

OPRF MARINT Monthly Report

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This monthly report is edited/ summarized by publisher and staff writers based on published news resources.

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Introduction

Law and order : The Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP) entered into force on September 4. (Refer to p.17, Intelligence Assessment, “2.1 ReCAAP Going into Effect: Outline and Future Challenges” for details.)

The International Chamber of Commerce’s International Maritime Bureau (IMB) has started a service to offer an online piracy map provided by Google. New attacks or attempts will be added to the map within 24 hours once these attacks are verified.

International Maritime Organization (IMO) convened a “Meeting on the Straits of Malacca and Singapore: Enhancing Safety, Security and Environment Protection” in Kuala Lumpur, Malaysia from September 18 to 20. The meeting brought together delegations from the three littoral states (Indonesia, Malaysia and Singapore) and 28 countries, as well as observers from several international organizations. (See p.5, Commentary, “Overview of the IMO Conference on the Straits of Malacca and Singapore”)

Military security : A Chinese naval fleet (commander: Rear Admiral Wang Fushan, deputy commander of the North Sea Fleet) which had set sail from a port of Qingdao on August 21 arrived in Pearl Harbor, Hawaii on September 6. After the visit to Pearl Harbor, the Chinese fleet comprising of a missile destroyer Qingdao and a comprehensive supply ship Hongzehu sailed into a U.S. naval base in San Diego on the 11th, and arrived at Victoria, Canada on the 25th. Then, two Chinese warships left Victoria and headed for the Philippines, the last leg of their cruise.

Diplomacy and International Relations : Chen Shui-bian, President of the Republic of China (Taiwan) attended the 1st Taiwan-Pacific Allies Summit taking place on September 4 in Palau. The summit was attended by the heads of Palau, Marshall Islands, Kiribati, Nauru, Solomon Islands and Prime Tuvalu, all of which are diplomatic allies of Taiwan.

Roh Moo Hyun, President of South Korea who was on a visit to the U.S., had talks with George W. Bush at White House on September 14. The two leaders discussed matters such as the transfer of OPCON and sanctions against North Korea.

On September 14, the U.S.-China Economic and Security Review Commission held hearings on China’s role in addressing the nuclear and missile proliferation to North Korea and Iran. Peter W. Rodman, Assistant Secretary of Defense for International Security Affairs, and Paula A. DeSutter, Assistant Secretary of State for Verification and Compliance provided testimony.

Resources, Environment and Others : Russian President Vladimir Putin said on September 15 that the country will increase its share in oil supplies to the Asia-Pacific region to at least 30% from the current 3% over the next 10 years.

On September 18, Russia’s Natural Resources Ministry issued a directive to suspend part of the Sakhalin II energy project on the ground of its insufficient environmental protection

measures. On the 20th, Yury Trutnev, the Minister of Natural Resources, signed a document to cancel the permission for the Sakhalin II project, which became effective immediately. (As for the matter, see p.22, Intelligence Assessment, “2.2 The Partial Cancellation of Sakhalin II Oil and Gas Project”)

1. Intelligence Bulletin

1.1 Law and order

September 4 "Entry into force of ReCAAP" (Statement of Ministry of Foreign Affairs, Singapore, September 4, 2006)

Singaporean Ministry of Foreign Affairs said in a statement issued on September 4 that the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP) entered into force the day. According to the statement, their first meeting of the Governing Council of the ReCAAP Information Sharing Centre (ISC) which is based in Singapore, is scheduled for November 27-30 in Singapore. (See p.17, Intelligence Assessment, "2.1 ReCAAP Going into Effect: Outline and Future Challenges" for more details)

September 7 "BIMCO signs new partnership agreement with U.S. Coast Guard" (BIMCO HP, September 11, 2006)

Baltic and International Maritime Council (BIMCO) and U.S. Coast Guard signed a new partnership agreement on September 7 aiming at increasing the communication and cooperative relations between the Coast Guard and the shipping industry. The agreement represents an expansion of a 1998 agreement. It is hoped that the new agreement will enhance the dialogue between BIMCO and the U.S. Coast Guard to develop long term strategies for dealing with the future challenges regarding safe and secure maritime trades.

(Note: BIMCO, established in Denmark in 1905, is the world's largest international shipping association, with approximately 2,400 members in 123 countries. The owner-members of BIMCO control a fleet of about 525 million DWT thereby representing 65% of the world's merchant fleet. BIMCO HP: <http://www.binco.org/>)

September 11 "Online piracy map for seafarers to combat piracy" (The Star Online, September 11, 2006)

The International Chamber of Commerce's International Maritime Bureau (IMB) has launched a service to offer an online piracy map provided by Google. The map is available in three forms: a satellite view, a plain view (indicating countries and borders), or a combination of both. Balloons on the map show both actual and attempted attacks. Clicking on these balloons initiates a pop-up with a summary of the attacks. New attacks or attempts will be added to the map within 24 hours once these attacks are verified. IMB director Pottengal Mukundan said that they hoped the map, coupled with the IMB Piracy Reporting Centre (PRC) alerts, would help seafarers spot the warning signs and better prepare for possible attacks. He added that he hoped the map would help law enforcement officials and researchers analyze the geographical circumstances of attacks to predict piracy trends.

The map is available on the IMB HP: <http://www.icc-ccs.org/extra/display.php>

September 11 "Malaysia hopes user countries to share costs for the Malacca Straits security" (AFP, September 11, 2006)

On September 11, Malaysia's transport minister said in a keynote address to the Asia Maritime and Logistics conference, "The responsibility to keep the strait safe, secure and clean shouldn't be only the sole responsibility of the littoral states. The user states should also ... contribute. We hope that the international maritime community can respond positively to the call, not only from Malaysia but the littoral states of the Straits of Malacca including Singapore and also Indonesia." More than 60,000 ships transit the sealane in 2005, carrying about one-third of the world's trade, and some 11 million barrels of oil pass through it a day. Malaysian officials estimate traffic volume will double by 2020. Chan said the three littoral states (Indonesia, Malaysia and Singapore) have borne the costs to establish and maintain safety measures in the Malacca Straits for hundreds of millions of ringgit. "It's substantial. To put the navigational aids in place, the sea patrol, air patrol, is substantial. It's a very heavy burden to all the littoral states," he said. "And it's recurring every year." He pointed out that it is too enormous tasks, burden and responsibility for the three littoral states to share with. He said Malaysia had already held bilateral talks with a number of user countries on the matter.

September 24 "Illegal fishing is on the rise in Australian northern waters" (The Australian, September 25, 2006)

275 illegal fishing vessels and 2,140 fishermen, most of whom are Indonesian, have been arrested so far this year in Australia's northern waters. It is estimated that the number of arrestees will soon exceed the entire tally for 2005. A total of 281 vessels and 2,206 fishermen had been arrested in 2005.

