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Japan Joins the Energy Race in Central Asia

By Hisane MASAKI

TOKYO - Resource-poor Japan is revving up its diplomatic drive to strengthen relations with the oil- and gas-rich countries of Central Asia amid stubbornly high oil prices.

Japan invited foreign ministers of Central Asian nations to talks early last month. And in a more significant move that highlights how passionately Japan is wooing the Central Asian nations, Prime Minister Junichiro Koizumi plans to visit the region in late August, becoming the first Japanese premier to do so.

He and the leaders of Kazakhstan and Uzbekistan, as well as possibly others in the region, are expected among other topics todiscuss economic cooperation, anti-terrorism measures and cultural and personnel exchanges.

Japan's energized diplomatic drive in Central Asia comes at a time when Tokyo is implementing its new energy strategy aimed at ensuring stable oil, gas and other resource supplies in the long term to feed the world's second-largest economy.

The Ministry of Economy, Trade and Industry released its new national energy strategy at the end of May. It calls for, among other things, strengthening ties with resource-rich countries, promoting nuclear energy, and securing energy resources abroad through the fostering of more powerful energy companies. The new strategy specifically calls for increasing the ratio of "Hinomaru oil," or oil developed and imported through domestic producers, from the current 15% to 40% by 2030.

Japan has also turned to a free-trade agreement as a foreign-policy tool to beef up ties with resource-rich countries. Japan will soon launch FTA negotiations with the six-nation Gulf Cooperation Council, for instance. Japan imports almost all of its crude oil, nearly 90% of which comes from the Middle East. The GCC groups Bahrain, Kuwait, Oman, Qatar, Saudi Arabia

and the United Arab Emirates. The grouping accounts for more than 70% of Japanese crude-oil imports. In the upcoming FTA negotiations with the GCC, Japan will seek a written pledge by the grouping to preferentially supply crude oil to Japan, even in emergencies such as war.

Japan's new diplomatic focus on Central Asia also comes at a time when the United States, Russia and China are all flexing their political muscles in the resource-rich but volatile region, competing in an attempt to secure energy. To ensure its energy security, Tokyo is desperate to diversify its hydrocarbon sources in order to reduce its heavy reliance on the Middle East for crude-oil imports. As such, an obvious choice for the country is to turn to the Central Asian and Caucasian nations.

Burgeoning Dialogue Framework

Japan began to turn its eyes to Central Asia soon after regional countries became independent with the 1991 demise of the Soviet Union.

In early June, Japanese Foreign Minister Taro Aso invited his counterparts from Central Asian countries for the second ministerial-level round of the "Central Asia Plus Japan" dialogue. They agreed to strengthen cooperation in fighting terrorism and ensuring the safety of regional oil supplies. Aso and his opposite numbers from Uzbekistan, Kyrgyzstan, Tajikistan and Kazakhstan, as well as Afghanistan as an observer, approved an action plan that also calls for joint efforts to combat drug-trafficking, fight poverty, promote human rights and boost trade in the region.

Tokyo aims to build roads and pipelines from Central Asia to the Indian Ocean via Afghanistan to carry oil and natural gas for import into Japan. That's why Tokyo invited Afghanistan to the talks. The action plan adopted there calls for enhanced cooperation, including Japan's support for road construction to ensure a smooth route from Central Asia to the Indian Ocean.

During his planned visit to Central Asia late next month, Koizumi is expected to call on regional countries to accelerate working-level talks to flesh out the Japanese idea of a new oil-and-gas route from Central Asia to the Indian Ocean via Afghanistan. The action plan adopted in June stipulates the Central Asian nations' support for Japan's bid for a permanent seat on the United Nations Security Council. Japan is also exploring the possible first summit of leaders between Japan and Central Asia under the framework of the Central Asia Plus Japan dialogue.

The dialogue, which also involves Turkmenistan, was launched at Tokyo's initiative in August 2004, when then foreign minister Yoriko Kawaguchi visited Uzbekistan, Kazakhstan, Tajikistan and Kyrgyzstan.

Japan's Forays in Central Asia

Among projects in the region, Japan's Itochu Oil Exploration and Inpex Corp have a 3.92% and 10% interest, respectively, in a production-sharing agreement for three fields in the southern Caspian Sea. The Azeri-Chirag-Guneshli fields are about 120 kilometers southeast of Baku, Azerbaijan. The Japanese government-backed Inpex also has an 8.33% interest in the Kashagan oilfield in Kazakhstan.

