Chapter IX The Oil Crisis and the Japanese Response, 1973-1980

1. Introduction

The reaction of the state to international crisis is one of the best way to examine the capacity of the state as it tends to reveal the adequacy and maturity of state institutions and leaders at the times of crisis. In this chapter, the capacity and nature of the Japanese state, as manifested in terms of state influence and autonomy in the crisis management and policymaking in the post-crisis era, will be examined.

The oil crisis was spawned in mid-October, 1973, when OAPEC announced oil production cuts. Initially, it was planned that a 5 percent cut would be made every month until Israel completely withdrew from the Arab territories it had been occupying since the 1967 Six Day War and returned all rights to the Palestinians. At its meeting, OAPEC also decided not to export to the United States and the Netherlands as they had been supporting Israel, although it would continue to export the same volume of oil as before to friendly nations.

Japanese leaders, both in government and business, were initially unconcerned by the oil supply problem. A few Japanese feared the coming of a grave oil shortage, but most optimistically believed the war in the Middle East would be terminated quickly, as had been the case in 1967. They did not anticipate the Arab nations would be firmly united against Israel on a long-term basis and that they would use oil as a political weapon in order to mobilize world support for the Arab cause.

This Japanese optimism was soon over-turned by the oil shock in late October, when the MOCs began informing their Japanese partners of reductions in oil supplies ranging from 10 to 30 percent. The concern for the Japanese oil firms was reflected in a wholesalers' meeting on October 29 at *Sekiyu Renmei* (PAJ) where they decided to request MITI to initiate concrete consumption cut measures. By this time, both political leaders and government officials had started gathering information to develop an appropriate policy.[1]

On November 5, OAPEC decided to further reduce oil production to a level equivalent to 75 percent of the September level, with an additional 5 percent reduction in December. On November 9, the presidents of nine regional electric power monopolies met and decided to initiate a campaign designed to reduce consumption in the industrial sector by 10 percent.

Within the Japanese government, an Oil Measures Promotion Emergency Headquarters (*Sekiyu Taisaku Suishin Honbu*) was set up on November 16, with Prime Minister Kakuei Tanaka at its head. At the same time, the government initiated a 10 percent reduction campaign in energy use, and also recommended several conservation measures, including a limit of public room temperatures to 20 degrees centigrade and voluntary restraints in the opening of gas service stations and motoring on Sundays. The government's initial action contained nothing original in it, but was more or less an official endorsement of the private initiatives.

This does not mean, however, that the government was not concerned at all. In fact, Japanese state leaders were already occupied with three major issues. One was the question of how to obtain as much oil as possible from abroad. The second was the problem of how to distribute scarce oil among domestic consumers and closely related was the third issue concerning the pricing of oil products. First of all, Japanese state leaders concentrated on obtaining as much oil as possible through diplomatic channels. Then, they turned to resolving the issue of distribution. Finally, they dealt with pricing. This chapter consists of three parts. The first section examines the Japanese responses to the 1973 crisis in this sequence. The second part discusses further developments in the government's oil policy in the post-crisis era. As the statist elements in Japanese political culture and environmental factors (independent variables in our model) have been elucidated in Chapters IV and V, the third section examines the impact of the perceived salience of oil issues; ideology and belief system of state leaders; and also political dynamics among them (i.e., intervening variables in the model) on policy development. The chapter concludes with findings concerning Japanese state influence and autonomy in the oil policy process during the 1970s.

2. Japanese Responses to the Oil Crisis

In order to increase the volume of oil imports, business leaders, especially those in the *zaikai* resource faction, had been advocating new government actions as early as a year before the crisis. The leaders of the faction included Soichi Matsune, chairman of Keidanren's energy committee, Sohei Nakayama, counselor to the Industrial Bank of Japan, and Hiroki Imazato, President of Japan Petroleum Development Corporation (JPDC) and board chairmen of various other overseas oil exploration companies. They were established business leaders and had close ties with state leaders such as Prime Minister Tanaka, MITI Minister Yasuhiro Nakasone and senior officials in the Ministry.[2]

Since these business leaders had served the government for a long time in their capacity as leading members of various advisory councils attached to MITI, their views were not only colored by, but also reflected, the dominant views among the Ministry's officials. The concerns of business leaders were well expressed in the 1972 December edition of *Keidanren Geppo*. They made three major recommendations: to give technical and financial assistance to the economic and industrial development of oil producing countries in order to increase Japan's oil security through direct deals; to build oil refineries on production sites rather than on consumption sites, given many producing countries' preference for this mode; and finally to re-examine Japan's foreign policy towards the Middle East. They also recognized that the international oil market was becoming a sellers' market. They argued that since the securing of vital resources and commodities from abroad was getting more difficult, Japan should actively develop closer ties with resource producers such as Arab nations, and respond well to their needs, for the sake of a secure supply. In the same report, they further suggested that a new energy agency be set up in the government to strengthen its capacity for information gathering and policy coordination.

On the initiative of the "resource faction," Keidanren introduced a series of discussions with government officials in order to obtain their understanding. These discussions resulted in the July 1973 report which further stressed the importance of resource diplomacy and recognized the need for active Japanese participation in economic development projects of the oil-producing nations, as well as the need for government-business coordination at home with an eye to this end.[3]

MITI responded quickly to the joint recommendations. First of all, in July of 1973, they set up an Agency for Energy and Natural Resources (AENR). Before the oil crisis, MITI had also advocated intensification of relations with oil producers.

When the crisis developed, the Ministry pressed for a re-examination of Japan's whole policy towards the Middle East.

Nonetheless, it is not certain whether these moves on the part of the Ministry were determined by state officials themselves based solely on their intrinsic merits, or whether they were a direct result of the call from the *zaikai*. It seems reasonable to assume, however, that they resulted from the joint efforts of both MITI and the business community for the following reasons. First of all, as we have seen, the zaikai and MITI had been working closely together. Second, within MITI, Vice-Minister Yoshihiko Morozumi and other mainstream officials had long been considering the need for reorganization of the Ministry, in order to better cope with such new problems as energy management and pollution control. These problems would require inter-sectional coordination within MITI, although the Ministry was traditionally vertically divided on an industrial basis. Accordingly, MITI not only set up new organs such as AENR and an Industrial Location and Environmental Protection Bureau but also reorganized itself significantly by transforming some old bureaus into new ones such as the Basic Industries Bureau, Machinery and Information Industries Bureau, and Consumer Goods Industries Bureau.

Morozumi himself had been long concerned with resource supply issues. For instance, he was a leading advocate for active resource diplomacy. Even after retirement from the vice-ministerial position, he suggested that Prime Minister Kakuei Tanaka develop multi-directional resource diplomacy. While still in the Ministry, Morozumi firmly supported the MITI Minister's trip to the Middle East in late April and early May of 1973, although the Japanese diplomatic mission there reported the possibility for intensification of Arab-Israeli conflict in the near future to be low.

It is also important to note with regard to this trip that Minister Nakasone too, sensed some signs of new developments in the Middle East, and therefore decided a visit was necessary. Thus, a key political leader recognized the need for the trip and requested the Prime Minister's authorization. Prime Minister Tanaka was familiar with MITI's views. Before becoming head of the government he had served as its Minister. Moreover, Morozumi who was his Vice-Minister during that time, continued to serve Nakasone under the Tanaka cabinet in the same capacity. Accordingly, initiatives from the Ministry were well received by the Prime Minister.[4]

As a result of this Middle East visit, the MITI Minister was convinced of the need for developing closer ties with resource producers and upon his return to Japan officially advocated resource diplomacy. His recommendation was that it was essential for Japan to develop direct government-to-government deals.

MITI officials welcomed these recommendations, since this meant that the Ministry would be given a much later role to play in implementing them. Their views on the oil situation and related issues were summarized in the *first Energy White Paper* published in September:

> The oil-supply management system, until now run by the international oil companies, has crumbled, and it has become clear that in the future the oil-producing countries will occupy a position as oil suppliers, along side that of the international oil companies.[5]

In the Paper, they advocated an active resource diplomacy based on "(p)ositive international cooperation," rejecting the "Passive international response of the 1960s."[6] They also maintained that it was important for Japan to secure 30 percent of its oil requirements through its own developed sources.

Once it became evident that oil supplies to Japan had been cut by Arab nations, MITI set up an internal study group to examine the implications of probable oil shortages in the Japanese economy. Unfortunately, they had very little information on the new developments overseas and were unable to come to a firm conclusion.

