

# Japan outbids China for Siberian pipeline

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Russia signed an agreement with Japanese interests on December 30 for the construction of a 4,130 kilometre oil pipeline from Taishet in eastern Siberia to Nakhodka, a port city on the Pacific coast opposite Japan. The agreement was regarded in Tokyo as a political coup. For well over a year, the government of Japanese Prime Minister Junichiro Koizumi has sought to outbid a rival pipeline plan that would have transported Russian oil to China.

At a cost of estimated \$16 billion, the Pacific pipeline will be able to transport 80 million tonnes of crude oil every year from Siberia to Japan, and potentially to the west coast of North America. The pipeline, which will be constructed by the state-owned Russian monopoly Transneft, will go through Kazachinskoye, Tynda, Skovorodino and Khabarovsk, to the Perevoznoy Bay oil terminal in Nakhodka.

A shorter, and far cheaper, route had been proposed by China. In partnership with the Russian oil giant Yukos, Beijing offered to finance a pipeline from Angarsk in Siberia to Daqing, a major city in China's north eastern provinces—a centre of energy and heavy industry.

Russia initially agreed to put \$2 billion toward the Chinese project. Construction of the pipeline was scheduled to begin in 2003. It was projected by 2005 to be capable of transporting 20 million tonnes of crude oil annually.

The plan was opposed by Tokyo. In May 2003, Koizumi personally made the case to Russian President Vladimir Putin that Moscow should agree to a pipeline aimed at transporting oil to Japan. Tokyo argued that the Pacific route, though more expensive and longer, would enable Russian oil to be sold not only to China, but to other markets in the Asia-Pacific region. In addition, Koizumi promised loans of up to \$14 billion to finance the pipeline and \$8 billion for other oil and gas projects in the Russian Far East.

The pipeline is by far the largest overseas project the Japanese government has ever agreed to finance. Japan's largest previous loan was \$4 billion made to Thailand during the Asian crisis of 1997-98.

The opening up of the estimated 20 billion barrels from the East Siberian oil fields—equal to the proven reserves of the United States—is of immense strategic significance to Japanese capitalism. While it is the world's second largest economy, it has no oil and gas resources and is totally dependent upon imported energy. At present, 85 percent of Japan's oil is

purchased from the Middle East. Given the volatility and uncertainty in that region, Tokyo has sought, over a number of years, to develop alternatives.

Russia's Far East is viewed as the most important, along with Central Asia. Kensuke Kanekiyo, a director of the Japanese thinktank, the Institute of Energy Economics, told the Russian-based *MosNews*: "This project is a priority for energy security, so cost has been a secondary concern."

Moscow's decision to accept the Japanese proposal reflects the conflicts within the Russian elite over the future of the country's energy industry and their relations with the major economic powers. At present, the European Union nations purchase 68 percent of Russia's oil exports. The discussion in Moscow, however, has been that the Asia-Pacific offers a potentially far more profitable market.

A recent report by Moscow-based investment bank Brunswick UBS entitled *Russia: One Foot in Europe, One in Asia* summed up the mood: "The important point for Russia is that the economies to its eastern borders are likely to become bigger than its western neighbors in the next couple of decades. Since they are each big importers—and expected to become more so—of many of the raw and semi-processed materials that form the backbone of Russia's exports, Russia is looking at a huge ready market just beyond its borders."

Russia is the world's second largest oil producer. Its most lucrative potential resources are the largely untapped Far Eastern oil fields where the Russian government has estimated it could earn more than \$100 billion in profit. Their development, however, will require \$55 billion of investment over the next two decades, especially in Eastern Siberia and the offshore fields around Sakhalin Island. According to the International Energy Agency, Russia will need as much as \$500 billion in investment by 2020 to maintain and develop its entire energy industry infrastructure.

Moscow's choice of Japan as a pipeline partner stems from the fact that Tokyo, unlike Beijing, is in a position to invest large sums of capital in Russia. The Putin regime delayed formally announcing the agreement primarily to avoid disrupting its political relations with China. The two countries redeveloped a strategic partnership in the 1990s, especially through the Shanghai Cooperation Organisation, which also includes some of the former Soviet Central Asian republics. The main motive was to establish a counterweight to aggressive

US efforts to gain geopolitical influence in Central Asia.