🎨 Commentary 🎨

Overview of the IMO Conference on the Straits of Malacca and Singapore

International Maritime Organization (IMO) convened a “Meeting on the Straits of Malacca and Singapore: Enhancing Safety, Security and Environment Protection” in Kuala Lumpur, Malaysia, from September 18 to 20. The meeting, bringing together delegations from the three littoral states (Indonesia, Malaysia and Singapore) and 28 countries, as well as observers from several international organizations, is a follow-up conference of last year’s IMO meeting on the Strait held in Jakarta. After the meeting, the Kuala Lumpur Statement was adopted. The next meeting will be convened in Singapore in 2007. According to the IMO Press Briefing issued on September 22, the three littoral states proposed the following six projects:

- Removal or wrecks in the Traffic Separation Scheme in the Straits of Malacca and Singapore;
- Co-operation and capacity building on hazardous and noxious substance (HNS); preparedness and response in the Straits of Malacca and Singapore;
- Demonstration project of class B automatic identification system (AIS) transponder on small ships;
- Setting up tide, current and wind measurement systems for the Straits of Malacca and Singapore to enhance navigational safety and marine environment protection;
- Replacement and maintenance of aids to navigation in the Malacca and Singapore Straits; and
- Replacement of aids to navigation damaged by the tsunami disaster of December 2004.

It was agreed that the three littoral states, user states, the shipping industry and other stakeholders should cooperate towards the creation of a mechanism for voluntary funding for these six projects and for the maintenance and replacement of aids to navigation in the Straits of Malacca and Singapore.

Furthermore, it was agreed that the work by the Tripartite Technical Experts Group on Safety of Navigation (TTEG) to enhance the safety of navigation and to protect the maritime environment in the Straits, should be continuously supported and promoted, and the three littoral states should carry on their efforts towards strengthening maritime security in the Straits.

IMO Press Briefing: <http://www.imo.org/>

The Kuala Lumpur Statement:

http://www.imo.org/includes/blastDataOnly.asp/ata_id%3D15677/kualalumpurstatement.pdf

Of particular note is the agreement by the three littoral states, state users, the shipping industry and other stakeholders to cooperate towards the establishment of the mechanism for voluntary funding. IMO secretary general Efthimios Mitropoulos said the way to bear the costs by user states may not be confined to the form of financial contributions. There are several options such as personnel training, provision of technical assistance and information sharing. He said, for example, the Maritime Electronic Highway (MEH) project could be one of the models of burden sharing. (Lloyd’s List,

September 19, 2006) IMO Press Briefing said that the MEH project, which costs a total of US\$6.86 million, is developed by IMO in tandem with the three littoral states and funded by the Global Environment Facility of the World Bank with financially supported from South Korea. With regard to burden sharing issues, Mitropoulos said there were no plans to introduce a toll for using the Straits of Malacca and Singapore. There have been concerns in the shipping industry that shipowners might have to pay a fee for transiting the Straits in some way or other, like the cases in the Panama and Suez canals. "In the case of international straits it's not only the coastal states that benefit from safe passage, but also the user states, so it is fair they contribute on a voluntary basis," he said. (Lloyd's List, September 20, 2006)

While IMO have yet to announce the specific costs of the six projects, papers obtained by Lloyd's List showed that total amounts are estimated to exceed US\$100 million. Above all, the most costly project will be removals of wrecked ships. There are 12 "critical wrecks" within the traffic separation scheme, which is estimated to cost US\$15 million for each wreck removal, or US\$170 million in total. The second most costly project is the establishment of a voluntary fund for the renewal and maintenance of navigational aids in the Straits of Malacca and Singapore, which is estimated to cost US\$18 million over a decade. Furthermore, the project to improve capacity to handle hazardous incidents will cost a total of US\$3.5 million and demonstration project for AIS transponders on small ships will cost US\$400,000. To set up a tide, current and wind management system has an estimated cost of US\$1.4 million, and the renewal of damaged navigational aids will cost

US\$ 276,000. (Lloyd's List, September 21, 2006)

As one of the user countries of the Malacca Straits, Japan has provided a wide range of supports to the region. At this time's meeting, Nippon Maritime Centre (NMC) managing director Takashi Ichioka said that each user country should share burden depending on the frequency in use of the Straits, noting as follows: (1) Unlike in the 1960s when the most of the traffic volume was dominated by Japanese vessels, user states passing through the Straits today have become more diversified. Japan can no longer be the only contributor like in the past, because other user countries – especially East Asian countries – have increased with the rapid economic growth; (2) A survey in 2004 shows the proportion of user states by nationality and number: Japan accounts for 15.1 %, Singapore 13.1 %, Germany 9.8%, Greece 8.3% and China 8.1%. By tonnage of ships, Japan accounts for 18.6%, Greece 13.4%, China 10.5% and Germany 9.3%; and (3) In the framework of burden sharing, these trends should be taken into account.

(The Star Online, September 20, 2006)

In addition to ongoing Japanese supports in the region, the U.S., China and South Korea have expressed their intentions to cooperate with the three littoral states. China has supported replacement of aids to navigation damaged by the Tsunami. (The Star Online, September 18, 2006) Malaysian Deputy Prime Minister Najib Razak said China has also offered to provide maritime training for the National Maritime Enforcement Agency. (Shiptalk, September 20, 2006)

 **Topic** 

Increasing Use of a Sound Device for Anti-Piracy Measures

A Long Range Acoustic Device (Lrad) is an acoustic device developed by the U.S. military, following the terrorist attack on the USS Cole off Yemen in 2000. The Lrad emits a loud sound with 150-decibel for up to 1 km to warn approaching ships. The Lrad was actually used for the first time off Somalia in November 2005, when the U.S. liner Seabourn Spirit was attacked by pirates. (Refer to the November 2005 edition of the Monthly Report.) The Lrad, which can emit live or pre-recorded messages in up to 50 languages, is manufactured by American Technology Corporation (ATC). As a non-lethal device, the use of Lrad has been increasing by the commercial shipping and oil and gas industry to cope with the piracy or other threats. ATC has so far sold nearly 100 units for US\$23,000-45,000. (The Business Times, September 13, 2006)

<http://en.wikipedia.org/wiki/Image:LRAD-US-Navy.jpg>

1.2 Military security

September 1 "U.S. successfully conducts operational missile defense test" (American Forces Press Service, September 1, 2006)

U.S. successfully conducted a test of the ground-based Missile Defense System on September 1, said Lieutenant General Henry A. Obering III, the director of the Missile Defense Agency. The test was conducted by using the operational systems. An operational interceptor launched out of an operational site at Vandenberg Air Force Base, California, successfully hit the mock warhead over the Pacific Ocean. The mock warhead was launched from Fort Greely, Alaska. Obering said this is a huge step in fielding of the missile defense shield. The next test is schedule for December.

