesse Helms, wrote in his newsletter, Daily Report. "Japan, the world's second-largest economy, has long been dependent on foreign supplies of energy while China's own appetite has surged in recent years along with its economy," he wrote last week from Washington. "Both countries also have their gaze fixed on the resource-rich hinterlands of Russia as an important new source of energy and are currently locked in a high-stakes rivalry to secure access."

On Tuesday (November 2), many Japanese were shocked to learn that Lee R. Raymond, Exxon Mobil's chairman, sketched out the Chinese option during a meeting here Monday with Prime Minister Junichiro Koizumi and Shoichi Nakagawa, minister of economy, trade and industry.

Nihon Keizai Shimbun reported Tuesday that Exxon Mobil, which owns 30 percent of the project and is its lead investor, was in talks to sell "the total volume" to the China Natural Gas Public Corporation. Hoping for a deal by next spring, Exxon Mobil would send the gas by pipeline to Russia's mainland and from there to China.

Japanese companies own 30 percent of the Sakhalin 1 project and Japanese officials long assumed that the gas would eventually make its way here. With reserves estimated at 485 billion cubic meters, the Exxon Mobil gas reserves are the equivalent of six years of Japan's total gas demand.

Selling the gas to China would represent a radical turn for the project, and Mr. Nakagawa assured reporters at a news conference Tuesday that the talks did "not mean Exxon Mobil picked China."

But with the consortium planning to ship gas in 2008, Exxon Mobil officials have complained that Japan has not taken steps toward building a 930-mile undersea pipeline from Sakhalin to Japan. The Tokyo Electric Power Company, Japan's biggest buyer of liquefied natural gas, has been noncommittal about locking itself into a long-term fixed contract for piped gas.
A pipeline along the seabed is not expected to create much environmental damage, but every Japanese fishermen's union along the route has made clear that it expects advance compensation payments.

"Most of the problems have been on the Japan side, the problem of getting a customer for such large volumes, the fishermen issue," Philip Vorobyov, a Russian energy expert for Cambridge Energy Research Associates, said Tuesday by telephone from Moscow. "Hardly anything has been done on the Japanese side to get this gas. It is natural to talk to another consumer if the one you are talking to is not budging."

The Chinese alternative has its pluses and minuses. By bringing gas through the Russian Far East, Transneft, the Russian pipeline monopoly, would follow President Vladimir V. Putin's policy of stressing internal development over exports of raw materials. Some gas could be used for fertilizer production or to generate electricity. The rest could be exported to Manchuria. Northeast China, however, is currently the nation's rust belt, a region with an energy surplus and virtually no capacity for handling piped gas.

A third option would be to send the gas by pipeline down the length of Sakhalin Island to Prigorodnoye, where the Sakhalin energy consortium is building a liquefied natural gas processing plant. Space is being put aside to build a section to handle gas from Exxon's field, creating a product that could be inserted into Japan's distribution system. The projects have attracted a total of $22 billion in investment.

A gas pipeline to China may provide a way for Russia to soften the blow of building an oil pipeline that would roughly follow the Trans-Siberian Railroad, bypassing China.

After years of talk, "a decision on construction of the eastern pipeline" will come by Dec. 15, Arkady Dvorkor, an adviser to President Putin, told Reuters in Moscow on Tuesday. The decision about building the pipeline should be taken in the shortest possible time.

With China expected to surpass Japan in a few years as the world's second-largest oil importer, after the United States, more bruising battles over energy are expected. China is building 23 gas-fired power plants, with 16 more planned.
"China's quest for energy security is indeed beyond its borders," Wenran Jiang, a professor at the University of Alberta, wrote in a recent article published by the Jamestown Foundation. "Beijing's growing prominence and its competition for energy has alarmed Washington and Tokyo and caused long-term strategic adjustments in all the three capitals."

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James Brooke is Northeast Asia correspondent for The New York Times. For his reportage on the struggle to secure access to oil and gas in the region see http://japanfocus.org/083.html and http://japanfocus.org/153.html

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