Within the study group, opinions concerning the repercussions of the new oil market on the Japanese economy were divided. For example, AENR Director Yamagata predicted the probable impact of the oil crisis in modest terms. On the other hand, Vice-Minister Eimei Yamashita gave a very pessimistic estimate. The Ministry as a whole worked very hard, however, to reduce the repercussions for the economy, and pressed for a change in Japan's Middle East Policy.[7] They were gradually convinced that the announcement of a pro-Arab stance was the only way to change the attitudes of Arab states towards Japan.

Unlike MITI, the Ministry of Foreign Affairs (MFA) was not receptive to the call for active resource diplomacy, since it had always been concerned with maintaining amicable relations with the United States throughout the postwar era. The proposal meant that Japan would have to develop close diplomatic relations with Arab nations against the desire of Washington.

Once the oil crisis developed, the Foreign Affairs Vice-minister set up a study group to gather information for policy consideration but as it turned out the Ministry had neither sufficient information nor experts. The Ministry approached Iran and Indonesia to increase their oil supply to Japan. in order to obtain first-hand information on new oil developments in the Middle East, the Ministry decided to send a mission to the region.

MITI Minister Nakasone, however, opposed this idea, since he believed that it would have little effect unless the government firmly expressed its position. As a result, an unofficial mission was sent to ascertain the minimum conditions under which the Arab nations would treat Japan as a "Friendly nation." The mission consisted of three Arab specialists: Tamura, the former Japanese Ambassador to Saudi Arabia, President Sohei Mizuno the Arabian Oil Company, and Taro Morimoto, an ex-diplomat who had dealt with the Middle East.

Meanwhile, most European countries quickly responded to the crisis by supporting the Arab cause. Japanese leaders and MA officials decided to make their position clear after they met U.S. Secretary of State Henry Kissinger, who was scheduled to visit Tokyo between November 14 and 15. They hoped that if he wanted Japan to maintain its pro-U.S. stance on the Israel-Arab dispute, he would not only clarify the American position, but also assure Japan's oil supply, or at least make some concrete proposal for improving Japan's oil situation.

While Kissinger was meeting Foreign Affairs Minister Ohira on November 14, *Keidanren* held an important meeting to reach a consensus on Japan's position on Arab nations. Among those attending were top *Keidanren* leaders such as Toshio Doko. Four energy experts were invited to provide a critical assessment. Included were PAJ Vice-President Ishida; the head of the AENR's Petroleum Division Kumagai; Director of the Japan Energy Economics Research Institute (MITI's energy policy think-tank), Sakisaka; and MITI's Vice-Minister, Yamashita. Business leaders were so convinced by expert witnesses of the grave repercussions on the Japanese economy that they made a "direct request" for a change in government policy towards a pro-Arab stance to the Prime Minister that evening. The Prime Minister responded that he understood the gravity of the situation and would initiate a further study. he was to meet Kissinger and U.S. Ambassador Ingersoll the following day and was determined to leave some options open rather than to accept their recommendations as the only and final Japanese position.[8]

The two days of meetings with the American representatives was largely unproductive. Kissinger did not make any concrete promises concerning the oil supply, but only repeatedly expressed the hope that the embargo would be terminated soon. According to the Yomiuri, he did not even press Japan to maintain its present stance in its relations with Arab nations. Instead he suggested that Japan act independently.[9]

Before long, pressures for a change in Japan's Arab policy were mounting both within the government and outside. Not only Nakasone, but also many other LDP leaders such as Masayoshi Ohira and Takeo Miki expressed support for a pro-Arab stance.[10] All the opposition parties as well as business leaders, called for such a change. At the same time, formal and informal intelligence gathering also gradually convinced state leaders and government officials of the need for a policy change. Only with some reluctance, did the Foreign Affairs Minister agree to change.

On November 22, Cabinet Secretary Susumu Nikaido announced a "new Arab policy," calling for an end to the war and recognition of the rights of the Palestinians. In particular, the policy stressed that Israel should withdraw from all the territories which it had been occupying since the 1967 war, and warned that Japan would have to reconsider its policy if the existing situation continued. These words of warning were apparently added by the Prime Minister, who had been convinced by Nakasone that such a threat was necessary. Their inclusion was supported by both MITI officials and business leaders.

On November 30, eight days after the announcement of the new Arab policy, Japanese state leaders decided to send Miki, Takeo, Vice-Prime Minister and Director of the Environment Protection Agency, to the Middle East so as to secure understanding and support for Japan's new stance. his trip turned out to be a success: He was well received by Saudi Arab's King Faisal, Egyptian President Sadat and other leaders in the region, and on December 25, five days after his return to Japan, OAPEC announced its decision, that its members would regard Japan as a friendly nation and would supply the oil requirements. Within a month, Saudi Oil Minister Yamani visited Japan. The ties between the two countries were strengthened at the diplomatic level, and also through economic cooperation by the private sector.[11]

Although the initiatives for resource diplomacy seemingly came from the business community, there had also been advocates for it within the state; MITI Minister and officials for some time had insisted on closer ties with oil producers and after the crisis, gradually persuaded other key players in the government to take a pro-Arab stance so as to establish closer ties with oil producing countries. In the politics of oil diplomacy, of that time, both the business interests and some leading figures in the state drew the attention of the overall government to the merits of a new policy. The government as a whole responded to these interests only when all the major players in the state realized that this would also serve the overall public interest by improving Japan's oil supply security.

In making this decision, the Japanese state had some autonomy as shown in its tactical delay in making the decision. Moreover, it was clearly under strong pressure from the business community. In this case, both the government and business happened to have identical interests. Once the government as a whole came to an agreement on the merits of a policy change, it determined the substance of the policy as the insertion of threatening words in the government statement as the Prime Minister suggested. In this process, the Japanese state was neither completely free from, nor completely penetrated by business interests; rather, it exerted moderate influence and autonomy in developing and implementing oil diplomacy.

In contrast to the issue of foreign oil supplies, government actions did very little in the early stages of the crisis to help resolve the oil allocation issue at home. To the contrary, their slow response amplified the fear of oil shortages as well as of other vital necessities. On November 18, it was reported that housewives were lining up in front of supermarkets early in the morning to purchase such items as toilet paper, detergent, sugar, salt, and shampoo in bulk. The shelves were quickly emptied. A study carried out later, suggests that shortages in these products were caused by an unexpected increase in demand stemming from consumer panic. Since the stock and inventory levels were normal, all consumers should have been able to purchase these products as usual.[12]

In order to prevent further unnecessary panic, MITI intervened in the oil market and attempted to reduce consumption levels through administrative guidance. First, on November 27, 1973, after a cabinet meeting, MITI Minister Nakasone announced a 380 yen ceiling on an eighteen-litter can of kerosene. The announced ceiling was lower than the kerosene price freeze of between 420 and 430 yen suggested by MITI officials. Apparently, the ceiling was set as a symbolic gesture by political leaders who wanted to demonstrate that they were responding to the crisis, and thereby standing beside consumers.[13] Thus, spontaneous consumer behavior exerted some influence on this decision. That influence was seen again on December 17 when MITI also instituted a price freeze for LPG used for home consumption.

Meanwhile, the Ministry had begun drafting two laws. The first was the Law on Emergency Measures for National Life Stabilization. The other was the Petroleum Supply and Demand Optimization Law. The former authorized state control in order to prevent an unusual rate of inflation. It enabled the state to set "Standard prices" for those goods whose prices were increasing rapidly, and business firms were requested to observe the suggested prices. Those which did not comply would be named in public and penalized by being forced to refund the difference between their selling prices and standard prices. The second piece of legislation authorized the government to make and change plans for oil supply, production and sales. The government was also allowed to allocate oil and other products, and those who did not observe government directives would be penalized. The penalty included not only a fine but also imprisonment, which was unusual in Japanese economic law.

The enactment of these bills was, however, delayed for several reasons. In the first place, Finance Minister Kiichi Aiichi died unexpectedly on November 24, two days after the drafts of the new legislation were made public. As a result, the Prime Minister had to reshuffle the cabinet before considering any other business of the government. secondly, the securing of sufficient oil by implementing effective resource diplomacy was a more urgent task.

