



GCC / Saudi Arabia's Evolving Relationship with Japan on Energy Security

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Much of the stability of Japan's national energy supplies depends on continuous oil trading between Japan and the Gulf States. According to the Ministry of Economy, Trade and Industry (METI) and the Agency for Natural Resources and Energy, supplies from Gulf Cooperation Council (GCC) member countries reached nearly 98% of total Japanese oil imports in July 2022, amounting to 79.17 million barrels. Arab crude oil imports are thus more important than ever in meeting Japan's energy needs. Moreover, the role of the GCC countries has been amplified further by Japan's decision in July 2022 to stop importing Russian oil in response to the Russia-Ukraine Conflict.

The UAE is currently the main supplier to Japan at 33.99 million barrels, providing 41.9% of total imports. This is followed by Saudi Arabia at 28.47 million barrels (35.1%), Qatar at 7.34 million barrels (9.1%) and Kuwait at 6.59 million barrels (8.1%). Bahrain has supplied 1.32 million barrels (1.6%) while 998,782 barrels (1.2%) were received from Oman. Japan has also imported



440,000 barrels (0.5 percent) from the Khafji oil field in the Neutral Zone belonging to Kuwait and Saudi Arabia. The remaining imports came from Ecuador (1.8%), Vietnam and Thailand (0.4%) and Oceania (0.1%). These figures represent the amount of oil that directly entered refineries, oil terminals and oil depots in Japanese ports in July 2022.

Looking at Japan's future energy policy, three core issues of importance stand out: maritime security and the protection of shipping lanes, the weakening positions of the U.S. in global energy and financial affairs, and Japan's emerging ties with the GCC states in light of the Russian-Ukraine crisis.

1. Malacca Strait risk for energy transport from GCC

The Malacca-Singapore Strait, a shallow and narrow strait about 1,000 kilometers long between the Malay Peninsula and Singapore Island in the north and Sumatra and other Indonesian islands in the south, is an important international maritime transportation link between Asia, the Middle East/Africa and Europe. 80% of the oil imports that Japan receives from the GCC states is transported through the Strait of Malacca.

The Malacca-Singapore Strait traffic is divided into two types of vessels: those passing through the strait as a corridor between the Bay of Bengal (Indian Ocean) and the East China Sea, and those traveling between the coastal states of Malaysia, Indonesia, Singapore, etc. The total number of vessels passing through the Strait increased from 94,000 per year to 141,000 by 2020, an increase of 50%. This means that nearly 400 vessels a day are now sailing through the strait. Concurrently, the risk of accidents and marine pollution has inevitably increased. This places an extremely heavy burden on the three coastal states of Indonesia, Malaysia, and Singapore to maintain the safety of navigation and the protection of the marine environment.

To prevent accidents in the Strait of Malacca, the privately owned Nippon Foundation of Japan has provided approximately ¥14 billion over the past 40 years in various support measures, including the installation of lighthouses, the maintenance of navigation signs, anti-piracy measures in the strait, and the development of human resources, including maritime educators and maritime security agencies. The Nippon Foundation, together with other Japanese private entities which have contributed to navigational safety and marine environmental protection in the Strait, believe that the responsibility of providing such protection should be the responsibility of all users of the Strait.

As such, Japan's public and private entities continue to work on the establishment of a framework for cooperation among all parties involved, including the three coastal states, user states, shipping companies and private sector shippers, in order to enhance navigational assistance and to minimize possible risks in the Straits as part of its corporate and social responsibility (CSR).



2. The End of US Uni-Polar Domination

The economic domination of the US since the end of World War II is often regarded as being supported on three pillars - energy, food and the role of the US Dollar acting as the global reserve currency.

In the past, the U.S. and OPEC have broadly managed the balance of global energy supplies, but over the last few years countries such Russia and Venezuela, which have not been subject to US energy policies, have increased their influence and reduced the dominance of the US position. Alongside this, the Gulf States's oil producing countries have started to more confidently establish their own oil/energy policies and to enhance their own presence within the global energy market.

The U.S. also has enjoyed significant influence in the production of global food supplies. However, recent drought periods in North Dakota, Iowa, Illinois, Minnesota and other farming states have reduced U.S. output in this regard. Overall, the combination of climate change as a result of global warming, together with the growth in the world's population, suggests that food security will become a greater issue in calculations of wider regional security in the coming period.

Finally, the US Dollar has acted as the world's primary reserve currency with the global financial power of the US underpinned by this role. This position is now also under threat with Russia, China and some BRICS countries beginning to challenge the USD dominated system by searching for alternate settlement currency options. India, Iran, Saudi Arabia and other countries have already started small trial programmes to establish whether their oil trading could be done in Euro, Chinese Yuan or their own currency. These efforts to find alternative settlement arrangements will likely only intensify.

The bottom line is that America's control over energy resources, the monetary system as well as domestic food production and supply chains is gradually weakening. Such fundamental shifts in influence have global implications in terms of economic and political power. For example, if the GCC states would begin diversifying their oil revenues into other currencies, this would trigger an increase in the GCC's political distance from the U.S. and their closer allies, such as Japan given that the GCC would be developing closer ties with China, India and other BRICS countries. This would force Japan to seriously rethink its long-term energy security policies and its heavy on dependence on GCC sourced crude oil supplies.

