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JAPAN REJECTS NEW CHINESE PROPOSAL ON JOINT ENERGY PROJECTS TOKYO, March 8 2006

Japan on Wednesday rejected a new Chinese proposal for joint energy projects as the two sides struggle to bridge their differences in the territorial dispute.

"China made a proposal to jointly develop two areas in the north and south of the East China Sea. This proposal is something we cannot accept," Chief Cabinet Secretary Shinzo Abe said at a regular press conference.

One of the two areas is around an island chain, known as Senkaku in Japanese and Diaoyu in Chinese, which is claimed by Japan, China and Taiwan.

The other area is believed to be in the continental shelf between Japan and South Korea.

The new Chinese proposal was made during two days of bilateral talks held in Beijing through Tuesday, but the two sides failed to make substantial progress and discussions are expected to continue.

"Japan and China take different positions, so we'll have to continue discussing how to solve the problem," Japanese Prime Minister Junichiro Koizumi told reporters.

Japanese Foreign Minister Taro Aso said it was impossible for Japan to agree to a joint energy project with China in the area of the Senkaku island chain, which he insisted belonged to Japan.

"The island chain of Senkaku is, as you know, clearly a Japanese territory, based on history and international law, without a doubt," he said. "The territorial dispute (over Senkaku) doesn't exist in the first place."

"Japan has no intention to have a joint gas project in an area like this," he said.

Japan and China, among the world's top energy importers, have been sparring for years over potentially lucrative gas fields in another part of the East China Sea where their 200-nautical-mile (370-kilometer) exclusive economic zones overlap.

China began drilling unilaterally in the area in 2003. Japan is concerned that the Chunxiao and Duanqiao gas fields that China is developing stretch into what Tokyo

considers its sector.

The Japanese side earlier proposed joint development of the area straddling what Tokyo says is the maritime boundary.

China does not recognize the boundary, and tensions rose last year after Japan said it had spotted flames indicating China had started gas production.

China had previously proposed that Tokyo and Beijing jointly develop the gas fields in the East China Sea only on the Japanese side of the boundary.

The East China Sea is just one item on a long list of bilateral disputes between Asia's two largest economies