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ロシアのエネルギー面でのアジア・シフトにおける日本の位置づけ

ヴァシリユーク スヴェトラーナ*

The Japanese Dimension in Russia's Energy "Pivot" to Asia

Svetlana VASSILIOUK

Abstract

This paper focuses on the key drivers and recent trends in Russia's energy cooperation with Japan, by putting the Russian-Japanese energy ties in a broader context of Russia's strategy of "pivot" (rebalancing) toward Asia.

First, it examines the background of Russia's "pivot" (re-balancing) strategy toward Asia, while focusing on its evolution and the underlying political, economic, and strategic factors. The paper argues that the expansion of energy cooperation in Asia has been a key driver in Russia's economic engagement in the region since the 1990s. In 2009, in the newly adopted "Russian Energy Strategy to 2030," the Russian government stressed the importance of energy cooperation with many foreign partners worldwide. However, it placed special emphasis on the "Asia dimension" of the Russian energy strategy, viewing the Asia-Pacific market as one of the most attractive due to its growing energy demand, stable energy prices, great potential for growth, and various business and investment opportunities. In addition, the Russian government also put forth its strategy to advance the development of Russia's rich energy base and infrastructure in the remote areas of Eastern Siberia and the Far East, which was stipulated in various target programs for the economic development of these regions. To achieve these goals, the Russian government reiterated its commitment to expand energy cooperation with Russia's economic and trade partners in Asia as the key strategic direction of its foreign policy, which was emphasized in the "Foreign Policy Concept of the Russian Federation" adopted on November 20, 2016.

Second, concerning the priority partners in Russia's "pivot" to Asia, although most of the recent

* 国際日本学部専任教授

publications view China as Russia's principal partner in the region, this paper highlights Japan – the region's second largest economy and one of the world's top energy consumers – in its growing significance as Russia's second most important economic partner in the region, particularly in the energy field. While providing an overview of recent trends in Russia's energy trade and cooperation in Asia as a whole, the paper offers a comprehensive assessment of the “Japanese dimension” of Russia's energy strategy by analyzing the current state of Russian-Japanese energy cooperation, while looking at the two distinct periods – before and after the 2014 Ukrainian crisis.

Additionally, it examines the bilateral energy trade and joint projects not only in traditional fossil energy resources such as crude oil and natural gas, but also in renewable resources, energy efficiency and conservation. Finally, the paper provides an assessment of the prospects for the bilateral energy cooperation in the context of the two countries' overall relations, focusing on the progress in the bilateral territorial negotiations during President Putin's third presidential term (2012-2018).

Keywords: Russia-Japan relations, Russia, Japan, energy cooperation, pivot to Asia.

Russia's Strategy of “Pivot” to Asia: Background, Evolution, and the Key Drivers

Russia's recent strategy of “pivot,” or rebalancing, towards Asia has been evolving since the late 1990s, when Russia officially became a member of the APEC and other multilateral institutional structures in the Asia-Pacific Region (APR). During the post-Soviet period in the 1990s, while initially placing a higher priority on the improvement of its relations with the West, Russian authorities realized the importance of Russia's political and economic engagement with the East, regarding the Asia-Pacific market as one of the most attractive due to its booming energy demand (especially for crude oil and liquefied natural gas [LNG]), stable energy prices, great potential for growth, and other business and cooperation opportunities. In 1992 Russia became a dialogue partner of the ASEAN with a full participation in the annual ASEAN summits. In 1997 Russia's collaboration with the ASEAN was further strengthened by establishing the Joint Cooperation Committee that continues its regular meetings today. In addition, aiming at expanding its economic and energy ties with the APR, Russia joined the Asia-Pacific Economic Cooperation (APEC) forum in 1998 and since then has been actively participating in the APEC energy cooperation framework meetings, including regular Working Group meetings by the APEC Ministers of Energy that focus on the development of the

regional multilateral energy security system.¹

The “Asian dimension” received a further boost and was growing in its strategic and economic importance in the overall national strategy of Russia during the first two terms of the Putin presidency (2000-2008). The stable growth, rapid economic development, political and cultural transformation that gave rise to the so-called “Asian Century” have presented a new set of opportunities to Russia to reassess its national strategy in the region. During his first two presidential terms followed by his term as a prime minister in 2008-2012, Vladimir Putin personally encouraged the development of Russia’s Asia policy, stressing the need for the infrastructure and energy exploration in the Russian Far East (RFE). In 2010 he introduced a new concept of a “Greater Europe from Lisbon to Vladivostok” in order to facilitate Eurasian connections and actively promote Russia’s partnerships with Asian nations. In addition, in 2011 Russia joined the East Asia Summit (EAS) in efforts to boost its participation in the strategic dialogue between the ASEAN and its dialogue members on security and economic growth in the APR. Dubbed as the “Act East” or “Go East,” this policy shift signified the Russian government’s drive to reassess a plenitude of opportunities presented by Asia’s continuing economic expansion for Russia’s domestic as well as foreign policies.

After his return to the presidency for the third term in 2012, Putin underscored the critical importance of the development of Eastern Siberia and the RFE in the national economic strategy as well as stressed the regions’ growing importance in Russia’s foreign and energy policies. On September 9, 2012, at the news conference during the APEC Leaders’ Week, Putin declared that “the development of regional economic integration is Russia’s strategic choice” and that “extensive cooperation with our neighbors in the Asia-Pacific region is one of Russia’s foreign policy priorities.”²

In recent years, due to the ongoing tensions in its relations with the West caused by the 2014 Ukrainian crisis and the resulting economic sanctions, the Russian government has moved to reduce its dependence on European markets, by emphasizing the “Asian dimension” of the national strategy as indispensable to Russia’s regional development as well as its political and economic engagement in the APR. In September 2015, at the inaugural Eastern Economic Forum (EEF) launched in Vladivostok, President Vladimir Putin stressed Russia’s determination to accelerate the development and export of natural resources from the RFE to the countries in the Asia-Pacific. The Forum has become an important annual event held every September with personal attendance by the Russian president and foreign leaders, such as China’s President Xi Jinping and Japan’s Prime Minister

1 On Russia’s “collective energy security” initiatives within the APEC institutional framework, see Stanislav Zhizhin, “Energy Diplomacy: Russia and the World,” East Brook Publishing Company: Moscow, 2007, pp. 312-313.

2 “[President Putin’s] news conference following APEC Leaders’ Week,” September 12, 2009, <<http://en.kremlin.ru/events/president/transcripts/16432>>, accessed on July 15, 2015.

Shinzo Abe. At the inaugural 2015 EEF, President Putin urged the invited national and business leaders from the APR to increase their economic participation in the development of the RFE.

Furthermore, in the “Foreign Policy Concept of the Russian Federation” released on November 30, 2016, the Russian government reiterated its commitment to strengthen Russia’s relations with the Asian nations as one of the key strategic directions of its foreign policy. According to the document, “Russia is interested in participating proactively in the integration processes in Asia-Pacific, using the possibilities it offers to implement socioeconomic development programmes in Russia’s Siberia and Far East, and creating an inclusive, open, transparent and equitable collective security and cooperation architecture in Asia-Pacific.”³ To achieve this strategically important goal, the Russian government has listed a number of specific target organizations and countries, with which Russia would seek to prioritize its cooperation in the region, in the following order of priority: the Shanghai Cooperation Organization (focusing on economic and security cooperation with China, the Central Asian states, and India), the ASEAN (aiming to achieve a full-fledged strategic partnership), the East Asia Summit (EAS), the ASEAN Regional Forum, and the APEC – with all of which Russia will strive to establish “a common, open and non-discriminatory economic partnership”; as well as the individual nations of China, India, Mongolia, Japan, North Korea, South Korea, and the ASEAN (particularly Vietnam, Indonesia, Thailand, Singapore, and Malaysia), which have been viewed as Russia’s key partners in the APR.⁴

