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RESOLVED

Japan Should Maintain Investments in Russian Oil and Gas Projects

FROM THE EDITOR

Russia's invasion of Ukraine in February 2022 was met with international condemnation as countries, led by the G7, began imposing sanctions against Russia. In March, the United States **announced** that it would prohibit the import of Russian oil, gas, and coal, as well as new investments in Russia's energy sector, and the European Union is now following suit with its own **sanctions package**. While Japan has joined the international sanctions regime and been vocal in its opposition to the war, it has yet to divest from **joint oil and gas projects** in the Russian island of Sakhalin, just north of Hokkaido.

In the 27th issue of the *Debating Japan* newsletter series, the CSIS Japan Chair invited Taisuke Abiru, senior research fellow at the Sasakawa Peace Foundation, and Wrenn Yennie Lindgren, senior research fellow at the Norwegian Institute of International Affairs, to assess Japan's investments in Russian oil and gas and whether it should fully divest from Russian energy.

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YES

The Kishida administration of Japan, along with other G7 countries, has imposed unprecedented levels of **economic sanctions against Russia** since February 24, 2022 when Russia launched a military invasion of Ukraine. In response to this action, the Putin administration of Russia included Japan in the list of unfriendly countries and announced the suspension of bilateral peace treaty negotiations, which successive Japanese governments had worked hard on.

Given that the Abe administration only imposed symbolic economic sanctions against Russia in the Ukraine crisis of 2014, it is fair to say that the decision of the Kishida administration this time is a major shift in Japan's long-standing policy toward Russia. In my view, there were two major reasons behind this. First, the magnitude of the seriousness of what happened in Ukraine this time was totally different from that of 2014. Moreover, the peace treaty negotiations had already been stalled since the end of the Abe administration. Therefore, Japanese Prime Minister Fumio Kishida felt it easier than former prime minister Shinzo Abe to make this decision in favor of cooperation with G7 countries.

There are, nevertheless, a few areas of cooperation with Russia that the Japanese government still intends to maintain as long as possible. One of those is energy. Japanese companies and organizations participated in both of the two major energy projects off the Russian island of Sakhalin, Sakhalin-1 and Sakhalin-2, and one huge energy project in the Arctic region, the Arctic liquified natural gas (LNG) 2 project.

On February 28, just four days after Russia's military invasion of Ukraine began, British oil giant BP announced its intention to exit its 19.75 percent shareholding in Russian state-owned oil company Rosneft. Following this announcement, Dutch-UK Shell announced its intention to pull out of the Sakhalin-2 project, and U.S. Exxon announced it would pull out from the Sakhalin-1 project.

The Japanese government has introduced a ban on new investment in Russia, including the energy sector, and also clarified its policy to reduce its energy dependence on Russia. But it still expressed its intention to continue to maintain its existing energy assets in Russia. The Japanese government's stance has not changed even after the G7 summit on May 8 issued a **statement** that member countries of G7 were gradually reducing their energy dependence on Russia. "We will take steps to phase out (Russian oil imports) in a manner that minimizes adverse effects on people's lives and business activities. But we plan to keep our interests (in the two Sakhalin LNG projects) unchanged," Prime Minister Kishida **told reporters** following a virtual meeting of G7 leaders.

I support the government's position on maintaining energy interests in Russia, Sakhalin-1 and Sakhalin-2 in particular. There are two main reasons. First, Japan's energy security environment is considerably more vulnerable compared with that of other G7 countries. Japan's primary **energy self-sufficiency rate** accounts for 11 percent, which is much lower than that of any other G7 country (United States: 106 percent; Canada: 179 percent; United Kingdom: 75 percent; France: 55 percent;

Germany: 35 percent). Therefore, withdrawal from energy projects in Russia would be more costly to Japan itself than it is to Russia.

Regarding crude oil, Japan's dependence on Russia accounts for only 3.6 percent, but Japan imports about 90 percent of it from the Middle East, making Russia the largest import destination outside of that region. In that sense, the significance of Sakhalin-1 in terms of Japan's energy security is not small.

Surrounded by the sea on all sides, Japan imports gas resources by LNG. LNG is critical, providing for 36 percent of the country's electricity in 2021. Compared to crude oil, procurement sources of LNG are more diversified, and its dependence on the Middle East is about 20 percent. Japan's dependence on Russia for LNG imports accounts for **8.8 percent**. In addition, **80 to 90 percent** of Japan's LNG procurement comes from long-term contracts. The amount of Japan's LNG imports is expected to remain secure so long as Japan maintains its investment in Sakhalin-2. However, if Japan has to buy LNG in the spot market, procurement costs could increase significantly. In the case that there is no LNG supply from Russia, it could be difficult for Japan to secure a sufficient amount of LNG.

The second reason is that even if Japan relinquishes its interests in Sakhalin-1 and Sakhalin-2 as part of economic sanctions against Russia, it is highly likely that countries that have not imposed economic sanctions against Russia, such as China and India, will acquire those interests. In fact, it is reported that **Chinese** and **Indian** companies are reaching out to acquire interests in Sakhalin-1 and Sakhalin-2. If that happens, the economic damage for Russia would be quite limited. For the two reasons outlined above, Japan should maintain investments in Russian oil and gas projects.

