

Japan's Oil Dilemma: Competing in a New World of Resource Diplomacy

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**The Rise of Asia's National Oil Companies:
Competitive Issues and Geopolitical Implications
National Bureau of Asian Research**



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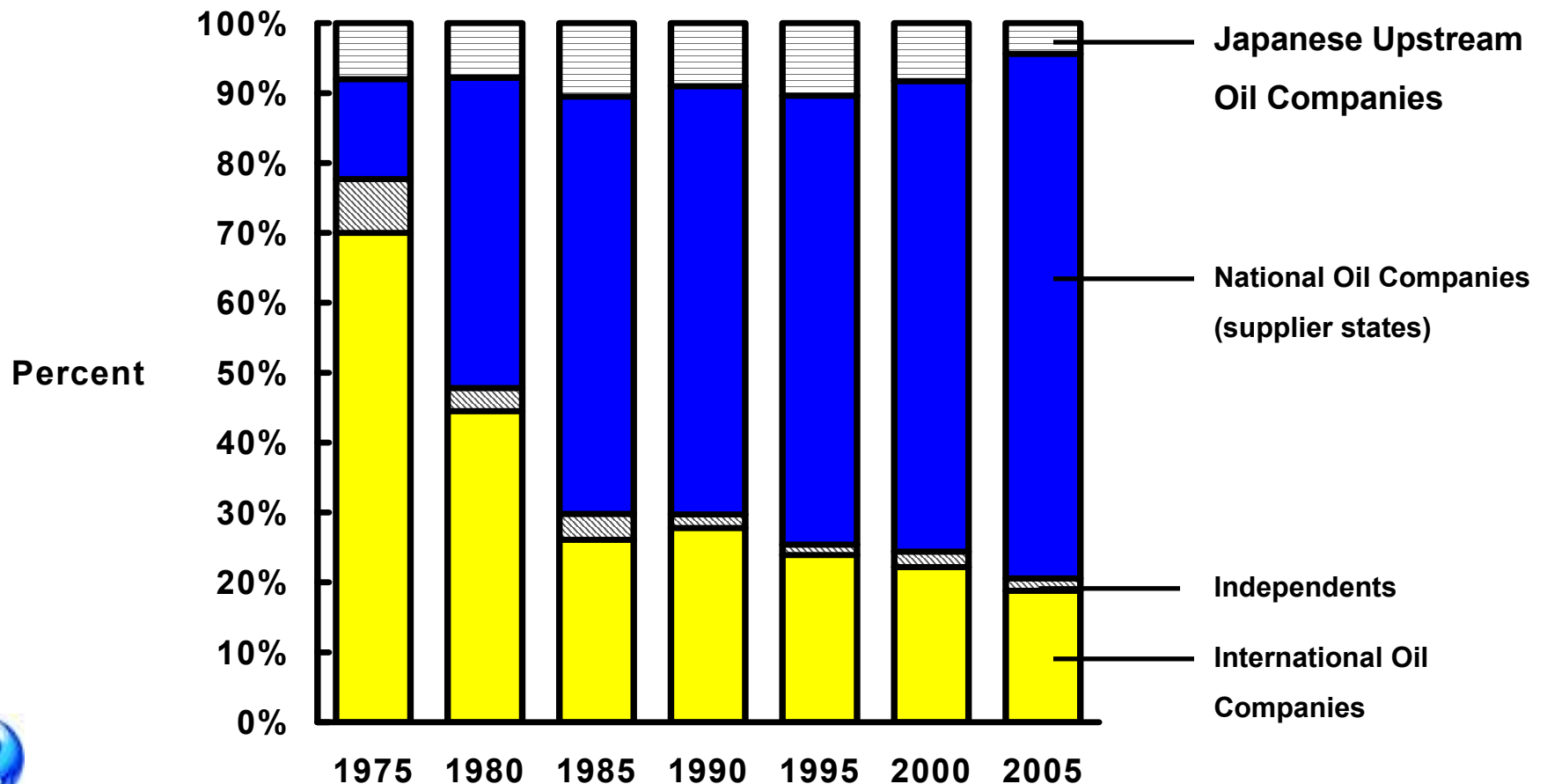
Asian Oil Companies: Emerging Stereotypes