Since Russia is yet to establish its broad political leadership in the APR, it can be argued that its strategy of “pivot” to Asia can presently be viewed as the “energy pivot,” whereby the government is seeking to diversify Russia’s energy strategy in the domestic and international fields as well as to expand its economic presence in the regional energy market. The Russian government is determined to maintain the nation’s “energy superpower” status, aiming for Russia to become one of the most important and reliable sources of energy exports in Asia. Currently, Russia is the world’s top natural gas exporter and the second largest natural gas producer, with the export volume of 210.2 billion cubic meters (bcm) and the production volume of 665.6 bcm based on the 2017 estimates. It is also the world’s top oil producer and the second largest oil exporter, at the rates of 10.58 million bbl/day and 4.921 million bbl/day, respectively, based on the 2017 estimates; as well as the world’s second largest exporter of refined petroleum products, at the rate of 2.671 million bbl/day based on

3 See the Homepage of the Ministry of Foreign Affairs of the Russian Federation, “Foreign Policy Concept of the Russian Federation (approved by President of the Russian Federation Vladimir Putin on November 30, 2016),” <http://www.mid.ru/en/foreign_policy/official_documents/-/asset_publisher/CptICk6BZ29/content/id/2542248>, accessed on November 15, 2017.

4 Ibid (Chapter “Russia’s regional foreign policy priorities of the Russian Federation”).

the 2015 estimates).⁵ It is expected that trade and development in the energy sector will remain among the top priority areas driving Moscow's engagement in the region, which was emphasized in "The Energy Strategy of the Russian Federation for the period up to 2030," the "Draft Energy Strategy of the Russian Federation until 2035," the federal programs for regional development, and other recent governmental policy initiatives.

In addition to the favorable economic benefits and strategic considerations that the expansion of energy cooperation with the Asian energy consumers might bring, another important priority area for the Russian government in its strategy of "pivot" to Asia is the advancement of the development of Russia's rich energy base and infrastructure in the remote areas of Eastern Siberia and the Far East. The "Draft Energy Strategy up to 2035" aims at the creation of the extensive oil infrastructure in the RFE, which will account for 20-25% of total production and 40% of total exports of oil and oil products. In the gas sector, the strategy sets an ambitious goal of extending Russia's "Unified Gas Supply Systems" to Eastern Siberia and the Far East as well as creating a vast regional gas infrastructure reaching 15-20% of total gas production and 35-40% of total gas exports, urging the increase of regional gas production to 35-45%, including the liquefaction (i.e. LNG production) of up to 8-11% of all produced gas in the RFE.⁶ Other measures that were put forward in various state and federal targeted programs, such as the "Eastern Gas Programme" (adopted in September 2007 and initially administered by Russia's largest energy company Gazprom) and the federal economic programs for energy and transport infrastructure development of the Kuril Islands for the period of 2007-2015,⁷ — all underline government's commitment to accelerate the infrastructure and energy development in the RFE and other remote regions in Russia.

In addition, President Putin, in his article written on the occasion of the 2017 APEC Summit meeting, pointed out, "As a major Eurasian power with vast Far Eastern territories that boast significant potential, Russia has a stake in the successful future of the Asia-Pacific region, and in

5 The CIA World Factbook: Russia (Economy statistics), August 21, 2019, <<https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>>, accessed on August 25, 2019.

6 Quoted in Vladimir Silantiev, "Russian Federation: Energy Strategy" in Günter Tiess, Tapan Majumder, Peter Cameron, eds., "Encyclopedia of Mineral and Energy Policy," Springer-Verlag: Berlin/Heidelberg, 2015, pp. 70-71. Also, see "Priority Areas" in "Energy strategy of Russia for the period up to 2035" (in Russian), February 1, 2017, <<https://mi-nenergo.gov.ru/view-pdf/1920/69055/>>, accessed on November 15, 2017.

7 The budget for the 2007-2015 federal program aiming at the economic development of the entire Kuril Island chain was set at US\$630 million. The program mostly targeted the development of the islands' energy and transport infrastructure (see the official homepage of the Russian Ministry for Economic Development, "Ministry for the Development of the Russian Far East reviews progress of the federal targeted programme for the Kuril Islands," July 3, 2013, <http://government.ru/en/dep_news/2776/>, accessed on July 15, 2015). After its completion, the program was replaced with the 2016-2025 federal targeted program. The budget for the new program doubled to reach 70 billion rubles (approximately US\$1.3 billion) for the purpose of targeting comprehensive socioeconomic development of the Kuril Islands (see The Official Homepage of the Russian Government, "Endorsement of the federal targeted programme on the socio-economic development of the Kurile Islands (Sakhalin Region) in 2016-2025," December 17, 2014, <<http://m.government.ru/en/docs/16292/>>, accessed on July 29, 2015).

promoting sustainable and comprehensive growth throughout its entire territory.”⁸ To achieve this goal, the Putin Administration focused on promoting and supporting a number of strategically important energy projects. These projects, some of which involve extensive foreign investment and expertise, counting those from Japan, included: the development of the new ambitious Northern Sea energy corridor; oil and gas development in Sakhalin Island with possible expansion of the existing Sakhalin-1 and Sakhalin-2 projects; the development of oil deposits and the gas center in Yakutia, Sakha Republic; the construction of the new LNG plants in Sakhalin and Vladivostok; formation of regional petrochemical clusters; construction of a new refinery and gas processing facilities, chemical plants as well as the modernization of the existing receiving terminals in Primorskiy Krai; and the completion of the construction of the large-scale “Power of Siberia” gas pipeline stretching 3,000 kilometers from the Yakutia and Irkutsk gas fields in Eastern Siberia to the city of Blagoveshchensk in Primorskiy Krai of the RFE.

In addition to the above-mentioned domestic drivers of Russia’s “pivot” to Asia policy, there were several important foreign policy priorities and external (international) considerations that cumulatively necessitated and accelerated this policy shift. According to Liudmila Zhakharova, Senior Researcher at the Institute of Far Eastern Studies, Russian Academy of Sciences, “Russia’s policy in Northeast Asia is based on long-term goals — maintaining its strategic position in this highly dynamic region of the world and receiving much needed economic support in the face of the Western sanctions regime.”⁹ Indeed, among the most important external factors behind Russia’s policy shift to Asia were the economic sanctions and the ongoing tensions in Russia’s relations with the West caused by the Ukrainian crisis and Russia’s alleged meddling in the US and European elections. Since the introduction of the sanctions in 2014, the worsening of Russia’s relations with the West not only has significantly undermined Russia’s energy trade and cooperation with the European partners, but also has had a profound detrimental effect on the Russian economy as a whole. As a result, along with Europe’s falling oil demand and shift towards non-fossil energy consumption, the traditional “European dimension” in Russia’s energy policy has been gradually losing its primary significance in Russia’s energy strategy, prompting the government to focus on the expansion of energy relations with Asia’s largest energy consumers, especially China, Japan, South Korea as well as the ASEAN (particularly Vietnam, Indonesia, Thailand, Singapore, and Malaysia).

8 Vladimir Putin, “Opportunities at the APEC summit,” *The Japan Times*, November 9, 2017.

9 Liudmila Zakharova, “Russia and Northeast Asia: Pursuing Strategic and Economic Goals,” *Global Asia*, Winter 2017, Volume 12, Number 4, <https://www.globalasia.org/issue.php?bo_table=issues&wr_id=9005>, accessed on December 23, 2017.

