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Analysis: China-Japan oil spat confusion

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China has overtaken the United States as Japan's biggest export market, while Chinese economic growth remains heavily dependent on continued investments by Japanese businesses on its shores. Yet there seems to be no end in the growing rivalry and sometimes outright hostility between the two East Asian countries, a situation that has been aggravated in the race for oil and territorial claims.

Earlier last week, the China National Offshore Oil Corp. said that it had begun gas production in the East China Sea, near the boundary that Japan has staked as its own. But by the weekend, the state-owned exploration group withdrew the statement from its Web site, and so there is yet no clear indication of whether or not CNOOC has actually started up production.

"We need to establish the truth, and (if true), stop them from production" said Takao Kitahata, vice minister at Japan's Ministry of Economy, Trade, and Industry at a press briefing in Tokyo Monday, pointing out that smoke from the gas fields have yet to be seen, which would be visible should they already be in full production.

Nevertheless, confusion over the status of the fields remain and China's Ministry of Foreign Affairs spokesman Qin Gang said that whatever exploration CNOOC has been undertaking "was conducted at the territorial waters (of China), on which the Japanese side has no dispute, adding that "the tapping activity is a kind of normal practice that a nation exerts its sovereignty."

For now, though, it remains unclear what stage CNOOC has reached in exploring the site, but it seems certain that it is merely a question of when rather than if the Chinese energy giant will start tapping into resources that Japan claims is theirs on the one hand, while China asserts ownership to it on the other. Japanese daily Asahi Shimbun reported Monday that tension between the two countries is likely to increase and the project is expected to hurt diplomatic relations.

What is certain, however, is that China's seemingly insatiable appetite for oil has been cited by many energy analysts as one key factor for driving up petroleum prices in recent years, and that trend is only expected to continue in coming years, even though the country remains heavily dependent on mining its coalfields to meet the bulk of its energy needs. What's more, with virtually no energy resources of its own, Japan remains highly dependent on imported oil and it has already clashed with China on prospects of securing oil from Russia and central Asia.

The latest dispute, however, not only concerns drilling rights but more importantly, it is putting to test claims by the two countries over territorial waters.

"China is pushing the envelope, and this is going to happen more and more often...regarding the military or for natural resources," said Usha Haley, director of the global business center at the University of New Haven.

At the same time, Haley pointed out that while China desperately needs to secure more access to natural gas and oil, it has only a limited ability to forge ahead with deep sea exploration. As such, she argued that it would be in China's best interest to cooperate with the Japanese in jointly developing the oil field, as Japan is hoping to do, rather than trying to go it alone.

"By cooperating with the Japanese and eventually going into joint production ... China would gain more in the end," she said, adding that while there might be tension between the two countries over the oil fields for now, both China and Japan should eventually be able to work together to secure a common objective, namely to ensure more energy supply to their respective countries.

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