- **Owned and directed by states**
- **Pay anything to gain new resources**
- **Care little about profits**
- **Have unlimited access to cheap finance**
- **Benefit from side payments (foreign aid, etc.)**
- **Face little pressure to conform to international norms (human rights, labor, environment, etc.)**



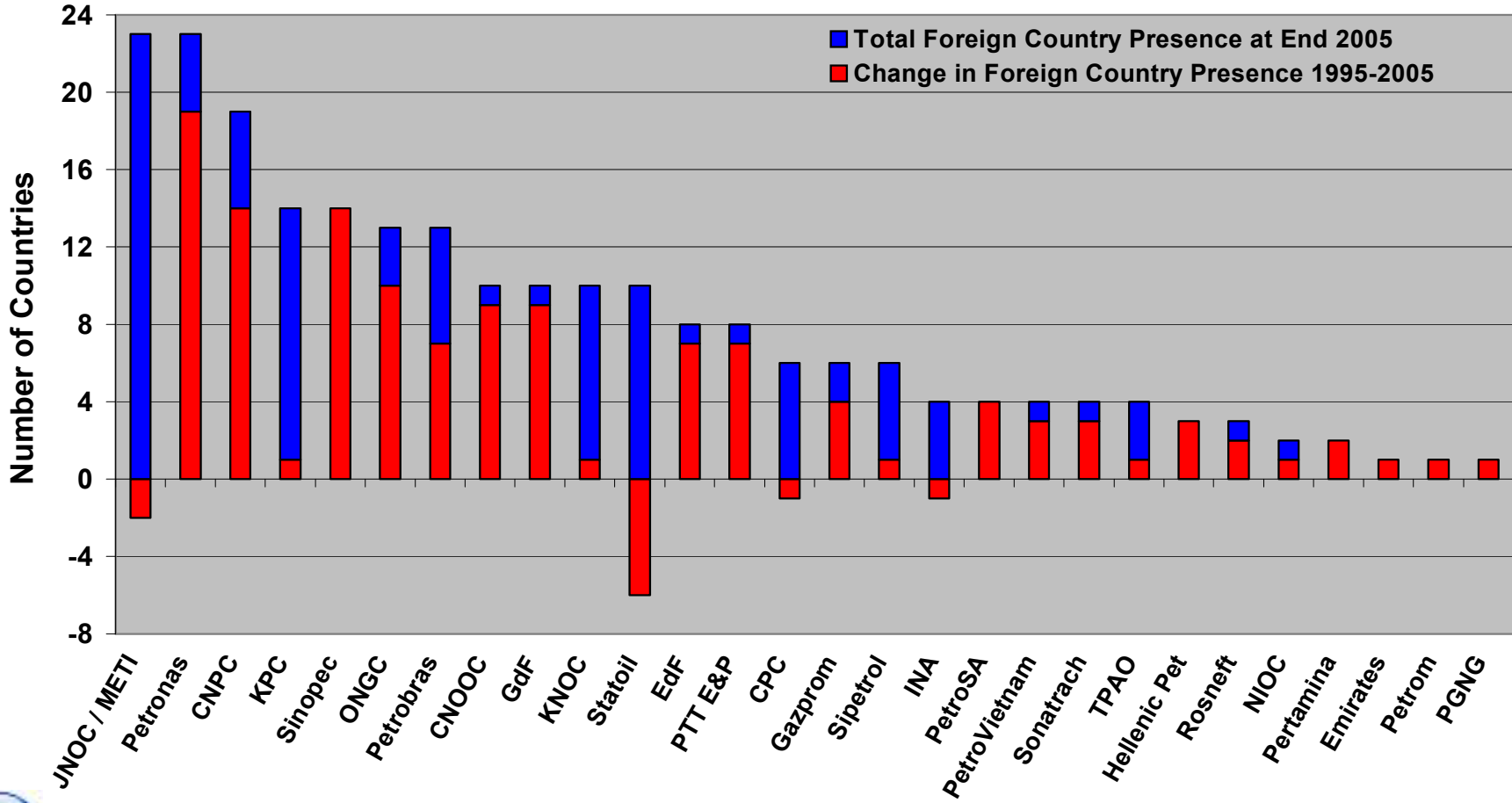
State-backed Upstream Companies Play Minor Role in Meeting Japan's Crude Oil Needs