The Evolution of the Japanese Dimension in Russia's Energy "Pivot" to Asia Prior to the 2014 Ukrainian Crisis

Due to the geographical proximity, complementary economic needs, and the mutual need to diversify their energy trade, Russia and Japan see each other as natural energy partners. For Russia, it has been essential to secure Japan's long-term financial commitment and extensive technological investment, especially for the development of the RFE, Eastern Siberia, and other remote areas, thereby opening new export routes to Asia. Japan has become Russia's second largest energy partner and investor (after China), particularly in the RFE and Siberia. Furthermore, the Russian government is eager to diversify political and economic engagement with other major powers in the APR away from its heavy reliance on China, which is Russia's main partner in its "pivot" to Asia. For Japan, which imports more than 80% of its consumed energy resources (mostly from the Middle East) and which needs to secure reliable sources for energy supplies in proximity, Russia offers a convenient location, relatively short and secure delivery routes as well as a possibility of long-term, ample supplies of natural and mineral resources. Additionally, by expanding their energy cooperation, Japan and Russia could significantly improve their political relations, by deepening their mutual trust and moving closer to finding the final resolution to the long-standing territorial dispute over the four southernmost Kuril Islands (also known as Japan's "Northern Territories") that has precluded them from the signing of a peace treaty and has impeded their relations in various fields.¹⁰

In spite of the difficult, longstanding political issues in the two countries' relations, Russian-Japanese energy cooperation has been gradually improving, particularly following the successful materialization of the Sakhalin-1, Sakhalin-2, and related oil and gas projects in the RFE in the mid-1990s. Between 2000 and 2012, the share of oil and gas in Russian exports to Japan grew at an unprecedented rate, increasing from 1% to 74%¹¹. In addition, in April 2009, Japan received its first LNG shipment from the Sakhalin-2 project, and in December 2009, three major Japanese companies contracted purchases of crude oil cargoes delivered via the Eastern Siberia-Pacific Ocean [ESPO] oil pipeline from the export terminal at Kozmino Bay in the RFE.¹² Since then, the Russian share of

10 Japan and the Soviet Union/Russia have been entangled in the territorial row over the four southernmost Kuril Islands of Shikotan, Kunashir, Iturup, and the Habomais (the "Northern territories," as Japan calls them, or the "Southern Kurils," as Russia refers to them) since the end of WWII. The territorial dispute, which has dominated the political, economic, and even cultural relations between Russia and Japan for more than seven decades, serves as the main reason for the two countries failing to settle their borders. It also prevented them from signing a peace treaty following World War II.

11 See Wrenn Yennie Lindgren, "Energizing Russia's Pivot: Japan-Russia energy relations, post-Fukushima and post-Ukraine" (Policy Brief), Norwegian Institute of International Affairs, 4/2015, p. 1.

12 The ESPO oil pipeline came into full operation in December 2009, and the shipment of the first oil cargo from Kozmino Bay (in Primorskiy District of the RFE) took place in January 2010.

Japan's total LNG imports had grown from 4.3% in 2009 to about 10% in 2014, thereby making Russia Japan's fourth largest LNG supplier (after Australia, Qatar, and Malaysia). Also, Russia overtook Iran to become Japan's fourth largest (and the top non-Middle Eastern) supplier of crude oil, with annual oil shipments to Japan reaching approximately 10.13 million barrels or 9% of Japan's total crude imports in July 2010.¹³

At the institutional level, several important energy cooperation agreements were concluded between the two countries during the same period. In 2008, the Japanese Ministry of Economics, Trade and Industry (METI)'s Agency for Natural Resources and Energy (ANRE) signed a Memorandum of Understanding (MoU) with Russia's largest oil company Rosneft, laying the groundwork for energy cooperation in a number of sectors related to crude oil exploration, extraction, and deliveries in Eastern Siberia and the RFE. On May 12-15, 2009, Russia's largest energy company Gazprom signed an agreement in the gas sector development with Japan's ANRE, Itochu Corporation, and Japan Petroleum Exploration Company (JAPEX). Additionally, in June 2013, Gazprom successfully completed a feasibility study on the Vladivostok LNG project with Japan Far East Gas Co. (JFG).¹⁴ Upon its completion, this project is expected to deliver 15 million tons of LNG annually, thereby helping diversify Russia's LNG export routes and making an important contribution to the stable LNG supplies from Sakhalin and Eastern Siberia to Japan and the rest of the APR¹⁵ (see Map 1).

However, in spite of the increased number of new opportunities in Russia-Japan energy cooperation during this period, many of the initiatives and projects have stalled, were postponed or altogether abandoned, due to the lack of economic feasibility and financial difficulties, further exacerbated by the economic and technological sanctions imposed by the West on Russia in response to the 2014 Ukrainian Crisis. The sanctions particularly hit the planned LNG development projects that required deep-water exploration, undermining the flow of technological expertise and financial assistance from the West into Russia. For example, the development of additional offshore oil and gas fields, such as the South Kirin gas field in the Sakhalin project, was added to the scope of sanctions in 2015. Also, in June the same year, Gazprom's Chairman Alexey Miller announced that the construction of the LNG terminal in Vladivostok was no longer a priority and would unlikely be realized in the near future.¹⁶

13 Risa Maeda, "Japan almost doubles Russia crude imports in August," *Fox Business News*, September 30, 2010.

14 The Far East Gas Co. (JFG) is a company established by several Japanese firms, such as INPEX, Itochu, Japan Petroleum Exploration (JAPEX), Marubeni, and Itochu Oil Exploration (CIECO).

15 See Gazprom Homepage, Gazprom Press Release "Gazprom and Japanese Agency for Natural Resources and Energy Consider Cooperation in Eastern Russia," January 17, 2011, <<http://www.gazprom.com/press/news/2011/january/article107602/>>, accessed on December 23, 2017.

16 *Vesti: Ekonomika*, "Miller: O Kitae, Vladivostok SPG i Ukraine" (in Russian) [Miller: About China, Vladivostok LNG and Ukraine], June 26, 2015, <www.vestifinance.ru/articles/59309>, accessed on August 2, 2017.

Map 1. Energy Development Projects (Natural Gas and LNG) in the RFE.



Source: Gazprom Homepage, “Eastern Gas Program: Developing gas resources and shaping gas transmission system in Eastern Russia,” <<http://www.gazprom.com/about/production/projects/east-program>>, accessed on December 1, 2018.

Because of the remaining political hurdles and lack of trust in Japan-Russia business relations, historically only large Japanese companies capable of securing financial and political support from the Japanese government were able to successfully engage in joint projects in Russia. Among the most successful projects and initiatives in Russia-Japan energy cooperation to date are the Sakhalin oil and gas development projects, which are the most extensive and largest commitments supported by the Japanese government in the USSR and Russia (see Map 2). These projects came officially on stream in the early 1990s with the goal of development of crude oil and natural gas capacity and the extraction infrastructure in the Sakhalin Region of RFE, aiming to boost Russia’s future energy exports to the overseas markets, particularly in the APR.

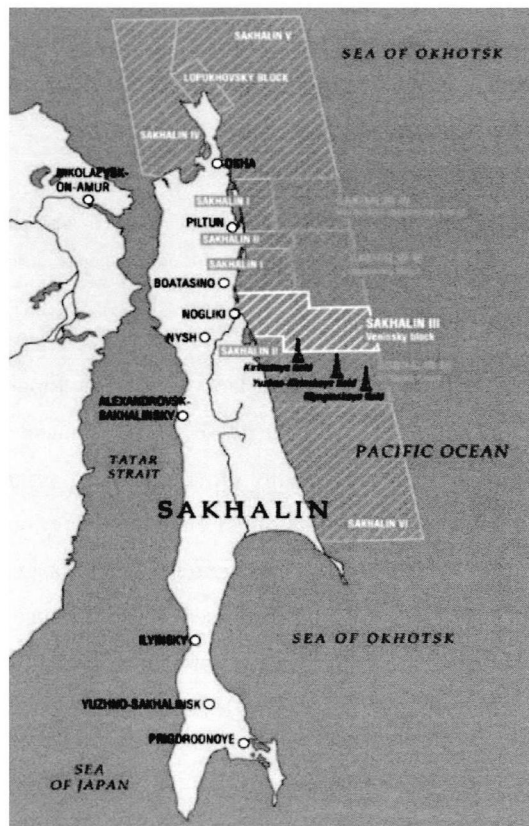
In the Sakhalin-1 project, Japan is represented by a consortium of the Sakhalin Oil and Gas Development Company (SODECO), ITOCHU Corporation, and Marubeni Corporation, holding a 30% share in total. The Japanese members of the Sakhalin-2 consortium are the Mitsui and Mitsubishi corporations, with 12.5% and 10% of the project shares, respectively.¹⁷ Both Sakhalin-1 and Sakhalin-2, which are among the world’s largest oil and gas integrated projects, hold the extensive recoverable

17 Other international partners in the Sakhalin-1 project include the US’ Exxon Mobile and India’s ONGC Videsh, holding 30% and 20% shares, respectively; and in the Sakhalin-2 project, they are Royal Dutch Shell (27.5% minus one share) and Russia’s Gazprom (50% plus one share).

gas and oil reserves, the development of which has attracted tens of US\$-billions in investment.

