

Is a Russia-Japan Natural Gas Pipeline Next?

A group of Japanese lawmakers are interested in pursuing a \$5.9 billion natural gas pipeline project with Russia.

By [Global Research News](#)

Theme: [Global Economy](#), [Oil and Energy](#)

Global Research, June 01, 2014

[The Diplomat – Tokyo Report](#)

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Following Russia's historic \$400 billion natural gas supply deal with China last week, Japanese lawmakers are looking to revive efforts to tap into Russian natural gas supplies themselves. A Bloomberg report (1) shows that a group of 33 lawmakers in Japan are backing a 1,350 kilometer pipeline that would run between Russia's Sakhalin Island and Japan's Ibaraki prefecture, just northeast of Tokyo. The project is estimated to cost \$5.9 billion and could yield as much as 20 billion cubic meters of natural gas per year (equivalent to 15 million metric tons of liquefied natural gas). The pipeline would make up 17 percent of Japan's imports.

The Japanese lawmakers backing the proposal belong mostly to the ruling Liberal Democratic Party and the New Komeito Party. The renewed interest in the pipeline is primarily due to Japan's own energy shortages following the shutdown of all of Japan's 48 nuclear reactors following the March 11, 2011 Tohoku earthquake and tsunami, which caused a triple meltdown at the Fukushima Daiichi plant. The Democratic Party of Japan government at the time decided to shut down Japan's nuclear plants and begin moving the country away from a reliance on nuclear power following a public backlash after the Fukushima crisis.

Based on current plans, natural gas originating on Russia's Sakhalin Island would be transported via the Sakhalin-Khabarovsk-Vladivostok pipeline where it will be processed into liquefied natural gas for export to Japan. (2) Russia has considered additional undersea and land-based pipelines to deliver gas to China, North Korea, and South Korea in the region, including one pipeline that would deliver gas to South Korea via North Korea.

For Russia, a pipeline deal with Japan would be particularly compelling. Japan is the world's largest LNG importer, having purchased 87.49 million metric tons of LNG in 2013 according to the Japanese finance ministry. Despite being the largest importer worldwide and its proximity to Russia, Japan only imported 9.8 percent of its LNG from Russia. The proposed pipeline would see that number grow substantially, in part because Japan could import natural gas instead of LNG. LNG is costlier to transport. Naokazu Takemoto (3), the Japanese parliamentarian heading the group in favor of the pipeline, estimates that "the price of natural gas will be two times lower than the export of liquefied natural gas." Politically, given Russia's current isolation with the West over its actions in Ukraine, a pipeline deal would also gain Vladimir Putin some vitally needed political currency. Indeed, Russia's recent deal with China was likely motivated by the Kremlin's political concerns -

China seems to have won a deal at a very favorable price.

If Japan and Russia formally begin negotiations for a pipeline, Tokyo will likely be able to win a favorable price as well. As Europe tries to reduce its dependence on Russia's natural gas, Russia will lose a certain amount of leverage in negotiations. The group of Japanese lawmakers will propose the deal to Prime Minister Shinzo Abe, who will study the feasibility of the deal in June. It is likely that Abe will propose the deal to Vladimir Putin when he visits Tokyo later this year.

Notes

(1)

www.bloomberg.com/news/2014-05-27/japanese-lawmakers-to-push-abe-on-russia-natural-gas-pipeline.html

(2)<http://vladivostoktimes.com/show?id=26289&p=2>

(3)http://voiceofrussia.com/news/2014_05_28/Japanese-parliamentarians-propose-to-build-gas-pipeline-from-Sakhalin-to-Japan-for-6-billion-6553

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