

# Oil and Power: The Rise and Fall of the Japan-Iran Partnership in Azadegan

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By Michael Penn

The story of how Japan gained, and then lost, the development rights to one of the richest oil fields in the world has been treated rather casually in the international media despite the fact that it will strongly affect Japan's relations with Iran and other countries for many years to come. The issue of the Japanese involvement in the Azadegan oil field was divisive from the start, but became more and more so as the political situation in the Persian Gulf deteriorated after September 11 and the U.S. invasion of Iraq. This essay traces the development of the Japan-Iran partnership in Azadegan from its inception in November 2000 to its effective dissolution in October 2006.



Azadegan oil field



Map of Azadegan oil field

## The Courtship

On September 28, 1999, Iranian Oil Minister Bijan Zanganeh announced to the world during a radio interview the discovery of a major oil field in the southwestern portion of the country, near the Iraqi border. In fact, this area had been a battlefield during the Iran-Iraq War, and was still littered with landmines from the conflict. The original announcement described Azadegan as the largest Iranian oil discovery since the 1960s, with estimated reserves of 26 billion barrels of oil, and a capacity to produce 400,000 barrels daily. Zanganeh further announced that the Iranian government would begin development of the field by the end of March 2001. [1]



Iranian Oil Minister Bijan Zanganeh

From Japan's perspective, this announcement came at a very fortuitous juncture. In December 1998, Japan and Iran had issued a joint declaration pledging to expand economic cooperation. [2] Furthermore, Foreign Minister Komura Masahiko had just visited Tehran the previous month and

signaled Tokyo's desire to tighten both political and economic links with Iran, including the resumption of yen loans for the previously-suspended Karun River Dam project in southern Iran.

No Japanese foreign minister had visited Iran since Nakayama Taro in May 1991, and yen loans to Iran had been frozen since 1993 in deference to Washington. However, with the establishment of the moderate administration of Mohammad Khatami in August 1997, Japanese leaders had become increasingly uncomfortable with the tough American line on the oil-rich Persian Gulf country. In seeking to expand influence and access to oil in the Middle East, Japan seemed ready to challenge US preferences in the region and strengthen ties with Tehran. Tokyo pointed to moves toward democratization and the loosening of restrictions on Iranian political dissidents as a justification for a more proactive policy toward Iran.

Still, tensions remained in the Japan-Iran relationship. Komura reiterated Tokyo's concerns over Iran's possible development of weapons of mass destruction, as well as its missile development projects in cooperation with North Korea. For Tehran's part, there was the lingering worry that Tokyo was still tied too tightly to Washington's apron strings. The conservative *Tehran Times* explicitly stated: "We would like Japan to realize its own economic might... rather than echoing what the United States dictates... Komura should come here for economic and political cooperation to serve mankind, not just

the United States.” [3]

At any rate, signs of warmth in Japan-Iran relations were apparent throughout the following year. In January 2000, the Ministry of International Trade and Industry (MITI, later METI) announced that medium- and long-term trade insurance would be issued to Japanese companies for activities in Iran for the first time in eight years. By March, companies such as NEC and the Sumitomo Corporation were already taking advantage of this new policy. [4] In February, the Japanese Foreign Ministry welcomed the parliamentary elections in Iran, which it described as having been “carried out in a democratic atmosphere with an extremely high voting rate.” [5]

In April, after President Khatami’s second great electoral victory, MITI took the initiative to propose a regular dialog with Iran’s Oil Ministry. The main purpose was to explore ways in which Japanese companies might participate in the Iranian oil sector. The Iranians quickly agreed and talks began in Tehran in August.

In the background to MITI’s initiative in proposing regular energy talks with the Iranian government was the loss, in February 2000, of the Japanese-owned Arabian Oil Company’s long-term concession in the Khafji oil field, along the Saudi-Kuwaiti border. That concession had been the jewel in the crown in Japan’s upstream oil developments since December 1957. [6] Much of MITI’s enthusiasm to seize the

emerging opportunities in Iran can be attributed to their desire to make up for the setback in negotiations with the Saudis. Be that as it may, the key point to be noted at this point is that the first major step leading specifically to the Azadegan deal was made by the Japanese government.

In June 2000, Toyo Engineering received a major contract to help build a new petrochemical plant in Iran. [7] That same month, Tokyo announced the possibility of the first yen-loans to Iran for entirely new projects including improving the air-quality of Tehran and for a new railway signal system. [8]

This led to the major breakthrough event: the arrival in Tokyo of Iranian President Khatami in October-November 2000. This was the first visit to Japan by an Iranian head-of-state since the May 1958 visit of Mohammad Reza Shah, an interval of more than 42 years. The visit was clearly stated as being aimed at deepening Japan-Iran ties, particularly the Iranian desire to see more Japanese investment in their country.

Nevertheless, it was still something of a surprise when it was announced that Japanese companies would be given precedence in negotiations for the development of the huge Azadegan oil field. A consortium of Japanese oil companies led by Indonesia Petroleum, Ltd. (the Inpex Corporation) would take the lead in these negotiations.

On the Japanese side, MITI Minister Hiranuma Takeo took the lead in pushing

for Japan's participation in Iranian oil development, in part to compensate for the loss of the Khafji concession, and in part simply to diversify the sources of oil imports from the perspective of energy security. It was thus appropriate that the original agreement between Japan and Iran was reached in a meeting between Hiranuma and Iranian Oil Minister Zanganeh at the MITI building in Tokyo on October 31, 2000. [9] In the following days, Zanganeh told reporters that he expected the contract to be signed within a year-and-a-half at the longest, and probably before the end of 2001. [10] Hiranuma spoke of Iran as a "long-term partner" for Japan, and expressed eagerness to establish a relationship of trust. [11]

Newspaper editorials in Japan were also positive. For example, the *Nihon Keizai Shinbun* -- the respected financial daily -- wrote: "From the viewpoint of Japan's economic security, it is important to cooperate with Iran, a country that has the world's fifth-largest proven oil reserves and second-largest proven natural gas reserves, and which serves as a point of contact between the Middle East and Central Asia... We welcome the efforts to take advantage of this opportunity and to rebuild a cooperative relationship between the two countries." [12]