The Japanese government has been providing financial assistance to the Sakhalin-2 project since its inauguration, particularly for the construction of the first Russian LNG terminal located in Prigorodnoye on the Aniva Bay in the Korsakov District of Sakhalin Region. The Japan Bank for International Cooperation (JBIC), along with a banking consortium of international (mainly Japanese) banks, agreed to provide a US\$5.3 billion package, which helped finance the final stages of the LNG construction project.

Map 2. Overview of Energy Projects in Sakhalin Island.



Source: Gazprom Homepage, "Map of the Sakhalin Projects." <<http://www.gazprom.com/about/production/projects/deposits/sakhalin3/>>, accessed on August 2, 2017.

The LNG production from the Sakhalin-2 project at the new terminal began without delay on March 5, 2009, with the first shipment of LNG (4.8 million tonnes) reaching Japan in early April 2009. By December 2010, the LNG plant was operating at its full production capacity of 9.6 million tonnes a year, constituting 5% of the world's LNG market and approximately 4.3% of Japan's LNG imports.

At that time, about 65% of the total capacity was contracted on a long-term basis to eight Japanese companies, including Tokyo Gas and Toho Gas, and the remaining 35% to the South Korean and the US markets. In August 2012, the 500th cargo of Sakhalin LNG was successfully offloaded from Prigorodnoye, and by the end of 2014, the Sakhalin LNG plant produced 10.8 million tons of LNG (about 7% of global and 9% of Japan's LNG supplies) for exports to Japan, South Korea, China, Taiwan, and Thailand. In addition, from 2011, the Sakhalin-2 project started commercial production of the new "Sakhalin Blend" crude oil, which was introduced in the Asian market for the first time with successful deliveries to Japan, China, and South Korea in 2014.¹⁸

The Sakhalin-1 project has also been progressing well since its inauguration, launching commercial production at its main oil and gas fields (Chayvo, Odoptu, and Arkutun-Dagi) in 2015. Furthermore, after the completion of the 1,800-km Sakhalin-Khabarovsk-Vladivostok gas pipeline, the construction of which was completed ahead of schedule in September 2011, the Russian government announced that it would build an additional LNG terminal in the RFE in order to ship the Sakhalin pipeline gas and LNG to Japan, China, and other consumers in the APR.¹⁹ Other examples of the successful projects with Japanese participation include the construction of the ESPO oil pipeline and the development of the related regional infrastructure (see Map 3).

The ESPO oil pipeline project was initiated in 2004 and was divided into the two construction phases. Phase 1, which focused on the construction of the 2,757-km Taishet-Skovorodino branch to deliver around 600,000 barrels of oil a day (bbl/day), was completed and became operational on December 28, 2009. The first crude supply from the new oil terminal at the Kozmino Bay on Russia's Pacific Coast (near Nakhodka City in Primorskiy District of the RFE) was shipped in January 2010, thereby officially launching the ESPO Blend crude oil exports to the Asia-Pacific market. Phase 2 of the ESPO oil pipeline project, connecting Skovorodino to the Kozmino Bay Terminal (about 2,100 kilometers; projected capacity of 30-45 million tons/year), was successfully completed two years ahead of the planned schedule, in December 2012. At the commemorative ceremony, President Putin stressed the critical significance of this project for the regional as well as the national economy. He also declared that the project would help connect the RFE with the rest of Asia and would help deliver the ESPO Blend crude oil to a large number of Russian energy partners, namely Japan, China, the US, the Philippines, South Korea, Indonesia, Singapore, Thailand, and Malaysia.²⁰

18 See Sakhalin Energy Homepage, "History," <<http://www.sakhalinenergy.com/en/company/history.wbp>>, accessed on August 2, 2017.

19 Sakhalin-1 Project Homepage, "About Phases," (2015), <http://www.sakhalin1.com/Sakhalin/Russia-English/Upstream/about_phases.aspx>, accessed on August 2, 2017; Gazprom Homepage, "Sakhalin - Khabarovsk - Vladivostok" (2018), <<http://www.gazprom.com/about/production/projects/pipelines/active/shvg/>>, accessed on May 10, 2018.

20 Kremlin Homepage, "Events: Launch of the Second Stage of the Eastern Siberia-Pacific Ocean Pipeline," July 20, 2015, <<http://en.kremlin.ru/events/president/news/17187>>, accessed on March 15, 2018.

Map 3. Major Eastern Russian Oil and Natural Gas Pipelines.



Source: EIA (US Energy Information Administration) Homepage, "Country Analysis Brief: Russia," October 31, 2017, <<https://www.eia.gov/beta/international/analysis.php?iso=RUS>>, accessed on August 2, 2019.

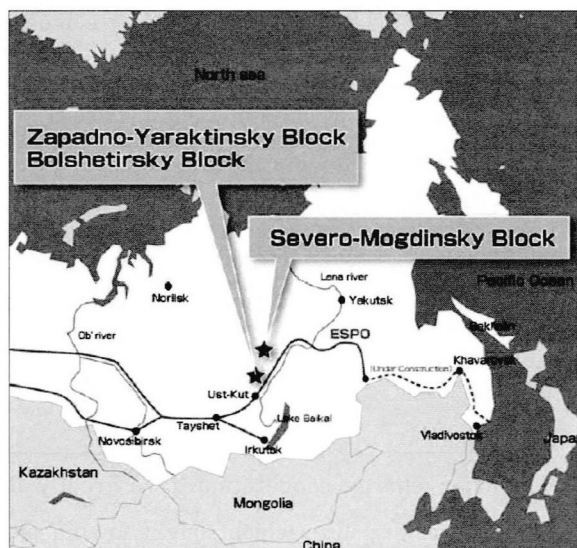
Since the successful launch of Phase 1 of the ESPO oil pipeline, many Japanese energy companies began seeking direct participation in the development of Russia's natural resources in Eastern Siberia and the RFE, both in the upstream and downstream sectors.²¹ By taking part in these large-scale projects, the Japanese businesses sought to expand their presence in the Russian energy market and to ensure that the Russian government would maintain its commitment to the timely and successful completion of the second phase of the ESPO oil pipeline, which was expected to become a critical link to the energy supply route between the RFE and Japan.

In April 2008, Japan's state-run Japan Oil, Gas and Metals National Corporation (JOGMEC) announced that it secured the rights to develop the Severo-Mogdinsky oil and gas block in Irkutsk Region (see Map 4), thereby obtaining access to Russian oil resources in Eastern Siberia. The business deal was in line with "the promotion of collaboration between Japan-Russia private enterprises outlined by 'The Japan-Russia Action Plan' adopted during the Russia-Japan summit in

²¹ The upstream sector refers to the exploration and production (E&P) sector of energy operations and involves the searching for as well as the recovery and production of crude oil and natural gas. The downstream sector focuses on the refining of crude oil as well as selling and distributing natural gas and products derived from crude oil (such as liquefied petroleum gas (LPG), gasoline or petrol, jet fuel, diesel oil, other fuel oils, asphalt and petroleum coke).

