CHAPTER IV

JAPAN

More than two years after the oil crisis, Prime Minister of Japan told the Japanese Diet that he regarded the question of Arab oil as being indivisible from the Arab-Israeli conflict; a solution to the oil problem must be preceded by a solution to the problem of Jerusalem. Miki thus confirmed the diplomatic rift that had been developing between Japan and the United States ever since the oil crisis of October 1973 and other disputes in the Middle East. Miki's declaration brought Japan closer to France and her European neighbours than to the United States, which was trying to separate oil from other Middle Eastern problems.

Oil is considered to be the backbone of Japanese economic miracle. By 1973, the gross national product of Japan had grown to be the third largest in the world, behind only to the United States and the Soviet Union. Two decades earlier, in 1945, the Japanese industry and economy had been left in shambles by the war. The rapid industrial growth of post-War Japan had included rapid expansion of heavy industries like steel, shipbuilding, petro-chemicals, and machinery. These industries, in turn, relied heavily upon imported oil, whose cost had been on decline in Japan throughout the nineteen-

sixties relative to other forms of energy, including coal and hydroelectricity.  

Far its industrial growth Japan started relying heavily on oil 70 per cent of its total energy requirements after abandoning coal and exhausting the possibilities of developing hydroelectricity any further. Unlike the United States, whose oil consumption for private uses exceeded 40 per cent of its total oil consumption, three-quarters of the oil consumption in Japan went to industrial uses. Lacking domestic sources, by 1973 Japan had come to import over 99 per cent of the crude oil it consumed. On the eve of the oil crisis, Japan's imports totaled about 4.5 million barrels a day. About 40 percent of these came from Arab oil exporters.

In October 1973, when Arab oil exporters put a 25 per cent reduction of crude-oil exports, and withheld over 5 million barrels of crude oil per day from the international market an amount bigger than the total imports of Japan for 1973. The Arab oil producers put Japan on the list of unfriendly countries. The result was panic over the possibility that a prolonged cut in supply of crude oil may destroy Japanese industry. At the time of


oil crisis, the Japanese economy was already suffering from double digit inflation. The oil crisis created feelings of uncertainty and helplessness among the Japanese public.

The ministry of International Trade and Industry (MITI) to which both consumers and industries turned for decisive leadership in the crisis, reacted with hesitation and panic. By the end of the crisis period, however, MITI had reestablished some of its regulatory power over Japanese industry. It also attempted investigative authority of the Fair Trade Commission (FTC) the Japanese bureaucracy, whose power was also increased by the energy crisis. When the actual shortage subsided in January 1974 both MITI and FTC emerged as most important power centre in Japanese politics. One way of examining Japan's behaviour during this period is to consider the factors that led to such concentration of power.  

MITI'S POLICY TOWARD THE OIL INDUSTRY

Before the Second World War the main energy sources of Japanese industry were coal and hydroelectric power, which were adequately available in Japan and from its newly acquired colony, Manchuria though industrial and private markets developed for oil

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and other petroleum products during third decade of this century, but the biggest users of petroleum products were imperial forces of Japan. In this period Japan was importing oil mainly from the United States and the Dutch East Indies.\(^5\)

After the Second World War, in the immediate years, Japan was not allowed to reconstruct its oil refineries which were razed to ashes during the War by Allied bombing. This policy of occupied forces was widely attributed to the fact that the oil section in Gen. Mac Arthur's headquarters was heavily staffed by the men on temporary leave from two US oil companies Jersey Standard and Mobil. This assumption got confirmed when the US based international oil giants began to prefer refineries closer to a major consumer or consumer market resulting which Mac Arthur's headquarters also changed its attitude in negotiations with Japanese oil-interest group. Thus in July 1949, general headquarters granted permission to Japanese government to reconstruct oil refineries. In the meantime 45 companies Exxon, Mobil, Shell and Getty positioned themselves as defacto oil firms in Japan whose refining and marketing interests were tied up to their crude oil firms in Japan whose refining and marketing interests were tied up to their crude oil interests elsewhere.

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\(^5\) Yutaka Kosai, n. 2, p.20.
Under the Allied occupation the Japanese Government was helpless to block or stop this economic colonialism.\textsuperscript{6}

In 1952, after regaining political independence, Japanese Government entrusted MITI with the industrial development of the country. MITI took over the task of industrial planning and resource allocation from Zaibatsu, a group of leading Japanese industries and financial institutions. In the decade of 1950 MITI concentrated on heavy industries like steel, petrochemicals, synthetic fiber and non-ferrous metals. The task of procuring sufficient quantity of oil at as low a price as possible confronted MITI with foreign oil subsidiaries. MITI's control over foreign exchange allotment enabled it put a check on foreign oil companies. MITI structured the oil industry in such a manner that independent Japanese oil interests should be at least 30 percent of the market share in both refining and wholesale marketing.\textsuperscript{7}

In mid-fifties MITI sanctioned licences to four Japanese firms for setting up oil refineries, until then totally dominated by subsidiaries of foreign oil companies. By 1962 the number of Japanese oil refineries rose to 7 and combined refining capacity to 45 per cent of total Japanese capacity. It

\textsuperscript{6} Vietor, n. 4, p.24, also see Leon Hallerman, \textit{Japanese Dependence on the World Economy}, (Princeton, 1967).

