

# Economic Law aspects of the Japan - Iran Relations (Past, Present and the Future); Dealings without Making Friendship

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## Abstract

This article studies the economic law aspects of the Japan - Iran relations and reaches to the conclusion that the line between Japan and Iran is a two way road taking consumer products, projects requirements, loans and technical assistance from Japan to Iran and returning oil and gas from Iran. This line, although established out of the both parties urgent need, was never elaborated or improved to shape up an equal and just relationship and its existence and stable operation was never supported by conclusion of a long term treaty and with sanctions it is now extremely narrowed.

**Keywords:** Japan – Iran – Trade relations – Azadegan – South Pars – Loans – Sanctions – Technical assistance

## 1. Introduction

This is a theoretical study which follows an analytical approach. For the purpose, the two countries pertinent endeavors for accomplishing projects, making exports, giving loans and providing technical assistance have been with due regard to sanctions imposed against Iran studied.

As early as the Constitutional Revolution in 1906, Iranians looked towards Japan as a model for successful development without European assistance (Cohen, 2002). But, in practice Iran disregarding the Japans economic policy adopted for its development at first the western models and in recent decades the former eastern bloc models, namely expansion of the state and quasi-state sector to the most possible extent. Initially Japanese firms *inter alia* entered Iran after the oil industry nationalization in 1952 under piece meal contracts for extraction and exploration of oil but soon after 1979 Revolution, they *inter alia* were due to Iran's deteriorated relations with International Oil Companies (IOC's), as well integrated into customer base of the National Iranian Oil Company (NIOC) (Brumberg & Ahram, 2007, p.18). In the 1990s deep suspicion about US intentions prompted the Iranian authorities to adopt a policy of "the West without America", focusing on Europe and Japan (Leverett & Leverett, 2010, p.75). But, the 1993 "dual containment" policy of US administration began persuading Europe and Japan to limit their involvement in Iran (Hassani & Nojoomi, 2010, p.34). So, Iranian strategy changed into expanding relations with the Russia, China and India. But with emergence of China as a "solution for every need", all other strategies lost their importance.

## 2. Trade relations

In 2000, Japan eagerly dependent on oil imports as the world's third-largest oil importer, after China and the US (Muriel, 2000, p.49) was importing 17% of its oil requirements (637,000 barrels of oil per day) from Iran (Japan's import: 2000; and Iran-Japan: 2005) as its third largest oil supplier (Japan to: 2000; Japan, Iran: 2000; Iran: 2004; Iran, third: 2005; Iran professor: 2003).

In 2002, Iran's traditional exports to Japan amounted to about \$40 m per annum consisting mainly of commodities such as carpets, pistachios and dried fruits. (Iran pistachio: 2002) In fact there was no balance in trade between Iran and Japan if the oil exports were not accounted for. Even at present that Japan is set aside by the China, many Japanese products are lawfully or by smugglers, imported to Iran.

In 2004 Japans imports from Iran stood at \$8.606 b (Shariatmadari: 2005) while its exports reached to \$1.164 b (Shariatmadari: 2005) mainly including spare parts, steel, rolled steel, silicon steel, artificial fabrics, propylene, and steam turbine parts. Switchboards and other equipment as well in 2000 were exported by NEC Corp and Sumitomo Corp to an Iranian state-owned telecommunications firm (Japan MITI: 2000).

In 2005 Japan as the third largest importer of Iran's industrial and mineral products (MENA Business Reports, 2005); mainly consisting of petrochemicals. (Japan agrees: 2001) reduced its oil imports from Iran to 13% (Shaoul, 2006).

In 2006, Japan was Iran's second largest trade partner after China; their trade volume exchange exceeding \$12 billion. Crude oil accounted for approximately 96% of Japan's total imports from Iran (MOFA, 2009) making Iran the third biggest exporter of crude to Japan (Farzin, 2008, p.174).