January 2003 and ‘The Initiative for Strengthening Japan-Russia cooperation in the Far East and East Siberia’ agreed by the countries’ leaders in June 2007.”²² In order to explore and develop the acquired area, JOGMEC established a joint venture with Russia’s Irkutsk Oil Company (INK) by providing the latest technology for the block’s seismic studies and exploration and jointly investing US\$95.8 million in this project.²³

Map 4. JOGMEC: the ESPO oil pipeline-related projects.



Source: JOGMEC Homepage, “Japanese-Russian joint-ventures find oil and gas in Irkutsk Region,” October 25, 2010. <<http://www.jogmec.go.jp/english/news/release/release0058.html>>, accessed on March 15, 2018.

Aiming at joint development of energy infrastructure and expansion of crude oil production in Eastern Siberia for shipments to Japan, JOGMEC established two additional joint ventures with local Russian energy companies in May 2009. The main purpose of the first project carried out by JOGMEC and Russia’s “United Oil Group Ltd” (holding 49% and 51% shares, respectively), was to conduct a five-year feasibility study and prospecting work in Russia’s Krasnoyarsk Territory, Irkutsk Region, and Sakha Republic (Yakutiya). The second joint-venture, between JOGMEC and Russia’s “INK-Zapad,” was created to explore two additional oil and gas blocks of Bolshetirsky and Zapadno-Yaraktinsky in the same region (see Map 4). On September 24, 2013, it was reported that

²² JOGMEC Homepage, “Japanese-Russian joint-ventures find oil and gas in Irkutsk Region,” October 25, 2010. <<http://www.jogmec.go.jp/english/news/release/release0058.html>>, accessed on March 15, 2018.

²³ Following the successful Putin-Abe Summit in June 2007, INK and JOGMEC formed a 51:49 joint venture, “INK-Sever” LTD, specifically to launch their joint development of the Severo-Mogdinsky oil and gas block.

the second project expanded its operations and “moved to a new stage after joining of ITOCHU Corporation and INPEX Corporation, two major Japanese private companies, to the project as shareholders of [Japan South Sakha Oil Co. LTD] JASSOC, which is a subsidiary of JOGMEC.”²⁴

During the same period, Japan and Russia also held discussions on a number of projects for the downstream sector development in Eastern Siberia and the RFE. One such project focused on the participation of the Japanese companies in the construction of Rosneft's refinery with planned capacity of 200,000-400,000 bbl/day at the final destination point of the ESPO oil pipeline. In November 2009, JOGMEC and INK signed a feasibility study agreement to develop gas-to-liquid (GTL) capacity in Eastern Siberia and the RFE.²⁵

These joint energy projects have been not only mutually beneficial for the economies of Japan and Russia, but also critically important for Russia's regional development. While utilizing Japanese investment and technological support, the Russian government granted Japanese businesses access to the Russian downstream and upstream sectors and, in a long-term perspective, offered them other important benefits of joint development of energy resources and infrastructure development in the RFE, Eastern Siberia, and other remote areas rich in oil and gas resources. In turn, energy development in Russia's remote areas was helping to boost regional transport and service infrastructure and economic development.

Additionally, the two countries' energy cooperation have greatly benefited from the post-Fukushima adjustment in Japan's energy policy, which sought to shift away from nuclear power, leading to the subsequent increase in demand for non-nuclear, “clean” energy resources, such as natural gas and LNG. Moreover, as both Japan and Russia's national energy strategies pursue similar goals, namely the improvement of energy efficiency, promotion of renewable energy resources, conservation of energy resources, and advancement of clean technologies to facilitate emissions reductions, the two countries began expanding their bilateral energy cooperation in these sectors as well. Since Russia lacks experience in the above-mentioned areas (with the exception of the nuclear sector), Japan is seen as an important partner that could contribute its expertise and advanced technology in such projects.

It is important to note that prior to the Fukushima nuclear disaster that followed the Great Eastern Earthquake in Japan's Tohoku region on March 11, 2011, Japan and Russia sought to expand their ties in the nuclear energy sector. For example, in May 2009, Japan and Russia signed an agreement on cooperation in peaceful use of atomic energy, which stipulated that Russia would

²⁴ JOGMEC Homepage, “Press Release: New stage of JOGMEC-INK joint project in Eastern Siberia,” September 24, 2013, <<http://www.jogmec.go.jp/english/news/release/release0058.html>>, accessed on March 15, 2018.

²⁵ *Russia and CIS Oil and Gas Weekly*, No. 47 (913), 2009, p. 15.

deliver supplies of low-enriched uranium to Japan, while Japan would supply Russia with advanced nuclear power plant technology in exchange. The agreement also envisaged increasing the share of Russia's presence in Japan's nuclear fuel market from 15% to 25% in a decade by supplying uranium and taking part in various joint projects with Japan, particularly those related to uranium mining, nuclear fuel cycle, and nuclear power plant construction.²⁶

The Fukushima nuclear accident brought a new set of realities in Japan's energy policy as well as in the two countries' energy relations. At the end of 2011, only 16 out of 54 existing nuclear plants were still operating in Japan, and currently all but six of the nuclear reactors are offline. For various political and economic reasons, it is unlikely that nuclear power generation would be completely phased out from Japan's total energy mix in the near future, but its share will likely remain relatively small. Therefore, in order to compensate for the lost volumes of power generation due to the production decline in the nuclear power sector, Japan will need to increase supplies of other primary energy resources, such as crude oil, gas and coal, preferably provided by the reliable suppliers in its proximity, such as Russia.

Major Developments in Russia's Energy Cooperation with Japan since 2014

In late 2014, in response to Russia's interference in Ukraine and annexation of Crimea, the US and the rest of the Western nations imposed economic, trade, and technological sanctions on Russia. Japan, as a member of the G-7 group, also introduced a package of sanctions, albeit a mild one, placing various restrictions on several Russian businesses, especially those operating in Crimea. The Western sanctions have undoubtedly hurt Russia's economy, including trade, technological, and economic cooperation, particularly in the field of energy. The resulting difficult economic situation in Russia was exacerbated by a significant drop in energy prices that further undermined Russia's economic growth and put in jeopardy large-scale energy development projects. Average Brent Crude Oil price, which stood at \$109/bbl in the first half of 2014, fell by more than 70% to about \$31/bbl by January 2016.²⁷ Although oil prices have recently recovered to the levels of \$60-70/bbl, the aforementioned two factors have simultaneously threatened Russia's chances for energy exploration, development, and investment, especially in large-scale projects domestically and abroad, affecting many of Russia-Japan joint energy projects and initiatives.

Because of Japan's participation in the Western sanction regime vis-à-vis Russia and due to

26 World Nuclear News, "Russia and Japan sign cooperation accord," May 12, 2009, <http://www.world-nuclear-news.org/NP-Russia_and_Japan_sign_cooperation_accord-120509.html>, accessed on August 2, 2017.

27 EIA Homepage, "Brent Spot Price," November 14, 2017, <<https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=rbrte&f=m>>, accessed on March 15, 2018.

Russia's (albeit limited) retaliating measures, there has not been many new, significant developments in the two countries' energy relations aside from the joint projects already onstream. However, in 2016, which marked the 60th anniversary of the 1956 Soviet-Japanese Joint Declaration that normalized the diplomatic relations between the two countries, Russia and Japan have entered a new stage in their bilateral relations as well as their energy cooperation. In 2016, Prime Minister Abe and President Putin held three important summit meetings (two summits in Sochi and Yamaguchi and a meeting at the Eastern Economic Forum in Vladivostok), during which they discussed progress in their countries' ties in various areas, including joint energy and infrastructure development in the RFE and Eastern Siberia. The ultimate goal of these frequent meetings, especially for Japan, was to advance bilateral negotiations on the Kuril territorial dispute, aiming at signing a peace treaty to formally settle the two countries' WWII grievances.