September 1 "Pakistan and U.S. to carry out joint naval exercises" (Xinhua, September 1, 2006)

Pakistan Navy announced on September 1 that they would conduct joint naval exercise with U.S. Navy from September 4 to 6 in the northern Arabian Sea. The aim of the joint exercise is to promote maritime interdiction operations, counter terrorism and other professional exercises.

September 1 "Russian shipbuilder to sign landing-craft deal with China" (RIA Novosti, September 1, 2006)

Chief executive of Almaz, Russia's largest shipbuilder, said that company will sign a contract with China in 2007 on providing six heavy air cushioned landing craft. The Zubr, the world's largest air cushioned landing craft, is capable of transporting three T-80 tanks or 10 BTR-70 armored personnel carriers along with landing groups. It can carry a load of 140 tons with a maximum speed of 60 knots. Its operating range is 300 miles.

September 4 "Singapore and Indonesia conduct annual bilateral exercise" (Channel News Asia, September 13, 2006)

Singapore and Indonesia carried out their annual joint exercise, dubbed Safkar Indopura from September 4 to 16 in Indonesia. Involving some 2,000 personnel from both armies, the exercise aims to acquaint themselves with each other's operational and training procedures.

September 6 "India, Germany sign defense cooperation agreement" (Hindustan Times, September 7, 2006)

On September 6, Indian Defence Minister Pranab Mukherjee signed the first Indo-German Defence Cooperation agreement with his German counterpart, Franz Josef Jung who was on a visit to India. No further details were released on the agreement, but it reportedly includes technology transfers, arms sales, joint cooperation, co-production of high-tech hardware, enhanced military training and high-level exchanges. Germany is the fourth nation to sign a defense agreement with India, after Russia, France and the U.K.

September 6-25 "Chinese warships visit the U.S. and Canada" (PLA Daily, September 8, 2006 and other sources)

A Chinese naval fleet (commander: Rear Admiral Wang Fushan, deputy commander of the North Sea Fleet) which had set sail from a port of Qingdao on August 21 arrived in Pearl Harbor, Hawaii on September 6. This is the first visit for the Chinese People's Liberation Army ships in six years. During the visit, the Chinese naval ship formation, comprising of a missile destroyer Qingdao and a comprehensive supply ship Hongzehu, participated in a joint communications exercise with the USS Chung-Hoon.

The U.S. Congress put restrictions on military exchanges with China in the National Defense Authorization Act of 2000. But the U.S. Navy has conducted port visits to China twice a year. Most recently, the USS Blue Ridge visited Shanghai in June. China has agreed that the U.S. would visit China four times a year. 2003 Guam visit was Chinese Navy's last visit to the U.S. "But for reciprocity, we would like China to visit the United States as frequently as we visit them, just to increase transparency," said Capt. Joe Skinner, a plans and policy official at Pacific Command. According to a Pacific Command spokesman, Fallon, commander of Pacific Command had told China that the current restrictions can be lifted only if China responds with transparency and reciprocity. (The Honolulu Advertiser, September 25, 2006)

After the visit to Pearl Harbor, the Chinese fleet sailed into a U.S. naval base in San Diego on the 11th. This is the first time the Chinese navy has visited the U.S. mainland port in nine years. During the stay, the Chinese warships participated in a joint search-and-rescue drill with the U.S. Navy. (Xinhua, September 19, 2006)

The Chinese fleet arrived at Victoria, Canada on the 25th. The Chinese Navy first visited Victoria in 2000 while Canadian naval vessels have visited to Chinese ports three times. The two sides played sports for goodwill purpose and carried out joint exercises. Two Chinese warships left Victoria and headed for the Philippines, the last leg of their cruise on the 29th. (Times Colonist, September 25, 2006)

September 7 "Five FPDA countries kick off major annual exercise" (BERNAMA, September 7, 2006)

According to a statement released by Singapore's Ministry of Defense (MINDEF) on September 7, a major annual exercise code-named Exercise Bersama Padu 2006 was conducted from September 4 to 22 in Singapore, Malay Peninsula and the South China Sea. Exercise Bersama Padu 2006 brought together defense forces from the Five Power Defense Arrangements (FPDA) member countries of Australia, Malaysia, New Zealand, Singapore and the U.K., involving a total of 21 warships, 85 aircraft and one submarine. The exercise aims to increase interoperability, operational capability and mutual cooperation among the armed forces from the FPDA member countries.

The Statement of MINDEF Singapore: <http://www.mindef.gov.sg/imindef/home.html>

September 7 "Strategic sub test-fires latest missile from submerged position" (Interfax, September 7, 2006)

The Russian Defense Ministry announced on September 7 that the strategic submarine of the Russian Northern Fleet Dmitri Donskoy test-fired the latest Bulava ballistic missile (SS-NX-30) from a submerged position. The Space Forces monitored the launch and flight of the missile. In the past, Dmitri Donskoy test-fired the Bulava from a surface position in September 2005 and from a submerged position in December 2005. The Bulava submarine-launched ballistic system has a capacity of carrying 10 independently targeted warheads with a range of up to 8,000 kilometers.

September 8 "Five Central Asian countries sign nuclear pact" (International Herald Tribune, September 11, 2006)

The representatives of the five Central Asian countries – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan – signed a treaty creating a nuclear free-zone in the region at the city of Semipalatinsk, Kazakhstan on September 8. The treaty is to commit the region's rich uranium deposits to peaceful uses. But the treaty does not cancel an agreement that the Central Asian countries signed in 1992, which allows Russia to transport and deploy nuclear weapons in the region under certain circumstances. The U.S., the U.K. and France boycotted the signing ceremony because of this, while Russia and China sent representatives to the ceremony. The U.S. has an air base in Kyrgyzstan. Tajikistan allows NATO fighting aircraft to use its territory with missions in Afghanistan.

September 12 "Pakistan Navy reactivates P-3C naval aircraft" (The Hindu, September 14, 2006)

Pakistan Navy reactivated two P-3C Orion long-range maritime patrol aircraft at the rollout ceremony in Karachi on September 12. The aircraft had been out of commission for five years because of the U.S.'s refusal to provide spare parts to Pakistan. In January 2005, the U.S. Navy and Lockheed signed a contract to reactivate two PC-3 aircraft, following lifting of Pakistan military sanctions by the U.S.

September 19 "China, Tajikistan to conduct military exercises" (Xinhua, September 19, 2006)

China and Tajikistan held their first joint military exercise dubbed Cooperation-2006 from September 22 to 23, in accordance with a memorandum of understanding (MOU) signed in April 2005 between the two countries. The exercise aims to strengthen capability to handle new challenges and threat, and is not target any third party. The military exercise between the two countries is part of several joint military exercises within the framework of the Shanghai Cooperation Organization (SCO). The first joint military exercise carried out as part of the SCO framework was China-Kyrgyzstan exercise in October 2002.