Third, since both laws widened bureaucratic control of the economy, that is to ensure increased state power in the market place, there was strong opposition to them both among conservative politicians and business leaders. For instance, on November 30, during a meeting at the Petroleum Emergency Measures Promotion Headquarters, LDP Vice-President, Etsusaburo Shiina, expressed his reservation, arguing that "once state control is begun, it will necessitate further control as during the war when we had to extend control even over flower pots."[14] Since Shiina had once been a leading advocate for state control during the wartime, his views were considered carefully by control-oriented senior officials in MITI, the ministry which proposed this legislation and also by some other discussants including the Prime Minister himself. As a result, they were persuaded to soften the proposed measures and avoid such hard measures as the rationing of oil products.[15]

Another important factor which delayed the legislation was bureaucratic rivalry between MITI and the FTC. The Commission's major function was to check cartelization and monopolistic practices among business firms. It had been traditionally staffed by transferees from the Ministry of Finance (MOF), MITI's major bureaucratic rivalry. The FTC's investigative powers in the 1960s were weakened when it was forced to accept the MITI-led program of selective cartelization and amalgamation of major firms in times of recession so as to increase the international competitiveness of Japanese industry. The FTC was frustrated by MITI's actions, which reduced its mandate and prestige as a defender of the public interest against big business. Price increases of oil and other products provided the Commission with an opportunity to regain its lost respect and power. When it learned that the new MITI-sponsored laws would legalize cartel formation in order to resolve shortages and price increases of oil and other products, the Commission opposed the legislation.

In order to strengthen its mandate, the FTC launched a series of aggressive investigations into the practices of oil and other industries in the last week of November. The Commission gained wide support from the public which expressed grievances at price increases. As a result, the FTC had had to be given serious attention within the government, and the Commission consequently became a major political force in the politics of oil pricing.

So as to reconcile the differences between MITI and the FTC, the Prime Minister himself was forced to intervene and mediate the dispute between the two. The oil industry had been a target of the FTC's attacks for years. For instance, in 1972 thirty-four warnings were issued and in 1973 eight warnings against illegal cartels in kerosene sales were sent. Tsurumi Yoshi describes the political process to settle the bureaucratic dispute between the FTC and MITI:

> With the election of the Upper House scheduled for the summer of 1974, Prime Minister Tanaka, increasingly apprehensive about losing his Upper House majority to the combined opposition parties, knew that he could not ignore the public sympathy that FTC had thus generated. On November 30, MITI, the Prime Minister's Office, LDP, and FTC agreed upon compromise; it deleted from the draft bills the clauses explicitly authorizing cartels. At the same time, a "private memorandum" between MITI and FTC acknowledged that certain cartel actions were to be excepted from litigation by FTC - a time-honored method of Japanese compromise, ostensibly conceding victory to one party, while permitting the other party to retain the substance of its demands.[16]

Meanwhile, according to MITI's December 5 report, government initiatives to achieve oil consumption cuts produced few results. By early December, only a 5 percent reduction had been achieved.[17] On December 11, the cabinet agreed to increase the reduction level to 20 percent. The need for such a drastic reduction in oil consumption was actually unnecessary, as it was based on exaggerated oil supply forecast data provided by MITI, which was very anxious to have the new legislation passed in the Diet. Tsurumi observes:

> As it turned out, during the month of December, 1973, Japan actually received over 2.2 million more tons of oil than the amount MITI was publicly admitting as having been delivered to Japan, an amount corresponding to the capacity of about ten mammoth tankers. The

customs office of the Ministry of Finance was weekly reporting threat oil firms and trading firms in Japan were "ordered" by MITI to report not only actual deliveries of crude oil but also amounts of purchases abroad. it was therefore unlikely that MITI had not been informed about the amounts of crude oil scheduled to arrive at Japanese ports during the month of December.[18]

Tsurumi concludes that MITI had reason not to dispel public fears of an oil shortage as long as the Diet was debating MITI's bills. He observes that, for similar reasons, MITI "encouraged the mass media to play further upon the themes of the oil shortage and the evils committed by Japanese and foreign oil firms." The Ministry used the oil industry as a scapegoat; Vice-Minister Yamashita even labeled oil firms "the source of all evil."[19]

Nonetheless, because the MOCs decided to allocate oil among consuming nations according to expected requirements based on oil consumption growth rates and Japanese consumption was increasing at approximately 17 percent, Japan was supplied at only 3.4 percent below the previous year. By contrast, this formula resulted in oil supplies to the United States and western Europe being cut by 16.4 percent and 8.7 percent respectively. In fact, in 1973 the MOCs supplied Japan with more oil and petroleum products than in 1972.[20] Therefore, japan suffered the least of all OECD countries from the production and supply cuts initiated by OAPEC.

The government forecast for oil requirements, however, varied so much from one estimate to another, that it was difficult for anyone to determine the exact amount of the oil shortage and its likely impact on the economy. MITI predicted from a 16 to a 20 percent cut in their estimates; a pessimistic forecast might have been associated with its efforts to have the two bills legislated. They were eventually enacted on December 22.

Although some shortages of kerosene, gas, and other oil-related commodities did eventuate, they were reported to MITI's regional monitor centers and were handled efficiently by the Ministry's representatives. In other words, the Japanese state efficiently implemented an oil allocation policy even during times of product shortages. Although pressured by various societal interests, it managed to settle the politics of scarcity fairly well. In so doing, the Japanese state exerted some moderate influence and exercised some autonomy in making critical decisions which affected the allocation of oil. With the passage of the new legislation empowering the Ministry to initiate even more drastic measures, the nature of oil policy issues shifted to the problem of pricing.

Oil pricing was an extremely complex problem, since the products themselves were not differentiated by different firms like ordinary manufactured goods. There was no set rule or standard in determining which oil product should be sold at a higher price than any other. If the overall price structure allowed oil firms to absorb the costs of importation, refining, and distribution, and to maintain some profit margin and investment, the price was supposedly appropriate. This meant that some consumers paid more per litter, for example, for gasoline than for kerosene or heavy oil.

Pricing directly affected the interests of oil users in different ways. This was further complicated by an underlying instability as crude oil prices were constantly increasing. Accordingly, the issue of pricing involved the question of who should pay higher price increases and how quickly they should pay.

Throughout 1973, oil companies in Japan jointly increased oil product prices five times in response to increasing international prices, in January, February, August, October, and finally in mid-November for heavy oil products and on 1 December for light oil products. Oil companies as a whole made an unusual profit in the process and their workers on average received an additional $250 bonus in 1973. According to a consumer association's calculation, the excess profit was roughly $200 million; the petroleum industry insisted that the actual figure was half this figure.[21]

Whatever the exact figure might have been, there was no denying that the oil industry profited considerably while Japanese consumers suffered during the oil crisis. Accordingly, Japanese consumers strongly protested against the industry's practices and pressured the government to protect their interests. Although government officials and leaders were initially unwilling to intervene in the oil market, on December 22 MITI finally decided to set standard prices for kerosene and JPG for home use. This became effective in mid-January based on the new legislation. At the end of the year, MITI initiated a price freeze for all petroleum products at the wholesale level and supervised its imposition. Under intensifying pressures from consumers, most retailers observed the standard prices for kerosene and LPG set by the Ministry.[22]

The posted oil price, however, had more than doubled to $11.651 at the end of the year when MITI initiated the price freeze. Consumer groups continued to argue that standard prices were set at too high a level. Although Japan had been declared a friendly nation, the government still had to allow oil prices to increase to secure a sufficient supply from abroad.

A great variety of actors attempted to affect the oil pricing policy process. Even the business community was divided as to how to cope with oil price increases and the related problems, since many enterprises had different perceptions of and stakes in the oil pricing issue. For instance, Keidanren leader Kogoro Uemura advocated that business should restrain itself and, if required, form cartels to cope with oil price increases. Keizai Doyukai leader Kikawada argued that in an emergency, business freedom had to be restrained by social responsibility and that businesses themselves should absorb oil price increases as much as possible.[23] Kikawada called his approach a "new liberals." Despite their differences, however, business leaders held the common view that government intervention was not desirable.

Consumer groups wanted as low a price as possible for their kerosene and LPG. In addition, farmers, public bath house owners, independent taxi drivers and other major users pressured the Ministries concerned, to make sure their views were taken into account at the level of government policy. As a result, the political process of oil pricing was characterized by intensive bargaining among various interest groups and corresponding Ministries.

State leaders did not share the view of the business leaders, however. For example, both Prime Minister Tanaka and MITI Minister Nakasone mentioned the possibility of government intervention in the economy if business activities jeopardized public interests. Finally, in mid-December, the MITI Minister requested that business organizations issue a statement publicly pledging that they would restrain price increases.[24] Nakasone was concerned to ensure the kind of economic conditions that the electorate wanted. On January 10, after much hesitation and pressure from the MITI Minister, business leaders reluctantly made the joint declaration that they would refrain from price increases wherever possible.

