Energizing Russia’s Pivot: Japan-Russia energy relations, post-Fukushima and post-Ukraine

Wrenn Yennie Lindgren

Summary

Since the triple disaster in Japan in 2011, the energy dimension of Japan-Russia relations in the Russian Far East (RFE) has developed substantially. The integration of the energy markets of the world’s top liquefied natural gas (LNG) importer, Japan, and major energy exporter, Russia, has paralleled a warmer bilateral political climate and been accelerated by Russia’s turn to the East. In the aftermath of the Ukraine crisis, the globe’s energy landscape has been significantly altered and both Russia and Japan face new constraints economically and in terms of bilateral cooperation. While Japan and Russia have managed to maintain dialogue and energy cooperation despite Japan’s membership in the sanctions regime, questions remain about how bilateral energy relations will develop in the face of competition from Japan’s traditional energy suppliers and ongoing Japanese government efforts to diversify energy sources. In considering the consequences of the Fukushima and Ukraine crises on Japan-Russia energy relations and the energy dimension of Russia’s pivot to Asia, the topic is placed in a wider context of recent geopolitical developments and energy security in the Asia-Pacific.

Introduction

Japan-Russia relations have undergone notable developments over the past few years, despite the two nations never signing a formal peace treaty ending World War II and an ongoing territorial dispute over the Hoppō Ryōdo (Northern Territories, 北方領土), which has been a major obstacle to improved bilateral relations. Russia’s aspirations to establish itself as a Euro-Pacific power have met Japanese ambitions to secure its energy market to make for a promising dialogue on various security issues of mutual interest. Changing domestic and regional contexts have allowed for a promising Russia-Japan partnership on energy issues. Between 2000 and 2012, the share of oil and gas in Russian exports to Japan jumped from 1 to 74% while total trade between the countries reached US$37 billion in 2013, six times the amount recorded a decade earlier. In 2013, President Vladimir Putin announced the intention to pivot toward the Asia-Pacific region by turning to eastern markets and by developing the Siberian and the Far Eastern districts. Though underdeveloped, the Far Eastern and Siberian districts are rich sources of energy resources and raw materials, and how the development of these districts will affect the region’s governance and security is a timely topic of regional and international policy interest.

In the wake of the Ukraine crisis since 2014, Russia’s approach to its “Go East” policy has been facing new constraints. Moscow no longer has the option of accommodating both the U.S. and China while maintaining non-alignment and is now more limited when it comes to managing its competing interests with China, for instance in Central Asia. At the same time, scholars have argued that the pivot has been given a push by the cutting of Russia-Europe ties and that the Ukraine crisis has been a major catalyst for certain relationships, namely enhanced Sino-Russian strategic and bilateral cooperation. While the details of Russia’s turn to the east have been relatively well studied, the international community still has limited knowledge about how the Ukraine crisis has influenced this multifaceted endeavor. Specifically, a clear picture of how this development has affected Japan-Russia energy relations has not appeared, since both sides have been very quiet about how the bilateral relationship will develop in the face of competition from Japan’s traditional energy suppliers and ongoing Japanese government efforts to diversify energy sources. In considering the consequences of the Fukushima and Ukraine crises on Japan-Russia energy relations and the energy dimension of Russia’s pivot to Asia, the topic is placed in a wider context of recent geopolitical developments and energy security in the Asia-Pacific.
Policy Brief

Russia’s Situation
The Putin administration has acknowledged the global power shift towards the Asia-Pacific region and has made developing the RFE a top policy priority. A core piece of Russia’s pivot to Asia involves the development of its energy market and the security of the role of raw energy supplier for energy-hungry East Asian markets. The RFE plays a large role in this endeavor given its comparative advantage in energy production and proximity to East Asia. Russia’s energy strategy for 2030 forecasts that the Asia-Pacific market will consume 22-25% of oil Russian exports and 19-20% of Russian gas exports. Accordingly, Russia has worked to broaden its energy outreach to various Asian partners, including Vietnam, Laos, South Korea, China and Japan.

