RE-EXAMINING "JAPAN INCORPORATED":
JAPANESE COAL PROCUREMENT AND
WESTERN CANADIAN COAL

by

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Abstract

In the current situation of oversupply in world coal markets, Japanese coal buyers are accused in some quarters of having deliberately over-stimulated the supply by offering loans and extending long-term contracts to more coal mine operations than has been warranted by market conditions. Contained in the accusation is the charge that the Japanese government and steel industry have collaborated to set the conditions for oversupply. The thesis finds at the root of this assumption remnants of the "Japan Incorporated" stereotype. Examining the case of the steel industry, the study demonstrates the inaccuracy of the elitist model of Japan from which the stereotype derives. The purchase of thermal coal by Japanese interests is discussed to introduce further evidence of the diversity of interests which participate in policy decisions in Japan.

An examination of the steel industry's approaches to acquiring coal reveals that a major concern of the industry has been to find ways to assure that it will have reliable supplies of reasonably-priced material. The industry's actions are best understood as ad hoc arrangements which have developed in response to domestic and international market conditions. To achieve its goals, the industry has pursued a strategy of diversification of supplier. The case of Western Canadian coal is presented to illustrate some of the main features of the implementation of the strategy. To enhance the security of their coal contracts, Japanese buyers increasingly have chosen to invest directly in the coal mine.
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INTRODUCTION

In FY 1983, Japanese steel mills were contracted to take 12.55 million metric tonnes of coal from Western Canadian mines. Squeezed by the recession and depressed markets for steel, the steel mills' demand for coking coal continued a downward slide which had begun two years before. Agreements with suppliers around the world were re-negotiated, and all were forced to accept price rollbacks and volume reductions averaging about 15%.\(^1\) Canadian shipments actually declined to about 76% of contracted tonnages.\(^2\)

Output from three major new mines in British Columbia and Alberta is scheduled to reach full volume in 1984, bringing the Japanese steel mills' contract commitments for Canadian coal in FY 84 to 19.28 million metric tonnes and to 16.30 million metric tonnes in FY 85.\(^3\) The increase in production corresponds with further gloomy forecasts for demand and pressure from Japanese purchasers for further cuts in price and volume.\(^4\)

Some observers foresee the investment of upwards of $2.9 billion\(^5\) in public funds the Northeast development represents culminating in projects that will operate in the red, or with marginal profits at best.\(^6\) Unprofitable mines and unprofitable operations of surviving mines have been, and will continue to be shut down, causing severe unemployment in regions already suffering from the boom or bust cycles which accompany resource-based economies. Others claim that older mines in the Southeast of British Columbia will suffer as a result of the development of unnecessary capacity in the North.\(^7\) In such a highly charged environment, suggestions are made that Japanese buyers have deliberately encouraged overexpansion of coal production to create this glut, thus achieving considerable cost savings for themselves.\(^8\)
The allegation appears to disregard the fact that similar results have occurred in the development of other resources in which Japanese buyers have not led the market. To claim that there has been a deliberate "strategy" by the Japanese to depress world coal prices oversimplifies the case. If we understand by "strategy" merely "the display or exercise of skill and forethought in carrying out of one's plans", a study of the Japanese steel industry's response to the challenges presented by both domestic and international conditions to the acquisition of supplies of coal which are both reasonable in price, and, to the greatest extent possible, secure from disruption, does indeed reveal a "strategy": diversification. Japanese interest in Western Canadian coal derives from that objective, and this thesis looks at the case to illustrate the advantages of diversification Canadian coal offers.

Critics suggest, however, that the "Japanese strategy" involves both the Japanese government and industry collaborating to create the conditions for oversupply. This argument has a faint ring of familiarity about it: "Japan Incorporated" has been resurrected.

At the heart of the designation is a perspective of Japan as a monolith; a "concept of tripartite power elite composed of the leaders of the Liberal Democratic Party, senior bureaucrats and big business" who comprise a "regular and effective alliance and control decision-making on major policy issues." The elite model of the Japanese decision-making apparatus rests on three basic principles: that the groups are normally united in purpose and action; that they participate in most, if not all, important policy decisions, and that individuals and groups other than those included in the elite categories are regularly excluded from decision-making processes.
on important policy issues. Case studies, however, tend to cast doubt on the elitist perspective. Among the most visible examples is the fierce factionalism which is the trademark of the LDP. Gerald Curtis' study of interaction between business and government stresses the importance of changes in the economy and social structure which have made the business community "increasingly pluralistic".

This thesis uses the case of coal to highlight the diverse, and often competing interests which factor in the Japanese coal buying "strategy". By looking at the evolution of the roles of the major actors, the analysis illustrates the dynamic nature of Japanese society which the "Japan Inc." label tends to mask. The study shows that it is incorrect to assume that elite groups are "normally united in purpose and action"; that a growing number of groups participates in most important policy decisions, and that the "big three" elite groups cannot "regularly exclude" other groups from the decision-making process.

Chapter 1 presents the Japanese setting, Chapter 2 the development of Western Canadian coal operations, and chapter 3 summarizes the conclusions drawn from the study.
Introduction Footnotes


2. Ibid.


5. This is a conservative estimate. See Geoffrey S. Carter, "Metallurgical Coal: British Columbia's Panacea or Achilles Heel" (Toronto: Midland Doherty Ltd., December 1983), p. 21.

6. Ibid, p. 3.


8. This argument will be taken up in Chapter 3. See Baylis and Handelsman, p. 2; Maund, p. iii; Peter Nemetz and Ilan Vertinsky, "Japan and the International Market for LNG" (Canada and the Changing Economy of the Pacific Basin, Working Paper No. 19, Preliminary Draft, Vancouver: Institute for Asian Research, University of British Columbia, February, 1984), p. 11.

9. See, for example, Dani Rodik, "Managing Resource Dependency: The United States and Japan in the Markets for Copper, Iron Ore and Bauxite", World Development, Vol. 10, No. 7 (1982), p. 551. Rodrik rejects "the complaint that Japan was deliberately attempting to maintain excess supply in the iron ore market by financing more capacity than was warranted by the incremental growth in demand", noting that the total volume of Japanese finance was "quite limited", and that the steel mills, until the early 1970's, "generally kept to the upper ceilings of the contracted volumes from the mines they had helped finance."


11. The expression has different meanings for different users, but generally is meant to suggest that Japan behaves like one large corporation. Some writers suggest by it the domination of government by big business, others, business docility in the face of government direction. Other writers mean by the expression collusion between the two, with, occasionally, the added implication that "close cooperation between government and business is illicit". Ezra F. Vogel, "Towards More Accurate Concepts", in Modern Japanese Organization and Decision-making, Ezra F. Vogel, ed. (Berkeley: University of California Press, 1975), p. xvi.


13. Ibid, p. 35.


CHAPTER 1: The Japanese Setting

1. Introduction

Among the myths that continue to cloud our understanding of the interaction between government and industry in Japan is the misleading, but enduring, stereotype represented by the expression "Japan Inc." This chapter will introduce the major Japanese actors involved in coal purchasing. They do not comprise a homogeneous group, nor are their specific interests always in harmony.

Recent analyses of Japan's industrial re-structuring and energy policies attribute the policy outcome more to the effects of market forces and a certain measure of luck than to concerted advance planning. Japan's response to the problem of securing sufficient quantities of coal has been determined largely by the steel industry. It is a central argument of this thesis that the industry's coal purchasing activities are largely an ad hoc response to domestic and international economic conditions, not the product of a government-industry strategy to control the international coal market.

The steel industry is not the only user of coal in Japan and, in the wake of the oil crises in 1972 and 1979, the Japanese government has encouraged the electric power utilities and cement industry to substitute thermal coal for oil. This section discusses some of the limits to the government's, specifically, to the Ministry of International Trade and Industry's (MITI), authority to impose its preferences.

Finally, the chapter takes note of changes that have taken place over time in the balance of influence among the actors, changes which reflect the changing economic and social conditions in the country in the postwar
period under examination. Japan's recent history can be divided roughly into three periods: a period of recovery, from 1945-55; the period of high-speed growth, from the late 1950s through the 1960s, when the annual economic growth rate reached 10%. The third period, from 1971 until the present, has been marked by dramatic changes to world economic and financial structures. Japan's growth rate has slowed and the engines of rapid growth in the 1960s are now experiencing the effects of the world wide recession. As the economy has expanded and become more complex, so has the chorus of voices claiming to be heard.
2. "Japan Incorporated"

The label "Japan Inc." was Eugene Kaplan's summation of Japanese government-industry connections in the wake of the 1970 merger of the country's No. 1 and No. 2 steel companies, Yawata Steel Co. and Fuji Steel Co., to form the Japan Steel Corp. (Nippon Steel). The merger was promoted by MITI as an important element in its industrial policy of strengthening the international competitiveness of the steel industry. In theory, there was a good possibility that it would be blocked by the Japan Fair Trade Commission (JFTC) on the grounds that the merger would create a strong oligopoly. It was the JFTC's first merger case, and, after three months of deliberation, the commission accepted it, based on a memorandum exchanged between MITI and the JFTC in 1966 on the flexible administration of the antimonopoly law (AML) with respect to measures for industrial reorganization. To the outside world and an important body of Japanese opinion, the merger epitomized the essence of a pattern of under-the-table "arrangements" by which a small, powerful elite within MITI and industry ran the country.

The merger can be viewed as a symbolic event which led to widespread discussion on the enforcement of the AML. The publicity and critical examination the case generated pushed the close MITI-industry leaders' ties onto centre stage at a time when big business and big government were being subjected to growing consumer group and opposition party criticism over the social costs of policy which placed emphasis on rapid economic growth: pollution, urban blight, inadequate housing and social services. The Nippon Steel merger prompted more vigorous enforcement by the JFTC of the AML during the 1970, notably in price-fixing charges it brought against the oil refineries in 1974.
MITI has assumed a central coordinating role in overall energy policymaking, but in other sectors, it takes a more reactive stance. Its traditional clients are the older industries: textiles, petrochemicals, paper and pulp, steel; industries which benefitted from MITI's "guidance", vast information base and broad national overview. They also enjoyed protection MITI could provide, through tariff and other regulatory controls, from foreign competition. In the period of structural readjustment which has followed the two oil crises, many of MITI's clients have gone into decline. National priorities have shifted to high technologies, the fiefdom of other ministries, notably Science and Technology, and Posts and Telecommunications. A recent analysis suggests that the flood of MITI budget requests for high technology-related activities derives as much from bureaucratic motives to restore the ministry's declining position as from a genuine commitment to promote high technology.  

