Raising the stakes

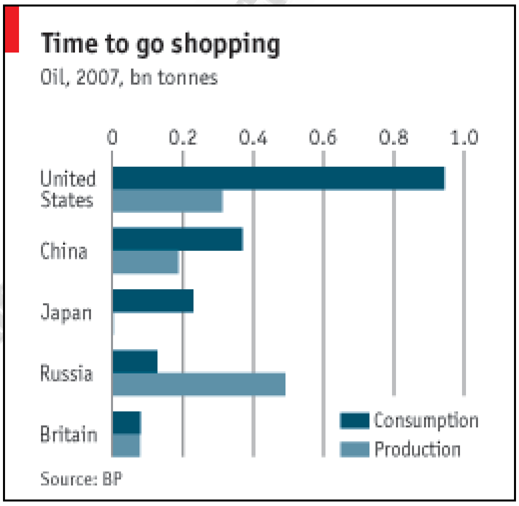
Low prices and a strong yen give Japanese firms an opportunity to buy abroad.

When Energy Frontier, an enormous tanker, glided into Tokyo Bay on April 6th from Sakhalin Island, she was not just carrying the first shipment of liquefied natural gas (LNG) from a problematic Russian venture, under a deal signed 15 years ago. She was also bearing the symbolic weight of Japan's aspirations to greater energy security. Lacking natural resources, Japan imports more than 95% of its energy. Almost all its oil and a quarter of its LNG come from the Middle East. To reach Japan ships must travel for 20 days, passing near pirate-infested waters. Sakhalin, by contrast, is just three days away.

In 2006 the Japanese government called on industry to increase its ownership of foreign energy projects to cover 40% of Japan's energy needs, up from 15% at the time. The idea was to make the country less dependent on the spot market in case of trouble by taking stakes in various energy projects around the world. But as prices soared and China became a keen buyer, slow-moving Japanese firms found themselves being shut out of deals.

Today, however, many energy projects are starved of capital because of the credit crunch, energy prices are low and the yen is strong. Since mid-2008 the price of crude oil has fallen by two-thirds and the yen had at one point appreciated by as much as 20% against the dollar. This has given Japanese energy firms a window of opportunity to make foreign acquisitions.

In January Nippon Oil bought rights to oilfields in Papua New Guinea. Inpex, Japan's largest oil-development company, has acquired rights to oil in South America and Australia. A consortium that includes Nippon Oil and Inpex is vying for rights to a project in southern Iraq. And this month Hugo Chávez, Venezuela's president, visited Tokyo to sign energy deals.



"We have been very quietly shifting the gravity of our strategy from exploration and 'greenfield' projects to acquisitions and exchange deals," says Tadashi Maeda of the Japan Bank for International Co-operation (JBIC), a state-backed lender for foreign projects. Deals rather than digging lets Japan obtain resources faster, he says. JBIC can put around $12 billion a year towards energy acquisitions.

The Japanese government's 40% target is immaterial, Mr Maeda asserts. Instead, JBIC's aim is to ensure that the market functions smoothly and that the fuel can be transported to Japan if necessary. A stake in an oilfield does not always entitle the owner to a share of its output, rather than a share of the revenue when the oil is sold on the open market. But ownership helps absorb the shock of sudden price increases or tight supply. And some contracts do specify that in the event of a crisis, output is reserved for the owners.

So far the Japanese firms' deals have been small, raising concerns that they may be missing their chance to buy at a favourable time, says David Hewitt of CLSA, a broker. Yet the hesitation is understandable. Lower energy prices means certain projects are no longer viable. Some firms, including Mitsubishi and Mitsui, are expected to have to write off portions of recent investments, making them wary of new deals. Even when capital is available, taking on debt can jeopardise a firm's credit rating. And the recession has reduced Japan's energy use by 10-20%.

Japanese executives also complain that Chinese firms, which have plenty of capital from state-run banks and face less pressure to show profits, are overpaying and driving up prices. JBIC encourages Japanese firms to form consortiums to increase their heft. In February Toshiba, Tokyo Power and JBIC took a joint 20% stake in Uranium One of Canada—a deal that suits everybody's interests but which no party could have achieved on its own.

The shipment of LNG that arrived in Tokyo this month came from the giant Sakhalin II project, set up in the 1990s by Royal Dutch Shell, an Anglo-Dutch oil giant, in partnership with Mitsubishi, Mitsui and other Western firms. At the time it was the only big energy project in Russia that did not involve a local partner. That changed in late 2006 when Shell and its Japanese partners reluctantly agreed to sell a 50% stake to Gazprom, Russia's state-controlled gas giant. This highlighted the political risks involved in the pursuit of energy security—and why having the government represented, via a state-backed lender like JBIC, is not a bad idea.

The Sakhalin II project will produce as much as 9.6m tonnes of LNG a year, 60% of which will go to Japan, accounting for about 7% of its LNG imports. For Japan, the project's proximity is its main appeal. Parts of Sakhalin were Japanese territory in the late 19th and early 20th centuries, and were ceded after Japan's defeat in the second world war. Today's commercial battles are less bloody, but no less intense.

The Economist, New York, 8 abr. 2009, Business, online. Disponível em <www.economist.com>. Acesso em: 16 abr. 2009.