\textsuperscript{7} Yutaba, Matsumara, \textit{Japanese Economic Growth 1945-60}, (Tokyo, 1961), pp. 113-117.
was big blow to the interests of multinational oil giants In result MITI's concern over crude oil procurement was over but the goal of keeping prices of petroleum, products as low as possible for domestic industries remained unfulfilled.\(^8\)

The MITI was losing regulatory effect over its import licensing power as various imports restrictions were being eased in early sixties under tremendous pressure from foreign countries, particularly the United States. To cope with this MITI needed a new controlling tool and the government empowered it with Oil Act by which MITI could ration per units for the refining and sales.\(^9\)

The major thrust of MITI's oil policy in the decade of 1960 keep the prices of petroleum products low through competition among various oil companies - domestic as well as foreign subsidiaries. To achieve this goal MITI encouraged more and more companies to start refineries and gain wholesale oil business until 1965, however, MITI did not take this price competition for granted. In order to monitor the oil industry from within MITI tried to create its own protege which was to be created by merger of various small oil companies under its direction. Initially the response from oil companies for such a

\(^8\) Ibid.

\(^9\) Vietor, n. 4, p.205, Japanese dependence on oil for power plants was 71.1 per cent, p. 174.
merger was not encouraging however, in 1965 a new marketing firm, Kyoseki company, was formed. Kayoseki was to be operated separately from the refining businesses of the participant and each participant had the freedom to sell refined products to any customer, thus frustrating MITI's attempt to create a protege. 10

By the end of nineteen sixties there was an oil glut in the international market and crude oil was easily available. This situation encouraged various firms to enter the oil industry. These trading companies exerted pressure, through politicians, on MITI to grant more refinery licenses. Keeping in view various political considerations MITI issued licenses and new entrants swarmed to refining operation. Major international oil companies gladly extended technological cooperation to new refiners in Japan as it was a golden opportunity for them to exploit the captive market for their crude oil. 11

At the time of Arab oil embargo in 1973 there were sixteen Japanese and twelve foreign subsidiary firms in Japan's refining industry. The total crude oil cracking capacity of Japan, 4.7 million barrels per day in 1973, was divided almost equally among these two groups. Multinational oil companies were supplying over


11. For details see Yuan - Li Wa, Japan's Search for Oil, (Stanford, 1977).
80 per cent of Japan's crude oil requirements, the Arabian Oil Company, the only Japanese overseas producer of crude oil, shared only 9 per cent and remaining 11 per cent came from independent oil multinationals.\textsuperscript{12}

Although the Japanese dependence on Middle Eastern oil is greater than any other industrialised country, but general public opinion of Japan and Japanese diplomacy could not manifest direct concern over the happenings, tensions, and conflicts in the Middle East. This may be attributed to the fact that in post-War years Japan did not take much interest in international politics and concentrated on its economic development only.

Japan's first significant involvement in the Middle Eastern affairs was, perhaps, by an accident. After the Six-day War of 1967, the UN security Council was busy in search of a peace formula which would ease the tension on Arab Israel borders. As the President of the Security Council, Japanese permanent representative, Senjin Tsuruoka, had to participate in the proceedings of the Council Tsurouka, a law graduate, was deeply interested in the Arab-Israel problem and perceived the danger that in the absence

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of a peace formula another war may lead to a more serious super power confrontation and a threat to world peace. The Japanese permanent representative had also played an important role in drafting the famous US resolution 242 of, 1967.13

The outbreak of Arab-Israel war in October 1973 and subsequent oil embargo forced the Japanese people and government to face the issue more directly. This crisis shattered the premise upon which Japan's post-War relations were based. Perhaps because of the unpleasant results of Japanese defeat in Second World War the people and the government had a mass abhorrence about considering war and war-like politics, Japan thought that the economic matters should be kept separate from political matters. Japan was to concentrate on economic affairs, political affairs were left to the United States.