On February 4, the Prime Minister and LDP leader organized a Commodity Price Conference and invited business and industrial leaders to attend. In his speech at the conference, the Prime Minister made it clear that the government would intervene in pricing decisions unless the business community restrained itself and would attempt to maintain low price levels for some two months.

On February 5, 1974, the FTC recommended that the PAJ and twelve wholesalers abandon the three cartels in production, pricing and gasoline sales as related to the 1973 oil crisis. The oil firms accepted the recommendation and did not take the matter to court to defend their practice. The reason was that the oil industry was under heavy pressure, criticized by "the source of all evil" for making excess profits by taking advantage of the international oil situation. Because of this, the industry held the view that the challenge to the FTC's allegation would cause more public uproar and worsen their already bad image. Oil companies were planning to further raise oil prices to meet their increasing international payments for crude, and they required public understanding for this measure. Oil pricing was becoming a highly political matter in Japan as in many other oil consuming countries.[25]

Meanwhile, by late January, MITI officials had grown concerned with the impact of highly priced oil imports on the performance of the oil industry. Above all, the financial standing of domestic firms was worsening, since they had to purchase more expensive oil than the MOC-affiliated firms and yet were similarly restrained from rising their prices.

By mid-February, the wholesale price of oil products in Japan was more than 40 percent cheaper than that in Europe.[26] In particular, prices for home heating oil and gas had been frozen and consumers in Japan were the most protected from oil price increases among all major countries dependent on imported oil. Despite this fact, Japanese consumers associations, witnessing the unprecedented profits made by oil firms in the early stages of the oil crisis, still felt that they were being exploited by the industry - even early in 1974, they complained that government intervention was working against their interest.[27]

It was clear that low pricing could not continue indefinitely in Japan since the country was, after all, almost totally dependent on imported oil, and prices were rising sharply. If oil prices were kept too low, oil companies would go bankrupt and the MOCs might withdraw from the Japanese market. In that event, Japanese consumers would not be able to obtain even a drop of oil. Thus, it was just matter of time before MITI had to allow oil prices to increase. The question was by how much and / or which products in particular would be affected.

As many retired MITI officials were serving on the board of directors of a number of oil companies, MITI was aware of the deteriorating financial conditions of the oil firms in general, and had clear interests in keeping them solvent. At the same time, consumer groups were protesting against price increases at the PAJ headquarters while in the Diet, politicians criticized the pricing practices of oil firms.[28] Some LDP politicians were concerned how price increases would affect their popularity with the Upper House election coming early in the summer. Moreover, the new year's budget was still being debated in the Diet. All in all, the political environment facing MITI and the oil industry made any action extremely difficult.

MITI officials were divided among themselves as to how much of an increase would be required. For instance, the Industrial Policy Bureau and Basic Industries Bureau which were in charge of the basic health of major energy user industries, were not happy with the idea of drastic upswings. On the other hand, ENRA officials concerned with the well-being of the oil industry believed that an increase of more than U.S. $35 (10,000 yen) was necessary, which was equivalent to whole sale price increases in Europe.[29] The only agreement in the Ministry was that oil prices had to be increased and administrative guidance was preferable to price controls based on the new legislation.

From February 21, MITI leaders including Minister Nakasone, Vice-minister Yamashita, and ENRA director Kumagai began formal consolations with LDP leaders. However, for reasons stated above e, LDP politicians were hesitant to increase oil prices. Prime Minister Tanaka favored increases in selective products. he did not want to increase the cost of oil and gas for household use. LDP's Chief Cabinet Secretary Susumu Nikaido was against the LDP becoming involved in any price policymaking at all.

Key government bodies were also opposed to MITI's initiatives. Notably, the Price Bureau of the Economic Planning Agency (EPA) insisted on a price freeze and opposed the use of administrative guidance. The EPA was closely associated with the MOF. Since MITI advocated special financial assistance from the government to the oil industry, both the MOF and the Bank of Japan opposed MITI's plan, arguing that the oil industry would be able to endure the financial burden by selling excess liquidity.[30]

MITI continued to play a major role in the process of developing a pricing policy. Early in March, MITI Minister began expressing his concern that low oil pricing would cause a supply cut to Japan, since it would mean that the Japanese market was not attractive and so would entice few shipments.[31] As evidence, he cited an 8 percent reduction in February oil imports from the original plan. In fact the MOC affiliates mentioned that their parent firms were worried about the long-term prospect for the Japanese market and both foreign-affiliated and domestic oil firms pressed for price increases.[32]

By March 5, the Prime Minister and other state leaders had become convinced that in spite of potential electoral repercussions, price increases were unavoidable (*yamuoenai*) in order to maintain the viability of the oil business and to ensure oil supply. Furthermore, this would be possible if MITI could secure support from the other Ministries concerned. They also felt that some measures designed to reduce the spillover effect on the basic products should be introduced. Various Ministries began to press MITI's Industrial Policy Bureau to have their clients basic necessities included on the list of items, whose price increases would require prior permission from the government Ministry concerned. The number totaled fifty-three and generally included basic household and industrial goods. Thus, non-state actors pressed their views, but only through state organs, and only when the state as a whole had agreed on the necessity of price increases.

Meanwhile, MITI was requested by the Cabinet to set up three plans for oil price increases, one by the amount of 8,000 yen, the second by 9,000 yen and the third by 10,000 yen on average. MITI pressed for higher price increases; however, on March 8, the Prime Minister and seven Ministers met and decided on the low increases.[33] On March 16, after discussion at the Emergency Headquarters and a cabinet meeting, the new price system was announced, together with the prior permission system to restrain price increases in other primary goods.

The government decision kept the price of kerosene for household use frozen at 12,900 yen per kiloliter. The price of almost all other products was increased by 62 percent to 65 percent, from the level at the end of 1973. The exceptions were grade A heavy oil and diesel oil whose prices were increased only 54 percent. LDP leaders were concerned with their standing among fishermen and farmers, who are their major constituencies apart from the business community. Thus, oil prices were largely determined on the basis of political considerations with societal interest indirectly but significantly influencing the government decision.

By mid-March FTC chairman Takahashi was under pressure from MITI officials and LDP leaders to allow MITI's administrative guidance on the grounds of a national emergency. Prior to this, however, on February 19, he had decided to refer cartel practices in the oil industry to the High Public Prosecutor's Office in Tokyo. This was the first time that the FTC had actually taken a cartel case to the public prosecutor's office. This unexpected move on the part of the FTC vexed the industry which had thought that the acceptance of the recommendation was the end of the issue. At a press conference, FTC Chairman Takahashi said that the Commission had decided to refer the issue to the Public Prosecutor's Office as a case of 'one penalty for one hundred crimes' since the oil industry was the worst of all industries, having formed at least five cartels in 1973 and many more in the past. PAJ President Hirotaka Mitsuda responded to the move, saying that he was determined to tell the truth and would submit all past records. The industry was confident that their practices could be defended as having been actions which merely observed the administrative guidance of MITI.

In May 1974 after three months of investigation, the high Public Prosecutor's Office decided to take the matter concerning production and pricing cartels to court. Those prosecuted included the PAJ and twelve whole sellers and their senior officers. The national origin of the firms had little to do with their arrangement for cartel practices. Among the oil companies were both leading MOCs, and Japanese firms such as Nisseki and Idemitsu Oil.

The court battle took over six years. The center of the dispute was the question of whether the cartel action in production and pricing were as the industry argued actually guided by MITI. Witnesses were called, and evidence was gathered, both from the industry and MITI. The high Court of Tokyo delivered its verdict on September 26, 1980. This decision declared that the production and pricing cartels were in fact illegal. For the pricing cartels, the twelve wholesalers received fines of 12.5 to 2.5 million yen and fourteen senior officers were given four to ten months' imprisonment.

The court, however, decided not to penalize anybody involved in production cartels. One of the reasons given was that, although MITI had not directly guided the actions, it had in fact requested them, and the FTC had never taken any measures against them before. Accordingly, the court's view was that the accused had formed production cartels without fully recognizing that they were committing crimes. Furthermore, during the deliberation, it was made clear that the industry's production target was often set lower than MITI's suggested figure so that the industry could maintain higher prices and profit margins. Thus, the court supported the view that the interests of the government and the petroleum industry were not identical. The aim of state guidance was to secure a sufficient supply of oil for the economy while maintaining the health development of the oil industry; the interest of the industry was narrowly defined from the standpoint of profit maximization.

