

Mission to Supply Japan's Oil

Interview with Keiichi Konaga, president of Arabian Oil Co., by Takashi Suetsune, editor of the Journal of Japanese Trade & Industry

Despite its leading position in the world economy, second only to the United States, Japan remains extremely vulnerable to disruptions in its oil supply. Although the country consumes vast amounts of oil, it has almost no oil resources of its own and is totally dependent on other countries to keep it supplied. A prolonged supply cut could ring the death knell for Japan the economic superpower.

That alarming scenario almost happened in the oil crunches of 1973 and 1975. Although the taps were eventually turned back on, the crises brought home to the Japanese people how heavily their lives depend on Middle East oil. Historians remember how the oil embargo imposed on Japan in 1941 was such an effective U.S. strategy to restrain Japan. Indeed, the desperation it produced was one of the factors that led to the Pacific War.

The Gulf War, triggered by Iraq's invasion of Kuwait, was a fresh reminder that 70% of Japan's oil comes from the Middle East. The political and military stability of the Middle East region is a matter of daily concern to Japan.

The man perhaps more concerned about developments in the Middle East than anyone else in Japan is Keiichi Konaga, president of Arabian Oil Company, the only Japanese company engaged in upstream operations in Saudi Arabia.

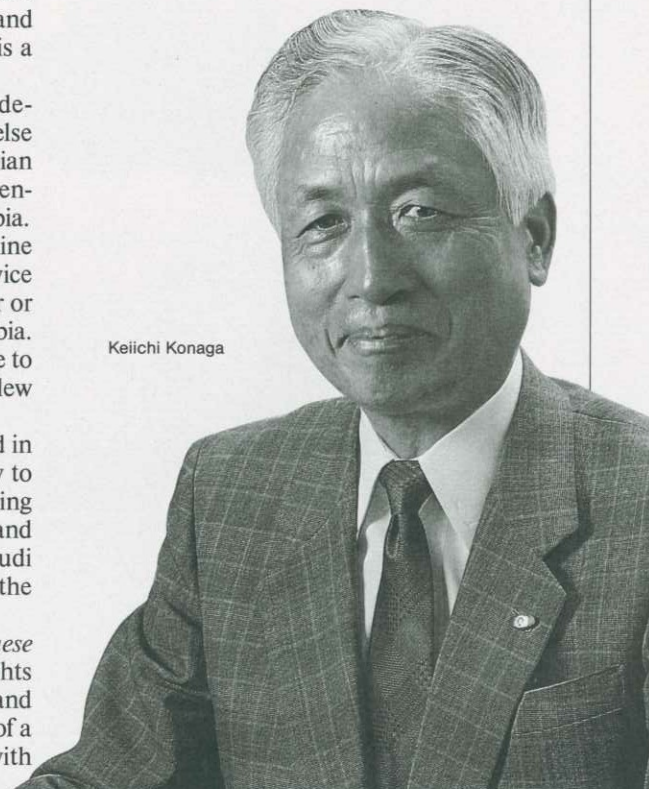
In fact, his company's fate was put on the line when the Gulf War broke out. Konaga, then vice president, faced a crucial decision of whether or not to withdraw his staff from Saudi Arabia. Thousands of lives were at stake, but he chose to keep his employees in place, and personally flew to Saudi Arabia to handle the situation.

The Arabian Oil Company was established in February 1958 as the first Japanese company to develop oil resources overseas. After concluding concession agreements with Saudi Arabia and Kuwait, the company struck oil in Khafji, Saudi Arabia, in January 1960, a field now said to be the fourth-largest or fifth-largest in the world.

In an interview with the *Journal of Japanese Trade and Industry*, Konaga shared his thoughts on his company's response to the Gulf crisis and the outlook for Middle East oil. At the helm of a company holding Japan's lifeline, he spoke with confidence and pride.