3. Adjusting the Gristmill

The relationship between business and government in Japan has been likened to that between water and a gristmill: to ensure a smoothly running wheel, it must be placed in the water at the proper depth. Different sectors require different adjustments. An examination of the history of relations between the steel industry and MITI shows that the position of the wheel has changed as the Japanese economy and the industry have strengthened. Increasingly, it appears that the mover of the wheel is industry, not government.

The steel industry has a history of close links with the government bureaucracy, yet it has maintained considerable independence, and its "cooperation" has not always been 100%. A "designated industry", investi-
ment by the steel mills was closely controlled from the period immediately after WW II until approximately 1960 through the Industrial Rationalization Council and the Foreign Capital Law. MITI Vice-Minister Matsuo proposed a steel industry law in 1960 to establish an investment coordination cartel as an exception to the AML, but the industry rejected it in favour of self-coordination. By 1965, the attempt at self-regulation had broken down, and overcapacity in the industry, combined with a recession, threatened to bankrupt several firms. The steel companies, among themselves, were unable to reach agreement on production cuts, and MITI attempted to bring about a reduction through "administrative guidance". One of the steel companies, Sumitomo Kinzoku Kogyo, rejected the plan and MITI backed down. The case provides an example of the comparable influence of an industry and MITI's regulatory authority. MITI could restrict Sumitomo's coking coal imports to an amount necessary to produce the proposed quota, but yielded. Information obtained from interviews with industry representatives revealed a similar attitude among industry leaders to MITI's powers to "control" foreign exchange during the 1960s. Growing companies acquired their own foreign exchange and the steel companies seem to have had their way, regardless of regulations, after "under the surface" discussions. The "Sumikin affair", as the Sumitomo incident was called, exposed the industry's inability to regulate itself and, fearing the results of excessive intra-firm competition, the presidents of Yawata and Fuji proposed the merger which eventually created Nippon Steel.

The extent to which Nippon Steel effectively dictates coal prices is a question of considerable interest today. Because of its size, it can strongly influence the so-called "Western Pacific" price. The drop in price Nippon Steel negotiated in 1983 with Pittston, the largest single
U.S. supplier, for example, set a benchmark for other U.S. suppliers.  

Nippon Steel, which acts as steel industry "coordinator" for Australia (and, effectively, for the U.S.), and Nippon Kokan K.K., the coordinator for Canada, are the main protagonists in the annual coal contract negotiations. While "vigorous" discussions among the mills are reported to take place, it is difficult to know to what extent the two leading mills dominate. The blast furnace mills have not been unanimous in their support of expensive Canadian coal projects: Kawasaki Steel, for example, was reluctant to take out equity in the Quintette project because of concerns about soaring costs. D'Cruz, in his analysis of the steel industry's buyers' group, states that the steel companies seek the "informal approval" of Nippon Steel before making any major decisions.

The uproar over the Nippon Steel merger was one force among several that contributed to the weakening of MITI's prestige and authority. The JFTC's charges against the oil refineries in 1974 challenged the legality of MITI's "administrative guidance". Results were a draw: the Tokyo High Court found the refineries' action illegal despite administrative guidance, but acquitted the defendants on the grounds that there was a reasonable possibility the defendants thought their action was acceptable, since it had been endorsed by MITI.

The merger also prompted widespread discussion of the merits of anti-monopoly enforcement and led, eventually, to the 1977 strengthening of the AML. The amendments can be viewed as a "political phenomenon", action taken by the governing LDP in an attempt to shore up an image badly tarnished by the 1974 Lockheed bribery scandal. There is, accordingly, some concern that the AML will be undermined again at the first political opportunity. Keidanren, the influential Federation of Economic
Organizations of Japan, is vigorously promoting relaxation of cartel regulations and has picked up some support in the Diet. Still, the LDP, having experienced renewed setbacks in the 1983 Lower House elections, may be reluctant to yield to big business in opposition to strong consumer group and small- and medium-business group expectations of strict enforcement.

4. **Securing Stable Supplies of Coal**

The problem of resource procurement for Japan, a country of limited natural resources, is acute. Coal is both a key component in iron and steel making and an important alternative to oil as a fuel. Domestic supplies of metallurgical coal are both insufficient to meet requirements and expensive (because of quality limitations and delivery costs), thus the Japanese steel industry relies on imports for approximately 94% of its requirements. The use of thermal coal for electric power generation became more attractive when oil prices soared following the two oil crises. Imports of thermal coal rose from 383,000 metric tonnes in 1975 to 1,677,000 metric tonnes in 1979. In 1982, Japan imported approximately 48% of its thermal coal requirements. Coal in that year met 7% of the country's electricity demand, and is forecast to increase in importance to 10% in 1992.

In dealing with the problem of resource security, Japan has adopted a multi-point approach:

(i) diversify source of supply and, in the case of energy resources, substitute fuels, as a means of assuring adequate and reliable flows at reasonable, predictable prices;
(ii) exploit domestic deposits and capabilities;
(iii) stockpile;
(iv) invest in offshore resource development projects;
(v) extend low-interest loans to producers.

The relevance of each option, and the identity of the major promoter, will vary according to commodity. Deposits of coal are broadly distributed across the globe, thus diversification of supplier is a logical step, whereas stockpiling, given Japan's space limitations and the unattractive physical properties of coal, is not, and developing domestic deposits offers limited benefits.

In assessing the nature of vulnerability, there are both economic and political factors to consider. Among the economic: the possibility of future shortages, either as a result of depleted supplies, or as a result of a lack of timely investment in resource development to ensure sufficient quantities will be available to meet anticipated demand some time in the future. Investment may not be forthcoming as a result of several factors, including the inability, or unwillingness, of the host government to develop the resource for foreign markets. Political aspects include the possibility of a "resource war" in which one side blocks the other's access to supplies.

Existing or potential internal political instability in major producing areas are also important considerations. The termination of trade relations with the People's Republic of China in 1958 cut off supplies of Chinese coal to the Japanese steel mills. One effect of the 1973 oil crisis and the scramble for alternatives to oil was to send prices for coal on the U.S. spot market, where Japanese buyers made
substantial purchases, soaring 250% in 1974 over the previous year's prices. 28

5. Options for a New Entrant

In attempting to enter international markets, Japanese buyers faced a common obstacle: other investors, usually American, had got there first, blocking access to the lowest-priced, most reliable, supplies. In the case of oil, for instance, the principal international oil companies, had, by 1929, developed a network of alliances through which they effectively controlled world trade. Standard Oil Co. and Mobil, together, controlled the principal sources of crude oil and the principal refineries in Asia. 29 Having failed in WW II to secure control of oil fields and refineries in Sumatra and Singapore, Occupation-Japan decided to concentrate on obtaining cheap energy, relying primarily on foreign-owned oil companies for supply. The push instead was to "Japanize" domestic oil refining capacity, a goal that was achieved with notable success. The share of total refining capacity owned by affiliates of foreign companies declined from 70% in the mid-'60s to 40% by 1978. 30

The priority consideration in the case of coal was similar: price. In the 1960s, Japanese firms lacked the capital resources necessary for integrative arrangements, which, from the example provided by the oil majors, offered the best solution to the problem of obtaining reliable supplies at the lowest price. 31 The country's limited reserves of foreign exchange were directed by the government to the requirements of the designated sectors. Foreign investment was not a government priority: the government's ceilings on foreign investment were not lifted until 1971. As a result, Japanese buyers obtained most of their requirements on the spot market, or from developing countries on short-term contracts.
The history of Japanese coal procurement parallels that for iron ore: the buyer is the same. To improve their bargaining leverage, the largest steel companies formed a "buying cartel", the "Committee of Ten", in 1964, to coordinate purchases as a single unit, while Australian mining companies and states competed against each other. As a result, Japanese buyers were able to negotiate contract prices F.O.B., not C.I.F., securing for Japanese benefits that would accrue from future declines in transportation costs. Japanese were able to obtain Australian ore, at landed cost in Japan, at about 20% less than imports from Asia, Africa and America. In the long run, Japanese buying practices paid off better than did American integrative practices: according to Rodrik, in 1960, U.S. steel mills had a 16% cost advantage over Japan in iron ore input; by 1976, the advantage had swung to a 43% disadvantage.

Not locked into integrative arrangements in other countries, Japanese steel mills could take advantage of the discovery of iron ore in Australia and participate in development by offering long-term contracts and loans. American companies, on the other hand, suffered heavy losses from nationalization of mines by increasingly nationalistic developing countries.

The steel industry encouraged development of coking coal mining capacity in Australia in the 1960s by offering to provide capital assistance to new projects. Long-term contracts negotiated with new projects helped begin large scale development of Australian coal. Long term contracts and promises of financial assistance were offered to potential Canadian suppliers in the same period, but were not realized until the following decade.

A monopsonist buyer, the steel mills are able to play one supplier against another. In the current situation of an oversupply of coal, Japanese buyers can make price cuts and volume reductions negotiated
with South Africa the basis for negotiations for supplies from other countries. The 5-10% price cut agreed to by South African mines in January, 1984, "set the tone" of the market. In May, Australian hard coking coal prices fell by U.S.$1.50-2.50 a tonne, below those previously agreed upon by the Australian government and coal mining industry. In Canada, Byron Creek Collieries Ltd., which supplies the Japanese cement industry with thermal coal, cut its prices by 22%, and Marketing Vice-President Arthur Wilson indicated that the competition from South Africa was a key factor in the decision.

Long-term contracts entered into by the Japanese steel mills reduced risk associated with resource shortages and political or economic upheaval and, in periods of perhaps temporary glut, may help prevent the premature closure of uneconomic mines. They are not, however, failsafe. In times of scarcity, the Japanese buyers lose their leverage. Neither do contracts, which are open to re-negotiation and, in any event, are almost impossible to enforce, offer as much stability as the Japanese buyers wish. Australian iron ore contracts had barely been signed in 1966 when the Australian side called for re-negotiation.

