

## **Energy Cooperation and Competition \* Between Japan, China and US**

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It is a great honor for me today to have an opportunity to exchange views with very distinguished participants. I would like to make a brief presentation on “Energy Cooperation and Competition” from the viewpoint of Japan-China-US relations. With regard to current energy issues, I think there are three important points to be considered, which can be referred to as “the three Ss” – namely: sustainability, security and stability of the market.

The first “S” stands for sustainability, which means the manner in which we can continue economic development while reducing GHG, particularly CO<sub>2</sub> emissions, in the long term. This is an unprecedented challenge for humankind, because fossil fuels – oil, gas and coal – account for almost 90% of primary energy consumption in the world. In this sense we can say that global warming and energy issues are two different sides of the same coin.

The second “S” stands for security, which means that since the September 11 attacks, securing a stable supply of energy has become a highly important policy objective in the major oil importing countries such as Japan, China and the US due to the increasingly destabilized situation in the Middle East. As a matter of fact, about two thirds of the oil exported from the Middle East in 2004 flowed to Asia, and this is projected to rise in the coming years due to rapid increases in oil demand in China, India and the ASEAN countries.

The third “S” stands for stability of the market, which means how to stabilize the very volatile oil market where historically high prices of crude oil have been reached in the last few years. If crude oil prices remain high or show a tendency to rise further, the impact on Asian and US economies is likely to be even more serious than now. In order to avoid such risks, Japan, China and the US need to make greater efforts to promote cooperation not only between oil producers and consumers, but also among the oil consuming countries.

Taking account of the paradigm shift regarding the energy situation just mentioned, I would first of all like briefly to explain Japan’s energy strategy that is now under discussion; next to state what are the major energy-related policy issues in terms of the Japan-China relations, and finally to suggest how we should address ourselves to these problems.

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\* This speech was addressed at the Ninth Meeting of China-Japan-US Trilateral Dialogue held in Beijing on March 20-21, 2006.

### **Japan's Energy Strategy**

With regard to Japan's energy strategy, we are now witnessing a major shift in policy that has more to do with energy security than with the economic efficiency of the energy market. As we were able to enjoy very cheap oil prices during the period from 1985 to 2000, the Japanese public and politicians until recently paid little attention to energy security. As a result, the belief spread among both the public and policymakers that oil is abundant and can be bought anytime as long as we have the money.

I think, however, that this perception has now changed dramatically as a result of sharp increases in oil prices as well as rapid surges in China's energy imports. Particularly in recent years we have seen that Chinese national oil companies with the support of the Chinese government have been seeking aggressively to acquire oil and gas resources overseas in all parts of the world including the Middle East, Africa, Central Asia, Russia and Latin America. There is no question that this active resource diplomacy being pursued by China has given rise to major concerns about Japan's future energy supply. In addition, these concerns are unfortunately being intensified by recent Chinese activities of exploration & development of oil and gas fields in the East China Sea.

On the other hand, the question of how to reduce CO<sub>2</sub> emissions has become a very important policy target for Japan since the coming into force of the Kyoto Protocol in February 2005. According to this treaty, Japan is obliged to reduce its GHG emissions in 2010 by 6% compared with the level in 1990. Frankly speaking, this will be a very difficult target to achieve, because the current level of GHG emissions in Japan is already 7-8% higher than in 1990.

Under these circumstances, METI is now preparing "The New National Energy Strategy" which will be finalized this summer. According to the draft now under consideration, main policy targets have been proposed and it is intended that these should be accomplished by 2030. The major points are as follows.

- 1) Improving the efficiency of energy consumption per GDP by 30%.
- 2) Reducing oil dependency from the current 50% to less than 40%.
- 3) Increasing the share of equity oil in total oil imports from the current 13% to 40%.
- 4) Increasing the share of nuclear power in total power generation from the current 30% to 30-40% or more, and establishing the nuclear fuel cycle technology.
- 5) Strengthening international cooperation particularly in Asia by promoting transfers of know-how and technology in such areas as energy conservation, environmental protection and oil stockpiling.
- 6) Encouraging technological innovation and development in the energy industry.

