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The Battle of Azadegan: Japan, Oil and Independence

By Michael Penn

After the election of moderate President Khatami in Iran in 1997, and the lack of any change in Washington's hardline policies toward that country in the months and years that followed, Tokyo began to grow more and more uncomfortable with the American line. As a result, by about 1999 the Japanese government began to seek closer relations with Teheran. This was symbolized by Foreign Minister Komura Masahiko's visit to Iran in August 1999, and the resumption of yen loans. [1]

In the following months and years, Japanese-Iranian relations began to accelerate quickly. When in February 2000 the Japanese-owned Arabian Oil Co. lost its long-term concession in Saudi Arabia's Khafji oil field, Japanese officials in MITI and elsewhere began to consider Iran as a suitable alternative. In November 2000, President Khatami visited Tokyo and announced that his government would give Japan preference in negotiations over the development of the massive Azadegan oil field, near the Iraqi border. MITI Minister Hiranuma Takeo was enthusiastic about this project, and pledged to work closely with Iranian Oil Minister Bijan Zanganeh to reach a deal quickly. [2] In the following month the Japan National Oil Corporation signaled its agreement to participate. [3]

True to his word, Hiranuma visited Teheran with an 80-man delegation of Japanese economic leaders in July 2001. Japan-Iran relations were on the fast track, as MITI as well as business leaders were eager to get involved in the Iran market. [4] Teheran was also pleased. As for the Azadegan mega-project, a December 2001 goalpost was set up for the conclusion of the negotiations and the signing of the agreement. [5]

1. Hiranuma and Khatami

There were some pressures from Washington, but Japan seemed prepared to weather them. Commented one Japanese official in August 2001: "We are not sure if the US administration will apply the Iran-Libya Sanctions Act (ILSA) to Japan's development of the Azadegan oil field. But we remain opposed to taking a sanctions policy toward Iran. We are pursuing favorable changes in Iran through dialogue and contacts. If the US punishes Japanese firms under ILSA, Japan may consider filing a complaint with the World Trade Organization against the US measures." [6]

But then came September 11.

Suddenly, Tokyo began to put much greater emphasis on the US-Japan security alliance, and became much more fearful of doing anything that might annoy Washington at that volatile time. Matters became even worse when President Bush, in his January 2002 State of the Union speech, identified Iran as one of the countries that support terrorism and included it in his "Axis of Evil." The Japanese-Iranian negotiations continued, but at a very casual pace. Tokyo was now in no hurry to close the deal. [7] Many months passed …

Finally, by June 2003, the business negotiations were more-or-less complete, and all that needed to be done was to sign the paper. Tokyo had kept Washington informed of all this, and so just before the deal was to be signed, the Bush Administration launched a diplomatic offensive on Tokyo. National Security Advisor Condoleeza Rice, Secretary of State Colin Powell, and Deputy Secretary of State Richard Armitage made phone calls all over Tokyo with a blunt message: Signing this deal with Teheran could damage the US-Japan alliance. [8] They brought up the nuclear issue in Iran as a main concern, as well as making arguments about Iran's support for terrorism and its relationship with North Korea. [9]

Japan was inclined to continue delaying, but in early July, Foreign Minister Kamal Kharrazi released a statement that if Japan didn't act, then Iran would begin negotiating with countries like China, India, or Russia on the Azadegan deal. In this stark manner, Teheran reminded Tokyo that they too had other options. At the same time, however, Teheran said that they still preferred Japan to other candidates, and that they would not give up on the negotiations. [10]

2. Azadegan oil site

The United States and its allies, meanwhile, had invaded Iraq in March, and at about this time US Neocons had sugarplums dancing in their heads about what would happen there. Although the information is vague and unsubstantiated, it seems that, at about this time, Washington dangled the possibility that Japan might share in the Iraqi oil bonanza if they gave up the Iran deal. [11] Tokyo apparently didn't bite, but neither did they close the deal with Teheran.

In August 2003, Iranian Foreign Minister Kharrazi visited Tokyo and urged Japanese leaders to defy the US pressure. In return, the Koizumi Administration urged Iran to clear up its dispute with the IAEA, and to resolve the doubts over the country's nuclear program. [12]

All along, one of the key men pushing for Japan to move ahead with the Azadegan deal was MITI/METI Minister Hiranuma. However, in a September cabinet reshuffle Hiranuma was replaced by Nakagawa Shoichi, a rightwing nationalist close to the farm lobby. Nakagawa was much more skeptical about Iran than Hiranuma had been. Upon taking office, he told an interviewer: "For us, Iran is on the same level as North Korea. We shouldn't be lost in trying to find an oil field… In light of our national interest, both issues [oil and nuclear proliferation] should be weighed equally." [13] With the departure of Hiranuma, the Azadegan deal lost a key ally on the Japan side.