Japan's Crude Oil Imports By Supplier



Japan's State Supported E&P Companies Relative to Other Countries

Foreign Country Presence of State-Controlled E&P Companies



(excludes companies never present in more than one foreign country)

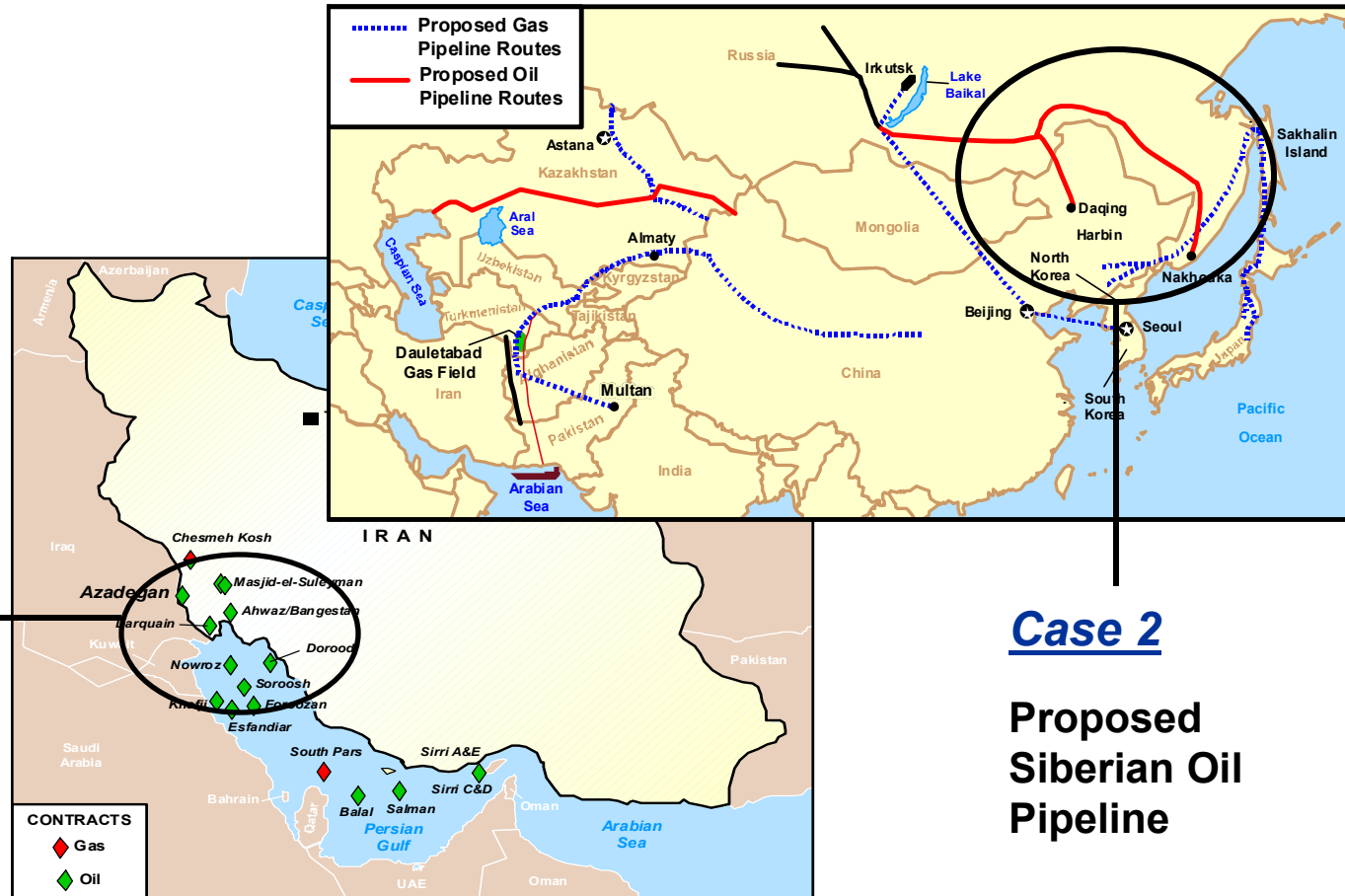
Source: Peter Stark, *American Oil & Gas Reporter*, March 2007 data IHS