September 19 "Russia, Uzbekistan kick off anti-terror exercise in southern Russia" (RIA Novosti, September 19, 2006)

Russia and Uzbekistan launched a joint anti-terror exercise on September 19 in Southern Russia. The five-day exercise aims to improve joint counterterrorism planning and strategy. Special forces and anti-terror police from both countries participated in the exercise. Defense Ministers of the two countries attended the exercise.

September 26 "U.S. to provide amphibious ship to India" (The Times of India, September 26, 2006)

Commander of the U.S. Pacific Fleet Admiral Gary Roughhead, who visited India recently, said that the U.S. is expected to provide one of its amphibious ships, USS Trenton to India for giving the Indian Navy the ability to move troops and equipment to longer distances. The U.S. Navy will transfer the ship sometime December.

September 26 "Russia hands over up-to-date warship to China" (Reuters, September 28, 2006)

Russia handed over a destroyer equipped with modern weaponry to China on September 28. The fourth Sovremenny class destroyer is the last warship to be handed over to China under a US\$1.5 billion arms deal concluded in 2002. The Sovremenny class destroyer is outfitted with SS-N-22 Sunburn supersonic antiship missile. Even the U.S. Navy does not have an effective defence against the SS-N-22 Sunburn.

1.3 Diplomacy and International Relations

September 4 "The 1st Taiwan-Pacific Allies Summit to open in Palau" (Office of the President Republic of China, September 4, 2006)

Chen Shui-bian, President of the Republic of China (Taiwan), attended the 1st Taiwan-Pacific Allies Summit taking place in Palau on September 4. The summit was attended by the heads of Palau, Marshall Islands, Kiribati, Nauru, Solomon Islands and Prime Tuvalu, all of which are diplomatic allies of Taiwan. A joint statement, the First Taiwan-Pacific Allies Summit Palau Declaration was released after the summit. In order to strengthen comprehensive partnership between the oceanic democratic alliances, the heads agreed to provide supports to the following fields: (1) law enforcement training: (2) IT sector to realize digital government: (3) tourism, health care, environmental protection, fishing industry, economy and culture. The next summit is schedule for 2007 in Marshall Islands. (See p.16 in the April 2006 edition of the Monthly Report for details about the first Ministerial Meeting of the China-Pacific Island Countries Economic Development Cooperation Forum held in Fiji in April 5, 2006)

For the first time, Chen traveled on the presidential jet, the so-called "Air Force One" bearing

the national emblem which was to transport the leader on a state visit. He called it a “historic moment.” He told government officials who saw him off at Taipei’s Sungshan Airport, “We would not let go any opportunity to display Taiwan’s sovereignty.” (AFP, September 4, 2006) On the other hand, the U.S. government has allowed Chen to make a refueling stop in Guam on his way back to Taiwan from Nauru. Due to the small size of an airport of Nauru, Chen needed to switch to charter China Airlines passenger jets at Palau to head for Nauru for the 5th visit. Then, he backed to Taiwan via Guam. (Taipei Times, September 3, 2006)

The First Taiwan-Pacific Allies Summit Palau Declaration:

http://www.president.gov.tw/en/prog/news_release/document_content.php?id=1105499230&pre_id=1105499230&g_category_number=145&category_number_2=145

September 13 "Chen calls for U.N. seat" (Taiwan News, September 14, 2006)

President of the Republic of China, Chen Shui-bian said on September 12 in a transoceanic video conference with U.S. intellectuals, that Taiwan should apply to accede to the United Nations under the name of Taiwan, following the day Taiwan suffered a 14th straight setback in its bid to participate in the U.N. Chen said 79 % of Taiwan’s people agree with the idea. He concluded that “the use of ‘Taiwan’ to apply for entry into the U.N. is the best option for the people of Taiwan to participate in the international community.”

September 14 "U.S. and Korean leaders hold talks at the White House" (The White House HP, September 14, 2006)

Roh Moo Hyun, President of South Korea who was on a visit to the U.S., had talks with George W. Bush at White House on September 14. At a press conference after the meeting, Roh spoke about the wartime operational control as follows: (1) He was happy that the President reassured him of the continued commitment of the U.S. for the defense of the Korean Peninsula; and (2) As for the timing of the transfer of OPCON, both side agreed that this is not a political issue, but an issue which should be discussed through the working level talks. In response, Bush said the U.S. would consult with South Korea about the placement and the size of U.S. troops deployed in the Korean Peninsula at the appropriate level of government to come up with an appropriate date. Bush stated the two leaders reaffirmed their commitment to the six-party talks so that they can handle the North Korean issue peacefully. Asked about any concerns in South Korea regarding the further sanctions against North Korea by the U.S., Roh said: (1) They are working very hard for the resumption of the six-party talks; (2) Although South Korea has suspended rice and fertilizer aid to North Korea – and in fact, this is similar to sanctions – the Roh administration does not want to call these measures sanctions due to the consideration for the inter-Korean relations; and (3) The sanctions implemented by the U.S. is in line with the U.S. law enforcement. However, South Korea doesn’t consider any sanctions at this moment.

As seen in the press interview, there are differences between the U.S. and South Korea over

the policies toward North Korea. An article about this U.S.-Korean summit, titled "U.S. and Seoul agree on atom talks, but not much else" appeared in the International Herald Tribune on September 16-17, 2006. The article states U.S.-Korea relations as below: (1) The Bush entourage has acknowledged the gap between Bush and Roh has grown in recent months. It is "as wide as the Sea of Japan," one senior official said; (2) The treatment of Roh was far cry from the warm welcome extended to Junichiro Koizumi of Japan in June. Roh got only an hour meeting and a quick lunch; (3) Tensions have mounted between the two allies, as Mitchell Reiss, director of policy planning at the State Department during part of Bush's first term, pointed out that the two leaders "should agree to disagree on North Korea and move onward"; and (4) Bush keeps a polite but distant relations with Roh. The atmosphere at the press briefing bears that out. In fact, no joint statement was issued this time. White House aides said Bush sees Roh is taking an appeasement policy toward a country that runs prison camps and threatens its neighbor countries. On the other hand, Roh regards Bush's approach as a grave blunder.

The Joint Press Briefing:

<http://www.whitehouse.gov/news/releases/2006/09/print/20060914-5.html>

September 14 "U.S. high-level officials testify on China's role in addressing the nuclear and missile proliferation to North Korea and Iran" (U.S.-China Economic and Security Review Commission HP, September 14, 2006)

On September 14, the U.S.-China Economic and Security Review Commission held hearings on China's role in addressing the nuclear and missile proliferation to North Korea and Iran. Peter W. Rodman, Assistant Secretary of Defense for International Security Affairs, and Paula A. DeSutter, Assistant Secretary of State for Verification and Compliance provided testimony.

