ASIAN ENERGY SECURITY NETWORK DAILY REPORT, January 12, 2004

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LATEST REPORT
Monday, January 12, 2004

Content

- Current Status of the PRC Energy Market
- ROK on Energy Grid Interconnection
- Asian Oil Market Outlook
- Natural Resources in East Asia, a European Perspective
- Russian-Japanese Oil Pipeline
- Japan and PRC and Russian Oil and Gas
- Northwest EnergyIdeas Clearinghouse

1. Current Status of the PRC Energy Market The Nautilus Institute (Aling Zhang and Yanjia Wang, "UPDATE ON ENERGY SECTOR ACTIVITIES AND PLANS IN CHINA," 11/8/03) released this study examining the current status of the energy market in the People's Republic of China written as part of our East Asian Energy Futures Project (EAEF) held last November in Vancouver.

Read the full report.

Return to top

2. ROK on Energy Grid Interconnection

The Nautilus Institute (Jungmin Kang, "ENVIRONMENTAL IMPACTS AND BENEFITS OF REGIONAL POWER GRID INTERCONNECTIONS FOR THE REPUBLIC OF KOREA: POTENTIAL IMPACTS ON NUCLEAR POWER GENERATION AND NUCLEAR WASTE PRODUCTION," 10/1/03) released this study examining the current status of the energy market in the Republic of Korea written as part of our 2003 Workshop on Grid Interconnection in Vladivostok, Russia.

Read the report.

Return to top

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3. Asian Oil Market Outlook

This report was prepared for the US Department of Energy by the East West Center's Jeffrey Brown and Kang Wu who examine the key players in the Asian Oil Market and forecasts their production and consumption needs.

"The Asia Pacific region's dynamic oil market is marked by strong growth in consumption, declining regional oil production, and over capacity in its highly competitive oil-refining sector. Its "key players" are China, India, Indonesia, Japan, and South Korea-a group that includes the region's five top consumers and three of its major producers-and developments in these countries will have commercial and strategic implications for the whole region. On the consumption side, Japan's slow growth in demand has failed to dampen regional growth, which is now driven by China and India's fast growing thirst for oil. On the supply side, Indonesia's inevitable transition to a net oil importer highlights the trend toward growing dependence on Middle East oil, which already comprises 42-90 percent of imports among the key players. In response to this trend, China, Japan, and South Korea are pushing to acquire overseas oil reserves, with Japan and China already locked in a fierce competition for projected Russian supplies-a type of struggle that will likely become more commonplace."

Read the full report.

Return to top

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4. Natural Resources in East Asia, a European Perspective

The Asia Europe Project ("NE ASIA STRUGGLES TO OVERCOME DIVISIONS," 12-25-03) released this report a gathering of European Parliament Members and other EU specialists in December in Brussels.

"A presentation on the Northeast Asian regional energy profile was noted that the PRC has the second largest electricity generation capacity in the world, but is facing a rapidly rising demand as its economy expands. The PRC also represents one-third of the world's oil demand increase, and the region is highly dependent of Middle East oil. More than $3 trillion was needed in energy investments in the Asia-Pacific region to exploit the energy resources available in the Russian Far East and elsewhere in the region, but to make such investments possible, reforms are needed in a number of economic, financial, and institutional areas. Greater energy efficiency and diversification was also described as imperative in order to meet development and environmental objectives in the region. A Russian participant in the meeting noted that even the development of adequate pipelines

to supply oil and gas to the domestic Russian markets of the Russian Far East could be dependent on external financing, as would the development of infrastructure to export such energy products to regional neighbors. He pointed out the interest in and importance of the Angarsk-Nakhodka pipeline project for both the PRC and Japan, as well Russia."

Return to top

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5. Russian-Japanese Oil Pipeline

Reuters, (Teruaki Ueno "JAPAN AND RUSSIA TO DISCUSS PIPELINE FURTHER," Tokyo, 12/16/03) reported that Japan and Russia agreed on Tuesday that a Japanese plan for an oil pipeline from Eastern Siberia to Russia's Pacific coast was a good idea, but stopped short of making any commitment at this stage. A statement, issued after talks in Tokyo between prime ministers Mikhail Kasyanov of Russia and Junichiro Koizumi of Japan, said the former World War II foes would continue discussing the idea "actively." The two countries also agreed to form a joint body next year to promote trade and investment. "The two leaders shared the view that the construction of a pipeline to the Pacific coast is important from the standpoint of the development of Eastern Siberia and Russian Far East, effective use of energy resources in the region and stable energy supply in the Asia-Pacific region," the statement said. Earlier Tuesday, Japanese Trade Minister Shoichi Nakagawa told Kasyanov that Tokyo was ready to provide financial assistance to Russia to build the pipeline routed to the Pacific. But while import-dependent Japan has been trying to persuade Russia to build a pipeline from Eastern Siberia to nearby Nakhodka on Russia's Pacific coast, Russia has steered clear of making any commitment. "The project must benefit both Japan and Russia... I would like to emphasize the importance of the pipeline for Japan," a Japanese official quoted Koizumi as telling Kasyanov. Japan's hopes for the Nakhodka pipeline, that would cost an estimated $4 to 5 billion, took a knock this year when Russia and the PRC signed a declaration that they would strengthen cooperation in the oil and gas sectors, including construction of a huge Russia-PRC oil pipeline. Both Japan and the PRC, whose appetite for energy has grown because of its booming, export-driven economy, are keen to see construction of a pipeline begin. Analysts and Russian government officials have said Russia does not have enough reserves to justify building pipelines to serve both and more exploration was needed. The PRC plan calls for a 600,000 barrels per day (bpd) pipeline to Daqing in northern PRC. The proposed Japanese pipeline is designed to ship up to one million bpd by 2007-2009. During Tuesday's meeting with Kasyanov, Koizumi repeated Tokyo's call for Russia to ratify the 1997 Kyoto treaty to fight global warming. The joint statement said Russia would decide whether to ratify the treaty after assessing its impact on the economy. "We are preparing for ratification of the Kyoto Protocol, although this period is taking longer than we expected," Russia's Interfax news agency quoted Kasyanov as telling reporters in Tokyo. "We remain on the course of preparing for ratification." Russia has pulled back from previous promises to ratify the treaty, apparently worried it might choke economic growth.

