

Japanese and Canadian Leaders Agreed on Promoting LNG Cooperation

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On September 24, Japanese Prime Minister Shinzo Abe and his Canadian counterpart Stephen Harper announced their agreement on promoting their countries' cooperation in developing liquefied natural gas (LNG) in Canada at their joint press conference after their talks in Ottawa. The two countries will discuss details of the cooperation at their ministerial talks, they said.

While details are subject to future discussions, it is significant for Japan pursuing stable energy imports at lower costs to promote reciprocal cooperation with Canada rich with energy resources. I would like to see future steady and constructive discussions between the two governments, and between Japanese and Canadian private sector players.

What are the significant advantages of Japan-Canada LNG cooperation for Japan? First, Japan can diversify LNG supply sources. Given that LNG has become a key component of Japan's energy portfolio due to a substantial increase in its LNG imports after the March 2011 Great East Japan Earthquake, it is important for Japan to stabilize its LNG procurement by diversifying supply sources. In this sense, Canada's emergence as a new LNG supplier for Japan is significant for dispersing risks and enhancing its bargaining power in negotiations with other LNG exporting countries.

Second, LNG procurement from Canada can be uniquely advantageous for Japan. Japan's LNG imports from the United States, for which specific deals have been made ahead of the Japan-Canada LNG cooperation agreement, are also significant for Japan's diversification of LNG supply sources and its obtainment of a new LNG supply source. But LNG imports from Canada may be even more advantageous for Japan than those from the United States for two reasons -- (1) that the transportation distance for Canadian LNG from the Canadian West Coast to Japan would be shorter than for U.S. LNG that is expected to come from the U.S. East Coast or the Gulf of Mexico Coast to Japan via the Panama Canal, and (2) that LNG imports from Canada that would not have to pass through the Panama Canal would be free from canal passage fees and tanker size constraints on imports from the United States. This means that Canadian LNG could be imported into Japan faster at lower transportation cost than U.S. LNG. At the same time, the Japanese market is significant for

Canada's exploration of new LNG markets as explained later. It is important to note that Japan is a wanted presence for Canada.

However, it is important to note lower transportation costs do not necessarily mean lower procurement costs. While lower transportation costs are an advantage, overall procurement costs depend on a specific pricing approach or formula among terms and conditions. In this sense, we must wait until the conclusion of negotiations between specific sellers and buyers, although great expectations are placed on LNG imports from Canada. Nevertheless, the abovementioned first advantage is significant. By diversifying LNG supply sources and obtaining a new supply source, Japan may be able to improve its LNG supply/demand and procurement environment. Particularly, Canada's emergence as a new LNG supplier for Japan is significant for Japan's negotiations with other LNG suppliers.

How would the proposed LNG exports to Japan be advantageous for Canada? As a matter of fact, the resources exporter can diversify export destinations and develop new sales channels. This point is a universal advantage for a resources exporter. But Canada's present position enlarges the value of the diversification and new market.

Canada is rich with conventional and unconventional gas and oil resources. Resources exports are significant for the Canadian economy. The problem is that Canada's gas and oil exports basically depend on the U.S. market where the shale revolution is going on. U.S. gas prices have declined substantially under the ongoing shale revolution. Under such circumstances, Canada's gas exports have been affected by the loosening U.S. gas supply-demand balance, losing their economic efficiency and profitability substantially. Even if Canada is to further develop its rich resources in a bid to expand exports, there are difficulties in finding additional export destinations. Then, Canada looks to the Asian LNG market that is expanding on economic growth and rising demand for clean energy sources. The market includes Japan as the world's largest LNG importer where LNG demand has increased substantially due to the nuclear power generation plunge after the March 2011 Great East Japan Earthquake. The Japan-Canada LNG cooperation thus gives Canada a great opportunity to shift away from its heavy dependence on the U.S. market and participate in the growing Asian market.

As noted above, the latest agreement is to deepen bilateral government-to-government discussions on LNG cooperation. Details of specific LNG imports from Canada are subject to future talks. The talks, though including twists and turns, are expected to become a significant step forward toward reciprocal, win-win relations between Japan and Canada, based on the abovementioned advantages for the two countries.

As pointed out in the above explanation on the advantage for Canada, a resources exporting country that depends heavily on certain export markets or sales channels where various problems are arising is seriously and urgently required to diversify export destinations and obtain new markets. This is the case not only for Canada but also for some others. The others include Russia that is trying to shift away from its heavy dependence on the European market by exploring Asian markets, as well as Alaska that is attempting to diversify resources supply destinations now limited to the other lower 48 American states on the continent. As Canada, Russia and Alaska have their respective challenges, Japan's public and private sectors must appropriately share roles in developing energy security strategies and negotiations based on these countries' respective conditions.

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