Additionally, at the institutional level, several high-level meetings took place between the two countries' ministers of energy and economy as well as among high-level officials in the banking sector. As a result, in late 2016, the High-Level Group and the Advisory Council on Energy were established; and with the participation of the JBIC, the two governments set up the Russian Direct Investment Fund in order to facilitate financing for the prospective joint projects in the designated priority areas. In the same year, the Russian and Japanese governments outlined and signed more than 80 agreements on joint projects worth US\$-billions in direct investment in the energy and infrastructure sectors of the Russian economy, particularly in the RFE and Eastern Siberia.

During the same year, several important meetings and visits by the two countries' ministers in charge of trade, energy, and cooperation with each other also took place. These meetings further solidified the two countries' commitment to the acceleration and expansion of their economic ties, culminating in the agreement on about 100 bilateral projects and the establishment of the joint fund in the amount of US\$1 billion to help facilitate financing of those projects.²⁸ Furthermore, at the summit meeting in Sochi on May 6, 2016, Japan announced it would be launching a "new strategy" vis-à-vis Russia focusing on joint economic cooperation in eight specific areas, including energy, developing industries and export bases in the RFE, and cooperating on advanced technologies at an estimated cost of more than one trillion yen, or US\$9.6 billion. Among the proposed projects for energy cooperation, the two countries' leaders revisited the construction project of a petrochemical plant near Vladivostok at an estimated cost of 600 billion yen as well as development of oil and

28 The joint fund, comprised of US\$500 million equally invested by the JBIC and the Russian Direct Investment Fund (RDIF), will help finance a large number of joint projects in Russia. The two entities have been in partnership since 2013 to provide financial assistance to Japanese companies doing business in Russia (see Alastair Gale, "Russia, Japan Plan \$1 Billion Fund for Equity Investments," *The Wall Street Journal*, December 15, 2016).

natural gas in Sakhalin, Siberia, and the Arctic Sea area.²⁹

The progress in the eight-item cooperation plan was later confirmed during the St. Petersburg International Economic Forum in June 2016 by Hiroshige Seko, Japanese Minister of Economy, Trade and Industry and Minister for Economic Cooperation with Russia, and Maxim Oreshkin, Russian Minister for Economic Development and President Putin's Special Representative for Trade and Economic Cooperation with Japan. Minister Seko also visited Russia on November 2-6 to inaugurate and, together with Russian Energy Minister Alexander Novak, to chair the first meeting of the Japan-Russia Energy Initiative Council, which was established to specifically facilitate bilateral energy cooperation efforts. During the council meeting, it was announced that three working groups — on bilateral cooperation in hydrocarbons, energy efficiency and renewable energy, and nuclear energy — would be established to oversee bilateral projects in these areas. In addition, during President Putin's official visit to Japan in December 2016, the two leaders signed 68 agreements worth several US\$-billions in investment by establishing 100 joint ventures as well as concluding the additional 12 intergovernmental agreements.³⁰ These new developments at the government and institutional levels suggest that Russia and Japan have reached a new level in their energy cooperation and have diversified their cooperation in various sectors, no longer limited to traditional fossil fuel energy projects.

In the oil sector, Russia-Japan energy ties greatly benefited from the increase in the crude oil deliveries through the ESPO oil pipeline to Asian customers, after the pipeline oil-pumping capacity increased from 50 to 58 million tons of crude oil per year in 2014. As a result, there has been a significant 6.6-fold increase in Russia's crude oil supplies to Japan between 2005 and 2016, reaching about 4 million tonnes, or 12.3% year-on-year increase, in 2016.³¹ In the gas sector, in addition to the continuing development of Russia's pipeline gas capacity and infrastructure upgrades in the RFE, the Russian government focused on the expansion of LNG exports to the APR nations. For example, deliveries of Russian LNG from the Sakhalin-2 project to Japan, which recently became the world's largest buyer of LNG, reached 10.8 million tons by the end of 2014 and currently occupy a 9% share in Japan's total LNG imports.

Among other successful bilateral projects that have gained a new momentum as a result of the recent improvement in Russia-Japan energy cooperation were the Yamal LNG project and the

²⁹ Japan Today, "Japan eyes Y1 tril economic cooperation for Russia," October 9, 2016.

³⁰ A. V. Torkunov, ed., (2017), "Vneshnyaya politika Rossii 1991-2016 [in Russian: "Foreign policy of Russia 1991-2016"]," Moscow: MGIMO-Universitet, p. 499.

³¹ See EIA (US Energy Information Administration) Homepage, "Russia Reports" for the years of 2005 and 2016, <<https://www.eia.gov/beta/international/analysis.cfm?iso=RUS>>, accessed on March 15, 2018; also, *The IEEJ e-Newsletter*, No. 105, The Institute of Energy Economics, Japan (IEEJ), February 24, 2017, p. 7.

Sakhalin LNG expansion projects. The Yamal LNG project is led by Russia's largest independent natural gas producing company "Novatek" (50.1% shares) located in Yamalo-Nenets Autonomous Okrug, north of the Arctic Circle. The project is currently partnered with France's Total (20%) and China's CNPC and the Silk Road Fund (20% and 9.9%, respectively). Japan, which is represented by the joint venture of engineering firms Technip, JGC, and Chiyoda, has been participating in this project prior to the 2014 Ukrainian crisis on a consulting basis. After commencing the project's first LNG train in December 2017, the development of the Yamal LNG is still ongoing, focusing on the construction of the additional two LNG trains, export and other facilities, with the anticipated annual output capacity of 16.5 million tons of LNG and 1.2 million tons of gas condensate for deliveries to both Asia and Europe via the Northern Sea route.³² The Japanese firms will continue playing an important role in providing engineering expertise and possible future investment, particularly in the development of the Arctic LNG-2 project. The Arctic LNG-2 project, which is a branch venture of the Yamal LNG, is expected to start its operations in 2023 at an annual production capacity of 19.8 million tons of onshore gas in the Gydan Peninsula within the Russian Arctic Circle, at the estimated investment cost of US\$21-23 billion. Having secured the backing of the Japanese government, it was announced in late 2016 that the Yamal LNG and the Arctic LNG-2 projects would be supported by the JBIC's loans. Specifically, JBIC, along with other private financial institutions in Japan, announced it would provide US\$142 million in loans to help finance the Japanese acquisition of a 10% stake in the Arctic LNG-2 project, as was agreed on June 29, 2019 by Novatek and Japan Arctic LNG (JAL) Corporation, which is held jointly by Mitsui (25%) and JOGMEC (75%).³³

Another recent proposal for Russia-Japan energy cooperation came from Gazprom, which, along with its Sakhalin-2 partners, announced it would build an additional Sakhalin LNG platform in order to increase LNG exports to Japan starting from 2022. In his interview with the *Nikkei Asian Review*, Gazprom's Deputy Chairman Alexander Medvedev declared, "If there is enough demand in Japan, we will make the expansion of this business a top priority, creating a pillar for future cooperation between Russia and Japan."³⁴ Gazprom also announced that, in response to "strong, repeated requests" from Japanese business and political leaders, it would be conducting a feasibility study jointly with the Japanese partners for the mega-gas-pipeline-construction project connecting Sakhalin to Japan and would revisit the shelved plan to build an LNG plant in Vladivostok, which is expected to serve as the "export hub to Japan" upon its realization with the anticipated initial supply of 13%

32 Yamal Project Official Website, "About the Project," <<http://yamallng.ru/en/project/about/>>, accessed on August 3, 2019.