Too much dependence on the United States for its foreign relations caused panic among Japanese policy maker when OPEC classified Japan as unfriendly to the Arab cause. On embargo struck Japan as a "thunder ball from the blue sky" as described by the Japanese foreign office.14 At the time of energy crisis Japanese foreign Ministry was lacking any formal contacts with either MITI or Finance Ministry. The Foreign Ministry never cared

to feed information and interpret them for other economic ministries. Thus the Japanese foreign office was increasingly dependent upon the United States for information as well as for guidance. When the Japanese Government approached Henry Kissinger for advice, his advice was not to succumb to Arab countries. When the foreign ministry passed on this advice to other branches of the Government it only served to confirm a suspicion, already gaining ground among Japanese bureaucracy, business and political circles, of Kissinger-Israel conspiracy. According to one version of the conspiracy, the United States wanted to teach a good lesson to Japanese Yen which was threatening US dollar in international market, the suspicion was combined with the information that the US oil companies were diverting oil to the United States at the expense of Japan, these developments convinced Japanese policy makers to formulate its policy vis-a-vis the Middle Eastern crisis independently.

When the Arab oil exporters exempted the EEC countries from the embargo, on November 18, 1973, in exchange for a support to the Arab cause. This bargain convinced leading Japanese businessmen to convey their wish to the Government that they are in favour of endorsing Arab cause. The Tanaka government took a step in this direction

and Japanese Cabinet decided the policy of supporting Arab cause in the Middle Eastern dispute.\textsuperscript{17} This was the first open break with US foreign policy in the post-War diplomacy of Japan. But this tilt could not persuade Arabs to remove their restrictions on supplies to Japan. In a second stage efforts to have the oil embargo lifted the Prime Minister Tanaka sent his deputy, to Middle East as a special envoy. Miki visited eight oil producing Arab states in December 1973. Miki also visited other politically important countries -Egypt, Syria and Jordan as to obtain the goodwill of these states, specially Egypt, was also necessary for Japan to get the Arab restrictions lifted, the prime objective of Miki diplomacy. In Egypt Miki pledged US$ 227 million credit to widen and deepen the Suez Canal.\textsuperscript{18}

Japanese Deputy Prime MInister Miki succeeded in his mission, The supply restriction was lifted before Miki had left the Middle East.\textsuperscript{19}

Despite the Arab's lifting the oil embargo and promise to fulfill Japan's oil needs, the Japanese were skeptical about the supplies resuming with immediate effect as the oil multinationals controlled 80 per cent of oil distribution.\textsuperscript{20}

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20. Japan Times, 5, 12, January, 1974
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Once it has realised that closer political relations, without any string attached, with the Arab world are inevitable for Japanese industry and its overall economic development, Japan did not waste any time and sent a series of special envoys to "oil heavy weight" and "political heavy weight" Arab countries and Iran. The period between December 1973 to October 1974 Japanese "goodwill envoys" covered the entire region by visiting Saudi Arabia, Kuwait, UAE, Qatar, Algeria and Oman, major oil producers, and Syria, Egypt Jordan, Morocco and Sudan, all politically significant, and Iran, non-Arab but a Muslim major oil producing country. The purpose of these visits was to enhance politico-economic relations with the Arab world and offer economic and technical assistance to this industrially poor region including Iran. In this period Japan had promised a total amount of USD 563 as economic aid to Syria, Egypt, Sudan Jordan and Morocco. This way Japan laid the foundation of its political involvement in the Arab world.21

Commenting on the shift of Japanese policy towards Middle East noted Japanese weekly commented:

There is for sure justification for Japan to join in the demands for the return of Arab territory seized by Israel in the 1967 war. In our own experience, it was the basis for the reversion of Okinawa

and it is the ground on which Japan is seeking the return of the Northern territories from the Soviet Union.\textsuperscript{22}

In result of these exercises Japan could assure itself of easy flow of crude from the Middle East. But like other oil importing countries Japan also became increasingly concerned over the problem related to its balance of payment question and the "recycling" of petro dollars. In order to correct the balance of payment Japan persuaded its industries and technicians to export its goods and services to the technology poor Arab world and at the same time Japan borrowed petro-dollars either direct from Saudi Arabia, Kuwait and UAE or through American banks. This resulted, by third quarter of 1974, in registering Japan's balance of trade in surplus.\textsuperscript{23} Even this recovery from the oil shock did not desist Japan from differentiating its position from the United States by expressing lukewarm and cautious attitude towards the Kissinger sponsored Washington Conference and subsequently plan of International Energy Agency(IEA).

The United States was not quite happy with Japan's major shift in foreign policy. Commenting on the situation Kissinger said, "If the economic and political consequences of the energy

\textsuperscript{22} Japan Times Weekly, 1 December, 1973.

\textsuperscript{23} Ministry of International Trade and Industry, Annual Report 1975.
crisis are severe for the United States, the impact on other countries more dependent on imported oil is correspondingly greater," Kissinger further said that, "Our allies can not aspire to reduce their dependence significantly by their own efforts." To this the Japanese Prime Minister, Makuei Tanaka categorically replied, "Japan could not risk being simply an appendage to American diplomacy."