### **Japan-China Relations in the Energy Context**

Taking into consideration Japan's new energy strategy, I would like to touch on the subject of the Japan-China relationship in the context of energy issues. It is very clear that at present two opposing currents exist and that these are competing with each another. One is the desire to promote cooperation and mutual collaboration between the two countries as energy consumers, and the other is the trend toward intensified competition and conflicts in the search for oil and gas resources. Unfortunately, due to rising political tension between the two countries, the latter current has been gaining strength in recent years. We should keep in mind, however, that Japan and China share a long history with numerous examples of outstanding cooperation in the energy sector through various bilateral and multilateral frameworks.

On a bilateral basis, the Japan Bank for International Cooperation (JBIC) has been giving financial support in the form of so-called “resource loan” to a number of oil field and coal mining development projects in China for many years. During the period 1979-97, the total amount of finance amounted to more than 1.6 trillion Japanese yen, or about \$140 billion US dollars. In recent years a new type of untied loan by the JBIC has been started in the area of CCT (clean coal technology) -related projects.

As another good example of energy and environmental technology transfers to Asian developing countries, I can mention the so-called “Green Aid Plan” which was initiated by the Japanese government in 1992. This plan has helped China develop and introduce desulphurization facilities in coal-fired power plants and thus to reduce SO<sub>2</sub> emissions.

On a multilateral basis, the frameworks of the APEC Energy Working Group and the Ministerial Meeting of ASEAN+3 have been set up for the purpose of achieving common interests by working together towards shared aims. These aims include a transparent reporting system for oil data, technology transfer of energy conservation and clean coal use, an oil stockpiling system, the best practical methods of natural gas use and renewable energy developments. As you know, a number of workshops and seminars have been held not only at official levels but also at expert levels, including private sectors.

These efforts to encourage dialogues and cooperation have been to some extent successful in promoting a common understanding of serious energy problems in Asia, and in taking some concrete actions to cope with them. Frankly speaking, however, this current of cooperation is tending to become stagnant and overshadowed by the opposing current, triggered by conflicts and competition over gas field developments in the East China Sea and the oil pipeline route from East Siberia. These problems are unfortunately adding fuel to the flames of nationalism along with the rising political tension between Japan and China. A very dangerous state of affairs will arise if these conflicts are allowed to escalate and become unmanageable on both sides.

What, then, can we do to improve the situation? This is a formidable challenge for us and, honestly speaking, there appear to be no easy answers. I nevertheless believe that solutions can be found if we make greater efforts to focus on common interests and seek mutual benefits.

On a bilateral basis, I think that a bottom-up approach is more appropriate in areas such as energy conservation and clean coal technology. It is very good news that the Japanese and Chinese governments have agreed to hold a joint seminar focusing on energy conservation and environmental protection in Tokyo this May, because Japan is a front runner in the field of energy efficiency. Our government has a long history of encouraging energy conservation using various policy tools, and the private sectors have also succeeded in developing innovative technologies. With regard to technology transfers, it should be kept in mind that private companies are concerned about how to protect their intellectual property rights. Both governments must improve and create the necessary conditions for the private sector to promote cooperation.

On a multilateral basis, the new initiative called “Asia Pacific Partnership on Clean Development and Climate” (APP) is expected to contribute to finding solutions to the problems of both energy security and global warming by regional cooperation. APP was initiated by the US, and member countries are Japan, China, the US, India, South Korea and Australia. This partnership aims to promote regional cooperation in technology development of energy conservation and clean coal use

on a practical and action-oriented basis. I believe that APP can play an important role as a complementary framework to the Kyoto Protocol, because there are five countries other than Japan which either are not obliged to cut their GHG emissions or have not ratified the Kyoto Protocol.

Finally, I would like to touch on the question of how to develop oil and gas resources in the disputed EEZ between Japan and China in the East China Sea. Our Prime Minister Mr. Koizumi has been insisting repeatedly that we should make the East China Sea a sea of friendship, not a sea of conflict. Since last year the two governments have held several meetings with the aim of solving the problem. Unfortunately, however, the affair seems to have reached a deadlock. I nevertheless wish to remain optimistic, and hope that a solution can be found through greater diplomatic efforts.

My own view is that this issue should be handled within the framework of comprehensive energy cooperation between Japan and China. For example, the disputed oil and gas fields should be developed jointly with the condition that the boundary of the EEZ should be subject to future negotiations. Japan should also take the major initiative by offering technological and financial support in areas such as energy conservation and clean coal technologies which China is eager to promote. We must make the greatest possible efforts to bring about a win-win situation and not both to become losers in these troubled times.

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