

# Selected Keynote Address and Session Reports

## Keynote Address

### *Challenges in Japan and Japan-Russia Energy Cooperation*

MATSUYAMA, Yasuhiro

Director, Petroleum and Natural Gas Division, Agency for Natural Resources and Energy,  
Ministry of Economy, Trade and Industry

Niigata is a source area producing oil and natural gas within Japan. In addition, serving directly, it has become the origin of a bridge of cooperation with Russia, which has extremely great potential in energy. Today is a time for considering energy from the macro viewpoint, and I would like to speak from the viewpoint of how we should consider relations between Russia and Japan.

#### Japan's Energy Situation

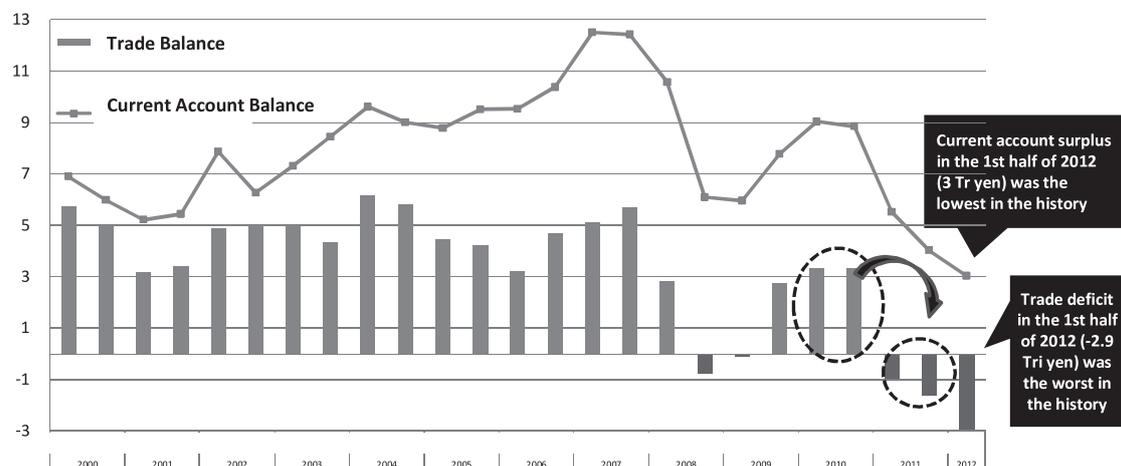
Via the influence of the Fukushima Daiichi nuclear disaster immediately after the Great East Japan Earthquake of 11 March last year, Japan has been faced with a severe energy crisis. Regarding Japan's electric power structure, thermal power generation has risen from approximately 60% before the earthquake to 90% at present. In particular, gas thermal power using imported LNG has increased rapidly from 38% to 48% after the earthquake. Since immediately after the earthquake how to procure energy sources and the like has become a great problem. There are four countries which make a great contribution to Japan's LNG supply. The greatest is Qatar, and while Oman, Nigeria and others are similarly also increasing, the one worthy of note is Russia. Differing from the thinking of bringing to Japan a cheap supply flowing from the "spot market" of the Middle East and Africa, the gas from Sakhalin-I and Sakhalin-II, which were developed jointly by Japan and Russia and brought to success, and in

particular the volume of gas supplied from Sakhalin-II and brought to Japan as LNG from Prigorodnoye, has increased in response to the earthquake. It is a fact that the results of the cooperation over many years between the two countries helped in this crisis, and along with the gratitude to Russia and to our senior colleagues, I can't help but feel the importance of Japan-Russia cooperation.

Therefore reciprocal and mutually-beneficial development will be important, with Japan continuing to secure and expand its energy supply sources with the neighboring country of Russia, and from the Russian viewpoint continuing to carry out, together with Japan, economic and energy development in the Far East and Siberia.

Japan's crisis after the earthquake remains severe. The import volume of LNG, which was 70 million tonnes for fiscal year 2010, is this year expected to grow to approximately 90 million tonnes; there is the need to secure an LNG supply approximately 20 million tonnes larger, and there is upward pressure on fuel procurement expenses. Considering that the pricing mechanism for the LNG brought into Japan is based on the current situation where the price has been determined linked to the JCC crude oil price, and in conjunction with the oil price staying high last year, then the double whammy of the increase in the volume of imports and price increases in a severe way has become a heavy burden to Japan's energy situation and at

Changes in trade balance and current account balance

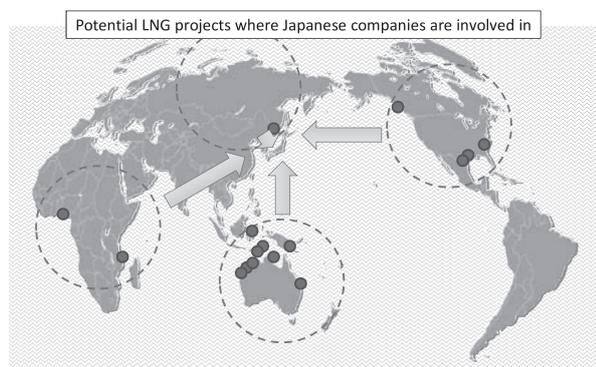


the same time to Japan's economic activity. In 2011 Japan's trade balance, for the first time in 31 years since the oil crises, fell to 3 trillion yen in the red for the year. Furthermore in 2012, from the trade figures already 3 trillion yen in the red in just the first half of the year, it is considered that the trade figures will be 6 trillion yen in the red for the year. When considering how to avoid a blow to the economy and continue looking to the future for energy demand, the problem that Japan's economic and energy administration is facing is that we will continue to vie with high fuel prices in some way.