In 2008, Japan's oil imports from Iran reduced to 11.8% (MOFA, 2009) but due to oil price hike, their trade value increased to approximately \$20.15 b, with \$1.91 b of exports to Iran, and \$18.24 b of imports to Japan (MOFA, 2009). As of October 2008, there were 711 Japanese nationals residing and 33 Japanese corporations (mainly trading companies) operating in Iran (MOFA, 2009).

Iran besides oil supply is a very important country for Japan because as of 2008, more than 85% of its crude oil

imports are shipped through the Iranian Strait of Hormuz. With this much of need, Japan inevitably has to have warm relations with Iran. Regarding the fact that most of the investments operative in China belong to the US, outcome of the Chinese access to oil made cheap through imposing sanctions against Iran slides to the American companies' pocket. As another advantage, lingering the sanctions scenery keeps the Iran's oil price in a low level, and stabilizes the world oil price.

Japan is among the ten largest exporters of goods to Iran (Japan agrees: 2001). A country in isolation, not well aware of its capabilities and disabilities, is a very attractive market for others. Centrally planned economy of Iran having 75 m over consumptive population prepares the ground for imports of the other countries in a mind bugling bulk. Importers of oil do not naturally like to see an oil reach country getting self-relied, because decrease in its dependence on oils outcome would result in capability to demand higher prices from them. Abolishment of competition among the oil exporting countries with conclusion of collective agreements such as OPEC is another endeavor having disastrous effects on oil importing countries.

Japan is presently inter alia exporting cars to Iran mainly through Mitsubishi and Toyota companies on the condition of getting certificate from the standards and the environment organizations of Iran. To ease the pressure on domestic producers, car imports are made with a heavy duty. Currently, all cars in Iran are made under license from foreign companies, including French, German, Japanese and South Korean ones. (Iran opens: 2003). Concluding agreements for assembling the foreign cars inside the country as a very labor intensive industry is preferred to importing complete cars. However, some complete cars are as well imported based on the argumentation that importing a limited amount of complete cars boosts the competitiveness in the local car industries.

After 2008, Iran's defiance against international appeal for abiding by the international norms resulted in sharp decrease in its trade relations with Japan.

### **3. Japanese projects in Iran**

Japanese projects in Iran can be divided in two main sections; Azadegan oil deal and other projects.

#### *3.1 Azadegan*

In 2000, a contract was concluded between Iran and Japan to execute the oil development plans (Kiyan, 2011, p.183). Japan is not producing oil, therefore in executing oil development plans, it has to rely on foreigners' experiences or its experts' experiences acquired abroad. However, Iran invited Japan to develop the Azadegan oil field in Ahwaz in the southwestern province of Khuzestan along Iran's long and treacherous border with Iraq, reputed to be one of the worlds largest and Iran's the largest and most modern onshore petroleum field since the 1979 Revolution. They soon finalized an agreement (Brumberg & Ahram, 2007, p.34) granting the Japanese firms Japex and Inpex (both majority-owned at the time by the Japan National Oil Company) to have priority negotiating rights to develop the field (Masao, 2001; Paivar & Kao, 2004; and Japan and Iran sign: 2004). The field having an estimated 26 b barrels of reserves was expected to yield 300-400 thousand barrels per day (Muriel, 2000, p.49). This massive new oil field discovered only in 1999 had the potential to provide a very large consumer like Japan with more than 6% of its annual oil imports (Howard, 2007, p. Sec 2: 187). The agreement was going to give the Japanese consortium a 75% stake and NIOC the remaining 25%. The project was reportedly worth more than \$1.9 b (Japan, Iran: 2004). Japan expected to recoup its investment in about six years and the field was to start pumping oil in 40 months (Japan and Iran sign: 2004). The contract was for 12 and a half years, with production being expected to start some time in 2007 (Japan goes: 2004; Japan Shelves: 2003; Statement: 2004).