The new price system based on MITI's administrative guidance which had been announced in March 1974 was abolished several months later. The previous permission system for price increases of primary goods was also soon eased. On August 30, 1974, the Japanese government announced that the national emergency period was over. Within a year, MITI had abolished administrative guidance on the wholesale prices of kerosene and LPG for home use.

Meanwhile, Japanese policymakers were also concerned with reduction in oil revenues stemming from decreasing oil demand. In FY 1974, for example, gasoline consumption was expected to decrease by 10 percent compared to the previous fiscal year. Since the gasoline tax was a major source of revenue for road construction and maintenance, the government decided to increase the gasoline tax from 10 percent (28,700 yen / kl) to 20 percent (34,500 yen / kl) in order to fund all the scheduled construction projects. Although the gasoline tax was scheduled to be lifted, at the end of March 1976, the government decided to keep it, since it was a major source of revenue for improving the transport network. PAJ and other oil industrial interests held a national meeting to oppose this last government move. The meeting was attended by some 3,000 people but produced no effect; the gasoline tax and also the light oil transaction tax were both increased by 25 percent and 30 percent respectively as suggested by the Ministry of Construction (MC). Subsequently, they were again increased in June 1979. As a result, the gasoline tax rose from 43,100 yen / Kl to 53,800 yen / Kl.

In oil pricing, although the Japanese state intervened intensively, the fact that its influence in actually determining oil prices was colored by political considerations meant that its autonomy was limited. It should be noted, however, that once key actors in the state agreed on the need for price increases, their intervention to restrain price increases and implement government decisions was effective. The Japanese state controlled prices by setting ceilings for price increases. Moreover, in determining oil tax increases, which profoundly affected oil prices, the Japanese state enjoyed considerable influence and autonomy. In other words, despite the fact that the autonomy of the Japanese state in price setting was to some extent restricted, overall the Japanese state had a rather considerable influence in the policy process. Accordingly, one may say that in the pricing issue area the Japanese state was close to a moderately penetrated moderate state. At the same time, the fact that both Japanese oil firms and MOCs were taken into court by the FTC suggests that there was no difference in micro-economic behavior of oil firms. Regardless of their nationality, their actions were collided.

3. The Japanese State and the Development of Energy Policy in the Post-Crisis Era

By the mid-1970s, three problems had emerged at gasoline retail outlets. One was an increase in the number of outlets, despite the decreasing demand for gasoline in the post-crisis era. Because of an excess supply of oil products, new outlets attempted to sell them at cheap prices, which worsened the gas stations' financial standing. The third problem resulted from 'excess competition' and the high tax on gasoline. In order to compete, some gas stations mixed gasoline with kerosene which was much cheaper owing to lower taxation. In response, MITI proposed a Gasoline Sales Business Law, whose stated objectives were, to develop a sound gasoline sales business, to ensure the quality of gasoline and its conservation, and to stabilize gasoline supplies and protect the interest of consumers by introducing a registration system for new outlets and also by regulating their activities. The legislation was favorably viewed and enacted by the Diet in December 1976.

As Japanese firms adjusted to the high priced oil of the mid-1970s, policy consideration shifted from oil pricing matters to the question of energy policy in general. For instance, the General Energy Advisory Council (GEAC) attached to MITI submitted a mid-term report in August 1975. It recognized that it was nearly impossible to weigh abundance, cheap energy and supply stability as equally important requirements any longer; the government should give supply security the highest priority in policy consideration. for the realization of this objective, the report emphasized the importance of reducing the dependence on oil, diversifying energy resources, securing oil on a stable basis, promoting energy conservation, and pursuing the research and development of alternative energy sources.[34]

In the same month MITI also redefined its policy concerning the future of the oil industry in Japan. The Ministry emphasized the need to develop an integrated Japanese firm which would have strong enough upstream and downstream operations to enable it to have "freedom of choice" (in securing crude oil). It argued that this was essential for "the proper co-existence of both *gaishikei* and *minzokukei* oil firms." To this end, it suggested that Japanese firms should cooperate in achieving economies of scale in oil imports, stockpiling, transport and refining.[35]

In December 1975, MITI's study group on *Konbinato* and refineries headed by Arisawea, submitted its report. In order to make oil refining a financially viable business in Japan, it recommended the industry's management should develop a forward looking response to the worsening situation. It emphasized the importance of cooperation between refineries and user industries, in particular suggesting that they should improve the pricing system, conditions for payment, and terms of contract for product supply, as well as reexamine mid-term and long-term demand forecasts between oil refineries and users. If the financial standing did not improve even with the adoption of these policies, it recommended that refineries should seek to participate with oil wholesalers and integrate with other oil firms.[36]

MITI encouraged the integration of Japanese oil firms to make them more competitive with MOCs. For instance, in December 1975 the Oil Subcommittee of the General Energy Advisory Committee suggested that in order to strengthen the ability of Japanese oil firms to secure oil and sell products, they should be amalgamated into a few companies. In the same month, a special Cabinet on General Energy Measures was formed, which was composed of Ministers concerned with energy matters. The Cabinet adopted "a Fundamental Direction of General Energy Policy" according to the above suggestions made by MITI and its advisory councils. In February 1977, this cabinet-level group was renamed the "Ministers' Conference for the Promotion of General Energy Measures" and it began to meet on a regular basis.

Debate on energy policy were also held outside the government. For instance, Sohei Nakayama chaired a committee to discuss general energy questions starting in Dcember 1976. Soon, this committee joined with leading business and industrial organizations to set up a discussion group on Japan's energy strategy at the non-governmental level. Included here were *Keidanren*, Japan Atomic Industrial Forum (JAIF), PAJ, Federation of Electric Power Companies, Japan Coal Industries Association, and Japan Gas Industries Association. After their discussions the group made policy recommendations to the government. They stressed the importance of, reasing government assistance in oil stockpiling, using revenue from the tax on oil in order to alleviate oil-related problems rather than to develop industrial infrastructure such as roads and bridges, promoting the securing of sites for electric power stations, eveloping nuclear power policy, and encouraging the use of LNG.[37]

PAJ also set up its own discussion committee with Eiichi Koide as chairman. It recommended that the government should provide all possible means to help secure energy supplies on a stable basis since the availability of energy was a prerequisite for economic growth. To this end, the government should provide sufficient funds for oil stockpiling, since this was beyond the means of private enterprises. It also stressed that the tax burden should be fairly distributed and that the government should re-examine its policy towards the oil industry. In short, it attempted to reduce government intervention in the industry's activities, including pricing, and to soften safety regulations and regulatory measures concerning capital investment.[38]

Meanwhile, not only had MITI set up a headquarters for the promotion of comprehensive energy measures and the Cabinet reorganized the Minister's Conference as mentioned above, but the LDP had also organized a research council on resources and energy. The overall government oil policy was summarized in the October 1978 report by the oil subcommittee of the General Energy Advisory Council (GEAC). The report emphasized the need to strive to attain the following measures; to secure crude oil; to promote oil exploration by Japanese companies; to increase the use of oil substitutes; to promote efficient use of oil; to set up a rational pricing system; to strengthen industrial structure in the petroleum sector through integration and economies of scale; to minimize the impact of supply interruptions by stockpiling and by strengthening administrative network and procedure.[39]

In contrast to the suggestions made by PAJ, MITI generally developed policy in such a way as to increase the role of the public sector in managing the oil economy. This tendency became obvious at the implementation stage. For example, MITI suggested increasing oil tariffs so as to increase state funding for oil exploration and stockpiling projects for two years from April, 1977. It also attempted to introduce a new oil tax in 1978 for the same purpose.

Both MITI-initiated policies met with strong opposition from the oil industry, but were adopted by the Cabinet and the Diet. The Ministry encouraged overseas oil exploration ventures by Japanese firms, geographical diversification of oil imports, diversification of energy sources away from oil, oil stockpiling and conservation. For instance, in January 1975, Japan signed the Oil and Gas Exploration basic Treaty with the Soviet Union which dealt with the Sakhalin continental shelf development. Government expenditure for oil exploration through the Japan National Oil Corporation increased to 723 billion yen in 1980 from 61 billion yen in 1973.[40] Though Japan's dependence on the region remained high, the share of Middle Eastern oil in total imports decreased from 80 percent in 1973 to 70 percent in 1980. The share of oil in the total energy supply decreased to below 65 percent by the early 1980s from 78 percent in FY 1973. Starting with the establishment of the Oil Stockpiling Act in April 1975, MITI increased Japan's oil stockpiling to over 100 days in 1980 from 57 days in 1973.