DR. WRENN YENNIE LINDGREN

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NO

Russian president Vladimir Putin's violent attack on Ukraine in late February immediately sent a number of shocks throughout the international system, not least through the global energy markets, where Russia is a **major supplier**.

Western countries responded swiftly with plans to decouple from the Russian market, **proposing alternative avenues** for energy security such as the diversification of supplies in the short term and heavier dependence on renewable sources in the long term.

Japan **quickly condemned** Russia's unilateral aggression and aligned with the Western sanctions regime on a number of issues (including export controls, financial measures, and visa restrictions). However, when it came to energy, Tokyo initially chose not to follow suit, citing both concerns about rising prices affecting Japanese livelihoods and **geopolitical risks** associated with China taking advantage of the market. As an energy-hungry yet resource-poor island nation that depends on imports to meet its energy needs, Japan finds itself in a **significant dilemma**.

It was not until nearly two and a half months into the war that Prime Minister Kishida, in alignment with G7 allies, finally announced Japan's **intention** to gradually phase out Russian coal and oil imports, albeit half-heartedly, as Tokyo remained committed to supporting two ongoing joint liquefied natural gas (LNG) projects in Sakhalin.

Japan's only partial pivot away from the Russian energy market is problematic for a number of reasons core to Japanese interests, including in terms of public economics, principles, and politics.

First, for economic reasons, Japan should divest from Russian energy. Although Russia is the world's third-biggest producer of oil (after the United States and Saudi Arabia) and the largest exporter of gas, it only accounts for **3.6 percent of crude and 8.8 percent of LNG imports** in Japan. Yet, there has been little action to decouple from Russian energy sources despite Japan's relatively minor dependence, compared to European countries, for example. In the short term, replacing Russian sources will require some strategic thinking that is already underway. Japan and the European Union are **committed to** ensuring each other's security of LNG supply, and the possibility for **cooperation with Quad allies**, such as Australia, is also in progress. It is in Japan's interest to divert funds destined for precarious Russian projects toward bolstering and diversifying its energy base. Significant long-term gain should be prioritized over minor short-term pain.

Second, decoupling from the Russian market can coincide with heightened incentives to phase in renewables and diversify Japan's energy supply, as it has in the European context. The European Union, heavily reliant on Russian imports, **has committed to cutting 90 percent of Russian oil imports** by the end of 2022 and has rolled out plans to upgrade its **Green Deal climate policy** to meet energy needs. Japan should do the same. The maximum introduction of renewable energy is a top priority in **Japan's strategic energy plan** and underpins national interest. Tokyo has already set a

target for **50 percent renewable energy dependency by 2030**, and is well-positioned to push for speeding up the green energy transition both domestically and internationally. Moreover, in the long term, investing in human resources, infrastructure, technology, and research and development for innovation in renewable energy sources would both increase Japan's energy independence and be more **economically efficient**.

Third, for principle and moral reasons, Japan should abjure from Russian energy investments. In the most recent edition of the Kantei's "**Japan Stands with Ukraine**" document, the rhetoric has become more pointed. Japan "vehemently condemns" Russian aggression, which is "a grave breach of international humanitarian law and war crimes" for which Russia needs to be "strictly held accountable." It is a blatant contradiction to state that Japan is opposed to Russia's violent military action and heinous war crimes and then cooperate with state-owned enterprises on energy projects. As a nation that claims to pride itself on its "**values-oriented foreign policy**" and its allegiance to "**the free and open international order**," Japan should fully condemn Russia's unilateral attack on Ukraine. If Japan is committed to holding Russia accountable with economic and political pressure, then on principled grounds, it should fully abnegate any role in Russian energy projects. Principles matter not only for moral and ethical reasons but also because they can translate into national identity and prestige on the world stage.

Fourth, for political reasons, both domestic and international, Japan should disengage from Russian energy investments. The **dovish** era of **Abe-Putin diplomacy** is over and with little results to show for years of hyper engagement toward signing a peace treaty and resolving territorial disputes. Now, in light of the developments in Ukraine, such diplomatic rapprochement is simply **out of sight** and likely to remain so in the near future. As such, Tokyo needs to refocus its **foreign policy repertoire** toward Russia by aligning with like-minded countries. This is also what the Japanese public wants, with **roughly 86 percent** of citizens favoring sanctions and a firm stance against Moscow. Specifically, there is strong **public support for economic sanctions (73.7 percent)**, even at the risk of impacting the Japanese economy and livelihood. Maintaining investments in Russian energy projects while simultaneously **expressing commitment to "the free and open global commerce of oil and natural gas amongst friendly nations"** is contradictory and detrimental to Japan's credibility both domestically and as a diplomatic actor in the international community.

There is no doubt that Russia's invasion of Ukraine will have lasting effects on the world order, including the ever-shifting chessboard of the global energy market. For the reasons outlined above, it is imperative that Tokyo relinquishes its investments in Russian oil and gas projects. It is not only the right thing to do; it is in Japan's national interest.

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