Question: *The Gulf crisis must have raised many questions for Arabian Oil Co. How did you respond to the outbreak of war?*

Answer: A week after the Iraqi invasion of Kuwait on August 2, 1990, the Japanese Embassy in Saudi Arabia recommended that Japanese residents leave the country. Since the lives of our employees were at stake, we faced a crucial decision. I will never forget it. There were three reasons for us to remain there and maintain the operations. The most important reason was that while Arabian Oil is a Japanese corporation, it is also a business entity operating in Saudi Arabia. So, while the Japanese government's judgment was important, we also had to heed the Saudi Arabian government's decisions. Saudi Arabia's judgment was that the situation was not yet seri-



Keiichi Konaga

ous enough to require urgent withdrawal of residents from the area.

Secondly, given the multinational environment where personnel from 18 countries were working at the site, it was impossible for us just to pull out our Japanese employees. And thirdly, Arabian Oil Company has the special mission of supplying oil to Japan on a stable basis. The more difficult it becomes to keep a stable supply going, the harder we have to strive to carry out our mission regardless of risks.

Q: *How did your employees and their dependents take it? And what did the Saudi Arabian government think of your decision to stay?*

A: All our employees were well aware of the three reasons for staying, since they are all taught the company's special mission when they join the company. However, the families of the employees posted there were naturally worried about their next of kin. Before I left for Saudi Arabia in mid-August, I brought together the families and explained the decision, assuring them that I myself would be there to encourage their husbands and sons.

Q: *You were formerly vice minister of international trade and industry, a post likened to the CEO of Japan Inc. How is managing a private company different from managing a government office?*

A: Arabian Oil is a private enterprise. So, we must make a profit. This is where a company differs from a government office, which is not necessarily concerned about profitability. However, since joining Arabian Oil, I have realized that it is important for a private company, just like a government office, to organize its employees and have them work toward the goals set by management. In this regard, the government and the private sector are identical.

My first impression of Arabian Oil was that each employee was a tough guy in the positive sense of the word, that is, each capable of acting on his own judgment. This was evidenced by the performance of the staff of our Khafji field office when Iraqi troops rocketed the city. Even amid the continued bombardment, their regular contacts with our Tokyo head office were never interrupted.

Q: *How great were your losses in the Gulf War?*

A: Our operations were halted for 137 days from January to June 2. This resulted in a loss of about ¥800 million (\$5.7 million at the rate of ¥140/\$) in our mid-term results for the first half of 1991. Operations resumed on June 2, and our crude production is currently running at over 200,000 barrels per day. We expect to be back at

our prewar level of 300,000 barrels per day toward the year-end. The company as a whole is striving to earn enough in the second half to make up for our losses in the first half.

Q: *The Middle East remains a politically and militarily volatile region. Moreover, your concession rights expire after the year 2000. How do you plan to manage the company and secure a stable oil supply?*

A: Of the world's remaining recoverable crude reserves, now estimated at 1 trillion barrels, 75% are in the Middle East. Some people advocate an energy revolution, that is, a break with our dependence on oil. But that is not easy. To be honest, the world will come to rely more on Middle East oil, not less. Since that is the situation, we earnestly hope that the Middle East sustains stability, even though it might take time.

We still have 10 years before our concession rights expire. At this stage we are not taking any specific action. All we can do is to continue to strengthen our relationship with our host countries step by step. In this connection, I would like to special note of a recent remark by Saudi Petroleum and Mineral Resources Minister Nazer to the effect that relations between oil-producing and oil-consuming countries are based on reciprocal security. He apparently meant that oil-consuming countries should transfer technology, particularly high technology, to oil-producing countries in return for stable oil supplies, in order to ensure the high productivity of the primary industry. I fully agree.

Q: *While continuing reliance on Middle East oil is an inescapable reality, it may be necessary to hedge against risks. Are you considering developing oil in other areas?*

A: Naturally, we are thinking of developing oil resources outside the Middle East in order to ensure stable supplies. We have established subsidiaries to explore for oil in Pohay Bay, off Malaysia, and in the Gulf of Mexico. However, the known reserves in these areas are relatively small. The Middle East will continue to lead the world in oil resources. So while it is important to make parallel efforts to discover new oil fields in other areas, the Middle East can never be neglected, not even in the future.

I am interested in exploring the possibility of oil and gas developments in Siberia, but at this point it seems very difficult to identify who would be the right party to negotiate with there. There is no danger of being left behind yet, even if we wait a little longer to see how the situation develops. ■

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