Cheap Government Financing Widely Discussed But Often Not Provided

Case 1

Japan's Arabian Oil Company concession in 2000



Case 2

Proposed Siberian Oil Pipeline



Source: Cambridge Energy Research Associates.
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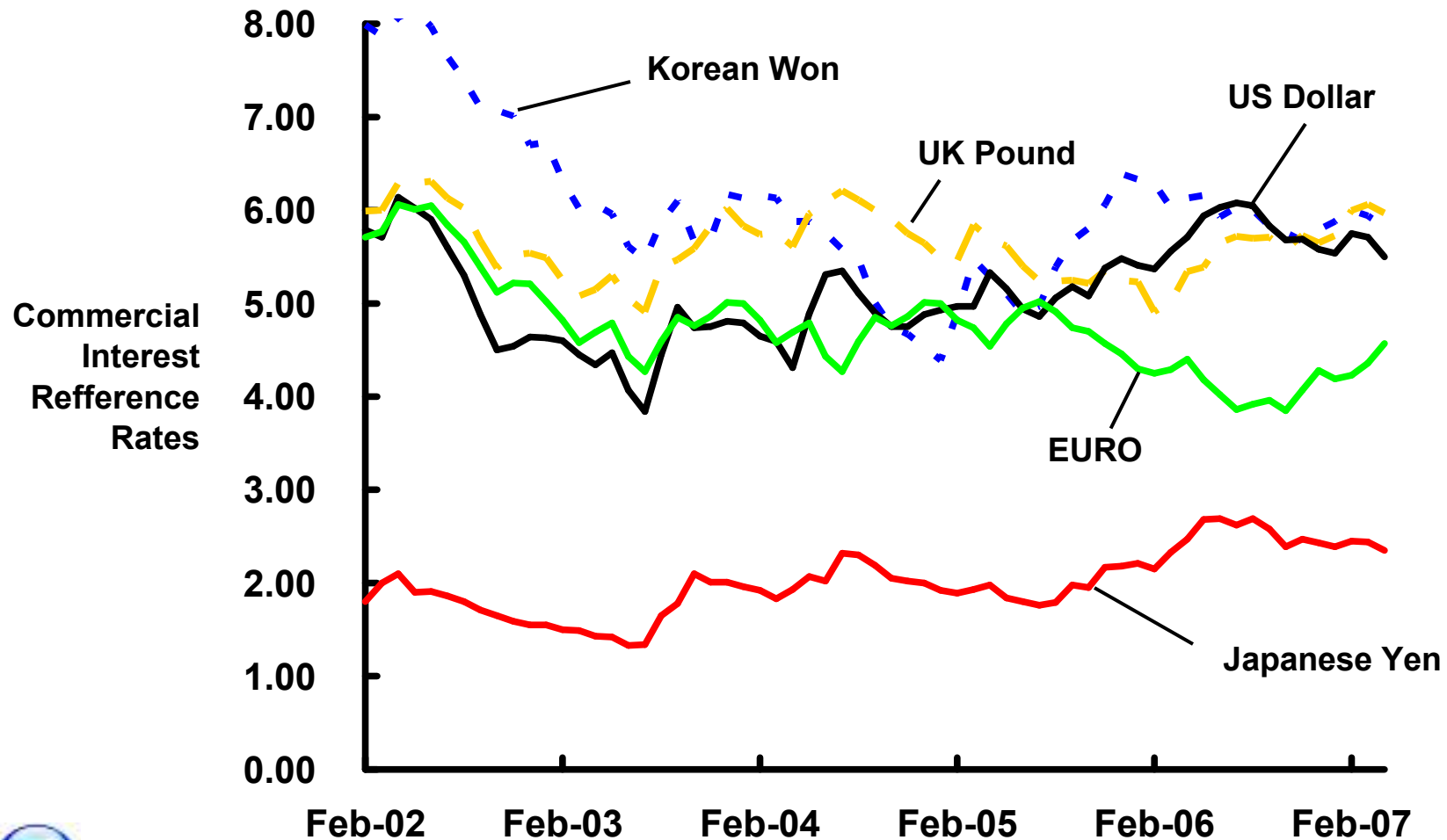
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Constraints on Upstream Financing Support