The need for Moscow to develop energy cooperation has become critical in the post-crisis environment. Accounting for half of the state’s revenues, Russia’s energy sector is a crucial market for the national economy as well as for establishing political clout. Russia knows that it is a competitive energy provider in East Asia and has taken advantage of various opportunities to step in and step up energy cooperation with states of the region. China was notably absent as a Russian gas customer until 2013 when the countries signed significant oil and gas deals. In May 2014, the two countries finalized a landmark, US$400 billion, 33-year gas agreement, following years of negotiations over prices. The timing and stipulations of the long-anticipated deal naturally led to questions about the influence of Western sanctions on Russia’s energy market. Analysts suggest Beijing was able to leverage the economic difficulties brought about by the sanctions by offering Russia new markets for its energy supply at prices lower than what Russia would have been able to get from the European market, however Russian sources suggest that China offered a very generous price. The initial up-front payment on part of the megadeal is allegedly welcome security for Russia’s dwindling cash supply, which has been hit hard by the sanctions regime and the global drop in energy prices. Further, Russia’s invitation of Chinese involvement in the upstream projects in the Arctic, Siberia and the Far East signal a potentially more open and inclusive approach to developing its energy market. Russia’s growing role in the Chinese energy market, as a supplier of electricity and gas, has paralleled ongoing dialogues with other Asian states, such as Japan, about energy cooperation.

Japan’s Situation
Despite being a leader when it comes to energy efficiency and technology, the geographic position and makeup of Japan makes meeting the country’s large energy demands an unattainable goal, especially when it comes to fossil fuels. Over 80% of the resource-poor, island nation’s energy use is imported and Japan ranks as the world’s biggest consumer of liquefied natural gas (LNG), second-largest coal importer and third-largest oil purchaser. Formerly, the main form of domestic energy production took place at the nation’s 54 nuclear power plants, which accounted for roughly 30% of peak electricity.

Japan’s energy needs have undergone substantial changes since the triple disaster involving a magnitude 9.0 earthquake, tsunami and nuclear disaster in March 2011. The Fukushima Daiichi nuclear plant crisis led to the shutdown of all domestic nuclear power plants and a major reassessment of Japan’s energy security. In the following months, Japanese ministries developed plans to restructure Japan’s energy mix to meet its energy needs in a sustainable and nuclear-free fashion. The initial plan to work towards being nuclear-free by 2040 was revised to include fossil fuels and renewable energy to make up for a good part of the nation’s nuclear handicap. As the world’s sixth-largest producer of solar power, Japan has explored the possibility of increasing the efficiency of this renewable energy.

Eliminating Japan’s nuclear crunch also meant seeking out new partnerships and solutions to meet the rising energy need. The Middle East supplies 90% of Japan’s energy imports, but Japan has relied less on this source and more on Russia and alternative sources over the past decade. Japan’s alliance with the U.S. is the centerpiece of Japan’s security policy. This makes it difficult for Japan to maintain relations with Russia at the level they were progressing at prior to the Ukraine crisis. Political support in Japan for joining the sanctions regime was mild considering both the political and business risks involved, however officials concurred that Japan had to follow the request of its closest ally and security partner. Under U.S. pressure, Japan reluctantly joined the G-7 sanctions regime but was careful to caveat that the Abe government was still interested in continuing dialogue with Moscow despite the suspension of talks regarding military matters, space issues and investment opportunities. Japanese sanctions were viewed by Russia as comparatively modest to those of the U.S. and Europe and thus dialogue and the amicable “Vladimir-Shinzo” relationship were maintained to the extent possible.

Post-Fukushima, pre-Ukraine
For Russia-Japan energy relations, the triple disaster was a major catalyst. It paved the way for a longer-term deepening of bilateral energy relations and also provided a quick fix to Japan’s precarious energy position in the wake of the disaster. Russia

