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Japan

Japan's Iranian oil dilemma

By Jamie Miyazaki

The last time a senior Iranian delegation had breezed through Tokyo, back in 2000, the Japanese felt rightly smug at the results of their diplomatic efforts. A cool US\$3 billion credit line to the hard-up Islamic Republic had secured Tokyo preferential rights to the massive 26-billion-barrel Azadegan oilfield. Coming hot on the heels of Saudi Arabia's cancellation of Japan's oil concession at Al Khafji, Azadegan represented a major coup for Japan's Ministry of Economy, Trade and Industry (METI), entrusted with the task of securing Japan's energy security.

However, this was all before September 11, 2001, and US President George W Bush's later infamous "axis of evil" speech. Since then the strategic landscape of energy politics and the Middle East has changed beneath METI's feet. Recent revelations of Iranian nuclear ambitions have strengthened the hand of Washington's neo-cons in adopting a more antagonistic approach to dealing with Tehran's mullahs. All this has caught Tokyo on the back foot as it seeks to maintain a workable strategic balance between its key ally, the United States, and guaranteeing an uninterrupted supply of oil.

Back in June 2001, Japanese trade minister Takeo Hiranuma announced that "Japan is not affected by US pressure" after signing a letter of intent to develop the Azadegan oilfield. Since then, US pressure has evidently risen a few notches. This summer National Security Adviser Condoleezza Rice and Deputy Secretary of State Richard Armitage summoned Ryozy Kato, the Japanese ambassador to Washington, to make clear US displeasure at an Azadegan deal as long as Iran was pursuing a covert nuclear-weapons program. Expiration of the June deadline formally to link the deal to develop Japan's Azadegan concession slipped by, to the discomfort of both Tokyo and Tehran (see [Americans stymie Japan-Iran oil deal](#), July 4).

Washington meanwhile demanded that Iran sign the International Atomic Energy Agency's Additional Protocol allowing rigorous inspection by IAEA officials, which put further pressure on Tokyo. Iran responded by upping the ante with the unconfirmed discovery of a 38-billion-barrel oilfield and hinting that it would enter into talks with Chinese and Russian consortia in Japan's place.

With energy tussles with the Chinese already under way in Siberia over Russian oil, alarm bells started ringing in Tokyo as its attempts at separating the Azadegan and nuclear issues looked set to implode. Iranian Foreign Minister Kamal Kharrazi's visit to Japan last week was thus a vital opportunity for Tokyo to find a way of resolving the crisis.

Japanese efforts look to have worked, for the moment at least. Kharrazi confirmed Iranian willingness to sign the IAEA's Additional Protocol and METI's new energy strategy with Azadegan at its center has been vindicated. However, the crisis has brought into focus again Japan's precarious energy

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Japan imports nearly 90 percent of its oil from the Middle East. Iran was therefore always a curious choice for a country looking to diversify its heavy over-reliance of energy sources beyond the mercurial Persian Gulf region. From the outset Japan's Foreign Ministry was reticent about dealing with Iran. Not only would a major deal complicate relations with Washington, but memories of Japan's last disastrous energy venture with Iran had yet to fade.

The Bandar Abbas petrochemical complex of the late 1970s and early 1980s ate up millions of dollars in financing and was left hostage to the Iranian revolution and then the Iran-Iraq war before finally being mothballed. With security deteriorating in Iraq and Azadegan located just 10 kilometers from the Iraq border, many in the Foreign Ministry are still feeling twitchy about the project.

For the bureaucrats at METI, though, Iran's lure is too great to ignore. Japan has one of the lowest energy self-sufficiency ratios among industrialized nations and a confused energy-markets deregulation policy looks set to push up what already are some of the highest electricity costs in the world. Throw in a scandal-plagued nuclear power system and no coherent strategy for disposal of nuclear waste, and it is clear that Japan needs to look at securing new energy resources fast.

Azadegan is thought to hold the world's largest undeveloped oil reserves, and Iran is known to have the world's second-largest gas reserves. A successful deal with Tehran now could pave the way for gas contracts and provide a useful gateway into the reserves of the Caspian Sea region - assuming the serious issues of geopolitical instability are solved.

METI has also been betting on the Azadegan deal as the vehicle to restructure the government-affiliated Japan National Oil Corp (JNOC) into a new, more streamlined oil-development company after its disbanding at the end of the 2004 fiscal year. As one anonymous METI official pointed out, "if the Azadegan project comes to a halt, Japan will have to rethink its strategy".

Whether the project comes to a halt or not will be hammered out at bilateral US-Japan working-level energy talks scheduled for this autumn. Unfortunately Japan's policy of separating Iran's nuclear-weapons program from its energy needs may well turn out to be fatally flawed. Iran's Shahab-3 missile is known to be based on North Korea's Nodong 1 missile that threatens Japan.

Moreover, Iran probably already has all the basic technology in place to make a nuclear missile, giving it the luxury of being able to sign the Additional Protocol with the option to withdraw from the Non-Proliferation Treaty and go nuclear in a very short time-frame should the situation require.

As fate would have it, Japanese Foreign Minister Yoriko Kawaguchi was to meet in Europe on Wednesday with IAEA director general Mohamed ElBaradei and attend a Comprehensive Test Ban Treaty (CTBT) conference in

Vienna. Japan's antipathy to nuclear weapons, it seems, can only be matched by its thirst for hydrocarbons.

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