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UKRAINE ROW HAS CHINA, JAPAN WORRY ABOUT OVER-RELIANCE ON RUSSIAN ENERGY

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As Russia wielded its energy weapon against Ukraine to devastating effect last week, China and Japan were wary observers, worrying that one day the same might happen to them, observers said.

Neither Asian power has ever felt entirely comfortable with the Kremlin, and its decision to drastically raise the price of the gas it sells to Ukraine has done nothing to boost their confidence in the Russian bear.

"To control a nation's energy is to control the nation's activities," said Hiroshi Watanabe, a Tokyo-based economist at the Daiwa Institute of Research.

"Russia seems to have lost some trust by making threats through a reduction of supplies," he said.

Unfortunately for China and Japan, Russia has the world's largest natural gas reserves and is the second largest exporter of crude oil, making it too big an actor to be ignored in Asia's great energy game.

So the most the region's oil and gas guzzlers can do in reaction to the Russian-Ukrainian dispute is prevent over-reliance on the Kremlin.

"What you want to do is you want to continue to work with Russia, but you don't want to throw all your eggs in one basket," said David Zweig, an expert on Asian energy politics at the Hong Kong University of Science and Technology.

Nowhere is the complexity of the tripolar relationship between Moscow, Beijing and Tokyo more in evidence than in Russia's plan to build a pipeline transporting Siberian oil to the Pacific coast.

Russia announced on Friday it expected to start construction this summer of the pipeline,

which will cost an estimated 15 to 16 billion dollars and have a capacity of 80 million tons a year.

When complete, it will run for 4,200 kilometers (2,600 miles) from Taishet in central Siberia to Perevoznaya Bay on the Pacific coast close to Russia's southeastern border with China.

Russia appears to have left it up in the air which of the two Asian economies gets first priority on the pipeline -- perhaps, observers said, in the hope of squeezing out the best possible deal.

On a visit to Tokyo in November Russian President Vladimir Putin repeatedly stressed Japan would get access to the oil.

But two months prior to that, he reportedly told Western visitors in the Kremlin that oil shipments from the pipeline would initially go to China.

Japan had offered to pick up half of the price tag for the project and in April warned that aid would be snapped off if the pipeline first serves China.

But last week Tokyo played down the Russia-Ukraine spat.

"There is no change in our policy of proceeding with the oil pipeline construction project with Russia in the aim of securing stable energy supplies," said an official at the Agency for Natural Resources and Energy.

China is not overly intimidated by Russia's poker play, and has even gone on the offensive.

"The Chinese have some tricks up their sleeves too," said Lim Tai Wei, a Japan Foundation fellow and an observer of China's quest for energy security.

"It was able to reach an oil deal with Kazakhstan, traditionally within the Russian sphere of influence, without Russian mediation," he said.

-- Political risks --

While claiming to be unfazed by Ukraine's woes, Japan appears to face considerable potential risks as it becomes more dependent on Russia.

One concern is that Russia might try to use energy as a bargaining chip in a 60-year-old dispute over four islands which Soviet troops seized in the closing days of World War II and Japan wants back.

China, by contrast, has no major outstanding issues with Russia, and even shares with Moscow an aversion to US dominance in global affairs, but that could change.

"It would not be unreasonable to argue that Russian moves in the Ukraine gas projects have unnerved Chinese observers," said Lim. "It could do the same to the Chinese in any unforeseen rapid breakdown in relations."

Many Chinese are old enough to remember the early 1960s when China and the Soviet Union suddenly and unexpectedly split.

Soviet advisors withdrew completely from China's oil industry, leaving technology, management and training in a state of flux and China to face a hostile Soviet Union and an equally hostile US embargo.

But this painful historical experience counts for little against the fact that China today has the world's fastest growing major economy, and probably needs Russia even more than four decades ago.

So in the final analysis, the Ukraine debacle will not weaken Sino-Russian energy cooperation, according to William Engdahl, author of "A Century of War," a history of oil in world politics.

"China must find ways to cooperate with Russia on future energy supplies," he said. "They have no alternative than to look for secure energy sources any place in the world they can."

Diversification tops the agenda for both China and Japan, and as long as dependence on one single source is avoided, both will feel reasonably secure, according to analysts.

Manabu Fukuchi, a senior consultant at the Nomura Research Institute, noted that even after a deal with Russia, Japan would still be able to source oil from the Middle East, which currently provides 90 percent of its imports.

"What happened between Russia and Ukraine will have no big impact on Japan and Russia," he said.

China is actively looking for alternatives, including liquefied natural gas, or LNG, from countries such as Malaysia, Indonesia and Australia.

While LNG happens at the moment to come without the political risk of Russian energy, it remains a relatively expensive option, and Beijing faces a difficult trade-off.

"The question now is how do you balance the political risk and the high international LNG price," said Chi R. Zhang, a Beijing-based analyst with consulting firm Cambridge Energy Research Associates.

If anything, the Chinese are more concerned about American energy policies, having received a wake-up call with the US invasion of oil-rich Iraq in 2003, according to

Engdahl.

"They realized that the American agenda had nothing to do with weapons of mass destruction, but had to do with control of world energy chokepoints," he said.

"Therefore, China really began an aggressive program to find energy security," he said.