

# Japan plans aggressive global energy strategy

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Amid intensifying competition among the major powers for oil and gas, Japan is quietly preparing its own strategy to counter its economic rivals, including the US, and secure access to adequate energy supplies.

The Japan Forum for International Relations (JFIR), a Tokyo-based thinktank, submitted a policy document on energy and security last month to Prime Minister Junichiro Koizumi. Although it pays lip service to “cooperation” with other countries, at the heart of the document is a call for a “grand design that matches our national interests”. The report took nearly a year to produce and involved a team of strategic experts and analysts.

The JFIR document argued that Japan can no longer afford to see energy simply as a commodity to be purchased on the international market but has to regard it as a vital strategic ingredient for Japan’s “existence as a state”. It urged active state intervention to secure supplies of oil and gas and warned that Japan is “lagging behind” other major powers in doing so.

Masahisa Naito, chairman of the Institute of Energy Economics, who led the JFIR debate, explained: “Oil prices are no longer determined by the effective market mechanism.” Referring to China’s rapidly growing demand for oil, JFIR president Kenichi Ito declared: “The oil shocks in 1970s originated in the Middle East, while the currently emerging oil shock is coming from China.”

The US has occupied Iraq and threatened to attack Iran in order to undermine its rivals in Europe and Asia, which are dependent on Middle Eastern oil. Beijing is actively using state-controlled oil companies to buy or invest in energy assets in resource-rich countries in Russia, Central Asia, Latin America and Africa. Russia, on the other hand, is increasingly utilising its large oil and gas reserves as a political weapon to secure alliances and shore up its sphere of influence in Eastern Europe.

Japan is particularly vulnerable in this competition for energy. It is the world’s second largest economy and third largest oil consumer after US and China but has no oil of its own and depends on the Middle East for more than 80 percent of its imports. Japan joined the US-led occupation of Iraq to ensure access to that country’s untapped oil reserves.

Like the European powers, China and Russia, Japan’s economic interests are threatened by the Bush administration’s bellicose stance against Iran. A US-sponsored “regime change” in Iran would call into question oil contracts signed by Japanese corporations with Tehran. Iran is currently Japan’s third largest oil supplier. In March, Nippon Oil Corporation announced plans to lower oil imports from Iran by 15 percent this year, largely due to the US threats against Teheran.

The JFIR report commented that the shift of international relations in recent years “has caused national interests to start colliding in the international energy market”. There has never been a time, it stated, when an energy strategy “has been more sorely needed for a country as poor in energy resources as Japan”.

Although the document did not offer a specific plan, it outlined a series of recommendations. The main proposal was to diversify energy supplies away from the Middle East by utilising Russian oil and gas as a long-term strategy. It also suggested the use of investment, financial aid and other benefits to establish a stable group of “oil-supplying nations” in the Middle East, Africa and Central Asia. Moreover, it urged Tokyo to use pipelines as a stable long-term method of supply, especially from the Russian regions of Eastern Siberia and Sakhalin.

The JFIR warned of the dangers of becoming too dependent on one source of oil. “[I]t is important to act after having taken due consideration of the risk of the kind of situation that occurred between Russia and the Ukraine from late 2005 to early 2006 with the supply of

natural gas being stopped. In addition, the security of energy transport routes is also an important issue, including the problem of safe passage through Straits of Malacca.”

Such plans will inevitably bring Japan into conflict with China, which is also looking to Russia for much needed fuel supplies. China and Japan are competing to build oil and gas pipelines to Siberia and are embroiled in a dispute over a series of gasfields in the East China Sea. With government backing, two Japanese oil companies Inpex Holdings and Teikoku are starting exploration in the disputed areas.

Japan and China are also rivals in Central Asia. Japanese officials held a meeting on June 5 with their counterparts from four Central Asian republics—Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan—to discuss an “action plan” to enhance cooperation on energy and the “war on terror”. As part of its “Silk Road Diplomacy”, Japan plans to build a road from Tajikistan south to Afghanistan—allowing alternative access to landlocked Central Asia that avoids China and Russia.

Japan’s drive for oil and gas also has the potential to generate tension with its US ally. The *Wall Street Journal* warned on May 16 that Japan’s efforts to “lock up” overseas energy supplies was likely to further drive up world’s oil prices. It pointed out that Japan’s leading oil corporations were heading overseas, with the help of government subsidies, to acquire oil assets. Tokyo is planning to increase oil imports from fields owned and operated by Japanese companies from 15 percent to 40 percent by 2030.

A Japanese energy official told the newspaper that Japan did not believe the theory that high oil prices would solve the problems of supply by driving companies to invest and sell more oil on the open market. For its energy security, Japan had to control and operate its own oil assets around the world.

Inpex Holdings, in which the Japanese government owns a 29 percent stake, has plans to invest \$6 billion to develop an offshore natural gas field off the coast of northwestern Australia. The project could produce 12 million tonnes of liquefied natural gas a year or one fifth of Japan’s demands. The company has also been active in Indonesia, Brazil, the Caspian Sea and Libya.

The Koizumi government is encouraging major Japanese corporations such as Mitsui, Mitsubishi and

Japan Petroleum Exploration to be more aggressive in investing in overseas energy assets, including in Equatorial Guinea, Libya and elsewhere.

In the case of Iran, Japan is already caught between its substantial oil interests there and US demands that it support punitive measures against Tehran over its nuclear program. Iran’s ambassador to Tokyo warned Japan on May 17 not to back UN resolutions against Iran, hinting at retaliation. Inpex is seeking to develop Iran’s massive Azadegan oil field that could produce 250,000 barrels a day.

In an interview in the *Asahi Shimbun* the next day, the US ambassador to the UN, John Bolton, bluntly warned Japan not to be “manipulated” by Iran. “This is what we’ve been worried about, about Iran’s very savvy use of its oil and natural gas resources to apply leverage on countries like Japan and India and China that have large and growing energy demands,” he declared.

Bolton then offered a thinly-disguised bribe to Tokyo, declaring: “There are all kinds of possibilities, now that economic sanctions are lifted, for exploration and drilling in Libyan oil assets. I’m sure that’s something that Japanese planners are considering.” In other words, by backing US plans for “regime change” in Tehran, Japan could gain access to oil in Libya, Iran or elsewhere. Tokyo is well aware, however, that the US would then determine the size of its ration of oil and gas.

These great power tensions are highly explosive. It is worth recalling that the outbreak of World War II in the Pacific was driven by conflicts over resources. In 1931, in the midst of the Great Depression, Japan annexed Manchuria to gain control of the region’s oil, iron ore and coal. In doing so, Japan antagonised the US and Britain and the conflict deepened after it invaded China in 1937. In 1941, after the US imposed an oil embargo, Japan attacked Pearl Harbor.



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