3. Japan's Energy policy and Future of GCC-Japan's relationship

After the Great East Japan Earthquake of 2011, the Ministry of Economy, Trade, and Industry (METI) faced three difficult issues: (1) dealing with the accident at the Fukushima No. 1 nuclear power plant and rebuilding the Tokyo Electric Power Company (TEPCO), (2) the positioning of nuclear power plants, and (3) the liberalization of the electricity and gas markets. This has proved a very challenging task and METI officials have struggled to resolve this three-way simultaneous equation.

Eleven years have passed while liberalization has progressed, and the government has hesitated to ask the public how nuclear power should be used in the medium to long term. The structure of Japan's dependence on fossil fuels has not changed, and its energy self-sufficiency rate remains the lowest among advanced nations.

As time has progressed, the challenge of decarbonization has increased and today Japan's ongoing energy uncertainty is the result of political and administrative inaction. Additionally, METI has had to reconsider the past arrangement, whereby Japan's electric power companies took full responsibility for supply as a condition of obtaining regional monopolies. The fact that they were relieved of

this corporate responsibility with the liberalization of Japan's electric power industry must be factored into Japan's future energy policy.

For over two decades, Japan has been trying to diversify the sources of its energy supplies. Initially, this included an effort to reduce the historic dependence on GCC imports by increasing domestic nuclear power energy capacity. However, following the Fukushima earthquake in 2011, Japan's government reluctantly took the decision to discontinue the production from the country's 54 nuclear power plants. In turn, this in fact led to a commensurate increase in further dependency on GCC energy.

The Ukraine conflict has inevitably brought a new focus on security of supplies, particularly across energy importing countries. The evident recent pivot away from the US and towards BRIC countries by Saudi Arabia, has led Japan to cautiously change direction by reactivating existing nuclear power stations in those areas of Japan that are regarded as relatively safe from earthquakes. While this attempt to expand domestic energy supplies can be regarded as a positive initiative, the change is as yet only small in scale and is tightly governed by stringent security standards. In August 2022, Prime Minister Kishida announced that Japan will restart some other previously idled nuclear plants and will look at developing smaller next-generation reactors. This initiative by the Japanese authorities is an additional step in terms of developing a new generation of small nuclear reactors, within what could develop to be a new era of greater energy diversification.

Under the uncertain world energy supply situation, it is no longer realistic for the GCC and Japan to enter into long-term energy supply contracts to which both sides have historically been committed. Currently Japan has to be prepared to sign short-term supply contracts and even may have to embrace the purchase of energy via contracts traded on the spot market, as do countries such as China and India. In exchange for longer term stable supplies of energy from the GCC, Japan has often committed to purchase oil and gas at relatively higher prices than those traded on international markets. Given that oil contracts are denominated in US dollars, import prices have always been impacted by movements in the USD/Yen exchange rate and the strength in the US\$ has raised import prices for Japan. Although Japan has been one of the GCC's most dependable customers for many years, the current global situation suggests that the GCC and Japan re-examine current energy ties to ensure that the mutually beneficial structure governing their ties so far remains in place.

To be sure, Japan still needs to remain one of GCC's prime commercial customers as part of its overall energy and its wider economic security policy. Consequently, Japan must continue to make efforts to further develop close relationships within non-energy sectors. Among the younger generation within countries such as Saudi Arabia, UAE and Qatar, Japanese youth fashion, food culture and GAME, MANGA/ANIMATION are increasingly popular. These cultural bridges are very important to strengthen cross-border relationships. More importantly, in order to enhance Japan's presence, the Japanese public and private sector must more aggressively compete to win large-scale projects such as NEOM in addition to other special economic zone projects in Saudi Arabia, the UAE and other GCC countries.

Naturally, a crucial part of a comprehensive energy policy must involve the adoption of non-fossil fuel strategies. Addressing this question of alternative energy sources, both Saudi Arabia and Japan are planning significant programmes via the Saudi Green Initiative and Japan's Green Growth Strategy for 2050. In March 2020, Saudi ARAMCO and Japan's largest refiner ENEOS signed a MOU with the aim of developing a CO₂-free hydrogen and ammonia global supply chain, including hydrogen production, transport and trading. As part of a joint feasibility study started that year, the project plans to use ammonia imported from Saudi Arabia for power generation as part of a CO₂ capturing process. This CO₂ will be used in the production of methanol at SABIC's Ibn-Sina facility as well as enabling enhanced oil recovery at Saudi Aramco's Uthmaniyah field.

It is hoped that this initial development of hydrogen supplies will herald the start of further programmes and become part of the global drive towards a cleaner and more sustainable energy environment. Eventually, it could enable the GCC to position itself as one of the major sources of low cost and low-carbon energy supplies, benefiting both Japan and the wider world.

Given the increased global uncertainties, it is difficult to see any immediate or concrete solutions, both in the drive to secure Japan's long-term energy supplies and how future relationships between Japan and the GCC can best be configured to ensure mutual benefits. In the search for an answer to such challenges, it is crucial for the GCC and Japan to jointly review the existing situation and draw up a long-term strategic roadmap. Fundamentally, a sustainable GCC-Japan relationship would significantly contribute to a position that underpins stable energy supplies and ensures continuous economic growth and prosperity for both parties.

Lastly, from the Japanese perspective, it is time to draw up a convincing long-term strategy that integrates decarbonization and stable energy supply from overseas that would closely link to Japan's economic sustainability and growth as well as strengthen its international status. This is a very important moment for the Japanese nation as it rethinks its future energy policy within a changing era which will substantially impact the coming generation.

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