7 At the time of writing, all power plants continued to remain shut down, however two reactors in Kagoshima prefecture in southern Japan are scheduled to be rebooted in 2015 once the plants’ safety review process is finalized. As of November 2014, twenty plants have applied to the Government of Japan, who makes final decisions once local referendums have been passed, for permission to restart their reactors. See “Nuclear Power in Japan: The Critical Mass,” The Economist, 3 Nov. 2014. http://www.economist.com/news/asia/21630808-country-lurches-towards-nuclear-comeback-critical-mass
11 Since re-assuming Prime Ministerial duties in December 2012, PM Abe Shinzō has met with President Putin ten times focusing on a range of issues and often including discussion about energy relations. During Abe’s first prime ministership (2006-2007) the leaders also signed “Initiative for the Strengthening of Japan-Russia cooperation in the Far East Russia and Eastern Siberia,” an agreement to boost cooperation between the private commercial actors in Japan and the Far East regions.
swiftly promised supplies of LNG, oil, coal and electricity and worked to accommodate Japan’s high LNG demand. Further, joint working groups on issues such as oil and gas were created. At present, Japan is involved in two major projects taking place on Sakhalin Island, the only location in the RFE where gas is extracted. The Sakhalin-1 pipeline – a collaborative effort between a Government of Japan (GOJ)-led consortium, (the group of public and private Japanese oil companies operate under the umbrella Sakhalin Oil and Gas Development Company (SODECO) and own 30%), India, the U.S. and Russia – has been providing Japan with crude oil since 2009 and is expected to start supplying gas in 2018. The Sakhalin-2 pipeline is being developed by Japanese trading companies Mitsui and Mitsubishi (which together own 22.5%) in collaboration with Gazprom (which has a 50%-plus-one share stake) and Shell (UK-Netherlands). The pipeline provides Japan with about 10% of its LNG needs – making it Japan’s fourth-largest supplier of LNG – and has increased its exports to Japan exponentially over the past five years. Among states in the Asian vector, Japan receives the largest amount of the plant’s exports (82% in 2013). The GOJ and private corporations are evaluating importing more gas from Sakhalin to meet 17-18% of Japan’s gas needs. In addition to the Sakhalin projects, in 2012, Japan revealed plans to build a $13 billion dollar LNG plant in Vladivostok. The plant, which is being developed by Gazprom in collaboration with a group of Japanese companies known as the Japan Far East Gas Company, is expected to begin LNG exports in late 2018 or early 2019 and could account for around 13% of Japan’s gas imports. Although Japan relies on the Middle East for over 80% of its crude oil supply, Russia also provides Japan with crude oil. In addition to supplies coming from Sakhalin-2, since 2009 Russia’s Eastern Siberia-Pacific Ocean (ESPO) pipeline – which runs from Taishet, Siberia, to the Kozmino Bay Oil Terminal near Russia’s border with China – has been delivering crude oil to Japan. In 2014, Russia accounted for four percent of Japanese oil imports and there are plans to increase the supply, which will help meet Moscow’s target of sending a third of its crude oil exports to Asia by 2020. Since nuclear power no longer plays a significant role in its energy mix, Japan’s current strategy involves a diversification of Japan’s LNG sourcing in the foreseeable future and a greater dependency on renewables in the long term. Australia is a notable energy supplier, accounting for roughly 20% of LNG imports, (Japan buys 70% of Australia’s supply), and aspiring to supply up to 40% of Japan’s LNG needs by 2020. Japan’s plans for diversification of its energy sources, including a greater dependence on imports from North America and Australia and the growing interest in highly price-competitive shale gas imports from the U.S. will not only be a direct challenge to Japan’s current suppliers in the Middle East but also to Russia. Japan’s close ties with the U.S., epitomized by the U.S.-Japan alliance, could likely deter Russian involvement in securing Japan’s energy imports. Russia and Japan have begun collaborating on renewable energy initiatives, namely the initiative that launched in early 2014 to develop wind power plant technology that allows for operation at low temperatures in regions of the Far East. Japan recognizes that energy resources from the RFE are not only rich but also potentially more secure since they involve largely overland routes and less time-consuming than importing from the Middle East. Since transportation routes are considerably shorter – delivery time is reduced by approximately two weeks – Japan is in a better position to adjust to short-term fluctuations in demand and the routes do not require passage through hostile waters or choke points. In short, delivery through the Sea of Japan (East Sea) is safe, efficient and timely, yet Russia still only accounts for a relatively small portion of Japan’s overall energy imports (10% of LNG imports, 4% of oil imports). Nevertheless, the growing nature of Moscow’s involvement and the promise of the resource-rich Far East in the medium- to long-term should not be disregarded.