The solution for Japanese companies has been to enter into equity participation in foreign mining operations, first in Australia in the late 1960s then, with the lifting of foreign exchange controls, in Canada in the Balmer mine in British Columbia, in 1973. Industry has been aided by government, which has, especially since 1980, provided loans and guarantees, but has been served as well by the Japanese trading companies, the so-called sogo shosha, which have initiated major overseas projects and coordinated the needs of buyers and sellers.
The emergence of buyers' groups in Japan can be seen as a pragmatic and highly effective response to the challenge posed by the problem of obtaining raw materials in a highly competitive international market. The existence of such "cartels" may grate against the philosophical framework of some suppliers and competitors, but fits in easily with the more relaxed approach to anti-trust in Japan. 41

6. The Institutions of Government

At the heart of the Japanese policymaking system lies a network of councils and mechanisms for exchange of views and information between government and business officials. The source of MITI's authority rests on the fact that the ministry operates from a solid data base, data collected, for the most part, from the industries it advises and whose activities it helps to coordinate. Despite the continuous process of two-way dialogue, however, communications problems are not uncommon, and reflect the very different perspectives of industry and government. Higashi Chikara, a former Ministry of Finance official, attributes a major portion of the problem to a lack of two-way flow of personnel between the two sectors at a working level. 42 Bureaucrats, he claims, seldom have much understanding of the needs of individual businesses when they are negotiating with, for example, the United States on export quotas. Consequently, agreements MITI reaches with trading partners may be extremely difficult to effect with an antagonistic Japanese private sector. 43

The ministry is not always successful in its efforts to guide industry, as the discussion on the steel industry has shown. Despite the ongoing dialogue at both upper levels (between top business leaders and senior bureaucrats) and lower levels (between specific industry associations and
their respective divisions within MITI), international and domestic market forces can overtake the most careful of plans. Samuels' description of the "de-structuring" of the aluminum industry in Japan in the late 1970s and early 1980s reveals that market conditions forced the shutdown of domestic capacity much faster than the "restructuring" plans of the ministry and aluminum subcommittee of the Industrial Structure Council had anticipated, forcing costly emergency measures to cushion the impact on workers and regional economies. 44

MITI is advised by councils which investigate and deliberate on future policies in their respective administrative areas. Membership on the councils is broadly based, drawing from top levels of business, academia and the government. While their reports do not have the force of law, because they represent the consensus achieved following an extensive process of consultation, their recommendations will often be acted upon by both government and industry. 45 It is difficult to conclude, though, whether the councils serve more as fora to give advice to MITI, or to endorse policy which MITI has already drafted and for which it seeks broad acceptance. Samuels' analysis indicates it is a two-way street.

MITI has both vertical and horizontal divisions. Vertical divisions handle a particular sector of industry and aim at eliminating obstacles to the development of that industry. Horizontal divisions are concerned with issues common to all industries: business trends, long-term direction of the economy as a whole, trade, industrial location as a whole, and pollution. 46

Vertical divisions which liaise closely with their clients in the iron and steel industry are the Iron and Steel Administration Division and the Iron and Steel Products Division. Within the Agency of Natural Resources
(which forms part of MITI) - the Planning Division of the Coal Mining Department is concerned with planning and formulation of coal policy and coal supply and demand plans, and mine rationalization with respect to the domestic industry. The division is particularly concerned with coping with employment dislocation resulting from mine closures. MITI's policy is to maintain a program to produce 20 million tonnes of domestic coal a year; smooth the importation of coal, and promote research and development of coal utilization techniques. The division controls the licensing of import quotas for ordinary coal. 47

The interests of the industry divisions can be contradictory. The mills are required to purchase a minimum amount of domestic coal and, after domestic supplies have been allocated, imports may make up the balance of coal requirements. The cost of this protection for the domestic coal mines is high. 1981 domestic soft coking coal averaged $100.16 a tonne, compared with $72.93 (average of soft and hard imported coal), and the 1982 price spread was $95.24, compared with $74.50 for imported coal. 48 Consequently, domestic consumers are attempting to reduce their requirements for the type available in Japan. Both the utilities and the cement makers are converting to alternate cheaper fuels such as anthracite and petroleum coke, which are free from compulsory purchases of local coal. 49 The ministry has abandoned its 1981 target of 20 million tonnes p.a. production, lowering its goal to 17 million tonnes. 50

A Coal Import Policy Office is charged with planning responsibilities, including short-term and long-term import plans, international cooperation with the International Energy Agency and private sector organizations, and research on overseas markets. It emphasizes information collection and dissemination to industry.
The Japanese government, more specifically, MITI, is involved in the development and introduction of alternative energy sources through governmental bodies such as the New Energy Development Organization (NEDO, established in 1980), the Electric Power Development Co., Ltd. (EPDC, established in 1952), the Japan Coal Development Co., Ltd. (JCDC, established in 1980), and the New Energy Foundation (NEF, established in 1980). NEDO and EPDC are jointly funded by government and the private sector; the JCDC by the ten electric power companies (including the EPDC). The NEF relies on the private sector alone for funding.

NEDO's functions are: (i) the development of new energy technology, (ii) assistance measures for the development of geothermal resources and overseas coal, (iii) surveying activities, and (iv) rationalization of the domestic coal industry. Within its mandate to aid in the development of overseas coal, NEDO provides subsidies for surveying, market research and development of new resources. In the case of development of Canadian coal mines, NEDO's guarantees for a portion of Japanese investors' loans fall within its mandate to provide loans and guarantees to private companies engaged in the development and import of overseas coal. NEDO will guarantee bank loans for the development of overseas coal, including associated infrastructure costs, to the extent of 50% of the Export-Import Bank of Japan loans and/or up to 100% of the other bank loans at a low rate of interest. Funds are made available in the form of low interest loans. While overseas development loans are ordinarily divided 60% from the Export-Import Bank and 40% from the domestic commercial banks, those for energy projects are divided 70/30.

The Japan Coal Development Co., Ltd. was established to survey, prospect, develop, import and sell thermal coal for generating electric
power and to construct and manage storage and distribution facilities for coal. While the JCDC has formal authority for import management, a recent study conducted for the (U.S.) Western Coal Export Board found that as the individual utilities learned more about the coal business, they "appear(ed) to be following parallel but independent courses", conducting their own negotiations or relying on the trading companies.

7. The Zaikai

The high-level actors involved in policymaking in Japan include the top bureaucrats and LDP politicians, and the zaikai, the leadership of the business management associations: Keidanren, the largest and most influential; the more progressive Keizai Doyukai (Committee for Economic Development); the Nihon Shoko Kaigaisho (Nissho, the Chamber of Commerce and Industry, which speaks for small business), and Nikkeiren (the Japanese Federation of Employers Associations. Its membership is the same as that of Keidanren), which attempts to develop common labour policy for big business.

The iron and steel industry and the utilities are well represented in the upper echelons of Keidanren. Following its general meeting in May, 1984, the steel industry had two representatives on the board: Inayama Yoshihiro, of Nippon Steel is Honourary Chairman, and the Vice-Chairman is Saito Eishiro, Chairman of Nippon Steel. Keidanren's influence with government rests in its ability to forge a consensus among private sector groups, through its study committees, which parallel the government's advisory councils. The Executive Committee on Coal Development, established in January, 1980, deals mainly with domestic coal and with Japan-Australia coal matters. Keidanren also liaises with the Japan-China Association on Economy and Trade and with the Japan-China
Long-Term Trade Committee to facilitate arrangements for Japanese coal imports from the PRC.\textsuperscript{55} Canada-Japan coal matters are discussed within the energy sector of the Japan-Canada Businessmen's Cooperation Committee (Japanese participation on this committee is sponsored by Keidanren).

Keidanren's hierarchy reflects the old guard in Japan,\textsuperscript{56} and emerging high-tech industries have little say in its policy-making.\textsuperscript{57} Like MITI, its major clients are the older industries, and the organization is concerned about losing some of its authority, as maturing industries abandon its umbrella and operate on their own. In recent years, Keidanren has carved out a special role for itself in promoting the development of alternative forms of energy. The organization is not immune from divisions either: in the 1982 debate over extending government assistance to the aluminum industry under the Structurally Depressed Industries Law, for example, Keidanren was divided between having to justify assistance for its group-affiliated aluminum refining firm members while "maintaining both an ideological resistance to state intervention in the economy and a political commitment to 'administrative reform' through fiscal austerity."\textsuperscript{58}

8. **Summary and Conclusions**

The analysis of the progression of strategies Japan has adopted to secure reliable foreign supplies of low-cost metallurgical coal indicates that it is government which has responded to the needs of what has become a self-regulating industry. Steel industry desire to invest in coal and iron ore development in Australia provided strong domestic pressure for the Japanese government's decision to relax foreign investment restrictions in 1971. MITI's attempts to rationalize investment in
in new steel plant have not been noticeably effective: the blast furnaces today, as a result of fierce inter-firm competition to retain market shares in the 1970s are operating at 54.6% of capacity.

When government priorities conflict with those of the private sector, government cannot impose its preference without a price. To encourage the steel mills to cooperate with "G-G" (government-to-government) contracted volumes of coal from the PRC, for example, government must provide aid to the industry to make up the difference in cost and to insure against the added risk involved.

The steel industry cannot always win over broader, national interests: attempts by the industry to have MITI control steel imports from the strongly competitive South Korean company Pohang Iron and Steel Co., and to bring anti-dumping cases against South Korea have failed.

The case for thermal coal is somewhat different, for MITI has taken on a widely accepted role as central coordinator of energy policy, and used its regulatory authority to encourage industry compliance with overall policy goals. Cooperation is a two-way street, however. The enthusiasm of MITI in 1980 for promotion of inter-fuel substitution and development of foreign thermal coal supplies was not shared by the electric power utilities. An analysis of the role played by the Tokyo Electric Power Co. in shaping Japan's coal and LNG policy reveals that the utilities are very reluctant to switch to coal for both technical reasons (coal is dirty, needs to be stored, and large sites are required for coal-fired plants) and cost factors (ocean freight charges, cost of port infrastructure). The utilities favoured conversion to nuclear power and LNG, and were reluctant to increase their dependence on American and Australian coal. They have also been reluctant to diversify their sources away
from capitalist countries and have balked at government-to-government
deals with the PRC and USSR promoted by MITI and the Ministry of Foreign
Affairs. It was only after MITI indicated it would help the EPDC
finance acquisition of reserves in Australia and encourage it to secure
minority shareholdings in a number of companies that the utilities banded
together to form the JCDC.

Interviews with Japanese industry spokesmen revealed a uniform
antagonism toward what was viewed as government meddling in a strictly
commercial activity: the buying and selling of coal. Industry representa­
tives indicated resistance to government efforts to expand commercial ties
with the PRC and USSR at the expense of the industry's flexibility to
decide where and how much coal to purchase. The attitude of industry
officials reflected a widespread view in Japan that the private sector is
more efficient than government. The Keizai Doyukai recommended in 1981
that government should handle only matters that are beyond corporate
control. As Japan's economy becomes increasingly internationalized, govern­
ment, in the view of the organization, should support business by promoting
risk insurance for overseas business ventures and providing financial
assistance for creative technological development. Keidanren, too, is
strongly committed to "minimal" government, and urges a reduction in the
deficit and an end to tax hikes.