In the months following the Khatami visit, the negotiations made good progress. In December, the Japan National Oil Corporation signaled that it too would be willing to participate in the project, and by mid-2001, the Royal Dutch Shell

Group entered the discussions to provide technical support. [13]

In July 2001, MITI Minister Hiranuma led an 80-man delegation of business leaders to Tehran to solidify the relationship. Hiranuma met with both President Khatami and Oil Minister Zanganeh to reconfirm Tokyo's strong interest in rebuilding its overall business connection with Iran. [14] Hiranuma also suggested that if Washington dropped its sanctions on Iran, American oil companies might also participate in the project. Oil Minister Zanganeh signaled that he would welcome such a move. [15]

However, the issue of the Iran-Libya Sanctions Act (ILSA) remained a stumbling block. Although the moderate President Mohammad Khatami had just been re-elected in another landslide in June 2001, the U.S. Congress remained hostile to the Tehran regime, perhaps under pressure from various domestic lobbying groups. Tokyo was thus very displeased when the new Bush administration signed a five-year extension of ILSA on August 3. In a rare action, Tokyo even released a public statement critical of the U.S. It read, in part: "Considering that the Sanctions Act might not only give rise to the extraterritorial application of domestic law, which is not permissible under international law, but also inconsistent with WTO Agreements, the Government of Japan has repeatedly conveyed its concerns to the U.S. side. It is regrettable that the Act came into effect with these problems still unresolved, despite Japan's repeated appeals. We strongly urge the

U.S. administration to implement the Act carefully while maintaining its consistency with international law.” [16] Furthermore, officials in Tokyo let it be known to the press that they were prepared to fight if Washington actually tried to impose the ILSA regulations on Japanese companies: “We are not sure if the U.S. administration will apply the ILSA to Japan’s development of the Azadegan oil field, but we remain opposed to taking a sanctions policy toward Iran. We are pursuing favorable changes in Iran through dialogue and contacts. If the U.S. punishes Japanese firms under the ILSA, Japan may consider filing a complaint with the World Trade Organization against the U.S. measure.” [17]

Tokyo had clearly shifted quite a distance in just a few years. In 1997 the relationship between Japan and Iran was narrowly constrained within diplomatic channels because of Tokyo’s deference to its American ally. By August 2001, they signaled that they would be willing to defend their strengthening economic partnership with Iran, even to the extent of publicly criticizing and filing legal complaints against Washington.

For the Khatami Administration, it was a considerable achievement. In retrospect, however, the Japan-Iran rapprochement had already reached its high-water mark.

### **The First Crisis**

Tehran had nothing to do with the horrifying terrorist attacks of September 11, 2001, but 9/11 nevertheless had

powerful adverse effects on the international position and domestic politics of the Islamic Republic. Al-Qaida’s attacks in New York and Washington hardened Western attitudes toward political Islam in general and undermined President Khatami’s more generous notions of a “Dialogue among Civilizations.” While Tehran had been making significant progress toward breaking out of the mostly-American- and Israeli-inspired efforts to isolate it, the renewed and even enhanced fears of an “Islamic threat” almost instantly brought this forward progress to a halt, and even reversed it. This undermined President Khatami’s own efforts at domestic political reform, as Iranian conservatives could now show that the reform movement’s foreign policy was not making any substantial progress, and that, in any case, the West would never be willing to accept Islamic nations as equal partners.

The full repercussions of this new political dynamic were not immediately apparent to leaders in Tokyo, who at first sought to preserve the budding Japan-Iran partnership. On September 19, 2001, Prime Minister Koizumi sent a letter to the leaders of several Islamic countries, including Iran, expressing his appreciation for their condemnation of the terrorist attacks, and clarifying Tokyo’s position that al-Qaida’s attacks should not be associated with Islam itself. [18] Just over a week later, former Foreign Minister Komura Masahiko was dispatched as a Special Envoy to Riyadh and Tehran to reassure the leaders of

those countries of continuing Japanese goodwill, and to promote a united front against al-Qaida-style terrorism. [19] He also discussed the possibility of financial aid for Tehran in the event that a large number of Afghan refugees should cross the border during impending coalition assault. [20]

Japan could not, however, control the political changes taking place in the United States as a result of the terrorist attacks. President George W. Bush immediately determined that al-Qaida's attacks in New York and Washington constituted an act of war, and voices within and without the administration demanded retaliation against a long list of rivals and perceived enemies, including Iran.

Tokyo understood well that emotions were running high in America. As a result, the planned December 2001 deadline for the completion of negotiations over the Azadegan oil field was allowed to quietly slip by. Japanese leaders later denied that the September 11 attacks influenced this decision, saying that the delays were "purely due to technical reasons." Yet, even a Foreign Ministry official admitted relief to see a delay in the negotiations on the Azadegan oil field. [21]

Japanese concerns about U.S. policy toward Iran multiplied when President Bush used his January 2002 State of the Union speech to declare that Iran, together with Iraq and North Korea, were part of an "Axis of Evil" that needed to be confronted by the international

community. Tokyo remained officially tightlipped about the American president's declaration, but on February 13, 2002, Prime Minister Koizumi stated Japan's intention "to continue supporting the reformist policies of the Khatami government and keep friendly ties with Iran." [22]

At the beginning of May 2002, Foreign Minister Kawaguchi Yoriko was dispatched to Iran to meet with key Iranian leaders and to discuss a wide variety of issues, including, of course, economic cooperation. The tone, however, was subtly different, as differences in the Japanese and Iranian positions were enunciated more clearly. While the two parties agreed to cooperate on Afghan reconstruction and to strengthen cultural exchanges, President Khatami told Kawaguchi that "Iran would not bend to threats, nor would it swallow insult, and remarked that he hoped the United States would not adopt an overbearing posture." Also, in her discussions with Supreme National Security Council Secretary Hassan Rouhani, Kawaguchi stated that "suicide bombing incidents of terrorism on innocent Israeli citizens was a serious issue, and that she expected that Iran would take further positive measures to respond." Rouhani retorted: "the killing of innocent Palestinians violated humanitarian principles, and the right existed to fight against such an occupation." [23]

It was clear that the positions of Japan and Iran were beginning to diverge by the spring of 2002, under political

pressure from Washington.