Below is the summary of the testimony of Peter W. Rodman:

- (1) The two incidents occurred in recent months – the July 4 North Korean missile tests and Hezbollah's attack on Israeli naval vessel off the coast of Lebanon on July 15, using Chinese-designed C-802 "SILKWORM" anti-ship cruise missiles – are case examples of China's involvement in nuclear proliferation past and present;
- (2) There is a serious gap between China's export controls and the high standards of non-proliferation policy that the U.S. requires. In addition to conventional weapons transfers, the U.S. is concerned that China has provided assistance to Iranian programs, such as ballistic missiles, nuclear and chemical programs; and
- (3) The U.S. hopes that China's response to the North Korean missile launches indicates China's future engagement in the world's campaign against proliferation.

Testimony of Peter W. Rodman:

http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_09_14wrts/06_09_14_rodman_statement.pdf

The summary of the testimony of Paula A. DeSutter is as follows:

- (1) China pledged not to assist “in any way, any country in the development of ballistic missiles that can be used to deliver nuclear weapons” in November 2000. China also agreed to enact comprehensive missile-related exports controls in 2002;
- (2) Despite these commitments, Chinese entities keep transferring missile-related technology and materials to mainly Iran and North Korea. These transfers largely contribute to the development of ballistic missiles in these countries; and
- (3) The biggest frustration to the U.S. about China’s proliferation is the fact that the most of the proliferation is performed by the same entities.

Testimony of Paula A. DeSutter:

http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_09_14wrts/06_09_14_desutter_statement.pdf

1.4 Resources, Environment and Others

September 10 "South Korea to strengthen energy diplomacy" (Yonhap News, September 11, 2006)

Commerce, Industry and Energy Minister of South Korea, Chung Se-kyun said on September 10 that his country would increase its efforts to secure oil and gas fields in order to improve its energy self-sufficiency. His remark was made after his five-country visits including Uzbekistan, Romania and Finland, as part of efforts to enhance “resource diplomacy.” During the visit, South Korea signed a gas production sharing agreement with Uzbekistan. The US\$20 million agreement is to give South Korea’s state-run company, Korea National Oil Corp. (KNOC) a 20 percent stake in a consortium to explore and develop a natural gas field in Uzbekistan's southern sector of the Aral Sea.

September 11 "Russia to receive new nuclear icebreaker by end of 2006" (RIA Novosti, September 13, 2006)

On September 11, the Russian Transportation Ministry said that the country will receive a new nuclear-powered icebreaker by the end of this year. The icebreaker, having been built since 1989, weighs 25,000 metric tons with capable of breaking through ice up to 2.8 meters deep. Currently Russia has six Arktika-class icebreakers and two Taymyr-class river icebreakers. Experts said Russia will need six to 10 nuclear-powered icebreakers over the next 20 years in order to cope with the increasing traffic volume along the Northern sea route, as well as the development of the Arctic shelf.

September 13 "China, U.K. sign agreement on establishing energy working group" (People's Daily Online, September 14, 2006)

China and the U.K. signed an agreement on September 14 to establish a joint energy working group between the two countries. The deal will enable both sides to expand cooperation on gas and electric power and share information on renewable energy products.

September 14 "Indian ships and aircraft to clean oil spill in Sri Lanka's waters" (Colombo Page, September 14, 2006)

Indian Coast Guard sent two vessels and several aircraft to Sri Lanka to clean the oil spill from a Bangladesh merchant vessel sank off Sri Lankan southern coast.

September 15 "Russia to substantially increase oil exports to Asia-Pacific, the president says" (The Russia Journal, September 18, 2006)

Russian President Vladimir Putin said on September 15 that the country would increase its share in oil supplies to the Asia-Pacific region to at least 30% from the current 3% over the next 10 years. His comment was made at the meeting with parliamentary speakers of G8 in the Black Sea report, Sochi. Industry and Energy Minister Andrei Dementyev also said in early September, "The share of Asia-Pacific countries receiving Russian oil exports is forecast to increase from the current 3% to 30% in 2020, and natural gas export from 5% to at least 25%." He said the figure is achievable if energy projects in the east are implemented and energy production off Sakhalin is launched. (As for the energy development off Sakhalin, see p.22, Intelligence Assessment "2.2 The Partial Cancellation of Sakhalin II Oil and Gas Project")

Construction of an oil pipeline is also important to increase energy supplies to the Asia-Pacific region. The construction of the East Siberia Pacific Ocean (ESPO) oil pipeline which began in April, 2006 was estimated at US\$11.5 billion in the beginning. Currently, more than 100 kilometers have been completed and 330 kilometers have been prepared for pipe installation.

September 20 "Singapore backs proposal to expand Panama Canal" (The Business Times, September 20, 2006)

Singapore's Foreign Affairs Minister George Yeo, who was on a tour of Panama, expressed the Singapore government's intention to support the expansion of the Panama Canal, stating that the canal is important not only for Panama, but also for the entire maritime industry and for the global economy. With an aim to relieving the congestion at the canal, the Panama Canal's expansion plan is to build a new lane, as well as doubling its capacity. The plan includes the construction of a new third lock allowing post-Panamax vessels (ships too big to transit the canal) to pass through the canal. The plan will be put to a national referendum on October 22.

September 20 "Kiribati urges U.N. to address global warming issue" (Scoop, September 25, 2006)

The Vice President of Kiribati, a small island country in the Pacific Ocean, has sought for the

international response to the problem of global warming and sea level rise at the U.N. General Assembly on September 20. The Vice President Teima Onorio said Kiribati, consisting of low-lying coral atolls, is especially vulnerable to the influence of global warming and sea level rise. “For countries such as Kiribati, global warming and sea level rise are critical security issues,” she said. She expressed strong dissatisfaction with the lack of consensus on these significant environment matters.

2. Intelligence Assessment

2.1 ReCAAP Going into Effect: Outline and Future Challenges

The Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (hereafter ReCAAP) entered into force on September 4. The ReCAAP is the first intergovernmental agreement on anti-piracy in Asia. The effectuation of the ReCAAP, following the dropping of the war risk designation for the Malacca Straits by Lloyd's in August, is significant for the security of the seas in Asia. This section will examine the overview of the ReCAAP and its challenges for the future.

1. Background of the ReCAAP

The ReCAAP has its origin in former Japanese Prime Minister Junichiro Koizumi's initiative at the November 2001 ASEAN-plus-Three Summit to establish a legal framework for anti-piracy in Asia, an initiative reflecting the recognition that the increasing piracy acts in Southeast Asia posed a serious threat to Japan's maritime transport and economic development in Asia as a whole. 16 nations participated in the negotiation: Japan and 10 ASEAN nations of Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, Cambodia, plus China, South Korea, India, Sri Lanka, and Bangladesh. The ReCAAP was adopted in November 2004.