The carefully guarded words of the Russian deputy foreign minister Alexander Alexeyev exemplified Moscow's balancing act between China and Japan. Alexeyev told ITAR-TASS news agency on December 31 that Russia's key aim with the pipeline was "to expedite the development of East Siberia and the Russian Far East". "With this in mind", he stated, "we will be happy to cooperate with partners in Japan, China and other countries of the Asia-Pacific region in its implementation". He then noted, however, that Moscow and Tokyo "have a set of large-scale and variegated ties that are developing."

In order to placate Beijing, Russia has pledged to double its oil exports to China from 6.46 million tonnes in 2004 to 15 million tonnes by 2006. Last month, Russia also announced it would participate with China in the first major joint military exercise staged on Chinese territory. Scheduled for the second half of the year, the exercise will involve army, navy and air forces, including long-range bombers.

Just weeks after confirming the deal with Japan, Russia made a further overture by announcing that it still intended that a branch of the Pacific pipeline would be diverted to China.

Despite these concessions, Moscow's approval of Japan's plans is nevertheless a major blow to Beijing. China is now the world's second largest importer of oil and accounted for one-third of the increase in global oil demand in 2004. Its huge appetite for oil and raw materials has been created largely by the flood of global investment into the country to exploit cheap labour.

As in Japan, concerns in Beijing over excessive reliance on the Middle East has led to efforts to seek out secure alternate energy sources. China's search is aggravated by the enormous inefficiencies in its energy use. According to the official China Economic Net website, the country's per capita use of energy is far below the world's average, but "China's energy consumption of per unit output value is more than twice the world's average, and is 11.5 times that of Japan, 7.7 times that of Germany and France, 4.3 times that of the US... For the 25 years since China launched its reform and opening up, the Chinese economy grew six times, while energy consumption jumped dozens of times, far higher than the consumption level in the early stage of industrialisation in developed countries".

The competing efforts by Japan and China to secure energy supplies have provoked inevitable rivalries. The two states, for example, have been waging a diplomatic struggle for years over sovereignty over the oil and gas reserves believed to lie beneath the East China Sea. Both countries also claim sovereignty of the Senkaki Islands or Daiyou, near Taiwan, where a gas field has been discovered.

In January, the Japanese government declared that three Chinese-claimed natural gas fields in the East China Sea were in fact inside Japan's exclusive economic zone. Japan claims 12 other areas that China is already exploring for oil and gas. Two Japanese energy companies, Teikoku Oil and Japan

Petroleum Exploration, are conducting talks with the Japanese government aimed at starting to explore possible gas fields in the disputed zones.

The extent of the tensions was highlighted last November when Tokyo dispatched military forces to intercept a Chinese submarine that was located in Japanese-claimed waters near the island of Okinawa. The incident was seized upon by the Koizumi government to stoke anti-China sentiment (See: "Japan uses submarine incident to whip up anti-Chinese nationalism").

The incident reinforced discussion in Tokyo that Japan must develop and use military force to advance its economic and strategic interests. The National Defence Program Outline, published in December 2004, outlined a more aggressive Japanese military stance.

According to an article in the January 3 *Asahi Shimbun*, senior Defence Agency officials explicitly pointed to Tokyo's need for the armed forces to "serve as support for the nation's diplomacy" against China. The newspaper noted: "Defence capabilities supporting diplomatic efforts had never been talked about so openly before. But again, postwar Japan has never had such a bold National Defense Program Outline, particularly regarding China."

Access to energy and other raw materials was a major factor in the eruption of Japanese militarism in the 1930s and 1940s. Japanese imperialism invaded and annexed the resource-rich Manchurian provinces of China in 1931. In 1941, Japan attacked Pearl Harbor and occupied much of the Pacific in an attempt to break a US embargo on its energy supplies and secure supplies of oil and other essential resources.

As in the years before World War II, the competition for raw materials, markets and geopolitical influence has the potential to lead to conflict.



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