Return to top

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6. Japan and PRC and Russian Oil and Gas

The New York Times, (James Brooke, "JAPAN AND CHINA BATTLE FOR RUSSIA'S OIL AND GAS," Vostochny, 01/3/04) reported that for now, Krylova Cape is not much to see: a spit of land between

the Russian taiga forest and the Sea of Japan, its soil being graded a bit by a bright yellow bulldozer. But what is taking shape here is central to a pitched struggle between the two most important economies in Asia: the reigning titan, Japan, and its rising challenger, the PRC. Both economies are hungry for raw materials, especially energy - Japan because it has almost none of its own, the PRC because its economic boom has fast outstripped what once were adequate domestic supplies. Both want to limit their dependence on oil from distant, politically volatile regions like the Middle East. And both see an attractive alternative in the little-tapped energy riches of the vast, vacant Russian Far East. Getting oil to market from the remote East Siberian fields that Russia is ready to develop means spending billions on a pipeline. Japan and the PRC are fighting hard over where that pipeline will go: either to the PRC's northeastern industrial heartland, or to this stretch of Russian shoreline, where a new deep-water oil terminal will be just one day's tanker cruise from Japan. With the choice Russia faces, the political and economic dynamics of Northeast Asia stand to be profoundly shaped for years to come. "The Chinese will be furious if the Russians do not give them the pipeline," said Graham Hutchings, an Asian specialist with the British consulting group Oxford Analytica. The pipeline rivalry offers a taste of more battles to come, as the PRC moves aggressively to secure access to resources it needs to keep wheels spinning in "the factory to the world." "We are about to enter an age in which Japan and China scramble for oil," Yoichi Funabashi, international affairs columnist for Japan's Asahi Shimbun, wrote recently. "China acts, and Japan reacts. Now, we are losing the oil race." In Moscow, advocates of a PRC pipeline say that binding Russia and the PRC together in economic interdependence would be good for regional stability, on the model of Canada and the US. Similar reasoning helped propel a $17 billion project to build a 3,055-mile natural gas pipeline from eastern Siberia to serve northeast PRC and ROK, which won initial approval in November. The PRC's voracious appetite for energy is also lighting a competitive fire under Japan's conservative electric utilities, which have been slow to commit to new development projects. Exxon Mobil tried for years with little success to interest Japanese utilities in a 1,200-mile gas pipeline from its gas development on Sakhalin Island, Russia, to Tokyo. Interest suddenly perked up when Exxon Mobil let it be known that it was studying an alternative 1,000-mile pipeline to Harbin, PRC. The PRC has also plunged ahead with deals to bring in more liquefied natural gas from Indonesia and Australia, where Japan also buys gas. "Japan Inc. is thinking that there is no shortage of supply, that there will be another bus in a minute," Mr. O'Sullivan said. "China is building terminals." The yellow bulldozer's grading work here will not be in vain, whatever Moscow decides. Krylova Cape is at the eastern end of the Trans-Siberian Railroad. Next year, work will begin in earnest on the oil terminal, with plans for 140,000 barrels of oil a day to reach the port by rail for shipment to Japan and elsewhere. "Krylova Cape is a good spot," Viktor S. Gnedzilov, mayor of Nakhodka, the municipality that oversees the cape and this port, said in an interview. "There is the railroad. The piers can be extended one kilometer. We expect that vessels up to 300,000 tons could come to the pier. It would be a colossal benefit for Nakhodka - jobs, businesses, development, foreign investments." In Russia's thinly populated Far East, the Japanese pipeline is seen as a counterbalance to the PRC, a partner Russians view with some misgivings. "Many people here believe Japan is a more predictable country," said Alexei Kabanchenko, spokesman for Nakhodka, a Slavic outpost whose billboards proclaim: "Russia starts here."

http://www.nytimes.com/2004/01/03/business/worldbusiness/03asia.html?ex=1074413306&ei=1&en=46e39863a39f93fc

Return to top

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7. Northwest EnergyIdeas Clearinghouse

A news service that might be of use to our AESnet members is the "Northwest EnergyIdeas Clearinghouse", which provides periodic e-mail updates on (usually United States) energy issues-with an emphasis on energy efficiency--as well as links to current energy sector reports. One way to access the Clearinghouse and the information it assembles is through www.EnergyIdeas.org. Instructions to subscribe are as follows:

"To SUBSCRIBE to the listserv, send a blank message to: subscribe-NWEI--NewsBriefs@listserv.energy.wsu.edu"

Return to top

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