President Bush's declaration regarding the "Axis of Evil" and a stream of threats by various American commentators that Iran was second only to Saddam Husain's Iraq as the country that must be "dealt with," had thrown the Iranian leadership onto the defensive, and made them even more sensitive to perceived insults from the West and its allies. They were thus not in the mood to be lectured by the Japanese foreign minister about the Israeli-Palestinian issue or about the development of new weapons systems.

For their part, Tokyo was becoming much more sensitive to American political pressure than they had been previous to September 11. The Koizumi administration had made a strategic decision to align itself more closely to U.S. policy, and this was being reflected in many ways. The dispatch of the Maritime Self-Defense Forces to the Indian Ocean in support of operations against the Taliban regime constituted one facet. More reluctantly, a slow-down in Japan-Iran relations was another facet.

The Azadegan oil field negotiations proceeded at a much slower pace through the rest of 2002, and the deadline for the completion of the negotiations was quietly extended to the end of June 2003. [24] In early 2003 everyone's attention was firmly focused on the impending American and coalition invasion of Iraq, which took place in March after a long political and military build-up. In the process, Tokyo aligned itself even more closely with U.S. policy

in the Persian Gulf.

Nevertheless, with strong political backing from Hiranuma Takeo and what was now called the Ministry for Economy, Trade, and Industry (METI), the Azadegan negotiations quietly moved forward, and as the June 30 deadline approached, all that remained was to sign the agreement.

However, at precisely this point, another issue suddenly appeared that had a negative political impact: the issue of nuclear non-proliferation. On June 19, 2003, the International Atomic Energy Agency (IAEA) reported that Iran "failed to meet its obligations under its Safeguards Agreement with respect to reporting of nuclear material." At a time when the neighboring Iraqi regime had just been overthrown on the official pretext of the development of weapons of mass destruction, Iran's concealment of nuclear material and unreported attempts to enrich uranium attracted a great deal of attention and criticism.

The Japanese Foreign Ministry quickly released a statement declaring that Tokyo "will continue to urge Iran to take the international community's concern seriously [and] cooperate fully with the IAEA in order to get rid of the international concern and enhance transparency in its nuclear activities." [25]

But in spite of nuclear concerns, METI officials still intended to sign the Azadegan oil deal as planned on June 30.

The IAEA report had nevertheless given much ammunition to foes of the Japan-Iran oil deal in Washington. National Security Adviser Condoleezza Rice, Secretary of State Colin Powell, and Deputy Secretary of State Richard Armitage all placed calls to key decision-makers in Tokyo with a blunt message: signing the deal would harm U.S.-Japan relations. [26]

Tokyo quickly caved in: Chief Cabinet Secretary Fukuda Yasuo stepped forward and stated: “We are unlikely to sign a contract over crude oil that sets aside concern about Iran’s nuclear program.” [27] METI Minister Hiranuma could not contain his frustration about this sudden reverse, even in his public comments to reporters: “The deal has been negotiated by private-sector firms. I know the Japanese-U.S. relationship is important... but I want the U.S. to understand that we have been in negotiations since 2000.” [28]

Having refrained from signing the Azadegan deal as planned, Tokyo’s new policy was to try to encourage Tehran to clear up the doubts regarding its nuclear program as a prerequisite for moving forward with the oil development project.

Iranian leaders were clearly annoyed by Tokyo’s retreat. They signaled that Japan was no longer the only partner that they would negotiate with for the development rights to Azadegan. [29] An Iranian government spokesman declared that, “in not signing this contract, the damage will not befall Iran, but rather Japan itself.” He also hinted that Chinese companies

were also interested in Azadegan. [30]

But Tehran did not break off the negotiations, and Japan was still their preferred partner. On July 12, the Foreign Ministry’s Director-General for Arms Control, Amano Yukiya, held discussions in Tehran with his Iranian counterparts. The Iranians promised to work with the IAEA to clear up the problems that had been pointed out, and this was appreciated by the Japanese delegation. The Iranians also suggested that a Nuclear Weapon Free Zone should be established in the Middle East, and complained that the international community was pressing Tehran at the same time that it was ignoring Israel’s nuclear weapons arsenal. Additionally, the Japanese delegation criticized Iran’s recent testing of a Shehab-3 missile. The Iranians responded by pointing out that conventional missile development did not violate any arms agreements or international law. [31]

By the beginning of August 2003, Oil Minister Zanganeh was sending positive signals, saying that Japan still had the best chance to win the bidding for the giant oil field, and reminding everyone that, “the oil development project is a symbol of Japan-Iran cooperation, and if there is strong will on both sides, we can conclude an agreement.” [32]

At the end of that month, Iranian Foreign Minister Kamal Kharrazi arrived in Tokyo to attempt to address the Japanese concerns. Kharrazi bore a letter from President Khatami promising that Iran had no secret nuclear weapons program,



and indicating that he would try to expand cooperation with the IAEA. However, Kharrazi pointed out in his discussions that Iran, like any other country, had the right to develop nuclear energy for peaceful purposes under the terms of the Nuclear Non-Proliferation Treaty (NPT), and that they intended to pursue that right. [33]

The Khatami administration was coming under heavy political pressure from many Western countries, as well as from Japan, and so on October 21, 2003, Tehran announced that it would suspend its uranium enrichment activities, sign the Additional Protocol of the NPT, and cooperate fully with the IAEA. Indeed, Tehran signed the Additional Protocol on December 18, 2003, in Vienna.