Although the implementation was largely undertaken by private initiatives, the government also encouraged conservation efforts with remarkable success. Between 1973 and 1978, while the real GNP increased by 22 percent, crude oil imports and total oil use actually declined by 6 percent and 4 percent respectively. Thus energy consumption per unit of GNP actually decreased by 4.6 percent annually.[41] This also implied that the Japanese private sector, including business firms and consumers, had adjusted to highly priced oil by the mid-1970s. MITI helped to create an atmosphere appropriate to energy conservation by itself implementing cuts for energy consumption; controlling room temperature and lighting in its offices, for example, and encouraging the use of public transportation rather than private cars among its officials. MITI also introduced what was called the *shoene rukku* (the energy conservation look), a new style of clothing with short sleeves in summer! This, however, failed to change the taste of government officials and other workers and never became a fashion trend.

MITI also set policy targets concerning the development and use of new energy sources and systems including geothermal, solar, wind and ocean thermal energies in long-term programs called the "Sunshine Project" and Moonlight Project." According to the prospectus announced by the Supply and Demand Sub-Committee of MITI's General Energy Investigation Council, the share of energy supplies from those new sources in the total primary energy supply was expected to be 4.8 percent by 1990 and 7.1 percent by 1995.[42] In order to accelerate their commercialization, the Japanese government, due to the initiatives of MITI, passed the Petroleum-Substitution Energy Law in 1980. In addition, on October 1, 1980, a special corporation based on that law, the New Energy Development Organization (NEDO) was established with a total budget of 17.6 billion yen for the initial six months.[43] Thus MITI increased the role of the state in managing the national energy scene.

The 1980 legislation for the development of alternative energy resources was Japan's partial response to the second oil crisis of 1979, which was caused by the

Iranian Revolution and the resultant sudden oil supply shortages. This Japanese response was complicated by the American hostage crisis which began in Teheran on February 14, 1979. The U.S. Administration imposed economic sanctions against Iran in protest of this hostage incident, and Japan took similar measures at the request of its major ally.

The Iranian Revolution led MOCs such as Exxon, Gulf and British Petroleum to announce oil supply cuts to Japan which caused some Japanese trading companies to have great difficulty in fulfilling their oil import plans. The new Iranian regime hardened its position vis-à-vis the Japanese firms on oil pricing in response to Japanese economic sanctions against it. In order to obtain oil from the new regime, Japanese companies had to pay higher prices, and when major oil consuming countries criticized the behavior of the trading firms, MITI intervened and requested the Japanese firms restrain their dealings with Iran.

Despite the actions of some trading houses, the overall Japanese response to the second oil crisis was calmer than in 1973, and there was no panic on the part of consumers or the government. Even when oil prices reached the $30 per barrel level, at the OPEC meeting at Caracas in December 1979, the Japanese were ready to cope. Both Japanese and German traders were willing to pay more at the spot market in Rotterdam and as a result were criticized by the Saudi oil minister Yamani on the grounds that they were increasing world oil prices, ruining Saudi efforts to keep them low. However, Japanese trading houses had to fill their oil requirements in the spot market in order to meet the oil shortage caused by the crisis and the withdrawal of Gulf and British Petroleum from the Japanese market. The Japanese government let private firms play this key role as oil importers even as it attempted to increase government-to-government deals with oil producing countries.

As a part of its efforts to increase its ties with producers, the government supported joint ventures between oil producers and Japanese firms. For instance, in 1979 when the Iran Chemical Development Corporation (ICDC), which had been set up between the Mitsui Group and the Iranian government in 1972, ran into financial trouble, MITI advocated that it be treated as a national project despite criticism that the government was taking on Mitsui's financial burden. In the last minute, the Japanese state rescued the Corporation by agreeing to supply 20 billion yen in equity participation through the Overseas Economic Cooperation Fund. Furthermore, the Japanese government made a 80 billion yen loan to the project through the Export-Import Bank. MITI and *Keidanren* also worked together to spread the investment risk by increasing the number of participants.

Nonetheless, in 1980 when the project site at Bandar-Khomeini on the Persian Gulf was bombed several times by the Iraqis and Mitsui's financial burden increased, it became clear that the interests of the government and business in the project differed. When the Iranian government requested additional financing from Mitsui, Mitsui's Head, Toshikuni Yahiro mentioned that Mitsui might withdraw from the project unless the Japanese government provided further financial assistance. In response, MITI Minister Rokusuke Tanaka criticized Mitsui as being too self-centered. This criticism demonstrated that the Japanese government was supporting the project for its own reasons, not because of pressure from the business. Japanese government leaders were concerned about long-term relations with Iran, which had been the second-largest oil supplier to Japan.

This was not the only example of Japan's difficulties in securing an adequate oil supply. The joint oil and gas exploration project between the Soviet Union and Japan also slowed down during the economic sanctions which followed Soviet invasion of Afghanistan in late 1979. Since Japan's oil and gas exploration technology was dependent on transferred technology from the United States, the Japanese had no choice but to respond to U.S. pressure in this case. Japan lacked an indigenous oil exploration technology. Both the Iranian and Soviet cases illustrated how profoundly the political climate abroad could affect Japan's efforts to increase supply security in this vital energy policy area, and how dependent Japan was on outside resources. The Japanese state could not erase this fact and was thus still vulnerable, no matter how much influence autonomy it was able to exercise in domestic oil policymaking.

4. The Nature of Petroleum Issues

With the oil crisis of October 1973, the nature of petroleum policy issues changed substantially. The era of abundant and cheap oil supply had gone and a new era of scarcity and expensive oil had begun. The Japanese oil policy of securing a steady supply of cheap oil had to be abandoned, since now the life-and-death matter was not whether reasonably priced oil was available, but whether Japan could obtain sufficient oil at any cost for its economy. Under the new international situation, any policy that relied on cheap oil and an adequate supply, not only contradicted the new state of affairs, but was an absolute impossibility.

Once it was found that Japan was not going to be regarded as a friendly nation by OAPEC countries, Japanese leaders in and outside the government, fearing a 20 to 30 percent cut in Japan's oil imports in the last quarter of 1973, had to find a way to secure a sufficient supply of oil from elsewhere. Both state and societal actors had identical stakes in expanding Japan's import share in the international oil market. For this reason, once key actors in the state had agreed on the merits of developing closer ties with oil producing countries, state and business leaders were firmly united in the pursuit of oil diplomacy. However, the major issues at home centered on the questions of how to allocate the shrinking pie among users, and at what price.

While oil policy issues continued to be viewed as highly important throughout the post-crisis era, Japanese Prime Ministers were concerned with many other questions. For instance, Prime Minister Takeo Miki who headed the government between December, 1974 and December, 1976, paid considerable attention to ameliorating the image of the LDP government, since his predecessor, Tanaka, had left the office in the midst of the Lockheed scandal. (Tanaka was arrested for receiving bribes from the Lockheed Corporation in exchange for helping the company sell Tristars to All-Nippon Airways.) Tanaka's departure left the strong impression that politics is a "dirty game of money." Hence, Miki's major task as premier was to get rid of this negative image. He also, however, showed an interest in energy policy areas, often attending study groups led by such energy experts as Hiromi Arisawa and Takashi Mukonobo.[44] In addition, Prime Minister Miki invested a great deal of energy in revising the Anti-Monopoly Law and concluding the Sino-Japanese Peace Treaty, though he could not achieve these issues during his tenure.[45]

After Miki, Hajime Fukuda, Masayoshi Ohira and Zenko Suzuki headed the government in the 1970s. All of them were concerned with energy policy questions. For example, Prime Minister Fukuda who took office in December 1976, spoke of his concern about the energy situation in his opening speeches at the Diet session in January and again in October 1977.[46] In September 1978, he visited the Middle east, the first time a Japanese Prime Minister had done so.[47]

Under the government headed by Prime minister Ohira (1978-80), the Energy-Use Rationalization Law (Law 49) was enacted. Energy issues dominated the Tokyo summit of seven industrialized nations in May 1979, which he hosted. At the summit, the seven countries agreed to cut oil consumption levels and set specific targets in response to the oil supply interruptions caused by the revolution in Iran. Prime Minister Ohira also mentioned his concern over energy problems at the opening of the 88th Diet session in August 1979.[48] Among the countries which he visited during his tenure were, Australia, Canada and Mexico. All were important energy and resource suppliers to the Japanese economy. Under his premiership, the Petroleum Substitution Energy Law (Law 71) which was sponsored by MITI was passed, and, after his sudden death, a New Energy Development Organization based on this legislation was established by his successor, Prime Minister Suzuki, who took over the office in July 1980. These actions illustrate that these Japanese Prime Ministers were greatly concerned with energy issues.