	Domestic	International
JOGMEC (Japan Oil, Gas and Metals National Corp)		
Equity capital	✓	
Liability Guarantees	✓	
JBIC (Japan Bank for International Cooperation)		
Export Credits	✓	✓
ODA Loans	✓	✓
Yen Loans	✓	

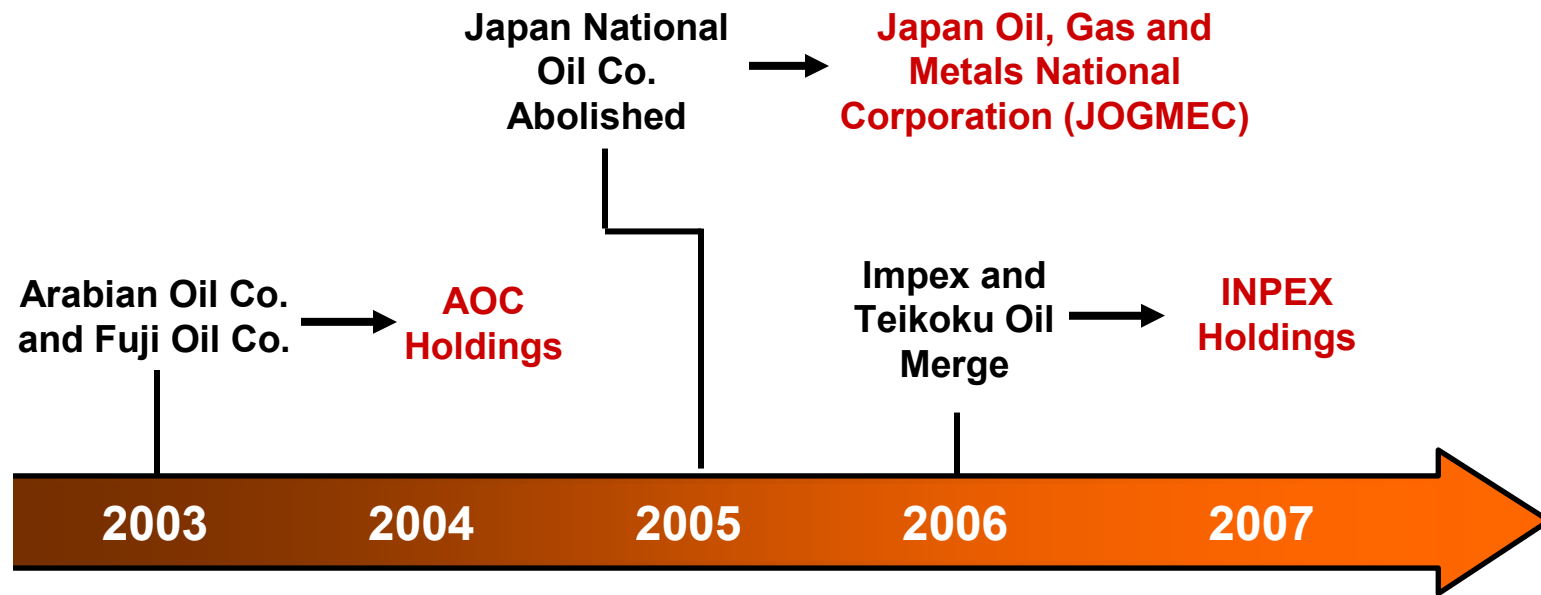


Long term Official Financing Rates Do Provide Japan with an Advantage



Source: OECD, "Historic CIRR Rates Since 1993".

