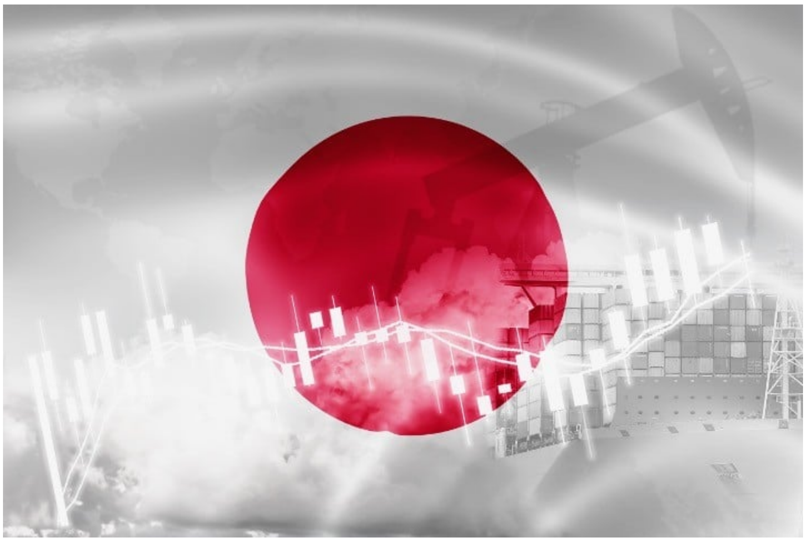
Japan Disagrees With U.S. on Russian Oil Purchases



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SINGAPORE — Although the United States has campaigned for a $60-a-barrel cap on purchases of Russian crude oil, Japan, a close U.S. ally, has decided to purchase Russian oil beyond the price cap.

Due to its long-term reliance on Russian oil imports and lack of domestic natural resources, Japan has imported $52 million of Russian oil at about $70 a barrel since January this year.

However, as a member of the Group of Seven (G-7) countries and the upcoming host for the G-7 summit in Hiroshima in May this year, Japan has remained firm in denouncing Russian actions in the Russo-Ukraine conflict. Prime Minister Fumio Kishida's tough stance against Moscow has been regarded as a move to placate the U.S. and deter China from any potential aggression.

Spearheaded by the United States, the G-7 imposed the price cap on Russian seaborne crude oil in December 2022 to restrict the Kremlin's ability to finance Russian actions in Ukraine.

Widely seen as the G-7's least energy self-sufficient nation, importing 94 percent of its primary energy needs, Japan had obtained a prior exemption for the Sakhalin-2 project to import gas from the Russian Sakhalin region because of pre-existing business deals between Japanese companies and Russia as well as the lack of substitutes for Russian gas.

When U.S. and British firms ExxonMobil and Shell gave up their stakes in Sakhalin-1 and 2 respectively, Tokyo held on, even abiding by new Russian rules.

It's a purely pragmatic position, admitted Hiroshi Hashimoto, head of the gas group at the Institute of Energy Economics. "They [Russia] are geographically so close to the country and have significant energy resources," he said in an interview with Agence France-Presse. "The projects were developed to diversify energy sources."

James Brown, a political science professor at Temple University's Japan campus, remarked that Japan has always remembered the oil shock of the 1970s, and energy security threats "are ingrained in the mindset of the Japanese government."

The country's energy supplies would be especially vulnerable "in the case of a crisis in the Middle East or in the South China Sea, through which much of Japan's energy is shipped," Brown acknowledged.

The East Asian country's primary aim is safeguarding access to Sakhalin-2's LNG (liquefied natural gas), opined Yuriy Humber, founder of Japan NRG, a platform analyzing energy and electricity markets in Japan. "If you put an embargo on the oil, but the project is still producing both oil and gas … you make it very difficult on an engineering and economic basis to keep the project going," he added.

The Ukraine conflict led to increased competition for alternatives to Russian LNG. As Japan has limited storage capacity, Sakhalin's proximity is crucial.

"The alternatives aren't really very easy and they are very expensive," Humber pointed out, as long-term agreements recently inked with Oman and the U.S. are unlikely to materialize for years.

Also, many Japanese officials view Japan's continued use of Sakhalin as an energy security strategy, cautioning that pulling out might lead to China entering such projects.

Nonetheless, Japan obtained only 1.46 percent of its oil imports from Russia in 2022, with not all coming from Sakhalin. Although Tokyo cut Russian coal and oil imports by 41 percent and 56 percent in 2022, it had to increase Russian gas imports. Japan is also reliant on crude oil from the Middle East.

Adding to the list of sanctions against Russia was the European Union (EU) embargo on Russian oil in February this year. However, notwithstanding global, Western-led sanctions on Russia, a March 2023 *Politico* report revealed, the level of Russian exports remained the same, arousing speculations that Moscow has been circumventing sanctions in its trade with Europe.

For example, analysts have opined that Russia may have given a considerable part of its energy income to third-party intermediaries, shifted its oil tankers to companies registered in third-party countries, or altered flags on these tankers to go around sanctions.

Complicating matters further is the fact that it is challenging to monitor the passage of crude oil on global markets, because crude oil can be mixed or blended with other shipments by companies in transit countries to obfuscate its origin. Even refining unmixed crude oil would conceal any clues hinting at the country of production.

"Since the introduction of sanctions, the volumes of crude oil Russia is exporting have remained more or less steady," admitted Saad Rahim, chief economist at the global trading firm Trafigura. "It's possible that Russian oil is still being sold on to the EU and Western nations via middlemen." Some observers suspect that Azerbaijan could be one of these middlemen being used in Russia's attempt to circumvent sanctions.

The Tikhoretsk-Grozny-Makhachkala-Baku pipeline has been singled out as a possible channel for Russia to transport fuel through Azerbaijan via the Baku-Tbilisi-Ceyhan pipeline. In mid-2022, after many EU countries severed ties with Russia, Azerbaijan managed to export 240 thousand barrels a day more than it had produced, despite the fact that Azeri production capabilities had been dropping for some time already.

"How can a country diminish its production and increase its exports at the same time? There is something completely inconsistent in the figures and this inconsistency creates suspicions that sanctions are being circumvented," François Bellamy, one of the European Parliament's French members, said to the European Commission when asking for an official probe into the issue.

Similarly, on March 20, British NGO Global Witness (GW) published a report stating that Russian oil is being sold all over the world at prices far above the $60 cap imposed by the G-7 at the end of last year. The GW report found that up to 20 million barrels of ESPO (Eastern Siberia Pacific Ocean) Russian crude grade, valued at $1.5 billion, which should have been under the Western-imposed price cap, were sold well above it.

Mai Rosner, a GW representative, summarized the situation: "The fact Russian oil continues to flow round the world is a feature, not a bug, of Western sanctions."