The politicians are becoming more involved in decision-making, as
well, invading territory once considered the preserve of the bureaucrats.
In testimony before a workshop organized by the Subcommittee on Asian and
Pacific Affairs of the U.S. Committee on Foreign Affairs, Timothy Curran
attributed increased political intervention to two causes: (1) in a
period of slow economic growth and tight budgetary conditions, difficult
political choices have to be made over the allocation of resources, and, (ii) as LDP popularity declines, politicians have begun taking a greater interest in economic decision-making to protect (and retain the backing of) their support groups and influential interest groups. A study of the "politics of budgetting" in Japan concludes that the LDP, not the bureaucrats in the Ministry of Finance, controls budget allocations. Budgets reflect political priorities (and thus are usually in deficit), and the LDP's need to balance individual Diet members' needs to meet the demands of their respective koen kai (personal support groups) as well as the sometimes conflicting interests of the party's national support bases.

The extent to which government's flexibility is compromised by competing interests can be illustrated by the dilemma presented by U.S. pressure on the Japanese government to increase Japanese purchases of U.S. coal as a way to reduce the American trade deficit.

Pre-Northeast B.C. coal development Foreign Ministry explanations that Canadian coal was cheaper than American coal and thus more attractive to the steel industry are not readily accepted by U.S. trade officials who are well aware that Canadian metallurgical coal from the two new mines is now the most expensive on the international market. Pressure from MITI, which has a mission to reduce international trade friction for the overall benefit of all Japanese exporters, falls on hostile ears in the steel industry. Industry spokesmen have indicated that an appeal to increase their purchases of expensive U.S. metallurgical coal would simply be ignored and, at any rate, runs counter to a recent industry-government consensus to seek low-price resources. Besides, increased coal prices would be reflected in higher steel prices, adding to the domestic industry's problems of remaining internationally competitive. MITI has greater regulatory
authority over the utilities and could conceivably "advise" them to take more U.S. thermal coal. The utilities are strongly represented in Keidanren and their combined, undoubtedly negative response to government interference would no doubt be effective. The increased cost of additional imports of U.S. coal would be passed on to local consumers, whose wrath would soon be felt by LDP politicians whose hold on power remains fragile. Japan's luck may hold, though. An anticipated strike in the U.S. coal mines this year may resolve the problem without MITI having to take any action.
Chapter 1 Footnotes

1. The term is attributed to Eugene Kaplan, author of a 1972 U.S. Department of Commerce study on government-business relations in Japan. Kaplan states at one point in the report that "Japan Incorporated" is an Economic Fact of Life, but case studies commissioned for the study indicate otherwise. According to Gerald Curtis:

The author admits that the studies demonstrate that advance planning is neither as long range nor as far-reaching as had been thought; that interaction between Keidanren and MITI varies considerably from case to case and suggests no single pattern; that industry operates on its own initiative and without governmental intervention to a greater extent than had been assumed ...

Indeed, Kaplan concludes that:

... the government cannot effectively interpose its judgements on the corporate structure. It can encourage but not dictate mergers or formal combinations. MITI has, therefore, sought, generally with little success, to stimulate consolidation through its exercise of a variety of levers on industry.


6. This is, in fact, what happened. Following the merger, parallel price rises and production restrictions became established practices in the industry. Sanekata Kenji, "Guideline(s) and Cases on the Regulation of Shareholding by the Japanese Antimonopoly Law" (Paper presented at the Faculty of Law, University of British Columbia, Vancouver, November 1983), p. 12.


8. For a detailed study of the evolution of Japan's response to the 1973 oil crisis, see Martha Ann Caldwell, "Petroleum Politics in Japan", op. cit. Caldwell found that the zaikai (business leaders) led the effort to build a coalition which eventually supported a major change in policy. There were divisions within government, notably between MITI and the Ministry of Foreign Affairs, and within the private sector on an appropriate policy stand. In the process of gathering information on policy alternatives and forging a consensus, MITI remained the locus of decision-making. Caldwell, p. 477.


11. "Administrative guidance" refers to "advice" from MITI to an industry or company which is not legally enforceable. Failure by a company to go along with the "advice" could prompt retaliation by MITI through its regulatory arsenal. For a detailed discussion of MITI's use of "administrative guidance", see Johnson, MITI and the Japanese Miracle, op. cit., pp. 242-274.


13. Johnson details this kind of exchange in his analysis of the so-called "Sumikin affair". Johnson, MITI and the Japanese Miracle, pp. 269-270.

15. Coal destined for non-Pacific markets is usually priced on a landed cost basis.


17. Ibid, p. 312.


19. Charges were brought against the refineries for price fixing and restricting output. MITI had been aware of the situation and had promoted it through administrative guidance.

20. Sanekata, "Guideline(s) and Cases", p. 5


24. Ibid.


29. Vernon, Two Hungry Giants, p. 89.


33. Contracts for Australian and Canadian coal are F.O.B.T., from the terminal, making domestic transportation costs the concern of the producer.

34. Rodrik, p. 550.

35. Ibid, p. 549.


41. For a discussion of "a peculiarity of Japanese industrial organization - monopsony", see Shinohara Miyohei, *Industrial Growth, Trade and Dynamic Patterns in the Japanese Economy* (Tokyo: University of Tokyo Press, 1982), pp. 40-41, 42-44, 45-47. The practice of subcontracting within a monopsony network, with big corporations above and subcontractors below, is a unique feature of the Japanese industrial organization. Japanese coal buying on the world market appears to be but local practice writ large. Interestingly, Shinohara draws attention to the dearth of analyses of Japanese organization which focus on the medium and small enterprises, a lack due, he says, to the tendency of researchers to "emulat(e) American analysis ... on seller's monopoly or oligopoly". Shinohara, p. 41.

42. MITI accepts a limited number of officials from business in temporary positions at the entry, section-chief and deputy director levels as a means of establishing immediate and long-term personal contacts with future business leaders, but the flow is nowhere comparable to that in the U.S. or Canada. Higashi Chikara, *Japanese Trade Policy Formulation*, *op. cit.*, p. 59

43. Ibid, p. 67.


45. For an example of the consultative process, see Ibid, pp. 499-501.


49. Ibid, p. 6.


52. Ibid, p. 8.


54. Other vice-chairmen are: Kawamata Katsuji (Chairman, Nissan Motor Co. Ltd.), Hasegawa Norishige (Chairman, Sumitomo Chemical Co. Ltd.), Hiraiwa Gaishi (Chairman, The Tokyo Electric Power Co., Inc.), Ishida Masami (Executive Advisor, Idemitsu Kosan Co., Ltd.), Nakamura Toshio (Chairman, The Mitsubishi Bank, Ltd.), Yamashita Isamu (Chairman, Mitsui Engineering & Shipbuilding Co., Ltd.), Yoshiyama Hirokichi (Chairman, Hitachi Ltd.), Toyoda Eiji (Chairman, Toyota Motor Corp.), Hanamura Nihachiro (President, Keidanren). Chairman of the Board of Councillors is Iwasa Yoshizane (Advisor, Fuji Bank Ltd.); Honourary Chairman is Doko Toshio (Counsellor, Toshiba Corp.). "Old Men Continue to Dominate Zaikai World; Osaka-based Businesses Are Unhappy", Japan Economic Journal, Vol. 22, No. 1114, pp. 46, 47.


56. The average age of its executive vice-chairmen is about 75. "Old Men Continue to Dominate Zaikai World", op. cit., p. 46.

57. Ibid.


59. Shinohara, Industrial Growth, p. 47.


63. Ibid, p. 90.

64. Ibid, pp. 103, 104.


67. See Kubota Akira, "The Political Influence of the Japanese Higher Civil Service", Japan Quarterly, Vol. XXVII, No. 1 (January-March 1981), pp. 45-55. Kubota concludes that the higher civil service plays a "central role in consolidating opinions and generating a consensus" in negotiations among industry, government and financial interests, and that politicians "tend to play a role of implementing the consensus created by the career senior bureaucrats and the role of leading and guiding various interest groups". Kubota, p. 46.


70. See, for example, "U.S. Push to Sell Coal to Japan Bad News for Canadian Mines", Toronto Globe and Mail, May 19, 1984.

CHAPTER 2: Western Canadian Coal

1. Introduction

It is a central argument of this thesis that the Japanese steel industry's approach to acquiring coal is best understood as an *ad hoc* response to market conditions, and that, with the exception of "G-G" contracts, the Japanese government has not played a decisive role in the process. The government has been more instrumental in promoting the substitution of thermal coal for oil for electric power generation, providing incentives to the EPDC to invest in overseas coal mine development and to diversify sources of supply. Through NEDO, whose requests for loan approval are taken to the Ministry of Finance by MITI, and the Export-Import Bank, the Japanese government has provided loan guarantees which have contributed to the Gregg River, Balmer and Northeast B.C. projects.

Japanese involvement in Western Canadian mines corresponds with the pattern detected by Rodrik in his analysis of the Japanese approach to acquiring copper, iron ore and bauxite: an increasing degree of integration of the Japanese industry with its upstream sources of supply in order to secure greater protection against disruptions in deliveries. ¹ This chapter examines some of the main features of Japanese investment in the Western Canadian coal mines.

The Western Canadian mines represent an important alternative source of supply for the Japanese buyers, and, further, offer two rail lines and two major ports to handle the coal. The steel mills' contract performance in the current period of oversupply gives some indication of the price the mills may be prepared to pay to maintain diversified sources of supply.
2. The Place of Western Canadian Coal in Japan's Overall Metallurgical and Thermal Coal Requirements

British Columbia produces both thermal and metallurgical coal for export, but, like Alberta, supplies Japan mainly with low and medium volatile bituminous coals for steelmaking. Japan imports approximately 9% of its thermal requirements from Western Canada, although the thermal-type coal it obtains from mines in B.C. is not of a quality that can be used immediately by the Japanese utilities. Thermal coal for the Japanese electric power utilities and cement industry is produced as a by-product of many of the metallurgical coal mines, for example, the new mines in the Northeast of B.C. 2

(i) Metallurgical coal

The coking (metallurgical) coal industry in Western Canada exists only because of Japanese demand. In 1982, Japan took 73% of total production; in the period 1970-1982, in aggregate, Japan represented 87% of Canada's market. 3 Viewed from the other direction, Canada provided, in 1982, 14.2% of Japan's imported coking coal requirements and, in 1983, 17.6%. 4 Japan is expected to increase its reliance on Canadian coking coal to 25-30% by 1985, once production from the new mines comes onstream. Appendix 1 illustrates Japanese imports of metallurgical coal by country of origin.