According to Japanese Foreign Ministry's website, 11 countries have ratified the Agreement as of September 2006: Japan, Singapore, Laos, Thailand, the Philippines, Myanmar, South Korea, Cambodia, Vietnam, India and Sri Lanka. Brunei and Bangladesh have signed the Agreement but not deposited the instrument of notification to the government of Singapore. Indonesia, Malaysia, and China haven't either signed nor ratified the Agreement. The ReCAAP met its effectuation condition of ten ratifications in June and took into force 90 days after, on September 4.

2. Outline of the ReCAAP

(1) Definition of Piracy in the ReCAAP

The aim of the ReCAAP, consisting of five sections and 21 articles along with the preamble, is to strengthen cooperation among each country's maritime law enforcement organizations through the establishment of an effective mechanism to share piracy information and a network for cooperation.

The ReCAAP defines the acts of "piracy" and "armed robbery" in Article I. "Piracy" is defined as any illegal act of violence or detention, or any act of depredation, committed against another ship, or against persons or property on board such ship for private ends by the crew or the passengers of a private ship or a private aircraft on the high seas or in a place outside the jurisdiction of any State. It is also defined as any act of voluntary participation in the operation of

a ship or of an aircraft with knowledge of facts making it a pirate ship or aircraft and any act of inciting or of intentionally facilitating an act described above. This definition is the same as the one stipulated in Article 101 of UN Convention on the Law of the Sea.

An act of “armed robbery against ships” is defined as 1) any illegal act of violence or detention, or any act of depredation, committed for private ends and directed against a ship, or against persons or property on board such ship, in a place within a Contracting Party’s jurisdiction; 2) any act of voluntary participation in the operation of a ship with knowledge of facts making it a ship for armed robbery against ships; and 3) any act of inciting or of intentionally facilitating an act described in 1) or 2).

(2) About the ISC

The largest challenge to anti-piracy measures is whether or not the nations concerned can establish a close cooperative framework. The key to the effective operations of the ReCAAP is the establishment of an Information Sharing Center (ISC) based in Singapore as a permanent independent international organization. The ISC, comprising of the Governing Council and the Secretariat, is defined in Part II of the ReCAAP Agreement as below:

- (a) The Governing Council is composed of one representative from each contracting party, meeting at least once every year in Singapore in principle. The first Council will meet in Singapore on November 27-30.
- (b) The Governing Council makes policies concerning all the matters of the ISC and adopts its own rules of procedure, including the method of selecting its Chairperson. The Governing Council takes its decisions by consensus.*
- (c) The Secretariat is headed by the Executive Director who is assisted by the staff. The Executive Director shall be chosen by the Governing Council. The Executive Director is responsible for the administrative, operational and financial matters of the ISC in accordance with the policies as determined by the Governing Council and the provisions of this Agreement, and for such other matters as determined by the Governing Council.

(3) Functions of the ISC

The ReCAAP stipulates that the functions of the ISC are:

- (a) to manage and maintain the expeditious flow of information relating to incidents of piracy and armed robbery against ships among the contracting parties;
- (b) to collect, collate and analyze the information transmitted by the Contracting Parties concerning piracy and armed robbery against ships, including other relevant information

* Consensus method is an intermediate means of adoption between a unanimous vote and a majority vote. This method is said to have the merit of avoiding expressing each country’s own will, while enabling the whole assembly to express its will.

relating to individuals and transnational organized criminal groups committing acts of piracy and armed robbery against ships;

- (c) to prepare statistics and reports on the basis of the information gathered and analyzed under subparagraph (b), and to disseminate them to the Contracting Parties and to disseminate non-classified statistics and reports to the shipping community and the International Maritime Organization ;
- (d) to provide an appropriate alert, whenever possible, to the Contracting Parties if there is a reasonable ground to believe that a threat of incidents of piracy or armed robbery against ships is imminent;
- (e) to circulate requests for detection by a contracting party and relevant information on the measures taken by the requested contracting party;
- (f) to perform such other functions as may be agreed upon by the Governing Council with a view to preventing and suppressing piracy and armed robbery against ships.

With regard to the functions of the ISC, of particular note is: the ISC is positioned as “an international organization whose members are the Contracting Parties to this Agreement.” The ReCAAP specifies in Article 5 that, “The Executive Director and the staff of the Secretariat shall be accorded, in the Host State, such privileges and immunities as a re necessary for the fulfillment of their functions.”

As for the general operations of the ISC, first, each contracting party is to appoint a “focal point”, or a liaison office, to be responsible for having contact with the ISC. (In Japan, the Coast Guard will act as the focal point.) Second, each contracting party is to establish an effective and smooth liaison system among focal points, other law enforcement organizations and related NGOs. Such network will help establish the information sharing system and cooperative framework in detecting, arresting and seizing pirates or suspects of armed robbery against ships, as well as rescuing victims of ships and victims of piracy or armed robbery. In carrying out the function, the ISC should respect the confidentiality of information provided by any contracting party and should not release or distribute such information without prior consent of the contracting party.

3. Challenges for the Future

(1) In order to implement effective measures against piracy, the establishment of cooperative framework among each country is indispensable. In that sense, the effectuation of the ReCAAP and the set up of the ISC, both of which serve as the establishment of the development of the cooperative framework, are highly significant. In a press release issued on September 4, the Ministry of Foreign Affairs of Japan says “Japan will provide financial support for the ISC, dispatch government personnel to staff it, and contribute in other ways to taking action against piracy through the ReCAAP.” (Press Releases from the Minister of Foreign Affairs of Japan,

September 4, 2006)

An effective framework for cooperation, however, requires full participation of and all-out cooperation from the nations concerned. Attention should be paid to the behavior of the non-contracting nations: Indonesia, Malaysia and China. It seems that both Indonesia and Malaysia regard the ReCAAP as infringing the sovereignty of the three littoral states. Indonesian Defence Ministry's defence strategy director general Maj Gen Dadi Susanti asked why the ISC should be built in Singapore, a littoral sovereign state while the ReCAAP is aimed at securing the sea in Asia from piracy. (Antara News, September 2, 2006) On September 25, Indonesian Minister for Defense Juwono Sudarsono said before the National Assembly that the Indonesian government refrains from participating in the ReCAAP because it infringes the sovereignty of the three littoral states securing the Malacca Straits. He also stated that there is no need for the ReCAAP to secure the Malacca Straits and that the Piracy Reporting Centre (PRC) of the International Maritime Bureau (IMB) in Kuala Lumpur and the International Maritime Organization (IMO) in London will suffice for information sharing. It is sufficient, he continued, for the user states to provide technical assistance. (Antara News, September 25, 2006) It seems that Indonesia still prioritizes the sovereignty of littoral states and demands only technical assistance from states outside the region, despite the fact its insufficient patrol capability as well as poverty and corrupt authorities lead to the world-record piracy incidence in its archipelago waters and the Malacca Straits. (Refer to 2.1 Lifting of the Malacca Straits from Lloyd's War-Risk List of the August 2006 edition of this monthly report.) Sudarsono added that if it finally decides to ratify the ReCAAP, Indonesia would continue to pay attention to its national capabilities and interests.