Itochu Oil Exploration and Inpex also participated in the consortium that built the Baku-Tbilisi-Ceyhan pipeline, with interests of 3.4% and 2.5%,

respectively. The Japanese government-affiliated Japan Bank for International Cooperation (JBIC) also signed a loan agreement of up to US$580 million for the link in early 2004. The BTC connects Azerbaijan's vast Caspian Sea oilfields to the Turkish Mediterranean port of Ceyhan via Tbilisi, Georgia. It has further been suggested that oil from Kazakhstan could also be transported through the pipe. The US strongly supported the project, seeing it as a way to loosen Russia's energy grip on the South Caucasus.

Oil and gas are not the only resources that whet Japan's appetite. Japan is also stepping up its drive to secure uranium abroad as global demand for nuclear power rises amid spikes in oil and gas prices and growing environmental concerns. Nuclear power plants generate much less carbon dioxide, the primary greenhouse gas widely blamed for global warming, than coal-fired facilities. Renewable energy sources such as wind and solar power generation are not available in sufficient amounts - or at affordable prices. Japan is already the world's third-largest nuclear-power nation in terms of the number of civilian nuclear plants in operation.

Uranium prices are climbing as energy-hungry China and India are stepping up construction of nuclear power plants to fuel their high-flying economies, while some industrialized countries, including the US and Britain, are moving to build new nuclear plants after many years of suspension following nuclear accidents at Three Mile Island in the US in 1979 and Chernobyl in Ukraine in 1986.

Meanwhile, the Japanese government, which attaches great importance to nuclear power as a key to ensuring national energy security, has also been considering increased assistance to help domestic firms in the increasingly intensifying global competition for fuel at nuclear power plants. Among those measures are financial aid and more investment-insurance coverage by government-affiliated organizations.

New Great Game

Japan's acceleration of dialogue is widely seen as reflecting a desire to play a greater geopolitical role, not only in Central Asia but also in Eurasia as a whole, while countering the growing influence of Russia and China in the region.

In a development that raised eyebrows in the United States, Japan's most important ally, China issued a joint statement with Russia and four Central Asian countries at a summit of the Shanghai Cooperation Organization a year ago calling for an early withdrawal of US forces from Central Asia.

This fits into Moscow's efforts to reduce -- or at least compete with -- US unilateralism. In particular, Russia is determined to maintain its hold over the former Soviet states, as can be seen through its support of Belarussian President Alexander Lukashenko and Uzbek President Islam Karimov despite Western criticism of their regimes. Meanwhile, Japan's ties with both Russia and China are far from easy over a variety of issues.

Japan has frequently locked horns with China over natural-gas reserves in the East China Sea. The Sino-Japanese rivalry over energy resources shows signs of spreading to the Middle East. In early 2004, Japan and Iran signed a $2 billion deal to develop Iran's massive Azadegan oilfield. But with international tensions rising over Tehran's nuclear program, there are growing concerns in Tokyo about how the nuclear crisis will play out. China won rights to the Yadavaran oilfield in Iran. Many analysts point out that

should Japan be forced to give up the Azadegan project as part of international pressure on Tehran, Beijing could step in to replace Tokyo.

China became a net importer of crude oil in 1993, and in 2003 overtook Japan as the world's second-largest oil consumer -- with the US secure in the top spot. China now depends on imports for more than 40% of its oil.

China is aggressively making inroads into Central Asia. China National Petroleum took over for $4.2 billion last year the Canada-based oil firm PetroKazakhstan, which operates solely in Kazakhstan. China and Kazakhstan also inaugurated a 1,000-kilometer oil pipeline in December to send oil to western China, the first major export pipeline from the landlocked Central Asian republic that does not cross Russia. Eventually another pipeline will link up with this one from the Caspian region in western Kazakhstan, where the huge new Kashagan oilfield is being developed.

Meanwhile, Japan has reviewed and overhauled its ODA (overseas development assistance) policy recently in an attempt to make financial assistance a more effective foreign-policy tool in the pursuit of its strategic interests.

Japan will have a difficult time securing the necessary energy resources from Central Asia. The country lacks the sheer military force that the US, Russia and China can all bring to influence events in the region. But the cash reserves that Tokyo can offer provide the country with substantial sway, and Japan's policy of pushing dialogue is likely to afford it the means of tapping oil and gas reserves.

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