But in September, Prime Minister Koizumi reshuffled his cabinet, and the METI portfolio was handed to Nakagawa Shoichi, an ideological hawk linked with Japan's farm lobby. While Hiranuma had been strongly committed to the Azadegan deal, Nakagawa told an interviewer not long after he was appointed, "For us, Iran is on the same level as North Korea... We shouldn't be lost in trying to find an oil field... In light of our national interests, both issues should be weighed equally." [34]

Although Nakagawa's view was completely out of tune with the policy of his predecessor, as well as the bureaucrats under his authority, it was bound to have an effect on the negotiations. The bilateral atmosphere turned chilly once again, and Tehran

indicated that it might turn to other partners if Tokyo was not going to get on board. In November, Total of France and Statoil of Norway were mooted as specific companies whose bids might be considered. [35]

Near the end of their patience in early December, Iran wrote a letter to Inpex and the other companies involved in the Japanese consortium demanding that they clarify their intentions within one week or be forced to participate in an open, international bidding process for the Azadegan development. Still under pressure from Washington, the Japanese side let the December 15 deadline pass without taking any action.

### **Tokyo Places Its Bet**

Japan's bid for the Azadegan oil development seemed to be facing imminent dissolution, but just then there was a dramatic recovery.

Tehran's decision to sign the Additional Protocol of the NPT on December 18 reduced the level of political pressure from Washington and made Japanese leaders somewhat more comfortable about dealing with Iran.



Bam Earthquake on Dec. 26, 2003.

Then, on December 26, a major earthquake struck Bam in southeastern Iran. There were thousands of victims and a desperate situation on the ground. Tokyo's response was generous and immediate. Food and other supplies were donated, and a Japanese emergency medical team was dispatched to the affected areas. The Defense Agency transported much-needed supplies on two of its C-130 transport planes. Various Japanese NPOs also participated in these relief efforts.

The Japanese efforts were genuinely appreciated. This seems to have had the effect of soothing the political tensions that had been developing in the bilateral relationship, and restoring a positive mood.

Meanwhile, the Koizumi administration's policies toward Iran were coming under criticism from those who had formerly worked to build the bilateral connection. Behind the scenes, Hiranuma was certainly among these figures. The most prominent critic, however, was former

Prime Minister Hashimoto Ryutaro. Even in public interviews he was scathing: "Currently, Japan's ties with nations other than the U.S. are like dotted lines. We should at least try to make those dotted lines into solid ones as well... It is very regrettable that the relationship with Iran that Japan had long worked so hard to build was completely damaged by the current administration." [36]



Hashimoto Ryutaro.

In early January 2004, Foreign Minister Kawaguchi made another visit to Tehran, and discussed various issues, including the Azadegan project. Emerging from their meeting on January 6, Iranian Foreign Minister Kamal Kharrazi

commented to reporters about the oil field negotiations: “It’s time to move forward and sign the agreement.” [37]

Tokyo now had a major decision to make. Would it commit to a long-term partnership with Iran and sign the Azadegan deal? Or would it back away from the risks that such a partnership entailed?

All of the main political and economic factors were already on the table: there was the U.S.-Japan Security Alliance to consider; there was also the Japan-Iran “special relationship” which had endured American pressure throughout the Islamic Revolution; there was the loss of Khafji and Japan’s need to better secure its energy sources; there were concerns about Iran’s nuclear development and other weapons programs; there was the “war on terrorism”; there were the limitations of the democratic nature of the Iranian political system; and there was Japan’s growing rivalry with China over oil and gas resources in the Persian Gulf and elsewhere.

Tokyo then gave its answer -- yes! And so the Japan-Iran partnership was formed.

The Japanese government is never very forthcoming about explaining the reasons for its actions. Key discussions are usually conducted in-house with only hints leaked to the press. Precisely why did Tokyo sign the Azadegan deal on February 18, 2004?

Raquel Shaoul of Tel Aviv University, who produced a research paper attempting to

address this very question, felt that the Azadegan deal was highly uncharacteristic of Japan’s traditional energy policy, and owed much more to political factors than to economic ones. After examining several other possibilities, she concluded that “the growing competition between Tokyo and Beijing in the Middle East and elsewhere are the primary factors in Japan’s decision to conclude the Azadegan oil deal.” [38]

Certainly that played an important role. METI Minister Nakagawa Shoichi had already expressed a very dim view of Iran, and did not seem to share the concerns of the bureaucrats in his ministry about the vital need to develop overseas oil fields. The appeal to the China factor would have been important in gaining his consent. Nakagawa and like-minded Japanese officials would have deeply regretted seeing another rich oil field fall into Chinese hands while Japan stood by helplessly. In his case, Shaoul’s analysis is probably right on the mark.

On the other hand, the Azadegan negotiations had begun in 2000, and there is little evidence that the China factor was crucial in the earlier stages. MITI’s concerns over the loss of the Khafji concession seem to have provided the original motive force, along with a more general policy of trying to play a significant role in upstream oil development projects.

One other possible factor that Shaoul raises, but eventually dismisses, is the “bureaucratic factor.” She describes as

“received wisdom” the notion that METI was consistently pushing for the Azadegan deal because of their mandate to ensure Japan’s energy security, while the Japanese Ministry of Foreign Affairs always opposed the project due to their preoccupation with the American alliance and other concerns. Shaoul points out that the ministry personnel are not monolithic in their orientations, and that debates were carried on within each ministry as the policy was being developed. [39]

Shaoul is at least partially correct in pointing out these realities, but in the end, the “received wisdom” seems closer to the mark than her revised version. To be sure, neither METI nor the Foreign Ministry is monolithic. Nevertheless, they do have dominant factions and dominant interests which tend to shape their outlooks and even reproduce similar policies for generations. All the evidence seems to suggest that METI (with the exception of Minister Nakagawa) was always highly committed to the project, while the Foreign Ministry was dragged along only reluctantly. It is worth noting that the key senior political allies of the Azadegan development -- Hiranuma Takeo, Hashimoto Ryutaro, and, later, Nikai Toshihiro -- were all non-ideological Liberal Democratic Party conservatives with strong links to the METI bureaucracy. Nakagawa Shoichi was always a misfit as METI Minister, as most of his base and expertise lay in agricultural policy.

