PROSPECTS AND OBSTACLES FOR INCREASED RUSSIAN COAL SALES TO JAPAN

INTRODUCTION: FUKUSHIMA SHATTERS TOKYO'S ENERGY POLICY

Last year's earthquake and tsunami in Japan resulted in Fukushima's nuclear incident, ultimately casting a shadow over the future of the country's atomic industry. At the time of writing, all nuclear power stations are offline, and the prospects for restarting them do not look that bright, in the face of public hostility and reluctance by many local authorities. The resulting gap between electricity production and consumption has led to a number of measures, among them rolling blackouts last summer, which some voices are warning may be back later this year. While Tokyo still has not drawn up a comprehensive strategy in the energy arena, comprising not only a ultimate answer to the nuclear question but also, should that be negative, an outline of how to make up for the resulting short fall, a number of measures have been taken. Chief among them, Japan has experienced a notable surge in oil and LNG (Liquefied Natural Gas) imports, much of it from Russia.

Moscow was among the first countries to offer assistance when news of Fukushima spread, and this did not only comprise short-term measures such as the dispatch of specialized personnel and a promise of emergency shipments of oil and LNG, but also longer-term proposals such as the building of a submarine cable allowing Russia to export electricity to Japan. Not so prominent in the press, but also in the cards, is the possibility that Tokyo may import greater volumes of coal, an energy source often seen as dirty or old fashioned but which remains significant in many countries and which according to some sources may even be making something of a comeback on the strength of new, cleaner, technologies.

The purpose of this article is to examine the prospects for larger exports of Russian coal to Japan, while briefly noting some of the wider political, economic, and defence and security issues surrounding the industry.

It must be noted that the level of energy trade between Japan and Russia is relatively low, somehow reflecting a not very intense relationship between the two neighbouring countries, suffering from an unsolved territorial dispute and Moscow's Atlantic

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orientation and failure to fully develop her Far-Eastern regions. This is in spite of shared perceptions in Moscow and Tokyo that both may benefit from upping the ante in the field of energy trade and cooperation.

For Japan, this would allow the country to become less reliant on vulnerable SLOCs (Sea Lines of Communication) running through the South China Sea, lowering the risk of supply interruptions. For Russia, a similar mirror interest exists, with Moscow hoping for increased energy exports to East Asia but wary of becoming too reliant on Beijing. At the same time, Russia sees Japan as a valuable potential business partner in developing her Far-East Regions, being a nearby country rich in capital and technology and in need of huge volumes of energy, one of the main natural resources blessing Russia's huge landmass.

THE PLACE OF RUSSIA IN THE WORLD'S COAL MARKETS

Russia appears as both a major producer and exporter in world rankings, while her role as a supplier to Japan is much more modest. In 2010 Moscow sold Tokyo 3.9 million tons of coal, which is not that large an amount when compared with total Japanese imports of 160 million tons, out of which more than 60% were supplied by Australia.

As we have mentioned, over the last few decades many people have not seen coal as the most attractive of energy sources, but a number of observers are noting a certain comeback based on new technologies and a more pragmatic attitude by some countries. Therefore, a greater degree of reliance on coal may not be currently ruled out as one of the possible components of Tokyo's new energy policy to emerge from Fukushima. In that case, Russia may well come to be seen as one of the countries expected to supply the extra volumes required.

Although Moscow seems well disposed toward selling more coal to Japan, a number of sources are pointing out at a potential obstacle, namely some transportation bottlenecks in the railways connecting Russia's main coal-producing regions with her Far East harbours. In late March this year, Rudi Vann, lead analyst with Wood Mackenzie, explained at a conference that "Russian ports are close to capacity with no new expansions scheduled this year. There is a bottleneck to increase supply to the market".

Russia's railway system connecting the main coal producing region of Kuzbass (Central Siberia) and the Far East is currently collapsed. Not only that, the combined cost of mining and transportation by train to sea ports is among the highest in the world, much above other coal producers. This means that the resulting profit margin for exporters is very thin. For example, Russian coal is trading at 90 USD/t FOB Baltic and Russian ports, in contrast with delivered European prices of 96 USD. A solution to this, while these infrastructures are upgraded and modernized, may be to extract more coal from mines in Eastern Siberia, but it must be noted that its energy content is lower.

From a domestic perspective, selling more coal to Japan may not only provide extra revenue to Russia, but also help her secure the future of an industry where the threat of mass job losses is looming increasingly large. Although fears of mass unrest and more widely, social instability, have prevented the Russian leadership from implementing any radical reforms in the industry, Moscow is aware of the need to make sure that mines are financially viable if they are not to become a drag on the wider economy. Selling more coal to Japan may give the industry some wider scope for profits and ultimately successful transformation.

Japan is not only seen as a consumer by the Russian coal industry, but also as a potential supplier of advanced mining technology and machinery. In May 2011, Sumitec International Ltd (Sumitomo's construction and mining machinery subsidiary) opened a sales office in Kuzbass, in what constituted the first such action ever by a Japanese company in this industry.  

Finally, we can note that there are also plans to build some new coal exporting ports on Russia's Pacific coast, however the issue of how to connect them to the rail network remains open.

CONCLUSIONS

Although it is too early to predict the exact future shape of Japanese energy policy, it is unlikely that the nuclear industry will retain its past clout, paving the way to increased reliance on other sources. Although not as touted as renewables, oil, and LNG, coal may well come to play a more significant role in Tokyo's energy mix than it currently does. In that case, for a number of reasons, chief among them a desire to diversify SLOCs away from the Southern routes threatened by Beijing's naval rearmament, Russia would be well placed. Furthermore, Moscow is also interested in increasing energy exports to Japan and has made this abundantly clear over the past year.

As obstacles to this possibility, we have some critical infrastructure bottlenecks making it difficult for Russian producers to ship increased volumes of coal by railway to the country's Pacific seaboard. On the other hand, the prospect of extra sales to Japan may spur the upgrade in such infrastructures critically needed to fully develop Russia's Far East, something Moscow is aware she needs to do both for economic and national security reasons, and a project where Japan may play a role.

More generally, we cannot forget some outstanding issues, chief among them the territorial dispute over the Northern Territories / Kurile Islands, which have traditionally prevented a closer relationship between Moscow and Tokyo in the post-Cold War era. Japanese enterprises are also often concerned about a perceived difficult investment climate in Russia.

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