Currently we are tackling this problem with three approaches. The development of the LNG plant in Vladivostok also occupies a key position within this.

First is the import of low-price natural gas. With the shale revolution in mind, there is discussion of making US natural gas, which has become cheap, into LNG, and importing it. In the United States at present there are three projects in which there is Japanese involvement, namely Freeport, Cove Point, and Cameron, and the respective Japanese electricity, gas and trading firms are actively working toward the import of LNG.

Second is the diversification of LNG plants. The immediate purchasing of cheap LNG is also necessary, but considering the medium-term perspective, we are also furthering initiatives for importing LNG into Japan at the most reasonable price possible through competition, by means of developing in varied fashion overseas LNG supply sources. The most important task within this is the joint project with Russia in Vladivostok. Besides that, LNG development projects are also going forward in Mozambique, Australia, Indonesia, and Papua New Guinea, etc. In addition to these, the Agency for Natural Resources and Energy is continuing to fight in the good sense of the word for the respective projects for such things as the shale gas business in the United States and Canada, and we are taking a policy approach to continue striving for the medium-term stable supply of energy. Within that, we regard as highly important the LNG plant development in Russia, which is the closest and which has realized the post-earthquake stable supply for us.



Third is the setting-up of an LNG pricing mechanism. Within the course of the above, we would like to continue furthering, in a form of improving the market, an LNG pricing mechanism with more transparency and where both the selling and buying sides can be satisfied.

### Japan-Russia Gas Development Cooperation

Via the joint development of Sakhalin-I and Sakhalin-II which have been worked on for many years, shipments from Prigorodnoye LNG plant to Japan began concretely in 2009. From 2010 on this has occupied a large share of close to 10% within Japan's LNG imports. I think that, via the early realization of the further joint development of gas sources and the Vladivostok LNG plant, Russian gas continuing to make up a great weight as a stable source of supply within Japan's LNG imports will be the direction in the future.

Regarding the LNG plant project in Vladivostok, at the APEC Energy Ministerial Meeting held in Saint Petersburg in June 2012, Yukio Edano, the Minister of Economy, Trade and Industry, and Alexander Novak, Minister of Energy of the Russian Federation, signed a memorandum of understanding (MoU) on Japan-Russia governmental cooperation. In addition, on the occasion of the APEC summit held in Vladivostok in September, with Prime Minister Yoshihiko Noda and President Vladimir Putin looking on, an MoU was signed on concrete ways to proceed with projects by Ichiro Takahara, Director-General of the Agency for Natural Resources and Energy, and Alexey Miller, Chairman of the Gazprom Management Commission. I heard that Gazprom had already built the Sakhalin-Khabarovsk-Vladivostok (SKV) pipeline.

An important matter is, with a sense of speed, to create within Japan-Russia cooperation in Vladivostok a project which only will win out over the international LNG plant competition and is able to realize attractive prices, quality and stability. Amid the fierce battle with each of the energy projects in Mozambique, the United States, Canada, and Australia, success or failure in this competition is something that depends on the severe conditions of business and the outcomes of negotiations, and there is also the case of it being decided by the major currents of politics. For our part, we are continuing to receive the support of people involved in Japan-Russia relations and we would like to move this project forward for all we are worth.

### Cooperation in the Oil Sector

For crude oil and petroleum too, it is naturally necessary to continue building Japan-Russia cooperation. I have heard that the crude oil pipeline between Tayshet and Kozmino referred to as the ESPO (Eastern Siberia-Pacific Ocean pipeline) will be constructed, and its actual operation will commence soon. If this can be done, it will become possible to transport the portion previously transported by rail from East Siberia speedily and at low cost via pipeline, and we expect that Siberian crude oil will be supplied to the Pacific and Japan and will lead to the strengthening of the Japan-Russia crude oil network. At present, imports of crude oil from Russia to Japan have grown to a share of some 4-5% of the whole, yet a further expansion of the share looks promising by means of the ESPO. I heard many times from my third or fourth predecessor talk of the difficulties ten years ago in amassing efforts with the Russian side, with strong thoughts of connecting the ESPO pipeline to the Pacific and creating a bridge to Japan. That is about to be realized. In order to open the next era for Japan and Russia and to make relations more robust, I hope

that the joint development of gas and crude oil will be pushed forward even further in East Siberia.

Rosneft and Japanese firms are in discussion on joint exploration in East Siberia. In the background is the progress on the ESPO. Preferential tax treatment is the key to the promotion of East Siberian development.

Currently initiatives are going ahead for joint exploration and joint survey work between JOGMEC and each of the firms on the Russian side. At the Japan-Russia Intergovernmental Committee also, held on 20 November and in which participated Igor Shuvalov, First Deputy Prime Minister, the governments of both countries reconfirmed the importance of Japan-Russia joint cooperation in East Siberia, along with the Vladivostok

LNG project. This East Siberia business is progressing, and I hope that a new era has been opened by way of the ESPO infrastructure which has been put in place.

Japan and Russia, via the important element of energy, have come to have a mutually inseparable relationship. The bridge connecting the two countries is the Sea of Japan, and the area forming the center of that is none other than Niigata. The future of energy development is boundless. We would like to continue listening to honest opinions in a variety of energy sectors and making best use of them in the energy administration of the Japanese government in the future.

[Translated by ERINA]