At any rate, the signing of the Azadegan deal in mid-February 2004 was done over

the objections of the Bush administration. The reaction in Washington, however, was not very harsh. The first public comments came from State Department Spokesman Richard Boucher: “Our policy has always been, with respect to Iran, to oppose petroleum investment there. We remain deeply concerned about deals such as this, and disappointed that these things might go forward... Over the years, repeatedly, we’ve had many discussions with the Japanese government at all levels about our concerns.” [40] Hardline U.S. Undersecretary of State John Bolton was uncharacteristically mild in his comments: “I think the Azadegan arrangement has just been proceeding on a completely separate track, and the government of Japan has made it very clear that they remain very concerned about Iran’s proliferation activities and very concerned that Iran be held strictly accountable... I don’t think that there is any difference in the view in the government of Japan and the United States on this point.” [41]

Washington and Tokyo seem to have worked out some kind of fragile agreement behind the scenes. A Japanese official told one reporter: “Of course the U.S. had to say that they were disappointed with the deal due to their strong attitude against Iran, but we have continually kept them informed and updated on the Azadegan situation.” [42]

The signing of the Azadegan agreement came at the same time as Tokyo was deploying the Ground Self-Defense Forces to Samawa in Iraq. It was perhaps

inevitable to presume that Washington's relatively mild reaction was closely related to U.S. appreciation of the Japanese role in Iraq. As California Democrat, Brad Sherman, put it, "an administration desperate for re-election will take 550 soldiers from Japan, which provide the veneer of international support and credibility for our relations in Iraq, and give the green light to \$2.8 billion going from Japan to Iran." [43] John Bolton immediately denied this allegation, but at one level or another, it is probably true that Japan's cooperation in Iraq temporarily reduced U.S. pressure over the Azadegan development in Iran.

Be that as it may, it was now an indisputable fact that Tokyo in February 2004 placed its bet on a long-term partnership with Iran. Whatever concerns may have lingered, the Japanese consortium led by Inpex now held a 75% share in the Azadegan oil field, with the remaining 25% held by the state-owned National Iranian Oil Company (NIOC). The contract signed by Inpex Chairman Matsuo Kunihiro called for a partnership lasting until 2016. It was thought that the Japanese would be able to recover their financial investment by around 2010, and that thereafter it would all be profit.

But beyond the purely financial issues, Japan was now tied politically to Iran. Iranian Oil Minister Bijan Zanganeh had called Azadegan "a symbol of Japan-Iran cooperation." Hiranuma Takeo had said the same. Even Prime Minister Koizumi himself stated in March that "Japan-Iran relations have been strengthening as seen in the agreement to develop the

Azadegan oil field, and I very much hope that this will go farther." [44]

### **A Tale of Three Elections**

After the signing of the contract on February 18, 2004, the Bush administration did not abandon efforts to pressure Tokyo to terminate the deal. This became apparent in August 2004 when reports emerged that a "senior U.S. government official" (probably John Bolton) suggested to a METI official that Japan look to Libya as a source of oil supplies rather than Iran. [45] Indeed, even without such American prompting, Japanese economic leaders were looking into investment in the Libyan oil market; but this did not preclude pursuing the Azadegan project as well. [46]

Another issue that kept creeping up during the course of the next couple of years was Iran's nuclear development. The IAEA continued to criticize some aspects of Iran's program, and complained that Tehran was not being sufficiently forthcoming with information. For its part, Tehran insisted on the right to develop an independent nuclear capability for peaceful purposes. Tokyo supported the IAEA line, and also criticized Iran's development of ballistic missiles. This remained an irritant in the bilateral relationship.

Broadly speaking, however, the Japan-Iran bilateral relationship and the Azadegan oil development project proceeded reasonably well for the first year and a half after the agreement was signed.

The most crucial factors that would impact the future of the partnership had no direct connection to Azadegan itself: It was a tale of three elections.

The first of these was the U.S. presidential election in November 2004. Despite the deteriorating situation in Iraq, George W. Bush and the Republican Party scored a major victory. These results entrenched the hardline approach to foreign policy emanating from Washington, and this affected both Iran and Japan.

It affected Iran in that the continuing war in Iraq, robust U.S. political support for Israel, and the wider “war on terrorism,” antagonized public opinion throughout the Islamic world and beyond. This dimmed the political prospects for Iranian reformers and helped pave the way for the results of the Iranian national elections of June 2005.

Indeed, it was those Iranian elections that provided the biggest surprise. The leading presidential candidate was thought to be the “realist” former president, Akbar Hashemi Rafsanjani, or perhaps one of the “reformers”; in fact, the relatively inexperienced and hardline Mayor of Tehran, Mahmud Ahmadinejad, won in a second round landslide. [47]



Iranian President Mahmud Ahmadinejad

The victory of Ahmadinejad heralded a more difficult period for Japan-Iran relations. Although the new Iranian regime still eagerly sought Japanese understanding and friendship, relations between Iran and the U.S. spiraled downwards with uncompromising figures like Bush and Ahmadinejad at the helm. It didn’t take long for each man to come to believe that the other was “evil”. Furthermore, Ahmadinejad’s victory undermined the Japanese Foreign Ministry’s argument that Tokyo’s engagement with the Islamic Republic would help buoy the liberal reform movement. The Foreign Ministry had not been wrong in its initial calculations, but the unwillingness of Washington to abandon its hostility to Tehran during the eight years of the Khatami presidency drastically limited what Tokyo, on its own, could achieve in that respect. This was especially true after September 11 and the inauguration of the “war on terrorism.”

Finally, in September 2005, a snap election in the lower house was called by

Prime Minister Koizumi Junichiro, and his revamped Liberal Democratic Party scored a landslide victory, crushing the opposition parties.

The significance of this last event was twofold: First, it entrenched an even more conservative regime in Tokyo, more committed to strengthening the U.S.-Japan Security Alliance. It also coincidentally removed some of the key supporters of the Azadegan agreement from the political field. Hiranuma Takeo was a prominent victim of Koizumi's purge, keeping his seat in the Diet, but ejected from the ruling party. At the same time, Hashimoto Ryutaro retired from politics under the pressure of failing health and a domestic scandal. The only positive result for the Azadegan project was the transfer of Nakagawa Shoichi to the Ministry of Agriculture, and the installation of the pro-business politician Nikai Toshihiro as the new METI minister.

It was the combined impact of these three elections -- and particularly the results in Tokyo -- that lit the fuse that would eventually destroy the Japan-Iran partnership just over a year later.

