A case study: the oil weapon vs. Japan

Japan has been made a special target of the oil weapon. Senator Jacob Javits (R-NY) made clear why in a March 19 Senate speech. Calling for "IMF control over surplus as well as deficit nations" and for a one-third cut in U.S. oil imports, Javits said: Our allies should understand what the British understand. The Tokyo Economic Summit (scheduled for this summer — ed.) is the watershed ... no longer is OPEC the problem, Japan and West Germany are the problem."

Japan is on the hit list for oil supply cutbacks and price hikes because its Tokyo Capital Market intends to use surplus dollars to help finance Third World development. Explained one leading official at the Brookings Institution: the effect of the oil price hikes "would shift the surplus dollars out of the hands of Japan (and Germany — ed.) and into the hands of OPEC, making the recycling problem much different."

As long ago as last September, the *International Currency Review*, a publication of the banking house of Rothschild, was critical that the surplus dollars in the hands of Japan and West Germany were being used for "political purposes" — through the European Monetary System and the Tokyo Capital Market. The *Review* yearned for the days of 1973-74 when OPEC had surplus dollars and deposited them in London's banks. Of course, bringing back those days means busting OPEC.

Hitting Japan's oil supplies

Two weeks ago, Exxon, prompted by a 1 million barrel per day cutback from British Petroleum, announced a policy of not renewing third party contracts to supply oil to nonaffiliated refineries. Beginning April 1, Exxon's policy will reduce Japanese oil supply by 2.2 percent. By October, supplies will be cut by 3.5-4 percent.

Last week, Royal Dutch Shell announced a cutback to Idemitsu oil, the largest non-foreign-affiliated refiner in Japan. Additional cutbacks expected from Shell would cut Japan's oil supply by another 2 percent, bringing the total of Exxon and Shell to 5.5-6 percent by the end of this year.

So far, Japan is making up this deficit by increasing its purchases from Saudi Arabia and by direct deal purchases of 5-600,000 barrels per day from Iran by four trading companies — Mitsui, Mitsubishi, Marubeni and C. Itoh. Idemitsu Oil and Japanese oil company circles are confident of securing more direct deal purchases from Iraq. But Japan will be in deep trouble if London succeeds in destabilizing Iran, Saudi Arabia, and the other OPEC nations and if the other oil majors follow the path of Shell and Exxon.

What cutbacks would mean

Of all the advanced sector nations, Japan is the most vulnerable to political blackmail through the oil weapon. Of Japan's total consumption, only 22 percent is purchased in direct deals by wholly Japanese-owned refiners from the oil producers. Another 7 percent is purchased from such firms as France's state-owned CFP, Getty, and Union Oil of the United States. The remaining 70 percent is purchased from the Seven Sisters, 40 percent by their own affiliates in Japan and 30 percent through third party contracts.

Cutbacks in Japan's imports have four times the impact of an equal cutback in U.S. imports. Japan imports virtually all of its oil, while the United States only imports 50 percent. Japan uses 70 percent of its oil for industry, while the United States uses only 40 percent. There is much less room for turning down the thermostats or driving slower. More than a 3 percent cutback, and industry begins to hurt.

Beginning in 1973, Japan embarked on an ambitious campaign to end this dependence by securing oil-for-technology economic cooperation agreements with the OPEC nations. Prior to the oil crisis of 1973, Japanese and European firms held discussions with Saudi Oil Minister Sheik Zaki Yamani to create a Euro-Japan oil consortium for direct deal purchases from Saudi Arabia, bypassing the majors. Henry Kissinger quashed this move following the October War.

Since then, Japan has engaged in development projects amounting to tens of billions of dollars in Iran, Iraq, and Saudi Arabia. Idemitsu Oil has ties to Iran's Prime Minister Bazargan that date back to the late 1940s when it assisted then head of the National Iranian Oil Company, Bazargan, to break British Petroleum's embargo on oil purchases from the Mossadeq government.

The oil weapon is forcing Japan to expand its oil-for-technology approach. Its success will depend on the continuing stability of the member nations of OPEC.

— *Richard Katz*