33 Hiroyuki Kachi, "JBIC to Provide Loan for Russia LNG Stake," *Inframation News/Acuris*, July 2, 2019.

34 Motohiro Ikeda, "Gazprom looks to expand LNG output in Russian Far East," *Nikkei Asian Review*, September 26, 2016.

of Japan's gas imports.³⁵

As Russian expert on the RFE economy Andrey Belov observes, "Elsewhere, from Yamal, to Tatarstan, to Yakutia doors are opening for Japanese investors, and opening wide. With the carrot of a potential territorial resolution in hand – and with Tokyo seemingly willing to splinter the U.S. strategy of isolation – Russia is operating from a relative position of strength."³⁶ While technological assistance and capital investment offered by Japan is very much welcome by Russia, the Japanese government and financial institutions have to operate carefully in Russia in order to comply with the sanction regime imposed on Russia. The main reason for the Japanese government's willing to take the risk of possible criticism from the rest of the G-7 group, particularly the US, is that it wants to make progress in the peace treaty negotiations with Russia. In late 2016, it was reported that the Abe Administration, hoping to pave the way for a breakthrough in the territorial talks with Russia, began actively urging Japanese businesses to invest in Russia, specifically in the projects launched under the "Eight-Point Economic Plan." Nonetheless, it remains a difficult task to secure large Japanese private-sector investment due to various risks associated with doing business in Russia, which, in addition to the cost-benefit uncertainties, include the unpredictable investment environment, widespread corruption and red-tape, and the changeable legal system.³⁷

Despite a considerable potential for Russian-Japanese energy cooperation, the number of new joint projects and initiatives that have been, or are in the process of being, fully realized remains relatively small. In addition to the aforementioned domestic risks in Russia, the most difficult external problems affecting the prospects for the expansion of the two countries' energy ties stem from pressure on Japan to comply with the Western economic and technological sanctions, unstable crude oil prices, and the unsettled bilateral political issues, such as the Kuril territorial dispute coupled with the absence of a peace treaty, which continue to undermine full normalization of the two countries' overall ties. Furthermore, Russia-Japan energy cooperation in the traditional, fossil-fuel sectors may also suffer as a result of the future adjustments in Japan's energy demand due to the shift away from its overreliance on fossil fuels and possible return to a larger nuclear energy share, which was proposed in the recently adopted energy plan by the Japanese government.³⁸

Concerning future Russia-Japan energy projects, they will likely be related to the existing large-scale undertakings in Sakhalin, the RFE, and Eastern Siberia. In addition, several new opportunities

35 Ibid.

36 Andrey Belov, "Over a Century of Political and Industrial Changes: How to Overcome Path Dependence in Japan-Russia Trade?", *The Journal of Comparative Economic Studies*, Vol.11, 2016, pp. 83-105, <[http://www.sfpu.ac.jp/u-ab-cpage/Belov%20Path%20Dependence%20\(Sep-16\).pdf](http://www.sfpu.ac.jp/u-ab-cpage/Belov%20Path%20Dependence%20(Sep-16).pdf)>, accessed on March 15, 2018.

37 See Takahashi Umekawa and Linda Sieg, "Japan nudges wary firms to invest in Russian to help resolve islands dispute," *Reuters*, November 3, 2016.

38 Mari Yamaguchi, "Japan Oks ambitious nuclear energy target, plutonium reuse plan," *Japan Today*, July 4, 2018.

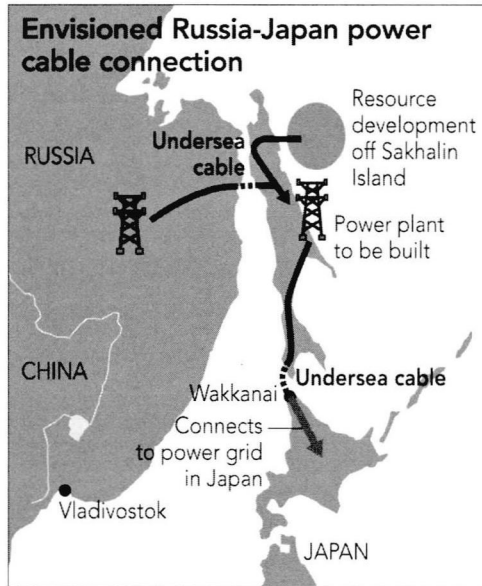
for potential bilateral cooperation may be found in the fields of energy conservation and efficiency, promotion of non-fossil and renewable energy resources, and advancement of clean energy technologies. Japan's and Russia's governments as well as their business and industry leaders have also begun revisiting several large-scale, ambitious mega-projects, namely the construction of the Sakhalin-Japan gas pipeline and the Sakhalin-Japan power grid. Although both projects have been considered in the past, they were abandoned due to prohibitive costs, seismic and environmental concerns, and the impact on the regional fishing industry. However, after Russia and China concluded their historic, multibillion-US-dollar gas deal in May 2014³⁹, a group of Japanese lawmakers from the ruling coalition parties, the LDP and Komeito, began lobbying for the construction of the Sakhalin-Japan gas pipeline to deliver the Sakhalin gas to Central Honshu. The proposal called for the construction of a 1,500-km gas pipeline with the annual capacity of 20 bcm at the cost of approximately US\$7 billion.⁴⁰ So far, there has not been any significant progress concerning the negotiations on this project, either in Japan or Russia, due to the uncertainty over its profitability and the lack of interest from the Russian authorities, who seem to prefer a more flexible, economically and logistically attractive option of the LNG deliveries to Japan. The LNG option seems to be more beneficial to the Japanese buyers as well, especially because of the need to utilize the existing LNG receiving facilities in Japan. Furthermore, in addition to the project's high cost estimates, the Japanese business leaders are wary of a possibility of overdependence on Russia for gas supplies.

Another potential mega-project involves the multibillion-dollar construction of the electric power grid connecting Sakhalin and Japan by an underwater electric cable (see Map 5), which could also connect the two countries to China and South Korea, thereby creating the so-called "Asian Supergrid." This project, however, seems to be even less likely to be materialized in the near future. In addition to the prohibitive high price tag, it would require legal and logistical adjustments in Japan's electric grid system to be able to accept Russian electricity and, as with the Sakhalin-Japan gas pipeline project, it would also result in Japan's energy dependence on Russia, which, along with the outstanding political problems, would only increase Japan's risk and vulnerability vis-à-vis its northern neighbour.

39 On May 21, 2014, Gazprom and the CNPC concluded a long-term agreement at the unprecedented cost of US\$400 billion that envisioned deliveries of 33 (eventually up to 38) bcm/year of pipeline gas for the period of 30 years to be transported by the "Power of Siberia" pipeline from Russia to China starting in 2019. This agreement also stipulated the multibillion-dollar additional construction of a massive gas infrastructure in Russia's Eastern Siberia to support this commitment.

40 Eurasia News Online, "Japan Mulls Plugging into Sakhalin's Electricity Grid," November 3, 2016, <<https://eurasia-news-online.com/2016/11/03/japan-mulls-plugging-into-sakhalins-electricity-grid/>>, accessed on March 15, 2018.

Map 5. “Envisioned Russia-Japan power cable connection.”



Source: Eurasia News Online, “Japan Mulls Plugging into Sakhalin’s Electricity Grid,” November 3, 2016, <<https://eurasia-news-online.com/2016/11/03/japan-mulls-plugging-into-sakhalins-electricity-grid/>>, accessed on March 15, 2018.

Conclusion

Russia’s strategy of “pivot” to Asia has been evolving gradually since the 1990s to facilitate the nation’s economic and political integration into the APR, while also pursuing regional development in the RFE and other remote areas. To ensure the successful realization of this policy, in addition to boosting its relations with China, which is Russia’s principal strategic ally and economic partner in the region, the Russian government has also placed a high priority on building solid relations with other leading Asian powers, such as Japan.