### **Things Fall Apart**

In August 2005, Tehran announced that it was resuming uranium-enrichment activities as a step toward the development of nuclear energy. The IAEA demanded a halt, but Tehran did not comply. This raised even further the tensions between the new Ahmadinejad administration and the United States. For

Tokyo, this meant increased U.S. pressure.

Still, there remained the issue of China. If Japan backed away from Azadegan now, would the Chinese step in? This question stirred debate and exposed some of the divisions in Tokyo.

An official at Inpex was quoted as remarking, "If (political backing) for the project ebbs during its first phase, China could get the drilling data and glide into the second phase without doing any of the initial grunt work." To this, a Foreign Ministry official responded, "We cannot ignore China, but we have to ask ourselves if we really need these projects, no matter what the cost." [48]

The comment of the Foreign Ministry official symbolizes the larger fact that the mainstream of the Foreign Ministry was now turning against the Azadegan project. Even at the beginning, officials of this ministry were decidedly unenthusiastic about the partnership with Iran. Now they were turning more decisively against it. Their responsibility was to maintain good relations with the outside world, and for most of Japan's diplomats that meant -- above all -- maintaining a smooth working relationship with Washington.

At any rate, both the Japanese oil companies led by Inpex, as well as METI, were still solidly behind the project, and that did carry some weight. It appears that METI Minister Nikai became the new champion of the energy-security line within the Koizumi Cabinet.

The next blows to the Japan-Iran partnership were once again delivered by President Ahmadinejad.

First, the new president was unable, for several months, to have his appointees to the Iranian Oil Ministry confirmed by parliament. This stalemate dragged on until late in the year.

Second, in a similar vein, the new Iranian president decided to relieve a string of senior Iranian diplomats of their posts in European capitals, thus making it more difficult for Iran to explain its policies internationally. In the view of at least one analyst, this also resulted in the deterioration of Japan-Iran relations. [49]

Finally, in a series of speeches in late 2005, President Ahmadinejad adopted a very radical posture, and made outrageous remarks. These included his advocacy of seeing Israel “disappear from the page of history” and his questioning of the historical record of the Holocaust. He even taunted a struggling Washington and Europe with statements such as, “You need us more than we need you. All of you today need the Iranian nation. Why are you putting on airs? You don’t have that might!” [50]

Through such remarks, the Iranian president effectively positioned himself as a leader of Islamist radicalism, but also alienated moderate and liberal opinion around the globe. In Tokyo, this could only have undermined the conviction that Iran remained a stable international partner.

At about this time, Tokyo began to drop hints that it was well-positioned to be a mediator in the developing U.S.-Iran political crisis because it maintained good relations with both sides. The Bush administration, however, opted to “punish” Tokyo for its lack of obedience by freezing Japan out of the main international discussions over the Iranian nuclear issue. This was a blow aimed at Japan’s pride, as well as Tokyo’s hopes to join the United Nations Security Council as a permanent member. [51]

Tehran launched a major initiative in February 2006 to try to relieve concerns in Tokyo about the direction of Iranian government policy: Foreign Minister Manouchehr Mottaki (a former ambassador to Japan) made a four-day visit to the Japanese capital.

Mottaki was urbane and pleasant throughout his visit. In interviews with the media he was soft-spoken and reassuring. Nevertheless, on the issues of substance he didn’t give any ground at all. On the other side, Foreign Minister Aso Taro used his meeting with the Iranian delegation to strike a tough pose, making comments such as, “Japan has had a long relationship with Iran, but if they antagonize the entire [U.N.] Security Council, there is a limit.” According to one participant in the meeting, the two sides just “argued in a circle.” [52]

By mid-March, the first clear indications emerged that Japan was preparing for the possibility of an economic disruption in the oil trade. Nippon Oil, Japan’s



largest refiner, cut back on its purchases of Iranian oil by 15%, looking to the Saudi market to make up the difference. The obvious implication was that this company feared that Tokyo would now back U.N. Security Council sanctions on Iran, and felt that an oil embargo or other cut-off was now a distinct possibility. [53]

In April, the political climate between Iran and the United States deteriorated even further. President Ahmadinejad made some of his most outrageous comments yet, such as, "Like it or not, the Zionist regime is heading toward annihilation... The Zionist regime is a rotten, dried tree that will be eliminated by one storm." From the other side, prominent American commentators were beginning to talk openly about the use of nuclear weapons on Iran. When President Bush was asked about this possibility, his response was: "All options are on the table." [54] Whatever gains Tehran may have made in Tokyo through Mottaki's confidence-building diplomacy were surely wiped away by the Iranian president's ill-conceived rhetoric.

But then Tehran dangled a proposal that seemed to offer the possibility of resolving the entire nuclear crisis: They suggested that the Japanese should participate in Iran's nuclear program so as to assure themselves that it was aimed only at the peaceful development of nuclear energy. This proposal was clever and interesting, but nothing substantial developed from it. [55]

In mid-May -- with Tokyo's position still unclear -- open threats were launched at

the Japanese from both the Iranian and American sides. Iranian Ambassador Mohsen Talaie opened this phase with comments asserting that if Tokyo joined Washington in imposing sanctions on Iran, this would be "an action against Japan," and he specifically cited Azadegan as "the most important part of the energy security of Japan in the future." [56]



John Bolton, US Ambassador to UN.

John Bolton -- the U.S. Ambassador to the U.N. -- responded the very next day with veiled threats of his own: "Iran is very cynically using the reliance of Japan on Iran for oil -- the possibility of the Azadegan oil field and other things -- to try to back Japan away from its very principled commitment to non-proliferation... When you're looking at a country ruled by a man like Ahmadinejad, who threatens to wipe Israel off the map, it is just good due diligence to say, 'Is this a country we want to invest in?'" [57]

Bolton's public comments showed what kind of arguments the Bush administration was using behind-the-scenes to persuade Tokyo to give up the Azadegan project and to join in the efforts to sanction and isolate the Islamic Republic. Although many commentators would continue to deny that there was intense pressure coming from Washington, Bolton's comments here (and those of Michael J. Green a bit later) provide insight on the true nature of the more confidential discussions.

