

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.

<https://www.wsj.com/articles/japan-sticks-to-russian-oil-and-gas-bucking-western-pullouts-11646392575>

BUSINESS

Japan Sticks to Russian Oil and Gas, Bucking Western Pullouts

Tokyo cites decades of investments in Sakhalin projects and need to avoid dependence on Middle East



A tanker loaded its cargo of liquefied natural gas from the Sakhalin-2 project in Prigorodnoye, Russia, last year.

PHOTO: /ASSOCIATED PRESS

By *Peter Landers* and *Chieko Tsuneoka*

March 4, 2022 6:16 am ET

TOKYO—The Japanese government and local companies are sticking with their Russian energy deals, defying a pullout led by Western companies.

Shutting off the flow of billions of dollars to Russia for oil and gas would be one of the biggest steps Tokyo could take to hurt Moscow. But Japanese officials say it could raise prices for consumers and increase dependence on the Middle East.

So far, Tokyo has sanctioned some Russian banks and President Vladimir Putin, while offering \$100 million in aid to Ukraine. On Thursday, Prime Minister Fumio Kishida called Russia's invasion of Ukraine an outrage that "we absolutely cannot

accept.”

Mr. Kishida’s solidarity with Ukraine faltered when he was asked whether Tokyo would withdraw its investments in Russian government-led oil and gas projects, as Shell PLC and others have done.

“A stable supply of energy” is “a part of the national interest that we have to protect to the maximum extent possible,” he said. He said Japan would wait a while to see what others were doing.

Japan’s hesitations are part of a larger global rethink about how fully to cut ties with Russia. Even the U.S., while imposing heavy sanctions on Moscow, still permits some business dealings with Russian government-controlled energy companies like Rosneft and Gazprom.

The centerpiece of Japan-Russia energy cooperation is a pair of projects on the Russian island of Sakhalin. The first, Sakhalin-1, produces oil. Shareholders include Rosneft and a Japanese government-led consortium with a 30% stake. An official at Japan’s Ministry of Economy, Trade and Industry said Sakhalin-1 produced 220,000 barrels of oil a day.

Sakhalin-2, meanwhile, produces natural gas that is liquefied and shipped to customers overseas. Japan buys about 60% of the output, according to Sakhalin-2 investor Mitsubishi Corp. The project is led by gas exporter Gazprom. Japan’s Mitsui & Co. owns 12.5% and Mitsubishi owns 10%.



A tanker off Prigorodnoye, Russia, earlier this year.

PHOTO: SERGEI KRASNOUKHOV/ZUMA PRESS

Several other Russian energy projects in the Arctic and Siberian regions have received investments or loans from Japanese entities. Japanese engineering firms are also frequently involved.

In 2021, Japan got 9% of its natural gas from Russia and nearly 4% of its oil, thanks mostly to imports from Sakhalin.

After spending decades building up their Russia business, the Japanese government and the Sakhalin investors were jolted over the past week as American and European companies pulled out. Those companies said it was no longer possible to do business with Mr. Putin's Russia.

Exxon Mobil Corp., the operator of Sakhalin-1, said Tuesday it was preparing to shut down production at the development and would end new investment in Russia. A day earlier, Shell, an investor in Sakhalin-2, said it would pull out of the project.

All of the Japanese entities involved, including Mitsui and Mitsubishi, said they were thinking about what to do next. None said specifically that pulling out was an option. Mitsui said its exposure to Russia, mostly from natural-gas projects, was about \$4 billion in investments and loan guarantees as of the end of 2021.

Now, some Japanese business leaders say Tokyo invested too much in Russian projects to abandon them at this point.

“I certainly don't think that Japanese companies immediately need to fall into line” with the West, said Akio Mimura, chairman of the Japan Chamber of Commerce and Industry.

Industry minister Koichi Hagiuda on Friday called Sakhalin-1 “an important project for our country's stable supply of energy” because it is one of only a handful of suppliers outside the Middle East, which provides around 90% of Japan's oil.

A somewhat contrary note came from the head of a major lender to Russian energy projects, the government-owned Japan Bank for International Cooperation. Tadashi Maeda said that in light of Russia's invasion, “we can't just go ahead with business as usual.” He didn't specify what needed to change.

Analysts say Japan's dependence on Russian energy isn't as great as some European nations—such as Germany—but a pullout could still be painful.

“Japan would most likely look towards Australia to make up lower supply from Russia,” said Moody's Analytics economist Stefan Angrick. “Higher prices would raise Japan's import bill as well as producer and consumer price inflation. The result would be slower growth.”

Write to Peter Landers at peter.landiers@wsj.com and Chieko Tsuneoka at chieko.Tsuneoka@dowjones.com

Appeared in the March 5, 2022, print edition as 'Japan, Citing Need for Energy, Continues Sakhalin Ventures.'

Copyright © 2022 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.