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## TIME FOR JAPAN TO SHUT UP AND DRILL: ENERGY EXPERT

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A month has passed since Japan and China last held talks over the development of gas fields in a disputed area of the East China Sea, and both sides appear keen on keeping the issue out of the headlines for now.

The most recent round of negotiations March 6 and 7 ended in deadlock after China proposed codeveloping two areas that had so far not been the focus of the debate - one near the Senkaku Islands, which are effectively controlled by Japan and the focus of a separate territorial dispute.

The root of the problem lies in differing interpretations between the two sides over the boundaries of their exclusive economic zones. Japan claims the boundary is the median line between the two states, while China says its EEZ stretches to the edge of the continental shelf, near Okinawa.

The hope for many is that the two countries will put their differences aside and focus on reaping the economic benefits of joint energy development.

But Koichi Iwama, a professor of energy economics at Wako University, said the chances for constructive talks with Beijing are remote; he believes China is further complicating the issue by bringing up contentious bilateral issues such as sovereignty over the Senkaku Islands.

"There is no point in fretting without finding out whether the gas is really there," said Iwama, who was an energy researcher with the Bank of Tokyo and Japan National Oil Corp. before taking his academic post. "What is most important for Japan is to drill now, so it can be on an equal footing with China."

China has said that one of the three fields - which it calls Chunxiao - on its side of the demarcation line claimed by Japan, will begin commercial operation within the first half of this year. Although the Japanese government granted drilling rights to Teikoku Oil Co. last year, the company has yet to start drilling.

"We won't know how much (gas) there really is unless we conduct experimental drilling," Iwama said. "Earlier surveys suggest there could be as much as 2 trillion to 3 trillion cubic feet - the largest (deposit) for Japan and well worth (the risk of a quarrel), if that's the case."

Meanwhile, a government official requesting anonymity said that while the amount of gas in the field is unclear, the East China Sea is extremely important to Japan's energy strategy. He said the government decided to grant test-drilling rights last year after holding back for decades because of "the need to claim Japan's rights" as Chinese activities became increasingly aggressive and fear arose that China would siphon gas off Japan's side.

But when asked why drilling has yet to begin, he said, "We've just entered serious discussions, so we do not believe it is appropriate to suddenly start drilling now," adding both sides are trying to resolve the dispute through dialogue.

Teikoku Oil President Masatoshi Sugioka was reported as saying last August that his company was willing to explore for gas on the Japanese side of the median line as long as the government assures the safety of its workers.

Although the Land, Infrastructure and Transport Ministry has compiled a bill to protect the ships surveying the marine resources in Japan's exclusive economic zone by giving the government the right to create exclusion zones ahead of the possible development of Chunxiao, Iwama said this is not enough.

Given the frequent appearance of Chinese navy ships and military aircraft in the area around the three Chinese gas fields, the government must provide more forceful protection, such as war contingency legislation under which the Self-Defense Forces would be allowed to counter armed attacks, he argued.

Teikoku Oil officials declined to comment on the issue, citing the extremely sensitive political situation in the East China Sea.

"What one company says in an article can adversely affect matters," one official said.

China's explosive economic growth of nearly 10 percent per year since 1995 has fed its demand for resources, with production of steel, cement and aluminum all requiring large amounts of energy.

According to the International Energy Agency, China's 2003 primary energy consumption was equivalent to 1.426 billion tons of oil, while Japan's was 517.1 million tons. By 2030, China's energy demand is expected to grow to as much as 2.539 billion tons, the agency said.

"To quench its thirst, China holds energy agreements with such regimes as Iran, Uzbekistan and Sudan - even trading arms for oil in Sudan. Japan should really be resolved when starting developments in this area," Iwama said.

But some question whether the quarrel is really about securing resources in two energy-hungry nations.

An analyst at a foreign-affiliated securities firm said he suspects the conflict over the gas fields is just political muscle-flexing.

"In the 1970s, major (international) oil companies probed the area, but none of them developed it," he said. "If the area is really promising, it's unthinkable that they would leave it alone."