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Friday, April 15, 2005



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Q&A

Row boils down to gas vein and a line in the sea

By MAYUMI NEGISHI
Staff writer

Tensions over gas fields under the East China Sea are straining relations between Japan and China, arguably the two most interdependent economies in Asia.

From an economic perspective, the dispute underlines Tokyo's growing distrust of Beijing in the wake of China's economic rise and rush to secure energy sources.

What is the root of the problem?

Large oil and natural gas deposits are believed located about halfway between Okinawa and the coast of China, and near the Japanese-controlled Senkaku Islands, which are also claimed by China and Taiwan.

China has constructed drilling rigs just a few kilometers from the median line drawn by Japan as the edge of its exclusive economic zone, which Beijing disputes.

China disagrees with Japan's EEZ line, which Tokyo maintains marks an equal distance from the coasts of the two countries. Beijing claims its EEZ extends to the edge of the continental shelf.

Both definitions of an EEZ are accepted under international law, in which case experts say the country that has developed more underwater resources would probably win should the United Nations make good on a pledge to settle such disputes by May 2009.

Under the U.N. Convention on the Law of the Sea, which Beijing and Tokyo signed in 1996, signatories can claim resources in an EEZ extending 200 nautical miles (370 km) from their shores. But using this rule, the two nations' EEZs overlap over large areas, especially if taking into account China's claims to sovereignty over Taiwan and the Senkaku Islands.

Why does Tokyo take issue with China's drilling if it is on the Chinese side of the Japan-declared EEZ?

Tokyo says it has a right to its share of resources if the natural gas fields China is tapping extend into the Japanese side of the line. This is a possibility, according to a geophysical survey conducted by the Japanese government and released April 1.

Japan, the world's second-largest economy, has almost no natural

Market Moves

5 p.m. Fri. in Tokyo

Yen per dollar

108.30-32
(-0.59 from Thurs.)

Nikkei average

11,370.69
(-192.48)

TOPIX

1,150.67
(-17.75)

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resources of its own and relies on the Middle East for nearly 90 percent of its oil.

With oil prices climbing rapidly, in part due to surging demand in China, Tokyo hopes to tap into other energy sources, including natural gas. Japan would be extremely concerned if China took natural gas from what Japan terms its territorial seabed.

Meanwhile, China, the world's second-largest oil consumer after the United States, is racing to meet a voracious domestic demand for energy. It is expected to become a net importer of natural gas by 2010.

Will Japanese oil companies drill for natural gas under the East China Sea?

This remains to be seen.

It will take months for the Ministry of Economy, Trade and Industry to designate drilling sites.

Companies will then have to submit business plans and pay special taxes upfront.

Once completed, they can begin test drilling, a long process that costs billions of yen.

Only then will these firms be able to determine whether retrieving and processing the gas will be worth it.

The amount and quality of natural gas in the disputed fields are unknown. But the withdrawal of U.S. oil company Unocal Corp. and the Royal Dutch/Shell Group from a joint East China Sea gas project with the Chinese government last September is an indication that cost-efficiency may be a challenge.

Industry watchers meanwhile say Japanese companies -- which are looking to also sell what they pump up to China -- would probably prefer to drill after bilateral tensions are resolved.

Many firms are worried about the safety of their employees and possible damage to equipment should their ships clash with Chinese naval or coast guard vessels in the disputed waters.

Some have also voiced concern that they might face boycotts of their energy products in China -- a vast and lucrative market -- if they drill in the area amid an antagonistic atmosphere.

The Japan Times: April 15, 2005

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