At any rate, in late May, Mehdi Bazargan -- an influential Iranian oil official -- openly voiced his dissatisfaction with the performance of Inpex in Azadegan. The project was moving forward very slowly, and the Iranians were growing impatient. Officials at the Japanese oil company Inpex blamed these delays on problems in de-mining the area around the oil field, which was necessary to complete first in order to ensure the safety of its workers. Bazargan, however, now asserted that he didn't "think the main obstacle is mine clearing or de-mining," but rather Inpex's hesitation to invest the money that had been agreed due to their concern about the future direction of policy within the Japanese government. In other words, Inpex didn't want to spend a lot of money if Tokyo was simply going to pull the plug on the project in a few months' time. Bazargan further announced that Inpex was contractually obligated to complete a certain amount of work by September 2006, and if this work was not done, "the contract will be terminated automatically... Extending the deadline is

not written in the contract." [58]

Throughout the summer, it remained unclear how Tokyo was going to respond to all of this pressure. The U.S. had sidelined the Japanese from the main multilateral discussions on the Iranian nuclear issue, and the Koizumi administration was upset about that. Meanwhile, all eyes were on the U.N. Security Council where U.S. Secretary of State Condoleezza Rice was launching a major diplomatic effort to gain the consent of the other four permanent members for a strict sanctions regime. France, Russia, and China all had reservations about Washington's intentions. The mood in Tokyo swung back and forth as the permanent five's negotiations waxed and waned. Japanese leaders wanted to know what rival China would do before committing themselves to any particular course of action.

Meanwhile, in August, as the fate of the Azadegan project still hung in the balance, Michael J. Green, former member of Bush's National Security Council and a key "alliance manager," published an opinion article in the *Nihon Keizai Shinbun* making an extended case for why Japan should withdraw from the Azadegan project.

His main argument was clear: "It is contrary to Japanese national interest to take the course of appeasement of Iran... Japan should not wait to see how cautious China and Russia are going to react. Japan should seek ways to stabilize the Middle East and energy supplies in cooperation with America and Europe,

maintaining a strong attitude in considering the imposition of sanctions.”

Green then pleaded that “Japan should not pay attention to the 15% of its oil imported from Iran. What is more important is that Japan imports nearly 90% of its crude oil from the Persian Gulf States. If Iran is regarded as developing nuclear weapons, it will be a threat for all of the Gulf States.”

Green argued that Iran was destabilizing the entire Persian Gulf area and was unworthy of Japanese friendship. He also noted that Tehran had some form of cooperation on missile development with North Korea, and that “through such a cooperative relationship, North Korea’s ability to fire missiles at Japan with chemical, biological, and nuclear weapons has been enhanced.” [59]

American arguments like Green’s seemed to have the desired impact in Tokyo. The Japan-Iran negotiations over the next phase of the Azadegan project had reached an impasse, with Iranian officials becoming increasingly angry with Inpex’s endless delays in getting the development underway.

There was now a definite September 15 deadline for Tokyo to make its intentions clear on participating in the Azadegan development. The frayed tempers were apparent in the public comments of Kamal Daneshyar, chairman of an Iranian parliamentary committee on energy: “Iran was happy to do a favor for the Japanese, but if they decline, Iran will be very happy to complete this project

itself... In September, an agreement is needed, and if they want to be involved they can come up with the financing. It seems Japan has to get a positive instruction by the U.S. administration before they can do anything. They have to ask the king, and clearly Bush considers himself the king of the world.” [60]

The Iranians eventually granted an extension of the September 15 deadline to September 30, probably to allow the new administration of Abe Shinzo to make the final decision on this matter.

The new Abe administration quickly backed out of Azadegan. METI Minister Nikai was replaced by Abe loyalist Amari Akira, who showed no interest in championing the project as his predecessor had done. The new line out of Tokyo became that the whole Azadegan project had been a “private business relationship” in which the Japanese government had no direct concern, thus ignoring the fact that the Japanese government itself had launched the first negotiations over Azadegan, and that officials such as Hiranuma Takeo and even Prime Minister Koizumi had previously pointed to the joint development as being “a symbol of Japan-Iran cooperation.” When it was announced that government financing for the project would not be forthcoming, the position of Inpex collapsed, because everyone knew that the Japanese oil company needed loans from public institutions in order to cover the costs of the project. Tehran allowed Inpex to keep a 10% stake in Azadegan in order to signal their continuing interest in having

a positive bilateral relationship with Japan, but, in practical terms, the Japan-Iran partnership was finished. [61]

### Accounting for the Collapse

In November 2000, the Japan-Iran partnership had been launched with great hopes and promise for the future. Six years later, the project was dead and the century-long bilateral relationship had sunk into its lowest level. How had this miserable failure come about?

It was understood from the start that Washington would be hostile to any Japan-Iran partnership, but at the beginning of this process, Japanese policymakers were willing to face the American objections in order to pursue their own energy security policies, and to build upon the history of modest cooperation between Tokyo and Tehran. As international conditions deteriorated after September 11, Japanese leaders began to doubt their original policy, and eventually abandoned it altogether.

Why did Tokyo change course? Three main factors influenced this decision:

- 1) The “unilateral moment” in world affairs that lasted for several years after September 11, and which strongly influenced Japanese perceptions of the global order.
- 2) The deepening conflict with North Korea that made Japanese leaders feel more insecure and dependent on American protection.
- 3) A generational change within the

Japanese leadership, and with it the rise of neo-nationalists whose political priorities differed from those of their immediate forebears.

In the first months after September 11 every major power in the world expressed its sympathy and pledged its cooperation in helping the United States track down and to punish those who had carried out a terrible crime. Even such potential rivals as Russia and China adopted this line. This doubtless reinforced the perception by Japanese leaders of the United States as “the leader of the international community.” With Japanese leaders focusing almost entirely on the signals coming from the Bush administration, it was inevitable that the Japan-Iran relationship would be downgraded.