More important even than securing steady supplies of oil, Japan was gaining the right to produce oil in another country, something it has been seeking since the end of WWII (Muriel, 2000, p.49). Azadegan had three advantages for Japan; it was an opportunity to obtain oil, to mobilize the private and state capabilities in managing an oil extracting project, and to expand relations with Iran. One of the terms of agreement was that Japan to extend \$3 b (\$1 b per year) in advance, for oil from Iran (Muriel, 2000, p.49).

In January 2001, the Iranian parliament approved development of Azadegan by foreign investors using the so-called "buy-back" model which is the usual form in which the NIOC concludes the oil and gas development agreements. Allegedly since Iranian law prevented equity participation by foreigners, through buy-back they were to be paid in oil allocations (Rivlin, 2006, p.111). But, in fact under the laws current at that time foreign equity participation was not totally prevented. It was prevented for state foreign investors and Japanese side in that agreement was a consortium of state or state-dominated companies. In such a 'buy back' agreement the foreign side concludes a public contract (rather than foreign equity participation) for extraction or extraction of oil in consideration of getting a determined wage set to be paid out of the projects products.

In December 2003, Iran signed an Additional Protocol with the IAEA, bringing its nuclear program under fuller international supervision. So, Japan tried to fasten its relations with Iran (Kemenade, 2009, p.110). In February 2004, Japan and Iran reconfirmed the agreement to develop the Azadegan oil field (Japan's Trade: 2004; Iran and: 2004).

In October 2006, as Japan slated to begin development of the field, citing a dispute over the number of land mines (Pilling & Smyth, 2006; and Shaoul, 2005), Iran nullified the deal. Iranian officials had already threatened to nullify the massive contract (Faiola and Linzar, 2006, p.2). Japan's delay was because of not just Washington's request (Azad, 2007) but also many resolutions imposed by the UN Security Council.

In January 2009, Azadegan project contained \$200 m of Inpex and \$1.76 b of Chinese stake (Katzman, 2011, p.53; and Hassanni & Nojoomi, 2010). China in 2010 surpassed Japan as the world's second largest petroleum consumer after the USA (Francois et al, 2010, p.13). China needs oil but this does not mean that it is capable of doing oil projects. Entrusting exploration and extraction of oil to oil consuming countries is creating a direct circle of production and consumption. It does not seem at all advisable to entrust the production to consumers. China is likely to do the project with less efficiency and more side effects and politically it is less tamable by Iran.

China as one of the UN Security Council's five permanent members has prevented or postponed many resolutions of that Council against Iran, therefore such projects can be deemed as prizes of those supporting endeavors. Iran has considered many other advantages to China in Trade relations.

Azadegan was to be freshly opened by Japanese and exploited under their custody. This could be very useful both for Iran and Japan. These are prices which Iran and others in the world pay for Iranian defiance against international decisions. This opportunity for Japan in fact was a windfall arisen out of the Iran's international isolation with the USA and other western countries. Iran was already willing to entrust such projects to US companies such as Conoco but the US government due to imposing trade embargo against Iran did not envisage.

In fact the Japan's withdrawal from this project even if not because of Iran's defiance against UN sanctions, was to happen because of many other reasons related to Iran. Political situation in Iran after the year 2005 changed in a way that can no longer bear such huge relations with developed countries. As well, the Azadegan deal was making the Japan i.e. an important US ally, unbelievably a great ally for Iran too.

The 2011 tsunami and nuclear sites leakage encouraged Japan to rely less on nuclear energy and more on fossil fuels, so its need to oil has increased. This is not only about Japan but also about the whole world. Before that disaster, Japan was the world's third-largest importer of uranium, next only to the US and France (Kemenade, 2009, p.96; and Bhadrakumar, 2009). Substitution of Japan by China reminds that at last the oil extracted from Azadegan may be sold to Japan or the project may be done in reality by Japanese companies or Chinese subsidiaries of Japanese companies under the disguise of being done by the China and this in fact would be some kind of triangular compromise to circumvent the voluntary sanctions. However the interrelationship between China and Iran may leading to political indigestion of Iran to China result in emergence of a new bloc defying the voluntary sanctions.