5. The Ideologies and Belief Systems of State Leaders

The pursuit of oil diplomacy, the question of oil pricing and distribution, the issue of the redistribution of oil revenues, and the diversification of energy sources away from oil, could all have been left to market forces. Yet, the Japanese state intensively intervened in the oil economy. One of the major determinants of state intervention was related to the ideological orientation and beliefs of the state leaders, and reinforced by a political culture which emphasized a strong state as a guardian of its society.

Japanese state leaders were, however, slow to comprehend the implications of the new oil situation at the beginning of the 1973 crisis. To start with, necessary information on the international scene was not readily available nor was there an established mechanism for information-gathering on the Middle East. Because of this, officials could not determine, for instance, whether Japan was considered to be a friendly nation or not by OAPEC countries. They found out only with the oil cut-back by MOCs late in October. Once they realized that the country was not regarded as friendly, government officials and politicians all agreed that the government had to do something to change the perception of Arab nations so as to secure Japan's oil requirements. They believed in the positive use of diplomacy to achieve this end and initiated a series of actions in close consultation with the business community, which by then had already advocated "resource diplomacy," and supported the crucial role that the government should play in cultivating stronger ties with oil producers.

In the area of domestic oil management, there were two differing views within the state on government approaches to the problem. One advocated a soft approach which emphasized flexible state intervention based on administrative guidance, to be employed when the market system failed to make an efficient allocation and fair pricing of oil products. This view was dominant among MITI officials and LDP leaders. Leaders of major use industries, including the mainstream of Keidanren executives, advocated an even softer approach, stressing self-regulation by the affected industries. The other, "hard" view within the state, advocated the tightening of legislation such as the Anti-Monopoly Law and its application to business practices. This view was supported by the FTC. Consumer groups and some reform-minded business leaders within the *Keizai Doyukai* also backed this view.

Despite the differences in approach, it is important to note that both MITI and the FTC thought that there were problems arising in the domestic oil market and that some kind of state intervention in economic processes would be necessary. Their differences were over what would be the most effective tool for resolving issues concerning oil scarcity, distribution, and pricing when business failed to perform appropriate functions. For instance, Yoshihiko Morozumi, MITI's Vice-Minister, had advocated a "mixed economy." Based on the belief that it is impossible to have a perfectly liberal economic system, he insisted that in Japan, the government should ask for the participation of related business firms and respect their initiatives, but that the government had to make a judgment whenever they could not unify their views and action.[49] Identifying himself as an internationalist, he contended that internationalists are those who seek a method thorough which to protect national interests within a broad framework of international cooperation.[50] His view on the role of the government and "internationalism" was representative of mainstream officials in MITI which continued to play a key role during this period.

Political leaders also thought that the government should intervene in the economy if required. For example, Prime Minister Tanaka advocated an extensive use of state power for the reorganization of the Japanese society in his best seller, *Nihon Retto Kaizoron* (A Theory on the Reform of the Japanese Archipelago). In fact both Prime Minister Tanaka and MITI Minister Nakasone held a statist view on the role of the state in society. On the one hand, they guaranteed the autonomy of business activities as long as they did not jeopardize public interests. On the other, both mentioned the possibility of state involvement in the socio-economic process were it deemed necessary. In fact, in mid-December of 1973, the MITI Minister requested business organizations to issue a statement publicly pledging that they would restrain price increases. He presented the view, that though business should have its own autonomy, it has to be temporarily subordinated to "social balance." He termed his approach "a new liberalism based on a uniquely Japanese relationship of trust."

Japanese state leaders of the 1970s, including senior officials in MITI, do not seem to have objected to such a view of the state. Prime Minister Miki, for example, in his opening speech at the 97th Diet, presented an organistic view of international and national society:

> Today is an era of international cooperation, and all men share the same fate on the Spaceship Earth. While the defense of national interests is the fundamental goal of diplomacy (at home), we should not be narrow-mindedly concerned with short-time interests: individual rights and freedom should be realized in relations to social unity.

Prime Minister Fukuda, while a cautious advocate of balanced rather than rapid economic growth, also held an organic view of the state. At his first interview with journalists on Christmas Day in 1975, one day after his nomination to the premiership, he said that he would not wreck the ship (Japan) in the age of limited resources with many turbulence. He defined his role as the navigator of "*Nihon*

Maru" (Cruiser Japan). Many Japanese leaders responded favorably to this kind of political rhetoric, since they also supported this view and the belief that the state should be a supervisor, regulator, and problem-solver for social unity and harmony was widely accepted. It was this that required the public sector to play a leading role in the management of the oil economy in promoting volumes of oil imports, oil distribution, pricing, and conservation, in the geographical diversification of oil imports, in developing alternative energy resources, and in increasing oil exploration and stockpiling.

One exception would have been Prime Minister Ohira who was a liberal and welcomed constructive criticisms, even if they were anti-establishment or anti-LDP. As a liberal, he believed in the virtue of a "small government" and "market economy." He often said that the economy would run itself well if the government left fundamentals to market forces. He was, however, a nationalist deeply concerned with the long-term future of Japan rather than a simply ideologically-minded supporter of the market economy. He argued that state leaders had to protect the "national interest" working with their people. On the ground of protection of the "national interest," he tolerated government interventions.

6. Political Dynamics

As oil scarcity and high prices began to affect the whole spectrum of the population, many societal actors began to express their fears, grievances, and concerns more vocally, and no politicians, whether conservative or radical, could sustain a position without considering them. Many opposition politicians took advantage of the oil issue and attempted to score points by criticizing the inability of the conservative government to handle the crisis situation. As mentioned above, the major issues on the domestic front were how to share the shrinking pie of oil supply, and the problem of who would assume the burden of drastic cost increases. In the politics of scarcity and distribution, it was extremely difficult to achieve a consensus on who should be given priorities in oil allocation and who should pay for price increases. As a result, the pluralistic political process dominated the national scene during this difficult time. A similar political process dominated when the government attempted to increase taxation on oil and oil-related products. All the oil industrial interests opposed the increase.

One of the centers of energy politics was the National Diet, which played an important role inn the oil policy debate, in particular by scrutinizing the activities of the oil industry and oil administration. Opposition parties supported by consumer groups pressed the government to intervene in the oil market.

All the three Prime Ministers after Tanaka gained their office on a fragile power balance of opposing factions within the LDP, and had to pay close attention to maintaining their power standing within the party. Prime Ministers Fukuda and Ohira in particular, expended a great deal of energy to hold on to office. As a result, oil policy issues were handled mostly by MITI, which was in charge of reducing the vulnerability stemming from Japan's high dependence on oil imports.

Within MITI, the ARE was set up in July 1973). The old Mining and Coal Bureau, Public Utilities Bureau, and General Energy Policy Section of the Secretariat in MITI were all integrated into the new agency. Since most officials were transferred to the ANRE from desks not directly related to energy, they had little experience in energy matters. To make matters worse, when the first energy white paper was proudly published on September 25, 1973, it was made public that an official transferred from the old Mining and Coal Bureau, had received bribes from his clients. He was forced to resign and many others were again transferred elsewhere. As a result, when the oil crisis struck Japan, there were few energy experts in the ANRE. This in turn considerably slowed an official response. As a result, MITI's move to secure resources followed the speedier reaction initiated by a group of business leaders called the *zaikai shigenha* (the resource faction of the business community).

On the international front, MITI cooperated closely *with zaikai shigenha* and gradually took the lead in resource diplomacy. Although the Ministry of Foreign Affairs (MFA) was also involved in coordinating economic diplomacy, the real moving force was MITI. The MFA was slow at making new moves, especially when it came to establishing closer ties with the countries of the Middle East, at the expense of the long-maintained tie with the United States. Furthermore, the MFA was weak in covering Middle Easter affairs and proved to be incapable of providing the necessary information. As a result, despite the politicization of oil policy issues in the Diet, and the increasing scrutiny and criticism of cartel actions within the oil industry and its close working relations with MITI, the locus of oil policymaking remained in MITI and its advisory councils throughout this era.