Japanese demand for coking coal has declined as a result of a number of factors: the recession, which has reduced demand both in Japan and on international markets; changes in technology which have resulted in a decrease in the amount of coal required in iron and steel-making; increased production by more competitive producers such as South Korea and Taiwan. Japanese production of pig iron, crude steel and finely rolled...
steel products has been falling off since FY 1980, paralleling the trend of reduced demand in the rest of the industrialized Western world. The increase in contracted volumes of coal from Canadian mines reflects decisions taken by the steel industry in the period 1980-82 to diversify away from heavy dependence on Australian coal, as well as a belief that demand for steel, and, hence, competition for steel-making materials, would pick up around 1985.

(ii) Thermal coal

The steady increase in volume of imports and diversification of supplier of thermal coal is illustrated in Appendix 2. Volumes imported from Canada and the U.S. jumped in 1981, as Japanese buyers looked for alternative suppliers after strikes shut down Australian mines and "Solidarity" protests disrupted exports from Poland. Price and quality considerations are the most important factors influencing sourcing. Given the alternatives on the market, B.C.'s thermal coals are not particularly attractive: one study of B.C. coal exports to Japan documents a 17% decline in the province's share of the export market for thermal coal in the period 1972-1981, compared with a 242% increase for Australia and a 984% increase for South Africa.

3. **History of Japanese Participation in Western Canadian Coal Mine Development**

Japanese steel mills made trial purchases of British Columbia coal in 1958 and 1959, and began commercial scale imports in 1960. The volume was small, however (421,000 metric tonnes), largely because of the high freight element in the C.I.F. price. The Japanese mills stepped into the gap left in the Canadian coal mining industry when, in the 1960s,
Canadian Pacific Rail began closing down its mines in the Crowsnest Pass area. Since then, Japanese coal buyers have moved toward progressively closer ties with their Western Canadian suppliers. The mills entered into long-term contracts in the late 1960s with three mines: Balmer, Fording and Luscar, taking a minority equity position in one, Balmer. The Balmer case is somewhat unusual, and is the result of a long-standing relationship between the trading company, Mitsubishi, and Balmer's one-time U.S. parent, Kaiser Steel. The incidence of Japanese investment in new mines since 1980 is much greater: Japanese companies are minority partners in joint ventures in the Gregg River, Quintette and Bullmoose operations. New thermal coal mines tend to have shorter, five-year contracts with Japanese buyers. Because of the uncertainty in the steel market, Japanese newspapers and trade journals have been indicating that the preference of the steel mills in the future likely will be for shorter contracts as well.

(i) Coal mine "groups"

While this study will focus on the established metallurgical coal mines in Southeast British Columbia and the new projects in the Northeast, the B.C. operations cannot be considered in isolation from Alberta production. To give them some flexibility in price and tonnage negotiations, Japanese steel mills divide Western Canadian coal producers into three groups, whose "boundaries" do not necessarily parallel Canadian political divisions:

1. The old mines in Southeast B.C. and Alberta:
   - Balmer Coal (Southeast B.C.)
   - Fording River (Southeast B.C.)
   - Coal Mountain (Southeast B.C.)
   - Luscar (Alberta)
   - Smoky River (Alberta)
2. The new mines in Southeast B.C. and Alberta:
   - Line Creek (Southeast B.C.)
   - Greenhills (Southeast B.C.)
   - Gregg River (Alberta)

3. The new mines in Northeast B.C.:
   - Quintette
   - Bullmoose

There are several thermal coal mines scheduled to come onstream beginning in 1985. These mines will not be discussed in the body of the thesis, however, Appendix 3 provides details of ownership and Japanese participation. The pattern is similar to that for the metallurgical coal mines.

(ii) Joint ventures

Both Japanese and Canadian industry officials interviewed in the research for this study stressed that the virtue of having Japanese investment does not endow a project with any special treatment by the steel mills during annual price and volume negotiations. The only reason for Japanese investment in the mines is to enhance security of supply: the mills' attitude is that they are not coal operators, and do not care about earning a large return on their investment. The objective of the Japanese investor, then, may not necessarily be in harmony with those of its other partners. Complications could arise if Westar, for example, wishes to diversify into other areas to improve the overall performance of the company, while Japanese partners might prefer increased dividends.

The Westar example illustrates the major advantages for the buyer of direct investment over long-term contractual arrangements: reduction of risk. Through their involvement as shareholders, the steel mills have some access to company management and some say in how the resource is managed and mined. They also have fuller information on the mine, which
may have useful application elsewhere. Experience gained from Westar's open pit extraction processes, for example, has been applied to help overcome technical problems at the Quintette site.

Japanese investment in coal mine development has, since 1980, been in the form of joint ventures. The major advantage of a joint venture is that it brings the investor a step closer to the resource: each participant is assured a portion of the output according to the equity taken out. In the case of the Gregg River mine, the first such joint venture involving Japanese investors in a Canadian coal mine, the arrangement offers potentially attractive price benefits: Japanese investors receive at production cost coal supplies in proportion to their 40% equity share.\(^9\)

The attraction of joint venture projects to Japanese investors is understandable. Direct investment in resource development is a common strategy adopted as a hedge against price increases or supply restrictions. For Japanese companies, inexperienced compared with American MNCs in overseas investment and project development, collaboration with several enterprises is an obvious way of reducing risk.\(^10\)

Investment in the Canadian mines reflects the Japanese steel industry's expectations of increased expansion in iron and steel production after 1985, \(^11\) expectations apparently shared, or at least supported by the Japanese government, in view of its assistance with the Northeast project.

The mills have sought to increase the number of mines producing coal in a region: many mines are more "secure" than a few, and increases in supply, if necessary, are more easily achieved across many producers than a few. A major attraction of the existing Canadian coal operations is the close proximity of a potential additional 24.7 million tonnes p.a. capacity, with rail lines and other infrastructure either already in place,
or requiring only limited expansion to service new mines. Appendix 4 lists the major coking operations under survey, showing planned production levels.

While both industry and Japanese government officials interviewed repeatedly emphasized that governments are not involved in coal mine development negotiations, host government participation in a major project appears to be an important consideration for Japanese investors. The Quintette mine in Northeast B.C. was considered too large an undertaking by one Japanese trading company (Nissho Iwai), and a major selling point to the Japanese was the support of the B.C. and federal governments in the construction of rail, port and other related activities as part of an overall regional economic development project. Japanese investors appear to regard government involvement in a project as an additional guarantee of a project's long-term stability. The 50% participation of Petro Canada Exploration Inc. is an important factor in Sumitomo's involvement in exploration activity at the Monkman coal site.

4. Buying and Selling Coal

(i) The trading companies

All coal sold to Japan from Canada is handled by a trading company, a sogo shosha. The shosha act as the main initiators of long-term contracts and, typically, will have been involved in a project years before a contract sees the light of day. Mitsubishi, Nissho Iwai, Mitsui and Tokyo Boeki had been involved in exploration and development work in coal properties in Northeast B.C. from the late 1960s.

The shosha are the main initiators of long term contracts: they develop the commodity and sell it, and are responsible for the "form" of the contract. Once a contract is signed and the coal moving, the
shosha will continue to collect information for the buyers on the conditions at the mines, make overseas payments on behalf of the steel mills and act as a communications channel. Informally, the trading company may also act as an "agent" for the supplier with which it is linked.

(ii) The "coordinators": the steel industry buying group

Prices and quantities of coal to be purchased are negotiated by industry "coordinators" for each region. The main coordinator for Canada is Nippon Kokan K.K. (Japan Steel Tube Co., the second largest steel producer in Japan), aided by Kobe Steel. Nippon Kokan's links with Canada are fairly close: in 1974, the company became involved in a joint feasibility study with the B.C. government on a steel plant for the province, and its president, Makita Hisao, led a 1976 Japanese businessmen's mission to Canada. Makita heads the Japanese contingent to the annual meetings of the Canada-Japan Businessmen's Cooperation Committee, and also chairs the Japan Canada Economic Committee of Keidanren.

Negotiations on price and contract tonnages, to reflect changes in the market, are held annually in Tokyo. Coordinators meet first with their respective suppliers, then with senior board members of the steel mills to reach agreements in a process described by suppliers as "divide and conquer". Agreements reached with lowest price producers tend to set ceilings and Canadian mines have little option but to follow the trend set by lower-cost producers in South Africa and Australia.

(i) The old mines

**Balmer**

Mitsubishi Trading Company, acting as the agent for nine Japanese steel mills, negotiated with Kaiser Steel Co. of California in the late 1960s for a contract which involved developing coking coal reserves at Sparwood, B.C. The Japanese role expanded in 1973 when Kaiser was in financial difficulties as a result of low coal prices and high startup costs. As a solution to its cash flow problem, Kaiser offered equity to the Japanese companies and the Japanese converted their debt holdings to equity, taking 30%. In October, 1980, B.C. Resources Investment Corp. bought 66.6% of the stock from Kaiser, and the ten Japanese firms converted their shareholdings to 33.4%. At present, representatives of Mitsubishi, Nippon Kokan and Nippon Steel sit on Westar's Board of Directors. The contract signed in 1968 with Balmer for the period April 1970 to March 1985 was the first long-term contract entered into by the Japanese with a Canadian coal mine.

**Fording River**

Fording Coal Ltd. is a joint venture of Canadian Pacific Investments (60%) and Cominco Ltd. (40%). It has a 15-year contract with Japanese buyers signed in 1969 that runs from April 1972 to March 1987. The trading companies that handle Fording coal are Idemitsu Kosan, Marubeni Corp. and Mitsui & Co.

**Coal Mountain**

Owned by Byron Creek Collieries Ltd. (Esso Resources Canada Ltd.), this mine started up in 1974. It has sold some weak coking coal to Sumitomo Cement and Sumitomo Kanyoku through the trading company Sumitomo.
Luscar


Smoky River

This mine, owned by McIntyre Mines Ltd., was closed, by mutual agreement, following the expiration of a one and a half year contract signed with Japanese steel mills in October, 1982. The mine's other customers in Brazil, South Korea and Taiwan, paying higher prices than Japanese buyers, had cancelled their contracts and the mine was operating at a loss. The extension of the Japanese contract was a concession to a Lougheed government request to keep the mine operating through a provincial election campaign. The trading companies involved were: Mitsubishi, Marubeni, Sumitomo, Mutsui, Kanasho, Nissho Iwai and Toyo Menka.

