

## Comments made by Dr. Zhang Jianping

I would like to compliment Mr. Dale's very logical and clear presentation, especially his analysis of the high price of oil. He has accurately summarized the four reasons for high oil prices: demand exceeding supply, capacity constraints, political risk, and speculators. I believe the impact of China on oil prices may be overestimated. In 2004, China's import of crude oil was just about 6% of the global crude oil trade volume. In fact, China's impact on the price of (international spot market) global oil markets is very limited. However, it seems that recently oil demand growth in China has become a critical factor influencing the expectations in the oil futures market. I believe that the "China factor" has been exaggerated because China's oil consumption on average is just about 1/4 of the world level and China's oil demand growth is still in the normal range. Therefore we should not too strongly attribute rising oil prices to China's oil demand. International financial agencies and oil speculators should instead analyze China's real and practical influences on world oil prices. As mentioned by Mr. Dale, China is better placed than either Japan or South Korea to make the adjustments necessary to source its crude needs. I believe that these overestimates or exaggerations may gradually disappear in the process of deepening cooperation between China and Central Asia countries and between China and Russia.

Conversely, my real concern is the impact of high oil prices on China. From January to July of this year, China imported 74.5 million tons of oil and the growth rate was 5.4%. Oil price increases mean China has to pay much more for oil imports, while domestic inflation pressures and energy security pressures increase as well. Subsequently, China's enterprises face more political pressure and doubts. The oil crisis of the 1970s led the global economy into a decline as price of oil peaked at \$60. In 1980, when the effects of the oil crisis were still being felt, the per capita income of the United States was \$25,000 and that of Japan was \$18,000. China's per capita income at the end of 2005 is expected to be \$15,000. Therefore, the current high price of oil has already surpassed what Chinese society may be able to endure.

In the 21st Century, economic globalization and regional economic integration have become the main development trends. China's economy has integrated with the world economy. If China's economy were to decline due to the high price of oil, the effects

may also be felt in world's other large economies and globally.

I fully agree with Mr. Dale that cooperation and mutual understanding among the related countries is critical to making potential alternatives a reality. Russia's potential oil supply and the demand of Northeast Asian countries jointly represent a strong driver of Northeast Asian oil development. Due to the different interest of various stakeholders in the region, the construction of Russia's Far East oil pipeline has seen a lot of twist and turns, from Angarsk-Daqing and Angarsk-Nakhodka to Taishet-Nakhodka. The lesson from the dispute on Russia's oil pipeline has taught us that the basic principle in Northeast Asian energy development should be strengthened dialogue and cooperation. However, regional energy cooperation still faces the challenges of diverse systems and inadequate trust.

Bilateral cooperation is obviously not enough for maintaining the energy security of the region. A multilateral cooperation system is the key to satisfying the interests of Northeast Asian countries in the process of seeking mutual benefits. All the countries of Northeast Asia face the prospect of an "alliance of fate". If we were to experience another oil crisis, no one country can successfully shield itself from its impacts. Cooperation is beneficial to all parties, and dispute is harmful to all. In order to ensure the economic benefits and regional security in Northeast Asia, each country in Northeast Asia should reinforce cooperation in the oil sector, using the cooperation to replace the competition. In order to make this energy development and cooperation plan viable and sustainable, the countries concerned should understand, cooperate, and be tolerant of each other, and balance the interests of major stakeholders. There are clear, tangible benefits to be gained from Northeast Asian energy cooperation.

The paper presented by Dr. Korzhubaev introduced Russia's energy strategy and provided a detailed analysis of the status and trends in oil and gas production and trade in Russia. His excellent presentation informed us of oil and gas estimated reserves, proved reserves, and the trends in investment, production and trade in Russia, especially in East Siberia and the Russian Far East. He also informed us of the geopolitical, social, economic and ecological influences of oil and gas pipeline construction and transportation.

\*\*\*As mentioned by Korzhubaev, Predictions for 2020 crude exports from the fields in East Siberia and Far East are at a level of 65-70 million tons. Taking into account West Siberian oil supplies, the total export volume of crude and refined products from Russia to APR could increase to 100-110 million tons.

In June of this year it reported that Taishet-Nakhodka oil pipeline will's be finished within 6 years (by 2010) and the designed transportation capacity of Taishet-Nakhodka oil pipeline would be 80 million tons per year. 50 millions tons would be sent to Nakhodka and 30 million tons to China.

This month it's said that the oil transportation to China by the pipeline estimated just 20 millions tons. Maybe there are another sayings and figures. I just wonder if these figures are coincided and if Dr. Korzhubaev may compare and explain the different studies and predictions.

By the way, as mentioned by Korzhubaev, Creating new large centers of oil and gas production in Eastern Siberia and Sakha Republic (Yakutia) would require \$86.8 billion in investments. According to the promise made by The premier Wen Jiabao last half of year, China has planned to invest 12 billion US\$ in Russia by 2020. Energy development, including oil, gas and electric power etc. is one of the most important fields. China will play the important role on the oil and gas development in East Siberia and Far East. I sincerely hope the central and local governments could promote cooperation between two countries deeply from now.

Fourth point. Thanks my old leader, Mr. Shen, to make important and excellent speech on the China's energy strategy, energy conservation strategy, energy efficiency improvement, and the role of energy conservation for China's sustainable development. He pointed out that China has great potential for energy saving and is giving ample opportunities for bilateral or multilateral cooperation in the field. There are no obstacles to regional cooperation, bilateral or multilateral, on energy saving. Japan and South Korea are known for their high level of energy efficiency, have many energy saving technologies, Intellectual property, and products and can play an important role in the area.

Right now China is implementing sustainable development strategy and China's

demand on technologies of energy saving, new energy, cleaner energy and environmental protection. I think there will be great cooperation potential within China, Japan and South Korea in the field of energy saving, renewable energy, cleaner energy, reduction of CO<sup>2</sup> emission, CDM.

I'd like to briefly introduce the Grain Aid Plan implemented by Japanese Ministry of Economy and Industry and Chinese National Development and Reform Commission from 1994-2003. The Ministry of Economy and Industry provided capital and Japanese large corporations provided equipments for energy saving and environmental protection. The main purpose was to help China to save energy and protect environment. So far, 36 pilot projects had been finished. Through energy conservation a lot of Chinese corporations efficiently improved economic benefit and made contributions for environmental protection and Sustainable Development. Today, the Green Aid Plan was over but Japanese technologies and equipment of energy conservation accessed Chinese market. Many exchange and cooperation channels of energy conservation have been set up. I believe energy saving cooperation between China and Japan will be deepened and strengthened.

Thank you for your attention!