On the other hand, Malaysia is expected to ratify the ReCAAP sooner or later. But since the PRC is located in it, Malaysia appears to see the establishment of the ISC in Singapore as a problem. It is obvious that the ReCAAP has raised a new political challenge how to build consensus between the littoral states and other interested parties, when the three littoral states are strengthening cooperation for the security of the Malacca Straits.*

China, which has not ratified the ReCAAP yet, has expressed its intention to cooperate for the security in the Malacca Straits. (Refer to p.3, Intelligence Bulletin and p.5, Commentary, "Overview of the IMO Conference on the Straits of Malacca and Singapore") But the possibility cannot be ruled out that such China's attitude might have something to do with the fact that the ReCAAP is an intergovernmental agreement initiated by Japan. After its effectuation, the membership of the ReCAAP is to be open to countries beyond the above-mentioned 16 countries. It will attract attention whether the United States, having shown its positive posture toward the

* Vijay Sakhuja, "Regional Cooperation Agreement On Anti-Piracy," OPR Strategic Trends, Vol. IV Issue, pp.22-23, July 10, 2006.

security of the Malacca Straits, will become a full member of the ReCAAP or keep indirect relations with it. On the other hand, it is said that Russia is interested in cooperation with the ISC. After meeting Singapore Defense Minister Teo Chee Hean in Moscow on September 27, Russian Defense Minister Sergei Ivanov stated that Russia and Singapore share interests in counterterrorism, nuclear nonproliferation, and maritime security and will cooperate in this context. (MosNews, September 29, 2006)

(2) With regard to the administration of the ISC as an international organization, conflict of interests among contracting parties is expected throughout consensus-building process. Furthermore, the possibility of tug of war over initiative between the ASEAN countries and other countries or conflict among major players cannot be ruled out.

In addition, the relationship between the ISC and other existing regimes is another challenge. As Sudarsono pointed out, the PRC is working as a nongovernmental player in Malaysia. The International Chamber of Commerce (ICC) established the International Maritime Board (IMB) in 1981 as its non-profit subordinate body. The IMB set up the PRC in Kuala Lumpur in October 1992. The PRC is funded by the shipping industry and insurance companies and any ship can take advantage of it for free regardless of its nationality of owner. The PRC operates 24 hours a day, everyday, 1) receiving and managing reports on piracy, 2) issuing alerts to each nation's authority concerned and other ships sailing in neighboring waters, 3) assisting the ship owners and crewmembers of assaulted ship, and 4) collecting and collating world-wide piracy information to issue and circulate quarterly and annual reports. Since 1999, the PRC has provided with a weekly report on piracy and recently launched an online piracy map on Google Maps. (IMB Piracy Reporting Centre's website: <http://www.icc-ccs.org/prc/sponsors.php>)

These above-mentioned operations implemented by the PRC are basically the same as those of the ISC, although the former is a nongovernmental institution and the latter intergovernmental. Countermeasures against piracy requires close cooperation among the nations concerned, and one of the key challenges for the full-fledged operations of the ReCAAP is how to coordinate and cooperate with other existing regimes, including the cooperative system for the security of Malacca Straits among the three littoral states and Thailand.

2.2 The Partial Cancellation of Sakhalin II Oil and Gas Project

On September 18th, Russia's Natural Resources Ministry issued a directive to suspend part of the Sakhalin II energy project on the ground of its insufficient environmental protection measures. On the 20th, Yury Trutnev, Minister of Natural Resources, signed a document to cancel the permission for the Sakhalin II project, which became effective immediately. Several Japanese companies are involved in the Sakhalin II project. Also, there have been concerns in Japan over its energy strategy as well as the possible delay in LNG supplies to Japanese power companies.

This Report has examined the trends of resources and energy development as an important issue. The Sakhalin II project is of pivotal importance to our resources and energy strategy, for the project in the surrounding areas of Japan, unlike oil import from the Middle East, does not depend on long and vulnerable sea lanes. This section will explore Russia's intentions and the future outlook of the project.

1. Overview of the Sakhalin II Project

The Sakhalin II is one of the oil and natural resources development programs in the northeast part of Sakhalin Island, Russia, where oil reserves of one billion barrels and gas reserves of 500 billion cubic meters are expected. The project is led by the Sakhalin Energy Investment Company Ltd. (hereafter Sakhalin Energy), a consortium including Royal Dutch Shell (holding the controlling 55% interest in the project), Mitsui (25%) and Mitsubishi (20%). Sakhalin Energy is a 100% foreign-financed company with no Russian participants.

Given the 1991 international tender notice of mineral deposits off Sakhalin by the former Soviet government, Sakhalin Energy was formed in 1994 and contracted with the Russian government under a production sharing agreement (PSA). The overall development plan was approved in 2001. The master plan was approved in 2003 after environmental assessment and the construction of oil and LNG plants started. The project is now 70-80% complete. Crude oil production was scheduled to begin at the end of 2007 and natural gas production was planned to start in the summer of 2008. Out of the total amount of annual LNG (9.6 million tons/year), 4.7 million tons of gas was to be exported to Japan.

The second-phase project which was approved in July 2003 was cancelled this time. The project includes the construction of an 800-kilometer land pipeline, the expansion of mining platforms, and the construction of LNG production plants. However, the first-phase of the project off northern Sakhalin, which operates only for six months in summer, is exempt from the application.

2. Behind the Cancellation of the Project

(1) Environmental Destruction

Russian Ambassador to Japan Alexander Losyukov said on the 20th that about half of 60 environmental violations, including illegal dumping of oil production waste at sea, remained unresolved, even though it has been pointed out by the Russian government for several years. He stressed that the cancellation was caused due to the environmental violation, not any political motives. Then, he demanded the project operators to fulfill its duties.

