

40 Years after 1st Oil Crisis

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On October 6, 1973, Egyptian forces launched a preemptive attack on Israel, triggering the fourth Middle East war, known as the Yom Kippur War. Amid the Arab-Israel conflict on October 16, the Organization of the Petroleum Exporting Countries announced a substantial crude oil selling price hike. On the next day, Arab oil-exporting countries announced a gradual monthly cut in crude oil output, an oil embargo on Israel-supporting countries and other measures. These developments led to the first oil crisis, shaking the entire world including Japan.

Amid fear that global and Japanese economic growth could be greatly affected with inflation escalating and oil becoming short, oil industry players and consumers took panicky actions. "Complacency" attracted attention as a decisive factor to affect the very survival of the Japanese economy, forcing the government, the private sector and citizens in Japan to share the view that Japan should give top priority to securing stable energy supply.

Japan faced the first and second oil crises as unprecedented hardships. But it took advantage of the hardships to promote strong energy policies. As a result, Japan made certain progress in diversifying energy supply sources or energy import sources, enhancing relations with resource-rich countries, promoting energy conservation and expanding oil reserves. Japan can thus be interpreted as having successfully enhanced its energy supply structure.

When we coolly analyze the current Japanese situation just 40 years after the first oil crisis, however, we find that Japan's energy supply structure has old and new vulnerabilities.

First, Japan's energy self-sufficiency rate is remarkably (and internationally) low as it depends heavily on oil, coal and natural gas as fossil fuels, even after diversifying energy sources, and relies on imports for almost all fossil fuel supply. Since the March 2011 earthquake disaster, particularly, Japan's dependence on fossil fuels has increased further due to a loss of nuclear power generation. In addition, Japan has covered its sharp increase in liquefied natural gas imports to make up for the nuclear power loss with purchases from Qatar, boosting its dependence on the Middle East for energy supply. This indicates the problem that Japan's energy supply structure has remained very vulnerable to turbulences in the international energy situation.

Second, the abovementioned international energy situation, which could shake Japan's energy supply stability, now includes various emerging problems and uncertainties. It is a great

matter that no optimism can be warranted for Japan. Particularly, international energy price hikes have greatly affected Japan. Crude oil price spikes and subsequent rises in Japanese LNG import prices have resulted in national wealth outflow and energy cost increases. The Middle East's destabilization, a factor behind crude oil price hikes, is a problem that Japan cannot ignore. "Arab Spring" democratic movements and the Iranian situation, though having stabilized somewhat, are still very uncertain and factors that Japan cannot overlook. There are also new international problems including a decline in Japan's presence due to the growing presence of China, India and other emerging countries, as well as rising East Asian geopolitical risks represented by Japan's growing tensions with China and South Korea.

Third, Japan has contended with the serious Fukushima nuclear crisis that has forced the government to take a new look at energy security. As noted above, Japan's energy security enhancement over the past 40 years, though covering various areas and factors, has focused on international fronts to address energy import disruptions. But the Fukushima Daiichi Nuclear Power Plant disaster represented an unprecedented accident in Japan's domestic energy supply chain, shaking the base of the nation's stable energy supply. In this sense, Japan is required to make new efforts to comprehensively enhance its domestic energy supply security in addition to security energy supply from international markets.

Japan made national efforts to overcome the first oil crisis as a great hardship. The fruits of the efforts over the 40 years since then include Japan's strengths and sources of competitiveness, such as energy efficiency improvements. We now live on the base of and benefit from the fruits of past efforts. But Japan has no choice but to face challenges that are more difficult than the oil crisis in a sense. Whether Japan can survive the difficult international environment and intensifying international competition and whether it can maintain its status as what the third "Armitage report" calls a "tier-one country" may depend on its overcoming of the present energy crisis. We cannot be optimistic about future developments in this regard. But we should not be too pessimistic. As noted by leading energy expert Dr. Daniel Yergin during his visit to Japan in October 2012, Japan now must unite the wisdom of its people to overcome the present danger just as the case of the previous oil crisis in the 1970s. I would like to expect Japan to produce new strengths and sources of competitiveness for the coming 30 or 40 years in the process of overcoming the present hardship.

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