In the case of Japan it is really difficult to say whether the oil embargo was a political problem or an economic crisis. On the one hand there was tremendous pressure from America to cooperate with it in its efforts to combat Arab oil embargo. The United States was exerting pressure on Japan to cooperate particularly in making International Energy Agency, Kissinger's brain child, a major bargaining tool vis-a-vis the oil producers and oil consumers. Kissinger appealed to the consumers and said, "The beginning of wisdom for an oil strategy should have been solidarity among all major consumer nations," and warned "Our allies can not aspire to reduce their dependence significantly by their own efforts. We can - and in so doing we are in a position to affect the condition of all nations psychologically as well as materially." 

26. Ibid., p.874:
27. Ibid., p.55.
Japan never denied any cooperation among the consumers but at the same time they never wanted a confrontation with oil producers as their dependence on Arab oil was much greater than the United States. President Richard Nixon appreciated Japanese dilemma, "Japan wanted consumer's cooperation but at the same time urged a consumer-producer conference." wrote Nixon.  

Besides, in view of its own diplomatic fence-mending attempts with the Middle Eastern and the other OPEC nations, Japan had grown increasingly uneasy over a confrontation between the IEA and OPEC. If Japan were to underwrite as it would be expected to do, the financial risks of the IEA, along with Germany and the United States, the Japanese Government and industry were privately saying that their peculiar situation, including other difficulties with energy conservation, ought also to be taken into consideration by the United States.  

Earlier, the Oil Group of the Overall Energy Investigation Council of Japan, whose members had been selected by MITI, published an interim report suggesting the general directions that the Japanese government might follow in the immediate future in order to assure Japan of procuring her increasing needs for oil abroad. Unlike earlier reports this one acknowledge the  

pressure exerted by the major international oil companies in allocating crude oil among various consuming countries, and it recommended that Japan solicit their assistance in obtaining crude oil for the country. Gone was the thought that Japan could reduce her reliance on the international oil majors for her supply of crude oil.30

But more importantly the report recommended involvement of the Japanese Government in concluding direct deals with the oil-producing countries for the purchase of oil and for exploration concessions. It also strongly suggested a need for Japan to integrate her oil firms backward to the crude-oil production stage abroad. MITI did not articulate its rationale for the policy beyond its own intuitive hunch that vertical integration of the Japanese oil firms via the regrouping of existing but fragmented oil firms might enhance Japan's chances for making direct deals with oil producing countries. It had not yet occurred to MITI that Japan's direct access to crude-oil explorations abroad might also improve Japan's bargaining position via-a-vis foreign oil majors. Accordingly, MITI's plan for reorganising the oil industry in Japan was to link the major foreign oil firms interests with those of Japanese oil firms.

throughout the vertical chain. Three Japanese oil firms, which had been scrambling for such tie-ups in competition, with Japanese trading firms, had already undertaken joint-exploration projects for crude oil and natural gas with foreign oil firms. In the spring of 1975, Mitsubishi-Shell, Idemitsu-Amco, and Teikoku-Exxon had begun exploration of the continental shelves around Japan for oil and natural gas.31

Outside Japan, the Oil Development Public Corporation of Japan, a brainchild of MITI had, for some time prior to the fall of 1973, subsidised Japanese banks, trading firms, and steel firms to explore for crude oil. From 1974 to 1975, it also stepped up its financial and technical assistance to Japanese private firm/groups for overseas exploration of oil and natural gas. By the spring of 1975, about fifty Japanese projects for crude oil and natural gas were operating abroad, so once the trading firms and banks that were active in these overseas projects already owned their own refining subsidiaries in Japan, an oil strike by any of them would form a nucleus around which MITI might regroup the fragmented oil industry.32

In short, the oil crisis of 1973 and its aftermath jolted Japan into assuming an independent diplomatic posture. The

31. For details see Yuan -Li WU, n.11 Chapter iii.
32. Vietor, n.4, p. 159
politics and economics of oil began to be mixed internally and externally by the Japanese Government. Painfully aware of its dependence on the Middle East for about 90 per cent of its demand of oil which made Japan realise that peace and stability in the Middle East is crucial for its economic development and survival as a big industrialised country. Japan also intended to cooperate as much as possible in settling the Arab-Israel conflict through the United Nations. Beside, the international energy situation is changing and it is considered essential for Japan to strengthen its relationship and cooperation with the Arab world. And with the increasing politico-diplomatic involvement of Japan in the Middle East, Japan may demand equal partnership with the United States in defining common political goals and diplomatic policies in the region.