Mines in the same "group" generally win similar contract arrangements from the Japanese steel mills. Fording, for example, has experienced almost identical price and tonnage cutbacks in recent years to those accepted by Westar's Balmer mine: both mines have had 23.4% price increases in FY 1982, 15.5% reductions in FY 1983, and a 1% reduction in FY 1984. Comparable figures for the Luscar mine were not readily available, however, the 1984 Coal Manual states clearly in its description of the Luscar contract that "no discriminatory treatment should ever be made between this coal and Balmer coal".
In FY 1979-82, coal shipments by the three mines were also similar overall:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Balmer</td>
<td>92.4%</td>
<td>100.0%</td>
<td>97.0%</td>
<td>75.0%</td>
</tr>
<tr>
<td>Fording</td>
<td>113.4%</td>
<td>95.2%</td>
<td>96.9%</td>
<td>75.9%</td>
</tr>
<tr>
<td>Luscar</td>
<td>104.5%</td>
<td>102.9%</td>
<td>101.4%</td>
<td>76.1%</td>
</tr>
</tbody>
</table>

The steel mills distinguish between old and new mines in recognition of high start-up costs. Prices in the early years of a contract for production from a new mine thus will be higher than those for old mines, which have been able to depreciate these costs.

(ii) The new mines, Southeast B.C. and Alberta

Gregg River

The Gregg River mine represents the first direct investment in an overseas coal development by Japanese steelmakers, although the mills had had extensive experience in iron ore mine development in Australia. Basic agreement on the project was reached in August 1980, and the contract was signed in 1981. Gregg River is an unincorporated joint venture between Gregg River Coal Ltd. (60%) and six Japanese steel mills led by the trading company Mitsui and Co. Ltd. (40%).

Among the reasons given for the Japanese decision for equity participation in this project are: (1) the mine's proximity and similarity to the Luscar coal mine with which Mitsui & Co. had been involved since 1968: conditions for development were, then, fairly clear; (2) the project had readily available rail, port and other infrastructural facilities; (3) coal proportionate to the 40% equity interest could be imported at cost; (4) a unique investment/financing method was employed. Total development costs were estimated at C$185 million. Japanese
investors covered $104 million: $30 million (farm-in) for 40% equity interest, and $74 million for exploration, allocated in proportion to the equity holding. Japanese also borrowed low-interest funds from the Export-Import Bank and syndicate loans from city banks on behalf of Manalta Coal (owner of Gregg River Coal Ltd.) for $15 million of the $111 million Manalta was to cover for exploration.  

**Line Creek**

Owned by Crows Nest Resources Ltd. (a 100% subsidiary of Shell Canada Resources Ltd.), Line Creek signed a 15-year contract in July 1980 to provide Japanese buyers one million tonnes per year for 15 years from April 1983. Mitsui & Co. is the trading company handling Line Creek coal. The mine also produces some thermal coal for export to Korea, Taiwan and Japan.  

**Greenhills (Westar)**

An unincorporated joint venture established in 1980 between Westar Mining Ltd. (80%), owned by B.C. Resources and Japanese interests, and Pohang Iron and Steel Co. of South Korea (20%), Mitsubishi Corp. is the trading company. The mine signed a 3-year contract in April 1982 for the period July 1983-March 1986, and Westar has received the steel mills' commitment to extend the contract when it expires.  

**(iii) The new mines, Northeast B.C.**

The Bullmoose and Quintette contracts comprise a package deal which involves both the B.C. and federal Canadian governments. The projects were, at the time of pre-contract discussions in the late 1970s, and remain today, the subject of considerable controversy. Viewed from the Canadian perspective, the issue appears to be whether it is appropriate for governments to invest upwards of $2.9 billion in a resource-based mega-project aimed at supplying one market as a means of creating
employment. For the Japanese, the question may be whether to continue investing in projects whose economic feasibility may be distorted as a result of government involvement.

Northeast coal has become an extremely costly alternate supply of coal for the Japanese. Negotiations on price and volume levels for 1984 had not been finalized at the date of writing, however, the price for Quintette coal was approximately $97 a tonne as of August 1984, compared with $69.09 for Balmer coking coal. 33

The Bullmoose and Quintette projects are contracted to supply Japanese steelmakers with 6.7 million tonnes a year of metallurgical coal (5 million from Quintette and 1.7 million from Bullmoose) and, from the Quintette mine, 1.38 million tonnes of thermal coal, for 15 years (October 1983 to March 1998). Together, the mines offer Japanese steel mills a new source of supply within a region, a new transportation route via a new port at Ridley Island, and the potential to access further supplies at 13 nearby sites. These factors were instrumental in securing MITI's and the Japanese Ministry of Finance's approval for NEDO and Export-Import Bank assistance. 34

Bullmoose

The Japanese importer and trading company for the Bullmoose project is Nissho Iwai Corp., through its subsidiary Nissho Iwai Coal Development (Canada) Ltd. Nissho Iwai has been engaged in coal exploration activities in the Northeast since 1969, initially with the Canadian firm Brameda Resources Ltd. The first technical presentation was made to Japanese buyers in June 1977. In August 1980, Nissho Iwai took a 10% equity position in order to secure the right to handle the coal. In January 1981, the project received basic agreement on contracts with the steel mills
necessary to secure B.C. government agreement for spending on infrastructure. The mine is an unincorporated joint venture of which Teck Corp. (51%) is project manager. Lornex Mining Co. took 39% equity in April 1982.

Nissho Iwai has taken 10% of the total construction cost (estimated originally at C$275 million) on deferred payment terms: cash from coal sales is to pay for construction costs. Nissho Iwai's Tokyo headquarters entered into a loan agreement with the Export-Import Bank and other Japanese commercial banks for 100% of the loan. 35

**Quintette**

The Quintette mine is by far the largest of the two, and the involvement of the B.C. and federal governments in providing infrastructure helped overcome initial Japanese caution. 36 Tokyo Boeki, the trading company, and Mitsui Mining Overseas Development Corp. joined Denison in the project in 1971, and by January 1981 a basic sales agreement had been reached between the steel mills and Quintette. On the basis of this agreement, Quintette decided to seek project financing. 37 The New Energy Development Organization (NEDO) endorsed recourse loans from Tokyo Boeki and Mitsui Mining Overseas Development Corp. to Quintette Coal Ltd., the project manager.

Ownership of the mine is Denison Coal Ltd. (50%), Charbonnages de France (12%), Japanese interests (38%). 38 Tokyo Boeki is the trading company handling 70% of production; Sumitomo handles the remaining 30%.
Chapter 2 Footnotes


2. While thermal coal prices were rising, the utilities were expected to convert their boilers to take advantage of the poorer quality, but lower-priced Canadian thermal coal. Now that world coal prices have dropped, however, and Canadian prices remained comparatively high, it is unlikely the utilities will continue conversion.


7. D'Cruz, "Negotiating Coal Contracts", pp. 21, 22.


11. According to a recent analysis, the Japanese steel industry was close to fully utilizing metallurgical coal mine capacity in 1979, 1980 and early 1981 and, without mine expansion, would have exceeded capacity by 1985 or 1986. Carter, op. cit., p. 10.

12. See "Quintette Coal Ltd.", an information summary prepared on the occasion of the official opening of the Quintette project on August 10, 1984 (n.p.).

13. And from Australia. U.S. coal is purchased by individual steel companies.

15. In Australia, it is Nippon Steel, aided by Kawasaki Steel. Because of its size, Nippon Steel in effect acts as price-setter for the U.S. too.

16. Langdon, Politics of Canadian-Japanese Relations, p. 82.

17. Ibid, pp. 125, 126.


19. The Japanese equity holders are: Mitsubishi Corp. (the trading company for the Balmer mine, 13.1%), Nippon Steel Corp. (6.4%), Nippon Kokan K.K. (5.9%), Kawasaki Steel Corp. (1.6%), Sumitomo Metal Industries (0.8%), Kobe Steel (0.9%), Nisshin Steel Corp. (0.7%), Godo Steel Co. (0.1%), Mitsubishi Chemical Corp. (0.8%) and Toho Gas Co. (0.1%). 1984 Coal Manual, p. 303. The company has since changed its name to Westar.


22. Ibid, pp. 451-452.


27. Ibid, p. 328.

28. Nippon Steel Corp. (13.98%), Nippon Kokan K.K. (5.9%), Kawasaki Steel Corp. (5.44%), Sumitomo Metal Industries (5.42%), Kobe Steel Corp. (3.21%), Nisshin Steel Corp. (1.05%), Mitsui & Co. Ltd. (5%). Ibid, p. 309.

29. Ibid, p. 311, 310.


32. The estimate is a conservative one. See Carter, p. 12.
33. "Coal Price Dispute Shadows Opening of Quintette Mine", Toronto Globe and Mail, August 11, 1984. The Quintette and Bullmoose contracts contain a base price and an escalation formula that were negotiated before construction began. A base price of $75.00 F.O.B.T. Ridley Island per metric tonne was negotiated as of April 1, 1980 for Quintette coal and $75.50 for Bullmoose coal. Of this price, 53% was to escalate from April 1980, based on government inflation indices for wages, materials and equipment. While the contracts specify price reviews of the start price in 1987, 1991 and 1995, a side letter to the Quintette contract enables either party to propose a price review in October 1, 1983. See Halvorson, 1983, p. 96.

The price equity review clause permits either side to re-open price negotiations to adjust the differential between market price and contract price. The Japanese mills, citing this clause, are at present seeking a $14 per tonne reduction. See Horie, 1984 Coal Manual, pp. 311, 329, 335.

34. See Appendix 5 for figures on potential annual coal production in the Northeast B.C. region.


36. See Halvorson, 1983, pp. 3-12. Japanese have provided low-interest loans to develop infrastructure in the USSR, PRC and Australia. Canadian federal and provincial government participation in the Northeast project represented an overall reduction in the cost to the Japanese investor, and provided an additional guarantee that the massive undertaking had the long-term support of the host country.

37. The story makes a fascinating postscript to the tale of Canadian banks' financial woes following the failure of Dome Petroleum and Brazil to pay debts in 1981. In the face of rising international interest rates, the original banking syndicate led by the Bank of Montreal backed out of a financing package arranged at lower than current rates. A second syndicate, led by the Bank of Montreal and the Canadian Imperial Bank of Commerce, sought, in January 1982, the participation of Japanese banks. By June, an international banking consortium comprised of the Bank of Montreal, the CIBC, the Fuji Bank, Bank of Tokyo, Mitsui Bank, Mitsubishi Bank and the Credit Lyonnais (France) had reached a basic agreement with Quintette. The banks requested the steel mills to take equity in Quintette because they felt the four original participants alone were not reliable. Short of investment capital because of the effects of the recession, the steel mills approached the trading company Sumitomo to join the venture. For details of the financing arrangements, see 1984 Coal Manual, p. 288.

