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

Peter C. Evans, Director, Global Oil Cambridge Energy Research Associates

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

- Japanese Upstream Oil Companies
- National Oil Companies (supplier states)
- Independents
- International Oil Companies

Percent

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

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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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## Constraints on Upstream Financing Support

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>JOGMEC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity capital</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Liability Guarantees</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>JBIC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Credits</td>
<td>✓ ✓</td>
<td>✓</td>
</tr>
<tr>
<td>ODA Loans</td>
<td>✓ ✓</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>Yen Loans</td>
<td>✓</td>
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Long term Official Financing Rates Do Provide Japan with an Advantage

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

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Recent Steps to Improve Profitability of Japanese Upstream Oil Industry

- 2003: Japan National Oil Co. Abolished
- 2004: Arabian Oil Co. and Fuji Oil Co. → AOC Holdings
- 2005: Impex and Teikoku Oil Merge
- 2006: Japan Oil, Gas and Metals National Corporation (JOGMEC)
- 2007: INPEX Holdings
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.

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.”

“Japan’s poverty of energy resources means that these new risks and threats have a crucial bearing on its existence as a state.”
## Competing Visions Shape Japan’s Energy Security Outlook

### Japan’s Energy Internationalists

<table>
<thead>
<tr>
<th>World View</th>
<th>There is a fundamental harmony of economic interests between nations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of State</td>
<td>Should be limited to correcting market failures</td>
</tr>
<tr>
<td>Fuel Mix</td>
<td>Let market decide- most efficient and effective way to organize energy sector</td>
</tr>
<tr>
<td>Regional Cooperation</td>
<td>International institutions can be highly effective ways to achieve national interests</td>
</tr>
<tr>
<td>Energy Diplomacy</td>
<td>Useful in resolving disputes, establishing treaties, exchanging information</td>
</tr>
</tbody>
</table>
# Competing Visions Shape Japan’s Energy Security Outlook

## Japan’s Energy Autonomists

<table>
<thead>
<tr>
<th>World View</th>
<th>International order is zero sum. States seek to accumulate wealth at the expense of other states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of State</td>
<td>Strategic state intervention is necessary to compete for resources and power</td>
</tr>
<tr>
<td>Fuel Mix</td>
<td>Governments must actively shape nations fuel mix to achieve national wealth and security</td>
</tr>
<tr>
<td>Regional Cooperation</td>
<td>International institutions often fail and cannot be relied upon to secure core national interests</td>
</tr>
<tr>
<td>Energy Diplomacy</td>
<td>Proactive measures are required using all the tools of state to secure affordable resources</td>
</tr>
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</table>
### Revising Policy
#### Japan’s *New National Energy Strategy*

<table>
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<tr>
<th>Energy Security Measure</th>
<th>2030 Target</th>
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<tbody>
<tr>
<td>Energy Conservation</td>
<td>Increase economy-wide by at least 30%</td>
</tr>
<tr>
<td>Overall Oil Dependence</td>
<td>Reduce to ≤ 40%</td>
</tr>
<tr>
<td>Oil in Transport Sector</td>
<td>Reduce consumption to ≤ 80%</td>
</tr>
<tr>
<td>Nuclear Power</td>
<td>Increase production up to 40% (electricity)</td>
</tr>
<tr>
<td>Japanese Flagged Oil</td>
<td>Increase ratio up to 40% of total crude oil imports</td>
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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.”

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