

Analyst:

Kevin B. Skislock
+1 949-651-9053
skislock@LRPonline.net
United States

Additional information:

Business Intelligence:
LRP-bi.net
Investment Research:
LRPonline.net

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China Rim Insights

Japan: Economic Analysis

Japan's Crude Oil Imports Continue to Slide

As crude oil imports in both China and India continue to surge, crude oil imports in Japan have declined in May for the thirteenth consecutive month.

- *Japan's Ministry of Economy, Trade and Industry (METI)¹ indicates, in data released on 29 June, that Japan's crude oil imports in May were down on both a year-over-year (YoY) and consecutive quarter (CQ) basis. May imports were 17.5 million kiloliters (109.8 million barrels²), down 11.0% YoY and 2.8% CQ.*
- *The same data set indicates that Japan continues to rely heavily on crude oil imports from the Middle East. The Middle East accounted for 89.9% of Japan's total May imports. The Kingdom of Saudi Arabia (KSA) and The United Arab Emirates (UAE) shipped a combined 60.7% share of this Middle East total, or 54.6% of Japan's total imports. Southeast Asia accounted for the next largest regional share of Japanese crude oil imports, 5.6%, and this was shipped primarily from Malaysia and Indonesia.*

Notably, an estimated 75.0%-plus of Japan's crude oil imports traverse two highly risky transportation choke points. The first of these is the 33.8-kilometer wide Strait of Hormuz that lies between Iran and the Omani exclave of Musandam. The second is the 2.8-kilometer wide Strait of Malacca that lies between Malaysia and the Indonesian island of Sumatra.

- *The Paris, France-based International Energy Agency (IEA)³, energy policy advisor to 26 net crude oil consuming member nations, recommends that members maintain crude oil stockpiles equivalent to 90 days of net oil imports. Japan, which imports more than 99.0% of its crude oil needs, held a 177-day stockpile at the end of April according to METI figures.*

Our research continues to indicate that the primary factor driving the on-going decline in Japan's crude oil imports is an accelerating shift in Japanese energy consumption habits in both the business and consumer sectors. In the business sector, manufacturers and energy utility companies are accelerating their switch to natural gas and away from oil-based energy sources. In the consumer sector, households are converting to 100% electric, purchasing subsidized fuel cells, and buying hybrid automobiles at an accelerated pace. In sum, Japanese society has become obsessed with energy conservation.

Japan's local auto market provides an excellent example of current trends.

¹ <http://www.meti.go.jp/>

² Our assumed conversion rate is one kiloliter = 6.28981 US crude oil barrels.

³ <http://www.iea.org/>

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- **Government-imposed price controls and taxes have boosted the average retail price of gasoline in Japan to the US\$5.00-plus level.** In turn, the Japanese government is plowing increased gasoline tax revenue into alternative energy development programs and product price subsidies.
- **Business and consumer demand in Japan for fuel-efficient vehicles has skyrocketed, and Japanese automakers are leading the world in the successful commercialization of hybrid gasoline-electric vehicles.** Toyota Motor Corporation, based in Toyota-shi, Aichi, Japan, announced on 7 June that it had achieved cumulative global sales of 1.047 million hybrid vehicles through the end of May. Approximately 345,000, or 33.0%, of these Toyota hybrids were sold in Japan while the remaining 702,000 were sold internationally. Toyota is widely regarded as having established as much as a 10-year competitive lead in the development of commercially viable hybrids.

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In April 2005, Laguna Research Partners issued ***Crisis on the China Rim: An Economic, Crude Oil, and Military Analysis***. In that study, we detailed a radically new context for analyzing the emergence of the Chinese economy, the impact of that emergence on global energy markets, and the implications of China's economic rise for the People's Liberation Army, the ultimate guarantor of China's energy security. Our ***China Rim Insights*** series provides our business intelligence and investment research clients with on-going updates to our original China Rim thesis.

Laguna Research Partners LLC
Irvine, California 92614

Business Intelligence: LRP-bi.net
Investment Research: LRPonline.net

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