The development cost of the Quintette project, at January, 1983 was C$1.3 billion, broken down as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Finance</td>
<td>$700 million</td>
</tr>
<tr>
<td>Recourse Loans</td>
<td>$250 million</td>
</tr>
<tr>
<td>Quintette Coal Co.</td>
<td>$350 million</td>
</tr>
</tbody>
</table>
NEDO endorsed recourse loans provided by Mitsui Mining Overseas Development Co. ($2.5 million) and Tokyo Boeki ($2.1 million).

38. Mitsui Mining Overseas Development Co. (12.5%), Tokyo Boeki Ltd. (10.5%), Sumitomo Corp. (5%), Nippon Steel Corp. (3.85%), Nippon Kokan K.K. (1.62%), Kawasaki Steel Corp. (1.5%), Sumitomo Metal Industries Ltd. (1.49%), Kobe Steel Ltd. (0.88%), Nisshin Steel Co. Ltd. (0.29%), Nakayama Steel Works Ltd. (0.20%), Godo Steel Co. Ltd. (0.07%), Mitsubishi Chemical Co. (0.11%). Horie, 1984 Coal Manual, p. 288.
CHAPTER 3: Summary and Conclusions

1. "Japan Inc." Re-examined: The Changing Role of MITI

This thesis has attempted to illustrate, by examining Japan's approach to procuring metallurgical and thermal coal, that the "Japan Inc." appellation is a misleading description of the nature of decision-making in Japan. The view that a triumvirate of top business, political and bureaucratic officials effectively determines policy ignores the obvious: each sector is not a monolith.

Within the zaikai there is a diversity of attitudes, motives and interests. The four major economic organizations, the keizai yon dantai, are important institutions for consensus-building, but issues on which they can mobilize consensus tend to be limited to those which do not involve conflicts within their membership. Many of Keidanren's resolutions, for example, are the product of such broad compromise that, according to one analyst, "they emerge at a level of generality that largely undercuts their possible influence on government policy". 1

Strong competition exists within sectors as well. Efforts to achieve uniform cutbacks in production failed at the time of the "Sumikin" case, when one company refused to forego its share of the market for the "common good". Neither do the interests of the blast furnace (BOF) mills always parallel those of the electric furnace mills. The latter received government assistance as industries undergoing structural adjustment in the post-1979 oil crisis period, but now that they can take advantage of cheaper supplies of steel scrap as a raw material, 2 the electric furnace mills are competing strongly with the BOF mills.
To meet competition from the electric furnace mills, the BOF mills are having to integrate and scrap idle facilities.

MITI's ability to "guide" the industry, to prevent excessive competition, failed notably in the 1960s, despite the ministry's considerable regulatory clout. MITI's skill in by-passing the JFTC to effect the creation of Nippon Steel was a dramatic example of the ministry's power at that time, but it was a move that in some respects backfired. The exposure of MITI's wheeling and dealing corresponded with growing public disenchantment with both policies of high speed growth and the policymakers. Capital and trade liberalization in the 1970s further limited the range of regulatory instruments available to MITI. In the 1980s, the government faces steady pressure from the business community for "administrative reform", a reduction by both national and local administrations to reduce their scale and increase their efficiency.

The role of MITI in the 1980s is perhaps best understood by viewing events from a broader perspective. Policies developed during the 1960s and 1970s were intended to implement a program designed by MITI to strengthen the international competitive position of Japanese industry. As domestic and international economic and social conditions have changed, MITI has had to share pride of place in the decision-making hierarchy with an expanding body of interests. Today, the ministry's policy concern has taken a sharp turn: it is now more involved in domestic needs and welfare issues, as its major clients face restructuring and phasing-out, and workers, with government assistance, are re-trained and re-deployed.
MITI remains an important forum for consensus-building. Some analysts suggest that business relies on the ministry to engineer a consensus where the business community has been unable to resolve disagreements. Contacts between MITI officials and industry representatives are a daily occurrence, but which side is advising which appears to vary with the issue.

The politicians have been introduced into the discussion to the extent that their need to look out for supporters' interests impinges on the bureaucrats' freedom of action. Some case studies have documented instances where political considerations have prevailed over the recommendations of the top levels of the bureaucracy. Insofar as Japanese steel mills' coal buying practices are concerned, the politicians' influence is probably slight. As the discussion on thermal coal has shown, however, MITI's flexibility to pursue certain diversification options could be constrained by domestic political considerations.

2. The "Conspiracy Theory" and Japanese Coal Procurement

A goal of this study has been to attempt to refute allegations of a "conspiracy theory", that is, the charge that the steel industry and the Japanese government, acting together, have inflated producer expectations of Japanese demand and contributed, through direct foreign investment in new mines and the offer of long-term contracts, to an over-development of the resource. In the long run, according to this scenario, the savings for Japan in reduced coal prices more than offsets the cost of investment in coal mine development. This view is suggested by Fesharaki and Schultz in their study of oil and gas trade in the Pacific Basin. They conclude that "a tiny suspicion blooms that the Japanese government
is ... attempting to create a buyer's market in LNG by implicitly encouraging the construction of new LNG export projects via the simple expedient of exaggerating Japan's future demand."  

This line of thought is taken up by Nemetz and Vertinsky in their analysis of the international market for LNG. The authors attempt to link such a scheme to what is currently occurring in the metallurgical coal market, where Japanese steel mills are attempting to negotiate reductions in contracted tonnages.  

Such an argument implicitly assumes that there exists some monolithic government-business board of directors of "Japan Inc." which determines long-term procurement strategy. This thesis has attempted to illustrate the contrary.

The "conspiracy theory" is also rejected on the grounds that it is overly simplistic; a too-easy response to what is a larger problem of forecasting requirements in a climate of uncertainty. Evidence accumulated during the research and interviews suggests strongly that the Japanese steel industry's problem with an oversupply of coal is due to (i) the unexpectedly prolonged recession, (ii) the strong inter-firm competition within the steel industry which resulted in overexpansion of capacity, and, (iii) heavy odds against all sources of supply actually meeting delivery targets set out in the contracts.

To cite the Japanese involvement in the Northeast coal project as a deliberate attempt to finance more capacity than would appear warranted by market conditions ignores the major concern of the steel mills: ensuring there will be a supply of a key resource when it is needed. The planning process for new mines is long: ten to fifteen years passed between initial exploratory discussions involving the trading companies
and Canadian interests and the conclusion of basic agreements with the steel mills. Final decisions on the new mines in the Northeast corresponded, however, with the beginning of what appears now to be a steady levelling off in demand for steel products. The British Columbia government's film on the development of the project in fact emphasizes the recessionary context in which the project was constructed. The steel mills, however, based on their experience with the regular fluctuations in the industry, expected demand to pick up by 1985, and invested in expanded capacity to ensure that secure supplies of coal would be available to Japanese buyers at that time. The mills' experience in the period 1980-82 with coal shipments is relevant. The Japanese steel industry experienced severe, and extremely costly disruptions in supply as a result of labour unrest or transportation blockages affecting three of its major suppliers: Poland, Australia and the United States. The fourth major supplier, Canada, had a poor record of labour peace as well. One Japanese spokesman estimated that the industry's experience with suppliers had been 60-70% as a result of technical and labour problems at the mines.

The response of the industry has been to overbuy, by as much as 30-60%, according to some estimates. Canadian industry officials interviewed indicated that 10-15% overbuying is considered normal, accepted practice. What is a "normal" margin of safety for an industry located in a country with plentiful alternative sources of supply or substitutes is, of course, likely to be very different from the margin of safety required by industries almost 100% dependent on imports.
3. What Price Diversification: Lessons from the Case of Western Canadian Coal

The description of the Japanese steel industry's approach to buying coal has emphasized the priority attached to diversifying sources of supply. Diversification of supplier is important as a strategy to minimize the damage to the steel industry or, in the case of thermal coal, to those sectors of the Japanese economy dependent on electric power provided by coal burning utilities, in the event of a cutoff of supply from any single source. Investment decisions taken by the steel industry, however, are also rooted in the knowledge that Japanese steel must remain internationally competitive. While Northeast coal is today priced almost $30.00 a tonne higher than other comparable quality coals, the steel mills, at the time of signing the basic agreements, fully expected it to be competitive with the world price. The basic starting price in 1980 was higher than that for coal from the older Southeast B.C. mines, an "acknowledgement" by the steel mills that the new mines would have, initially, higher costs. The Northeast coal price was, however, in a range comparable to that for Gregg River coal.

The outcome of the protracted Northeast coal price and tonnage negotiations will provide considerable insight into the question: how much of a premium will the Japanese mills pay to safeguard the flexibility diversified sources of supply provides? Canada's major competitor is Australia, which has coal of comparable quality, at lower cost (the coal is closer to port and cheaper to mine). Yet the mills wish to lessen their dependence on Australian coal, given that country's poor record as a reliable supplier. Canadian coal also provides bargaining leverage for the mills. Thermal coal from South Africa is much cheaper than Canadian,
but the price is rising and the mines are primarily oriented to the European market and the physical supply is, therefore, tight. Coal from the PRC and USSR has advantages over Canadian coal in terms of geographic proximity and price, but since supplies have been negotiated between governments, the mills do not look on them as being wholly secure. If government policy changes, the mills realize they may lose their source of supply.

Japanese industry spokesmen warn that Canadian coal is in danger of becoming uncompetitive. The FY 1980 price differentials between old mines (Balmer, $63.95) and new (Gregg River, $73.50; Quintette, $75.00) suggests than an acceptable premium for new coals is in the range of $10-12 a tonne. The steel industry is reportedly willing to settle at about $14.00. 14

The experiences of the mines in winning price and/or volume commitments from the Japanese buyers illustrate a Japanese concern with "fair share" in allocations. 15 The Japanese coal buyers strive to ensure "fair and equal treatment" to mines in the same category, and there is an understanding that the special consideration presently extended to the new mines in the Northeast will not last indefinitely.