Japan-Russia Energy Relations post-Ukraine Crisis

While the Ukraine crisis, and subsequent sanctions imposed on Russia by Japan, have not led to any stoppages in Russian energy supplies to Japan, the situation has led to delays in dialogue about further developing bilateral energy relations and has put a couple of prospective projects on hold. In September 2014, Russia reportedly proposed constructing an undersea LNG transport pipeline from Sakhalin to the northern Japanese island of Hokkaido. The pipeline would be the first of its kind for Japan, which does not have LNG pipelines connecting it to any other countries. Japanese media sources allege that a senior official at Japan’s MOFA reported that the construction of the pipeline depends on the outcome of the Ukraine issue and ongoing negotiations about the territorial dispute over the Northern Territories. Prior to this suggestion, Moscow did not show any interest in such an arrangement, however it now views the increased pipeline supplies to China as a potential alternative to the Vladivostok LNG plant project, which would have a notable effect on Japan’s anticipated LNG supply, (the plant is expected to account for up to 13% of LNG imports). Russia is still unable to secure major Japanese investment into the RFE and continues to seek support in the post-Ukraine environment. Gazprom’s monopoly on many of the projects in the region has been pointed to by energy analysts as a possible hindrance to foreign financing. The sudden drop in oil prices in December 2014 and the precarious state of the Russian economy are notable challenges to Russia’s energy market. In December 2014, Japan upgraded its sanctions against Russia to include a list of individuals and organizations linked.

14 Rochna, a major trading company in Japan, is heading the group. Mitsui and Mitsubishi are also part of the project.
15 EIA 2014.
19 EIA 2014.
to separatist Ukrainian regions.22 While this marks Japan’s ongoing involvement in the sanctions regime, as confirmed by Japanese officials, it is very unlikely that it will affect Putin’s planned 2015 visit to Japan or have ramifications for Japan-Russia energy ties. Russian analysts suggest that the sanctions imposed by Japan have had little effect on bilateral business and that, rather the contrary, business relations have expanded and diversified in the aftermath of the “sanctions fever.”

Conclusions
Japan-Russia energy relations have come a long way in a short period of time. Despite the significant convergence in Russia-Japan energy relations that the Fukushima crisis accommodated for, countries in the Middle East still hold significant shares of Japan’s energy market and Russia remains a minor supplier to Japan. Future LNG supplies originating in the Far East will increase Russia’s role in Japan’s market in the mid-to long term. Russia can provide Japan with a safe and short transport route as well as an abundant supply that will allow Japan to meet fluctuations in demand. However, it will also have to offer a competitive price and quality in order to compete with Japan’s Middle East suppliers, Australia, Canada and relatively cheap U.S. shale gas exports.

Rivalry among states in the Asian vector will likely impact the Asia-Pacific region’s energy diplomacy in the years to come. Energy integration with Russia presents Japan with an opportunity to semi-counter burgeoning Russia-China relations as well as China’s regional impact. Russia still seeks to secure Japanese investment in the RFE and Japanese labor contributions are also welcomed, and viewed more positively than Foreign Direct Investment (FDI) and labor from Chinese sources. As such, Japan can potentially counter Chinese influence in the region through increased FDI, high tech cooperation and labor exchange.

Japan’s planned restart of two nuclear reactors in 2015 is not an indicator of a complete return to nuclear dependency. The restart will not account for the major demand that the nation has for alternative resources nor will it work towards the government’s plan to diversify energy sources in the interest of both economy and energy security. With nuclear energy still off the grid, Japan will continue to look to diversify its energy supply and will further research developing renewables on its home turf and elsewhere.

Overall, Japan and Russia have managed to safeguard and develop bilateral relations in the wake of the crisis. The countries worked to maximize energy relations post-Fukushima and to minimize the potential negative consequences of the Ukraine crisis and Japan’s sanctions on bilateral relations.

Policy Implications
• In the face of ongoing sanctions, Russia wants to reduce dependence on European markets and is eager to engage the increasingly competitive Asian energy market. In addition to Russia, Qatar and Australia want to expand their LNG supplying roles to Japan. While the RFE’s close proximity and relatively secure routes are very attractive to Japan, questions remain about pricing and Japan’s willingness to move away from traditional suppliers. Russia should highlight what it can contribute to the Japanese market – fast, safe routes – and should offer competitive pricing. The low oil price and the instability of Russia’s economy threaten its energy diplomacy. If Russia’s economy crashes, the oil prices continue to stay low and Tokyo will likely turn to other sources, namely the Middle East, for energy. Whether oil prices stay down is an open question however Russia should take precautionary measures to address such a scenario when marketing its energy to Japan.

• Although the Japan-Russia relationship has endured the Ukraine crisis, there are longstanding bilateral issues – namely, the territorial dispute over the Northern Territories and the unsigned Peace Treaty – that will likely hinder cooperation in the future if left unaddressed. Signing a peace deal would alleviate security concerns and could potentially foster further cooperation and investment in developing the RFE. 2015 marks the 70th anniversary of the end of WWII and is a prime occasion for the Japanese and Russian leaders to make it a priority to explicitly address these issues and to propose a road forward.

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