The prominence of MITI in energy policymaking was evident in the many examples examined above: MITI's victory over the MFA concerning Japan's policy towards the Middle East, its practical victory over the FTC regarding oil-price-setting, and the fact that most of the legislation concerning oil policy (except oil tax increases pushed by the Ministry of Transport) were initiated by MITI. Furthermore, MITI successfully stopped Prime Minister Fukuda's plan to set up a new Ministry of Energy (ME), by arguing that since thousands of its officials were in one way or another involved in energy policymaking, if ME was set up, MITI had to be dissolved. Despite the increasing politicization of oil policy issues and intense bureaucratic rivalry, oil policymaking was firmly located in the central organ of the state.

Within MITI, although advisory councils continued to serve as a medium between the state and business, the primary function was as a vehicle to implement MITI's views. MITI officials continued to control access to the policymaking process by appointing member to the advisory councils. The same people who served on the advisory councils in the previous period, served again during the 1970s. Given MITI's prominence in oil policymaking, and the continuity in policymakers and advisors, the government policy in the 1970s continued to reflect an interventionist bias, as characterized by many of MITI's initiatives and actions.

7. Conclusion

In reaction to drastic oil price increases and supply interruptions, Japanese state leaders initiated oil diplomacy, and attempted to accelerate exploration activities abroad and pass new laws to empower the government to set the price of oil and other basic commodities and regulate distribution and marketing practices. They also encouraged oil stockpiling, energy conservation and development of new sources of energy. Although the Japanese state did not have a fully integrated national oil company, JNOC served as a major public policy vehicle for overseas oil exploration, government-to-government oil deals, and oil stockpiling programs. based on the new legislation, the Japanese government set price ceilings and tightly monitored the pricing, distribution and marketing practices of oil firms in 1974. The FTC and the Public Prosecutor's Office sued the oil industry for production and oil-pricing cartels. Thus, the Japanese state involved itself in crucial areas of the industrial activities in the oil sector, and generally exercised moderate-to-high influence and autonomy in critical areas of oil policy processes.

State involvement in these areas was backed by statist elements in Japanese political culture, and was also related to changes in the oil market. Japanese Prime Ministers and MITI officials alike were all concerned with the oil situation. State involvement also resulted from the fact that state leaders, including government officials, were ideologically disposed towards interventionism and responsive to the interests of the oil consumers who formed a majority of their constituency. Furthermore, despite the increasing politicization of oil policy issues and differences, often caused by bureaucratic rivalry over what constituted the best approach to achieve state goals, the Japanese state exerted considerable influence and enjoyed some autonomy form societal pressures. This was because MITI continued to play a dominant role in policy development and implementation, controlling access to the making of crucial legislation and decisions.

Notes and References for Chapter IX

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2 For a background of the resource faction, see, Yanagida, "Okami ga Yatte kita hi," (The day when the wolf came), *Bungei Shunju* (August, 1978), p.109; and Akihiro Kano and Hajime Takano, *Uchimaku: Nihon o Ayatsuttekita Kenryoku no Rimenshi* (Inside Japan: a concealed history of power which has been manipulating the country) (Tokyo: Gakuyo Shobo, 1976), pp. 104-113.

3 *Keidanren Shuho* (July 19, 1973).

4 Kano and Takano, *op. cit.*.

5 Japan *Petroleum and Energy Yearbook*, 1978, p. C24.

6 *Ibid.*, p. C41.

7 In fact the new Oil Bureau Chief Takao Taketani died from hard work and the resultant exhaustion (*karoshi*) in November.

8 *Keidanren Shuho* (July 19, 1973).

9 Yanagida, op. cit., p. 129.

10 For a further discussion, see, *Asahi Shinbun* (November 11, 1973) & *Nihon Keizai Shinbun* (November 16, 1973).

11 Japan's oil diplomacy also succeeded in achieving its initial objective without damaging its long established alliance with the United States.

12 *Nomura Sogo Kenkyujo, Enerugikiki Kanri no Taikeiteki Bunseki* (A systematic analysis of energy crisis management) (Tokyo: National Institute for Research Advancement, 1979).

13 Nakasone Yasuhiro, *Kaizu no naki Kokai* (Voyage without a map) (Tokyo: Nihon Keizai Shinbunsha, 1975), p.95; EJK, *op. cit.*, pp. 38-40; and Yanagiya, *op. cit.*, p. 142.

14 EJK, *op. cit.*, p. 38.

15 *Ibid.*.

16 Yoshi Tsurumi, "Japan," in Vernon (ed.), *The Oil Crisis* (New York: W.W. Norton, 1976), p. 122.

[17] EJK, *op. cit.*, p. 35.

[18] Tsurumi, *op. cit.*, p. 123.

[19] *Nihon Keizai Shinbun* (December 4, 1973); and EJK, *op. cit.*, pp. 44-46.

[20] According to Sekiyu Renmei, actual oil imports for fiscal year 1973 was only 6.2 percent below the 1972 level. See, Seiyu Renmei, *op. cit.*, pp. 253-254.

[21] *Nihon Keizai Shinbun* (January 13, 1974); Sekiyu Renmei, *op. cit.*, p. 254; and Kokumin Seikatsu Senta, *Mono Busoku Sawagi* (Goods Shortage Affair) (Tokyo: Kokumin Seikatsu Senta, 1975), p. 94.

[22] Kokumin Seikatsu senta, *ibid.*, pp. 185-186.

[23] For a detailed discussion, see, Martha Ann Caldwell, *op. cit.*, pp. 397-396.

[24] Japan *Economic Journal* (January 1, 1974).

[25] See, for example, Vernon, *op. cit.*; and Richard H.K. Vietor, *Energy Policy in America Since 1945: A Study in Business-Government Relations* (Cambridge: Cambridge University Press, 1985).

[26] *Tsusan Janaru* (April, 1974), p.16.

[27] *Ekonomisuto* (January 7, 1974).

[28] For a further discussion, see Caldwell, *op. cit.*, p. 371-460.

[29] *Asahi Shinbun* (March 16, 1974); and Yanagita, *op. cit.*, p. 286.

[30] *Mainichi Shinbun* (February 22, 1974); and *Asahi Shinbun* (February 13, 1974).

[31] *Nihon Keizai Shinbun* (March 4, 1974); and *Yomiuri Shinbun* (March 5, 1974).

[32] *Asahi Shinbun* (March 7, 1974); *Mainichi Shinbun* (March 5, 1974)

[33] Yanagida, *op. cit.*, p. 292.

[34] Sekiyu Renmei, *op. cit.*, p. 266.

[35] *Ibid.*, p. 267.

[36] *Ibid.*, pp. 267-268.

[37] *Ibid.*, p. 268.

[38] *Ibid.*, pp. 269-270.

[39] *Ibid.*, pp. 270-272.

[40] Japan National Oil Corporation (JNOC), *Japan National Oil Corporation* (Tokyo: JNC, 1983), p. 44.

[41] Yujiro Eguchi, "Japanese Energy Policy," *International Affairs*, Vol. 56, No. 2 (Spring 1980), p. 274.

[42] The Agency of Industrial Science and Technology (AIST), Ministry of International Trade and Industry, *Accelerated Promotion of the Sunshine Project* (Tokyo: MITI, November 1979).

[43] Keiichiro Nakamura, *Miki Sekiken 747-nichi* (747 Days of Miki Government) (Tokyo: Gyosei Mondai Kenkyujo, 1981).

[44] Zenjiro Tanaka, "Miki Naikaku (The Miki Cabinet)," in Shigeru Hayashi & Kiyoaki Tsuji (eds.), *Nihon Naikaku-shiroku* (The historical records of Japanese cabinets) (Tokyo: Daiichi Hoki, 1986).

[45] Naikaku Seido 100 nenshi Henshu Iinkai, *Naikaku Seido 100 Nenshi: Jokan* (One hundred years' history of the cabinet system) (Tokyo: Okurasho Insatsukyoku, 1985), p. 520 and p. 524.

[46] *Ibid.*

[47] *Ibid.*, p. 527.

[48] *Ibid.*, p. 530.

[49] EJK, *op. cit.*, p. 17.

[50] Kakuma Takashi, *Dokyumento, Tsusansho Part 2* (Document the Ministry of International Trade and Industry Part 2) (Tokyo: PHP Kenkyujo, 1979), p. 52.