Finally fed up with Japan's delays, Iran set a December 15 deadline. If Tokyo didn't clarify its intentions by that point, Teheran would begin negotiations with other countries. [14] Japan let the deadline pass.

Many important LDP leaders were annoyed at the Koizumi-Nakagawa policies that allowed the relationship with Iran to sour. They felt that Koizumi's deference to US sensitivities was excessive. Former Prime Minister Hashimoto Ryutaro (himself a former MITI Minister) went public with his dissatisfaction: "Currently, Japan's ties with other nations other than the US are like dotted lines. We should at least try to make those dotted lines into solid ones as well… It is very regrettable that the relationship with Iran that Japan had long worked so hard to build was completely damaged by the current administration." [15]

Apparently criticisms such as Hashimoto's had some effect. Also, in early 2004 Japan sent its SDF to Samawa in accordance with Washington's strong wishes, and this may have made Tokyo feel more secure about defying the Bush Administration on Iran. Additionally, Iran's negotiations with the IAEA seemed to be going better.

So, on February 18, 2004, Japan finally went ahead with the Azadegan deal and signed the agreement. [16] From the Japanese side, the Inpex Corporation took the leading role. A State Department spokesman criticized the deal, but oddly, the hardline State Department official John Bolton, who appears to have been in charge of this issue in Washington, seemed to take it rather philosophically. [17]

This may have simply reflected the fact that Washington was resigned to the eventuality of the deal, and that, in any case, US-Japan relations were very strong at that time. However, the following month a House Democrat, Brad Sherman, made the following outburst during a hearing: "An administration desperate for re-election will take 550 soldiers from Japan, which provide the veneer of international support and credibility for our relations in Iraq, which is the preoccupation of the electorate, and give the green light to $2.8 billion going from Japan to Iran." Bolton's response was, "Absolutely not true." [18]

It remains unclear if Congressman Sherman had any hard information to support his claim that Washington acknowledged the Iran deal as a clear quid pro quo over Iraq, but certainly the SDF mission had some role in muting US criticism.

Even though the Bush Administration didn't push back very hard, some commentators did attack the deal. In Japan, the most vocal of these was Robyn Lim, who argued that Tokyo was making a mistake that could seriously damage the US-Japan alliance. Her conclusion: "Japan cannot allow its oil interests in Iran to trump its vital interests in the US alliance and in non-proliferation." [19]

Even now that the Azadegan deal is signed, its future may still be in doubt. In August 2004, Washington prodded Japan once again to cancel the deal and pursue oil interests in Libya instead. Again, Tokyo didn't bite. [20]

However, the balance of forces that supported the February 2004 deal is now weakening. One of Japan's main arguments all along was that engagement with Teheran would help moderate forces make positive changes in Iran. However, the election of hardline President Mahmoud Ahmadinejad in June has seriously damaged that line of argument. Related to this, the new political flare-up over Iran's nuclear program is also bad news for Japan-Iran relations. Both of these events together will put Tokyo's policy under serious strain.

At the same time, some of the Azadegan deal's key political allies are disappearing. Hashimoto has just announced his retirement from politics. Hiranuma was a foe of postal reform, and has effectively been pushed out of the LDP for the time being. This doesn't bode well for the future of the deal.

However, the Ahmadinejad Administration has one more card to play: China. It appears that Teheran is suggesting, cleverly, that if Japan goes cold on the Azadegan deal, then China will be happy to step in. This threat has already shaken up some Japanese business leaders, in part because it is quite credible. Indeed, diplomatic and trade ties between Iran and China have been accelerating in recent months. There is a distinct fear that China may become the ultimate beneficiary of Japan's long efforts in Azadegan. [21] China, which has already signed a number of energy deals with Iran, will not respond to U.S. pressure so easily, and in the long run that may make them a more attractive business partner for Teheran. If the Japan-Iran deal is to be saved, then Tokyo needs to show that it is still in the game.

The reflexively pro-American Japanese Foreign Ministry is not unduly concerned, but for anti-China rightwingers like METI Minister Nakagawa Shoichi, that may be just the right pitch.

Notes

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[5] Hisane Masaki, "Crucial Days of Negotiations Lie Ahead for 'Oil Diplomacy'," Japan Times, August 18, 2001.
[6] Ibid.
[7] Hisane Misaki, "No Hurry over Iran Oil Deal: Meeting Target Date Could Have Strained U.S. Relations," Japan Times, February 22, 2002.
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[20] Kyodo News, "Japan Nudged to Consider Libya Oil Deal: Senior U.S. Official Suggests Iran Development Plan Be Reconsidered," Japan Times, August 6, 2004.
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