

## **Japan-Saudi Arabia Energy Cooperation**

Ken Koyama, PhD

Director

Strategy and Industry Research Unit

Institute of Energy Economics, Japan

In Japan, oil still accounts for the largest share (at 46% in FY 2009 on a preliminary data basis) in its primary energy supply, although the share has gradually decreased. Therefore, it is of great significance for Japan to secure stable oil supply. In this sense, Japan may have to give top priority in energy security policy and its diplomacy to the enhancement of the bilateral relation with Saudi Arabia that is the largest crude oil supplier to Japan. (In FY 2009, Japan's crude oil imports from Saudi Arabia totaled 62.39 million kiloliters accounting for 29% of its total crude oil imports.) For Saudi Arabia, the bilateral relation with Japan is important as its crude oil exports to Japan accounted for 16% of its total crude exports in 2008. Despite fast growth in China and other emerging countries and Japan's declining oil demand, the relation with Japan occupy a key position in Saudi Arabia in that the oil kingdom has maintained stable relations with Japan over a long time to the present and has been interested in Japan's historical development and present situation regarding industry and technology development and Japan's cultural and societal uniqueness.

Japan and Saudi Arabia have made various efforts to maintain and enhance their cooperative relations. As part of such efforts, the two countries announced their new cooperation deal regarding an oil reserve base in Okinawa on December 14. The announcement said (1) that Japan's Agency for Natural Resources and Energy agreed to allow an oil reserve tank in Okinawa to be leased to state-run oil company Saudi Aramco, (2) that the Japan Oil, Gas and Metals National Corporation, known as JOGMEC, as the actual counterpart of the deal for Japanese side, signed the deal with Saudi Aramco, (3) that the leasing period will be three years from December 2010, (4) that JOGMEC will lease a 600,000-kiloliter oil reserve tank in which Saudi Aramco will store its own crude oil, and (5) oil reserves in the tank will be provided preferentially to Japan in the case of emergency. In February 2011, the first oil tanker from Saudi Arabia for the deal will arrive at the tank to launch the reserves.

The deal stemmed from a Japanese proposal made in April 2007. After negotiations based on the proposal, the two sides announced a broad agreement in June 2010. The December announcement of the final agreement came after they negotiated details. Negotiations toward cooperation between the two countries have thus borne fruit. The deal features key points for both sides. For Saudi Arabia, its access to the oil reserve facility in the geographically important point of Okinawa may be significant. Since Okinawa is located at the center of the East Asian market that includes China, South Korea and Taiwan as well as Japan, the access to the oil reserve base there is

also significant for Saudi Arabia, which is required to make flexible, timely responses to market conditions that sometimes change rapidly., Saudi Arabia has utilized a Caribbean oil reserve facility for the U.S. market for the same purpose<sup>1</sup>. This time, it has secured an oil reserve/sale facility for the East Asian market.

For Japan, the deal can be a specific oil supply stabilization measure, allowing it to secure preferential oil supply in an emergency while leasing the oil reserve facility to Saudi Arabia on a commercial basis. The deal is also strategically important for Japan in that Japan has realized a specific cooperation program with Saudi Arabia, as the most important oil producing country, at a time when Japan's oil market or demand is expected to structurally shrink over a long time and the Japanese market's relative importance is predicted to decline in line with substantial oil demand growth in neighboring East Asian markets including China. The deal is strategically important for Saudi Arabia as well in a sense because it represents a solution to how it should position Japan's importance. In this sense, the deal amounts to a case where the two countries have successfully built a win-win relationship under a dramatically changing market environment.

In the future, the two countries will have to deepen and develop their win-win relationship under a new situation beyond the latest deal. Basically, Japan as an oil consuming country has had interdependent relations with Saudi Arabia as an oil supplier. Based on such relations, the two countries may have to take into account a "new situation" as explained below. While the Japanese economy has struggled to end a long slump with its presence in the world economy declining, Japan is required to implement a growth strategy to invigorate its economy. Japan should unite its industrial and technological capabilities to achieve economic growth. Particularly, Japan must positively expand its economic and business activities into rapidly growing emerging countries and oil producing nations such as Saudi Arabia.

A key challenge for Saudi Arabia is to improve and diversify its energy supply structure while satisfying rapidly growing domestic energy demand. As noted in my previous report, "A Japanese Perspective on the International Energy Landscape (3)" (July 15, 2010), growing energy demand is feared to affect future oil exports, both in terms of volume and revenue, that are vitally important for the Saudi economy. Saudi Arabia has become increasingly interested in improving its energy supply/demand structure, while watching carefully ongoing nuclear power generation and renewable energy programs in neighboring Middle Eastern countries. Already, Saudi Arabia has been developing domestic research and support programs for promoting energy conservation, nuclear power generation and renewable energies. It has activated public and informal moves to enhance cooperation with foreign countries, expert organizations and businesses that have advanced technologies, knowledge and know-how in these energy areas.

As a matter of fact, Japan is one of the world's top runners in improving the energy supply/demand structure. Saudi Arabia has fully recognized this point. Therefore, energy supply/demand structure improvement is an ideal area where Japan and Saudi Arabia should build

---

<sup>1</sup> At present, however, Saudi Aramco has no leasing deal for oil reserve facility in the Caribbean Sea.

their win-win relationship under the “new situation”.

However, international competition has intensified for business regarding energy supply/demand structure improvement and the development of clean energies such as nuclear and renewable energies. In addition to Europe and the United States as forerunners, such countries as Russia, China and South Korea have taken advantage of their government-sponsored business models and their respective strengths to join the competition. Everyone knows that no optimism can be warranted for Japan’s leadership in these business areas. Japan’s government, private businesses and expert organizations should find a breakthrough by utilizing their respective strengths and cooperating closely with each other to take a comprehensive approach under an appropriate role-sharing.

Contact: report@tky.ieej.or.jp

The back issues are available at the following URL.

<http://eneken.ieej.or.jp/en/whatsnew/JPOIEL.html>