For Russia, Japan is a natural economic partner, with which it has a long history of joint development, investment, and trade in various sectors, including the energy field. Therefore, the Japanese dimension of Russia’s “pivot” to Asia has emerged as one of the vital elements of Russian economic and energy strategy in the APR.

Recently, there has been a significant improvement in the two countries’ relations in a variety of fields, in accordance with the agreements reached during frequent Putin-Abe Summits, particularly stressing the need to expand their trade, economic, and energy ties. The most successful developments in bilateral energy cooperation to date include the inauguration of the Prigorodnoye

LNG plant in March 2009 under the Sakhalin-2 Project; the December 2009 launch of the Kozmino Bay oil terminal and the December 2012 completion of Phase 2 of the ESPO oil pipeline project; the completion of the Sakhalin-Khabarovsk-Vladivostok gas pipeline in September 2011; joint energy development projects in Eastern Siberia with JOGMEC; and the expansion of Russia's LNG production capacity for the shipments to the APR. These projects serve as important milestones, helping bring Russian-Japanese energy cooperation to a new level, marking the beginning of large-scale energy exports from Russia to Japan, and opening Russia's access to Asia-Pacific energy markets. Additionally, several ambitious joint energy and infrastructure "mega-projects," such as the direct Russia-Japan railway communication, the "energy bridge" connecting Khabarovsk, Sakhalin, and Hokkaido via the undersea gas pipeline, and the Sakhalin-Japan power-grid connection project, have also been discussed during recent Putin-Abe summits and other bilateral meetings among the related government agencies.

Furthermore, despite the continuing economic and technological sanctions placed by the West on Russia in response to the 2014 Ukrainian crisis, their impact on Russia-Japan economic ties and trade relations has been relatively mild, as their cooperation continues to steadily grow, with bilateral trade reaching US\$34.1 billion in 2014 – a slight drop from the record high US\$34.8 billion in 2013.⁴¹ Still, the two countries' trade and economic engagement have yet to reach their full potential, as Russia remains Japan's fourteenth largest trading partner; while Japan is Russia's eighth.⁴²

Based on the close linkage between politics and economics in the two countries' relations, it is plausible to argue that through deeper economic integration and energy cooperation, Japan and Russia will be able to improve their political ties as well. Both Japan's and Russia's leaders today agree that the absence of a peace treaty in their relations, in Putin's words, is "abnormal," and that they need to place a high priority on signing a peace treaty in the near future as the key prerequisite for full normalization of their relations.⁴³ During the latest, 27th, summit meeting between Russia's and Japan's top leaders, which took place on the sidelines of the EEF in Vladivostok on September 5, 2019, they reaffirmed their commitment to continue "future-oriented" negotiations with the ultimate goal of reaching full-fledged normalization of Russia-Japan relations, viewing it, according to Prime Minister Abe, as their "historical duty."⁴⁴

41 The Japanese Ministry of Foreign Affairs (MOFA), "Diplomatic bluebook 2015: Section 5: Russia, Central Asia and Caucasia," 2015, p. 140.

42 The Embassy of the Russian Federation to Japan, "Russian-Japanese relations" (2018), <<https://tokyo.mid.ru/web/tokyo-en/russian-japanese-relations>>, accessed on March 15, 2018.

43 *Japan Times*, "Putin: Lack of treaty 'abnormal,'" February 22, 2013, <<http://www.japantimes.co.jp/news/2013/02/22/national/putin-says-absence-of-japan-russia-peace-treaty-is-abnormal/#.Uq00I9IW16A>>, accessed on August 2, 2017.

44 *Kyodo*, "Abe urges Putin to fulfill 'historical duty' to sign peace treaty," September 5, 2019.

Notwithstanding their deepened economic and energy cooperation, the two countries are yet to develop full trust in their relations, which would require settling their borders and signing the peace treaty to bring their hostilities from the WWII-era to a complete end. For a significant improvement of their ties, it is critical for Russia and Japan “to remove the problem of a peace treaty from the center of the political agenda and to concentrate on more productive and positive issues.”⁴⁵ However, given the persistent differences in the two countries’ official positions on the Kuril territorial dispute, it is difficult to envision a significant breakthrough in the peace treaty negotiations or the territorial settlement anytime soon. While “agreeing to disagree” on their respective positions in the territorial row, the two leaders chose to focus on future mutual benefits for both nations by expanding their cooperation in various fields and by committing to continuing their diplomatic dialogue in order to establish a stable, trust-based relationship between their countries.

In addition to the remaining long-standing political issues, in order to advance the Japanese dimension in Russia’s “pivot” to Asia, other difficult challenges and concerns need to be addressed as well. The Russian government has been particularly concerned about Japan’s strengthening its security cooperation with the US and has been critical of Japan’s acting under the US pressure to impose economic and technological sanctions on Russia. Therefore, while referring to Japan as its important and reliable partner, it is evident that Russia continues viewing Japan more as a major investor or trade partner in helping Russia solve its economic hurdles in the Russian Far East and Eastern Siberia, rather than a trustworthy, genuine strategic partner.

The outstanding bilateral political hurdles and the sanction regime have also undermined progress in the proposed Russia-Japan joint ventures in the RFE and Eastern Siberia. As a result, paired with the legal framework difficulties, bilateral joint economic activities and projects in the disputed territories (which were proposed by Japan in May 2016 as a part of its “new strategy” towards Russia) remain problematic and rather limited in their scope. Other difficult challenges hindering Russian-Japanese energy cooperation include such issues as securing ample long-term energy supply and financial commitments, addressing environmental concerns and lack of infrastructure in Russia’s remote areas, facing complex strategic implications of foreign investment and participation in the development of Russian resources, and adjusting to the instability of the world energy prices. In addition, Russia will have to carefully balance its strategic relations with China vis-à-vis the expansion of its economic and political ties with Japan and other key Asian powers, such as South Korea and the ASEAN nations.

Russia and Japan are both important regional and global powers. It is crucial for the two

⁴⁵ See Dmitry Streltsov, “Russo-Japanese relations: A skeptical view” in Victoria Panova and Artyom Lukin, “Russia and Japan: Looking together into the future,” Vladivostok: Far Eastern Federal University Press, 2016, p. 32.

countries to continue advancing their bilateral relations in various areas, especially in the strategically important energy sector, in order to improve mutual trust and to create opportunities to deepen their dialogue in search of timely, effective, and mutually acceptable solutions to their outstanding political problems, focusing on the settlement of the Kuril territorial dispute and conclusion of a peace treaty. Recent positive developments in the two countries' relations, such as the improved political and security dialogue as well as expanding trade and economic cooperation, signal an important transformation in Japan's and Russia's policies toward one another. These positive developments offer hope that the Japanese and Russian governments could eventually find a solution to the Kuril dispute and conclude the peace treaty based on a mutually-beneficial compromise, which Prime Minister Abe referred to as his "common goal" with President Putin that must be achieved within their generation.⁴⁶

The year of 2020 will mark the 75th anniversary of the end of WWII and would be a great opportunity for the leaders of Russia and Japan to seize in order to open a new chapter in their countries' relations. The outstanding political hurdles are among the most difficult obstacles that have prevented the two countries from reaching full potential in their bilateral economic relations, including energy cooperation. If Russia and Japan manage to settle their border and to conclude a peace treaty, it would boost their future economic and energy cooperation in the RFE and Eastern Siberia. Because Russia and Japan are also the key players in the world energy market, particularly in the APR, their successful energy collaboration would not only serve their respective economic and energy needs, but also would improve their security cooperation. This, in turn, would contribute greatly to the strengthening of energy security, economic cooperation, and the political stability in the APR as a whole.

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⁴⁶ Official Website of President of Russia, "Press statements following Russian-Japanese talks," September 10, 2018, <<http://en.special.kremlin.ru/events/president/transcripts/58511>>, accessed on March 3, 2019.

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