About the precise picture of environmental destruction, Oleg Mitvol, Deputy Director of Russia's Federal Supervisory Natural Resources Management Service, explained that 1) the propagation of dying gray whales, one of the endangered species living around the oil and gas extraction platforms, might be decimated, 2) There are flaws in safety and environmental measures in approximately 50 rivers over which pipelines are passing, 3) the unlawful dumping of waste soil spun off from the construction of the LNG shipping terminal and the lading facility within 70 kilometers of Aniva Bay is disrupting the ecosystem, and 4) the estimated total damage of environmental destruction has amounted to as much as \$50 billion (or about five trillion 850 billion yen) with the illegal deforestation causing a loss of 11 million rubles, or 48 million yen (more than 500,000 rubles of damage is subject to a criminal accusation).

(2) Moves of Resource Nationalism

In order to regain its prestige as a great power, the Putin administration is clarifying its strategy of excluding foreign-financed projects from energy development by involving Gazprom, the state-run monopolistic enterprise, a strategy aimed at strengthening the state control over energy resources. It seems that the strategy will be accelerated until the end of President Putin's term (March 2008). On the 27th, President Putin stated that the Russian government will take appropriate measures against unfaithful companies violating the law, hinting at Russia's strong position that the development of strategic resources should be led by the state, even if foreign companies are involved.

The Putin administration, discontented with Gazprom's nonparticipation in the Sakhalin II project, seems to put pressure on Sakhalin Energy – a 100% foreign-capital company – on grounds of environmental destruction*. Anticipating Russia's such strategy, Royal Dutch Shell, having a 55 percent stake in Sakhalin Energy, agreed to swap a 25% of its stocks to Gazprom, but both failed to compromise and the negotiation is running into rough waters.

(3) Russia's Attempts to Review the PSA

The PSA scheme was developed under the Yeltsin administration in order to admit foreign

* Russia is recently bringing more pressures on foreign-affiliated companies in energy development. In the case of Sakhalin I project led by Exxon Mobil (U.S.), Rosneft (Russia), Marubeni and Itochu (both Japan), Russian is attempting to transfer the gas export projects to Gazprom. In Kovykta gas field development by TNK-BP (Russian-U.K. joint venture) and Interros (Russia), local prosecutors has hinted at cancelling the right to development because of violation of environmental regulations so that Gazprom can acquire the proprietary interest in the Russian part of Kovykta.

companies' exclusive rights as a way to seek foreign investments and techniques in the post-Soviet turbulent and economic deregulation process, when the global oil price was much lower than today. In the case of Sakhalin II project, the ownership of resources belongs to the operating body until it gets the full return of investment. Russia receives only 6 % of the total profits of the project. The terms of the agreement are favorable to developers.

Against the backdrop of recent soaring oil prices, Russian politicians share a common understanding that the PSA schemes are selling out Russia's assets, sacrificing the national interests. On the 20th, Ambassador Losyukov explained the domestic situation that some in the Russian general public express strong displeasure with PSAs, which are against Russian interests, and expressed Russia's intention to implement the project on the condition of reviewing the agreement.

On the other hand, Russian officials ostensibly deny any political interference in the moves to review the PSAs. On the 23rd, President Putin denied the observation that the Russian government intends to step up its control over energy projects led by foreign-affiliated companies while canceling domestic energy projects under PSAs.

(4) Western Concerns

Western countries are concerned about Russia's "resources nationalism," which leads to the lack of transparency and blatant violation of rules.

On the 22nd, Deputy Spokesman of U.S. Department of State, Tom Casey, said that Russia, which took the chair of the G8 summit in July, brought up "energy security" as part of the agenda and that President Putin referred to compliance and enhanced market transparency in the chair's summary. But Casey questioned whether or not Russia stands by the chair's summary. On the 23rd, French President Jacques Chirac and German Chancellor Angela Merkel expressed their concerns over Russian attempts to tighten national control over foreign-led energy development projects including the ones in Sakhalin as well as the speculation that Russia intends to tear up PSAs.

3. Future Outlook—Three Possibilities

There are three possible scenarios for the future outlook of the Sakhalin II project. The first possibility is a relatively early resumption of the construction. Russia is believed to have difficulty in developing and opening a market on its own without any support from Japan and the West, such as LNG technology. Therefore, Russia's real intention of the cancellation of the approval is not to exclude Japanese and Western companies, but to allow Gazprom to participate in the project on favorable conditions so that Gazprom can obtain information and technologies. If so, there is a good chance that the Russian government takes a softer line on the environmental matters. Russian Ambassador Losyukov said on the 20th that Russia has no intention to abandon the entire project and welcomes its early completion. He showed his expectation that the Sakhalin

II project would be resumed soon, saying that the negotiation between Gazprom and Royal Dutch Shell over the proportion of interests is expected to close by the end of this year.

The second possibility is that the halt of the Sakhalin II project could be prolonged. If it does not consider Gazprom's entry, Sakhalin Energy has to entrust independent environmental specialists with new environment projects and obtain, which is subject to approval by the Federal Supervisory Natural Resources Management Service, to carry on operations. Even if it is possible (although the chances are slim, given the strategy of Putin administration), it is likely to cost nearly double, taking more than one year before the resumption of the operation.

The third possibility is the complete abolishment of the project. Given the soaring crude oil price, Russia might take a firm stand and annul the PSA (a Presidential decision is not enough since PSAs are ratified by the parliament) to drastically reexamine the project. Or, if Sakhalin Energy fights back by going to an international court, Russia could resort to drastic measures such as the complete suspension of the project or the exclusion of the foreign companies from it. But such measures might cause strong protest from Japan and Western countries, which would lead to further decline in motivation of foreign companies to invest in Russia. What is more, it could also affect Russia's international credibility. Therefore, it is unlikely that Russia will resort to such drastic measures.

4. Japan's Response

How should Japan respond, giving the above possibilities? On the 19th, then Chief Cabinet Secretary Shinzo Abe (he became Japan's new Prime Minister on September 20) announced that the Japanese government had demanded that Russia ensure appropriate and transparent procedures and implement the project smoothly on the 18th. He also expressed concern that a long delay in the symbolic Japan-Russia cooperative project might have a negative impact on overall Japan-Russia relations. On the 27th, Akira Amari, Japan's newly appointed Minister of Economy, Trade and Industry said as follows: (1) Japan will take a close look at Russia's claim regarding the lack of consideration to the environment to determine its response; (2) Russia is promoting its policy to put energy under the state control; (3) Gazprom wants to take part in the Sakhalin II project; and (4) it is necessary to request the project operating body to compromise on the reasonable terms of Gazprom's entry, which implied his intention to explore the possibilities of the early resumption of the project.

The LNG contracts that amount to more than half of Japan's total annual import quantum will expire in 2009-2011. In September, Indonesia, Japan's largest LNG exporting partner, decided to considerably reduce export volume to Japan. In addition, it is no surprise that China and Western countries will import more LNG. Given these circumstances, Japan needs to ensure its energy supply by resolving this issue with Russia and prevent the issue from having a bad effect on the LNG contract renewals by minimizing the delay in the Sakhalin II project.

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