Recent Steps to Improve Profitability of Japanese Upstream Oil Industry



Steps to Align with International Norms

First Corporate Social Responsibility Report, 2006



Strengths:

- Very strong discussion of corporate structure, mission (national energy security), environmental management systems, governance, accountability and compliance
- Good accountability charts for overall management and compliance
- Includes some semi-critical internal and external stakeholder voices

Weaknesses:

- No site-level or aggregated environmental or social data, just lots of project-specific anecdotes
- No reference to climate risk
- Extractive Industries Transparency Initiative (EITI) signatory, but report does not provide data on payments made or where this data can be located
- No discussion of labor, unions, or support for human rights conventions.



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Source: Andrew Logan, CERES, Oil & Insurance Programs

Japan's Restrictions on "Side Payments"

- **Foreign Aid**
 - Japan's Official Development Assistance Charter
 - Guidelines of OECD Development Assistance Committee (DAC)

- **Security Guarantees**
 - Article 9 restricts forward deployments/ security arrangements

- **Arms Deals**
 - "Three Principles" have restricted arms exports since 1967 to:
 - *Communist countries*
 - *Countries subject to a UN Security Council arms embargo*
 - *Countries engaged or likely to be engaged in armed conflict*

Inadequacy of Exiting “Tool Kit” Raising the Alarm with Japan’s Leadership

“The paradigm shift has caused national interests to start colliding in the international energy market and countries are now applying strategic thinking to energy issues.”

**The Establishment of an
International Security System**

**Japan Forum on
International Relations**

Tokyo, May 2006

“Japan’s poverty of energy resources means that these new risks and threats have a crucial bearing on its existence as a state.”



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Competing Visions Shape Japan's Energy Security Outlook

Japan's Energy Internationalists

World View	There is a fundamental harmony of economic interests between nations
Role of State	Should be limited to correcting market failures
Fuel Mix	Let market decide- most efficient and effective way to organize energy sector
Regional Cooperation	International institutions can be highly effective ways to achieve national interests
Energy Diplomacy	Useful in resolving disputes, establishing treaties, exchanging information



Competing Visions Shape Japan's Energy Security Outlook

Japan's Energy Autonomists

World View	International order is zero sum. States seek to accumulate wealth at the expense of other states
Role of State	Strategic state intervention is necessary to compete for resources and power
Fuel Mix	Governments must actively shape nations fuel mix to achieve national wealth and security
Regional Cooperation	International institutions often fail and cannot be relied upon to secure core national interests
Energy Diplomacy	Proactive measures are required using all the tools of state to secure affordable resources



Revising Policy

Japan's *New National Energy Strategy*

Energy Security Measure	2030 Target
Energy Conservation	Increase economy-wide by at least 30%
Overall Oil Dependence	Reduce to $\leq 40\%$
Oil in Transport Sector	Reduce consumption to $\leq 80\%$
Nuclear Power	Increase production up to 40% (electricity)
Japanese Flagged Oil	Increase ratio up to 40% of total crude oil imports



Recent Financing Schemes



Abu Dhabi:

JBIC will provide an initial \$1bn in concessionary loans to the Abu Dhabi National Oil Company in return for longer-term oil supply contracts.

Venezuela:

Japan will provide \$3.5 billion to PDVSA. JBIC will provide 54 percent of the funds, with the balance provided by Japanese banks, Marubeni and Mitsui. JBIC financing is a 15-year credit facility repayable in crude oil or a “supply contract with an upfront payment.”



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Source: Andrew Logan, CERES, Oil & Insurance Programs

Conclusion

- **Japan does not currently match the stereotype of the “Asian oil company”**
- **There is growing concern over the adequacy of Japan’s existing “tool kit” to compete upstream**
- **Japan’s “energy autonomists” are pushing to expand the “tool kit” available to compete upstream**
- **Japan’s *New National Energy Strategy* reflects modest shift to a more interventionist approach to resource diplomacy**