Important as price is the question of contracted volumes of coal. The Japanese mills have been seeking reductions of approximately 25% in contract tonnages from all suppliers, yet have made commitments to take full contract volumes from the Northeast mines. 16 The Canadian volumes would be balanced by cutbacks from other suppliers, likely American, which do not have long-term contracts. The recently-concluded negotiations between Westar (33% Japanese-owned) are revealing. Westar has accepted a $7.87 a tonne cut in the price of its Greenhills metallurgical coal for the balance of deliveries in its present contract, from April 1984 to
March 1986. It has, however, received guarantees that the mills will take full contracted tonnages (within a specified tolerance). The mills have also accepted the long-term, 20-year mine plan for the Balmer operation, the first step in renewing the contract. Although details have not been worked out, the mills have agreed to extend the Greenhills contract as well, a commitment that will help reassure nervous Westar shareholders. In a move that will help ease the impact of the lower price Balmer will receive for its coal, the mills have agreed to exert their "best efforts" to set in place a payment mechanism whereby Westar will be paid in advance, in yen, at a fixed exchange rate. The company would then be able to convert some of its existing high-interest Canadian and U.S. debt into lower-cost yen loans. 17

While it would be premature to venture any firm conclusions from these two examples, they do suggest that mines in which Japanese have taken an equity interest may receive special consideration from the steel mills. The results of contract negotiations with other mines in the old group may help to confirm whether there is a trend.

The volume commitments undertaken this year for Canadian coal confirm the steel industry's long-term concern with maintaining a diversified supply base. The squeeze on prices indicates that there is a limit to the amount they are willing to pay for diversification.
Chapter 3 Footnotes


2. The price of scrap has gone up about 20% in the past ten years, while the cost of pig iron production has nearly doubled. See Horie, 1984 Coal Manual, p. 5.


5. Vogel suggests that the business community "lacks the cohesiveness to tackle disagreements between industrial sectors or between companies within a sector and that, despite businessmen's bravado, they are eager to rely on MITI for advice." Ezra Vogel, "Guided Free Enterprise in Japan", Harvard Business Review, Vol. 56, No. 3 (May-June, 1978), p. 165.


Wada's study of the politics of budget-making in Japan stresses the primacy of political considerations over bureaucratic concerns in the drawing up of the annual national budget. Wada Yoshikiyo, "The Politics of Budgetting in Japan", op. cit.


9. Nemetz and Vertinsky cite a long list of delays in scheduled construction of power plants fuelled by LNG, coal and uranium as evidence that Japan, "like many of her Western allies, has been consistently unable to assess accurately the extent of global recessionary conditions, their interrelationship with energy prices and consequently energy use." Ibid, p. 10.

10. The steel mills are overcontracted for coal: blast furnaces alone had a surplus of coking coal supply from project mines of 5 million tonnes in 1983 and are expected to have a surplus of 9 million metric tonnes in 1984. Horie, 1984 Coal Manual, p. 5.


15. See Ezra Vogel, "Toward More Accurate Concepts", op. cit., pp. xxiii-xxiv, for a discussion of the concept. In the case of rulings by MITI, for example, it is understood by all that if one company is disadvantaged by a decision at one time, that company will be given special consideration at another time.


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## Appendix 1

**Imports of Coking Coal by Area, 1973-83**

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>USA</th>
<th>Canada</th>
<th>Others *</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>43.3%</td>
<td>30.5%</td>
<td>19.1%</td>
<td>7.1%</td>
</tr>
<tr>
<td>1979</td>
<td>45.7%</td>
<td>24.8%</td>
<td>18.9%</td>
<td>10.5%</td>
</tr>
<tr>
<td>1980</td>
<td>41.4%</td>
<td>31.9%</td>
<td>17.2%</td>
<td>9.5%</td>
</tr>
<tr>
<td>1981</td>
<td>43.9%</td>
<td>33.9%</td>
<td>14.1%</td>
<td>8.1%</td>
</tr>
<tr>
<td>1982</td>
<td>39.0%</td>
<td>37.5%</td>
<td>14.9%</td>
<td>8.7%</td>
</tr>
<tr>
<td>1983</td>
<td>46.6%</td>
<td>26.1%</td>
<td>17.6%</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

* Includes USSR, South Africa, Poland, PRC, others

Appendix 2

**Imports of Thermal Coal by Area**

(in 1,000 M/T)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PRC</td>
<td>135</td>
<td>125</td>
<td>167</td>
<td>173</td>
<td>236</td>
<td>741</td>
<td>1,305</td>
<td>1,618</td>
</tr>
<tr>
<td></td>
<td>(35%)</td>
<td>(21%)</td>
<td>(18%)</td>
<td>(16%)</td>
<td>(14%)</td>
<td>(10%)</td>
<td>(11%)</td>
<td>(12%)</td>
</tr>
<tr>
<td>USSR</td>
<td>31</td>
<td>211</td>
<td>237</td>
<td>123</td>
<td>129</td>
<td>248</td>
<td>271</td>
<td>186</td>
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<tr>
<td></td>
<td>(8%)</td>
<td>(35%)</td>
<td>(25%)</td>
<td>(11%)</td>
<td>(8%)</td>
<td>(3%)</td>
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<tr>
<td>Canada</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12</td>
<td>-</td>
<td>600</td>
<td>1,108</td>
<td>1,259</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1%)</td>
<td></td>
<td>(8%)</td>
<td>(9%)</td>
<td>(9%)</td>
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<td>640</td>
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<td></td>
<td>(9%)</td>
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<td>(2%)</td>
<td>(2%)</td>
<td>(2%)</td>
<td>(7%)</td>
<td>(15%)</td>
<td>(16%)</td>
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<td>Australia</td>
<td>217</td>
<td>248</td>
<td>527</td>
<td>749</td>
<td>1,282</td>
<td>4,517</td>
<td>5,399</td>
<td>7,040</td>
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<tr>
<td></td>
<td>(57%)</td>
<td>(41%)</td>
<td>(56%)</td>
<td>(69%)</td>
<td>(76%)</td>
<td>(62%)</td>
<td>(44%)</td>
<td>(51%)</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>5</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>383</td>
<td>603</td>
<td>937</td>
<td>1,082</td>
<td>1,677</td>
<td>7,234</td>
<td>12,271</td>
<td>13,717</td>
</tr>
</tbody>
</table>

Compared with Previous Yr.: 146.7% 157.4% 155.4% 25.5% 155.0% 431.4% 169.6% 111.8%

Customs Statistics, Ministry of Finance

% may not equal 100% due to rounding

Appendix 3

New Thermal Coal Mines

1. **Mercoal** (Manalta Coal Ltd.), Alberta
   Joint development terms for this project were reached in October 1981 between the importer, Idemitsu Kosan, and Manalta. The property is being developed together with the Shaughnessy project. Production startup is scheduled for 1985.

2. **Quinsam** (Quinsam Coal Ltd., owned by Weldwood of Canada and Brinco Mining Ltd.), B.C.
   Importer: Marubeni
   Startup: 1985

3. **Kipp** (Petro Canada Exploration; Union Gas), Alberta
   Importer: Nichimen
   Startup: not decided

4. **Shaughnessy** (Fording Coal Ltd.), Alberta
   An unincorporated joint venture of Fording Coal Ltd. (80%) and Idemitsu International Resources Canada Ltd. (the Canadian subsidiary of Idemitsu Kosan) (20%), established in 1981.
   Importer: Mitsui & Co.
   Startup: 1985

5. **MacLeod River** (Manalta Coal Ltd.), Alberta
   A basic agreement for exploitation of this property was reached between Manalta and the EPDC in 1980. The proposed equity shares in the case of exploitation are Manalta Coal, 70%; EPDC, 15%, Mitsubishi Mining Cement, 15%.
   Importer: Mitsubishi
   Startup: 1987

6. **Sage Creek** (Sage Creek Coal Ltd., owned 60% by Rio Algom, 40% by Pan Ocean Oil), B.C.
   Importer: Mitsubishi
   Startup: 1985

The Obed Marsh mine in Alberta started operations in 1984 with 5-year contracts with the Japanese utilities for thermal coal deliveries until 1988. Owned by Union Oil of Canada Ltd. (84%), Rescon Coal Holdings Ltd. (10%) and Norcen Energy Resources (6%), the Japanese trading companies handling its coal sales are Mitsubishi Corp. and Sumitomo Corp. (1984 Coal Manual, p. 449.)

The Coal Valley operation is an older thermal coal mine owned by Luscar Sterco Ltd., a 100% subsidiary of Luscar Ltd. The Japanese importer is Mitsui & Co. The mine has 5-year contracts with three Japanese cement and two power companies. (Ibid, p. 448.)
Appendix 4

Coking Coal Operations Under Survey

Monkman, B.C.
(Petro Canada Exploration Inc., 50%, Canadian Superior Exploration Ltd., McIntyre Mines Ltd., Sumitomo Corp.)
Importer: Sumitomo Corp.
Planned production: 3 million tonnes p.a.

Hosmer-Wheeler, B.C.
(Westar Mining Ltd. subsidiary)
Importer: Mitsubishi Corp.
Planned production: 2 million tonnes p.a.

Saxon, B.C.
(Saxon Coal Ltd.: Denison Mines, 50%; Rukrkohle AG 22.5%; Mitsui & Co., 22.5%; Usinor, 5%)
Importer: Mitsubishi Corp.
Planned production: 4 million tonnes p.a.

Sage Creek, B.C.
(Rio Algom Mines Ltd., 60%, Pan Ocean Oil Ltd., 40%)
Importer: Mitsubishi Corp.
Planned production: 1.7 million tonnes p.a.

Granridge, Alberta
(Can Pac Mineral Ltd. (Canadian Pacific Rail))
Importers: Mitsui, Marubeni, Sumitomo
Planned production: 3 million tonnes p.a.

Sukunka, B.C.
(BP Coal 87.5%, Brascan Resources Ltd., 12.5%)
Importers: Nissho Iwai Corp., Marubeni Corp.
Planned production: 3 million tonnes p.a.

Mt. Spieker, B.C.
( Teck Corp., 65%; Ranger Oil Ltd., 35%)
Importer: Nishimen Corp.
Planned production: 1 million tonnes p.a.
Elk River, B.C.
(Scurry Rainbow Oil Ltd., Elco Mining Ltd. (W. Germany))
Importers: Nichimen, Mitsui, Okura, Marubeni
Planned production: 4 million tonnes p.a.

Kakwa, Alberta
(Cyprus Anvil Mining Co.)
Importers: Nichimen, Tonan, Marubeni
Planned production: 3 million tonnes p.a.

### Potential Annual Coal Production, Northeast B.C.

<table>
<thead>
<tr>
<th>Property</th>
<th>Coking</th>
<th>Thermal</th>
<th>Total</th>
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<tr>
<td>Quintette</td>
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<td>6.0+</td>
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<tr>
<td>Bullmoose</td>
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<td>1.7+</td>
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<td>Monkman</td>
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<td>N.A.</td>
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<td>Belcourt</td>
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<tr>
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<td>4.0</td>
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<tr>
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<td>Wapiti</td>
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<td>7.9+</td>
<td>33.9+</td>
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