Reinforcing this emphasis on the U.S.-Japan Security Alliance was the behavior of the North Korean regime. The nuclear crisis on the Korean Peninsula affected the Azadegan deal in various ways, all of them negative. In the first place, fears about the Kim Jong-Il regime helped convince Tokyo in 2002-2003 to bow to U.S. pressures to extend the U.S.-Japan alliance into a global alliance. Previously, Japan had maintained a somewhat independent stance in the Persian Gulf. During the post-September 11 period, however, this dramatically changed as Japanese policy in the region folded into American policy. Secondly, the crisis in North Korea centered on the development of nuclear weapons. The main source of concern about Iran also revolved around a possible nuclear

weapons program. This made it easier for foes of Japan-Iran bonds to link concerns about Tehran with concerns about Pyongyang. This could not but create a heavy burden for the bilateral relationship.

The North Korean factor also played an important role in the political rise of neo-nationalists in Tokyo, and that was the third factor that eventually sank the Azadegan project. The generation of Japanese politicians that had been in power in the 1990s were supporters of the American alliance, but they also saw a need for some balance in that relationship, and were believers in the traditional Japanese diplomacy that prioritized economic issues. The younger generation of neo-nationalists was far more aggressive and committed to rebuilding Japan as a credible military power. Above all, they aimed to revise the pacifist Article Nine of the Japanese Constitution, which stood in the path of their ultimate goal. With the Bush administration and its Neoconservative allies calling for the “unleashing” of Japan, and offering the U.S.-U.K. alliance as a model for the future of U.S.-Japan relations, Tokyo moved closer to Washington. By using American influence, they could help persuade domestic skeptics that remilitarization was a necessary step if the crucial U.S.-Japan Security Alliance was to be preserved into the future. In other words, the downgrading of the Japan-Iran partnership served the partisan interests of the new generation of Japanese leaders. [62]

Although it is our contention that the critical factors that led to the dissolution of the Japan-Iran partnership over Azadegan took place in Tokyo, the Iranians also shared a degree of blame for this result.

Every country is wise to diversify its sources of energy, even those rich in oil and gas. If some of Iran’s domestic needs are satisfied by nuclear energy, a larger share of its oil and gas could be exported. The Non-Proliferation Treaty guarantees all countries the right to develop civilian nuclear power.

It was nevertheless clear that the United States, Israel, and even some Arab nations, would be hostile toward nuclear development in Iran, even for civilian nuclear energy. It cannot be said that the Khatami administration handled this issue with the care that was necessary. If there truly is no military component to Iran’s nuclear development -- as they repeatedly insist -- then it would have been better had they found ways early on to relieve the suspicions of the IAEA. If it is indeed a civilian program, then the emphasis on secrecy has not served Tehran well.

Of course, if Iran really does have a parallel military nuclear program, that is another issue altogether, and would certainly raise the level of Iran’s responsibility for the failure of the Japan-Iran partnership.

Tehran must also be faulted for the extreme rhetoric of President Mahmud Ahmadinejad. President Khatami had

worked patiently to build a relationship of trust with countries like Japan. Although American hostility prevented his efforts from having the desired results, Ahmadinejad's approach wasted most of the political capital that Khatami had earned in Europe and throughout the Persian Gulf region. Ahmadinejad's crude threats toward Israel, as well as his confrontational stance toward the Bush administration, may have increased his popularity among radical Islamists and those who have become deeply alienated by American foreign policy, but it also was highly destructive to fragile Japan-Iran ties. Tokyo may have been willing to go against Washington's demands in a quieter period, but Ahmadinejad's approach made the political costs of the Japan-Iran partnership seem too high for most Japanese leaders.

One final aspect of the collapse of the Azadegan deal that should be noted refers back to the "bureaucratic factors" discussed in the context of Raquel Shaoul's research. As previously noted, the Azadegan project had all along been championed by METI and its allies such as Hiranuma Takeo, Hashimoto Ryutaro, and Nikai Toshihiro; while the mainstream of the Foreign Ministry was reluctant at best.

In the final phase, it appears that METI bureaucrats still supported the deal as necessary for Japan's energy security, but they had become isolated within the government. With the rise of the Ahmadinejad administration, the old

argument used by some in the Foreign Ministry that Japan's engagement with Iran would help produce a more liberal regime had been undermined. Foreign Ministry officials found it increasingly difficult to justify support for the Azadegan deal in the face of withering American criticism. As a result, the METI bureaucrats could expect no support from that quarter.

Above all, with the establishment of the Abe administration, the balance had shifted. Nakagawa Shoichi -- who had once declared that, "For us, Iran is on the same level as North Korea" -- now chaired the influential Liberal Democratic Party Policy Research Council. The new METI Minister, Amari Akira, immediately distanced himself from the Azadegan project. There was thus no member of the Abe cabinet willing to argue on behalf of preserving the Japan-Iran relationship. The METI bureaucrats who supported the deal were completely outflanked by both the Foreign Ministry and the leading politicians, and so they had to surrender. [63]

## Conclusion

The Azadegan story is a dramatic illustration of a political failure. Japan set out to enhance its energy security and to solidify the special relationship with Iran. Not only were both goals thwarted, but they ended up in a much worse position from that in which they started. The failure rests squarely on the Japanese

government's shoulders. They made their commitments in February 2004 with all of the relevant factors on the table. The price of the Japan-Iran partnership was always going to be the annoyance in Washington. If Japanese leaders lacked the courage to face that American criticism, then they shouldn't have signed the contract in the first place.

Ironically, the Japanese withdrawal from Azadegan in October 2006 came at a time when some kind of accommodation between the U.S. and Iran may emerge as a result of the collapse of the U.S. position in Iraq, with a need to reopen negotiations with Iran in an effort to stabilize the Persian Gulf region.

This means that previous U.S. efforts to isolate Iran are now weakening. It also means that Japan could have played an important role as mediator between Washington and Tehran -- as they had sometimes hoped -- had they showed more tenacity in defending the Japan-Iran special relationship. Instead, by acceding to American political pressure so readily, Tokyo managed to make itself irrelevant to any possible diplomatic solution in the region. Tokyo could no longer be viewed by the Iranians as a fair-minded and neutral party, but rather as a participant in a hostile alliance.

In the final analysis, the Azadegan oil development project may be considered a case study in the failure to conduct an independent foreign policy.

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