Because of its willingness to stand up to the US, China is considered a more reliable partner. The US also tried to pressurize China not to bid for Azadegan, but to no avail (Kemenade, 2009, p.110). China's relatively less expertise in doing this project is to detriment of not only Iran but also the whole world, wasting a part of the world's scarce natural resources.

Japan later lost other fields such as Yadavaran and this trend continues. This situation in which some important countries abiding by the UN decisions suffer losses intensifies the pressure against sanctions, questing to find a new way which may not be that solemnly.

### 3.2 Other Projects

For a while common economic interests boosted Japan's cooperation with Iran in respect to oil and gas fields, petrochemicals, auto-manufacturing, steel production, and construction of power plants (Iran supplies: 2004). But, none of them has ever thought of utilizing the other ones capabilities for a long time, for overcoming its persisting problems e.g. unemployment in Iran and needing sites for accomplishing projects in Japan. They have merely used each other just for their most necessary needs. Both in making relations with the other one have been very conservative, dealing as strangers rather than friends.

In 2000s, Japan declared intent on investing directly in Iran's petrochemical industry. In fact, a joint investment between the National Iranian Petrochemical Co (NIPC) and Japan's Mitsui was disrupted in 1980s. Japan had invested in construction of the Bandar Imam Petrochemicals complex before 1979, but it abandoned the project as soon as the Iraqi-imposed war flared up in 1980 (Japan agrees: 2001). An agreement was signed between Iran's Mehr Petrochemical Co and Japan's Mitsubishi on high-density polyethylene (HDPE) project in *Asalouyeh*, the Japanese investor's contribution of \$230 m remaining in Iran at least for 25 years. (Japan keen: 2005) Many projects of Japanese in Iran being placed below the threshold determined for imposing sanctions are still operative. Although somehow in diminished manner, Japan still purchasing oil and other goods from Iran is continuing its trade and investment relationship.

A contract of \$1 b was concluded with two Japanese companies (TPL and JJC) for establishing a refinery in Arak (Kiany, 2011, p.182), supplemented with another contract for expanding the production (Katzman, 2011, p.53). Iran consuming a considerable amount of petrochemicals and petrol, and not being able to produce enough quantity by itself, imports huge amounts of its needs. To overcome this deficiency, it has purported to establish

petrochemical projects and refineries. Possibly, cooperation in this kind of projects puts Iran and Japan on the right track. An oil exporting country and an oil importing one if interested in long term peaceful and constructive relations cannot and must not think about just maximizing benefit in a short run, snatching the opportunities against each other. They have to be careful and avoiding cruelty and tyranny in their relations prepare the ground with mainly legal instruments for long term cooperation beneficial for both nations. If not, the oil producing country may to defend its resources against presumed plots and oppressions of the oil consuming developed countries find ambitions to acquire strange capabilities such as access to nuclear energy.

At present Iran to avoid heavy expenditure for import of petrol is supplying very low quality locally produced petrol to its local market. This is not far to amount to human calamity. A country like Japan is expected by Iranians to give a hand to enhance the quality of Iran's locally produced petrol; otherwise establishing charity hospitals by Japan for those suffered from breathing the emissions of this kind of petrol will not work much.

Besides above said project, Snambroggi of Italy and ChiveDai Companies establishing a consortium concluded a \$1,243 m contract for establishing a refinery with capacity of 232,000 barrels in Bandar Abbas (Kiany, 2011, p.182). Iranians over consume the petrol but despite having a century of experience about the oil surprisingly does not have enough refineries. This along with increasing trend of demand for local consumption and high price of imported refined oil in comparison to crude day by day nears the Iran's outcome from export of oil to its expenditure for import of petrol.

As another project, a joint venture between Steel Nippon Company and Toyo Menka Kayasha EOC Company made a contract to reconstruct the *Salman* oil platform in Persian Gulf with \$300 m (Kiany, 2011, p.181). The situation of Iran has made it a needy country. Iranians deem Japanese contractors as reliable.

A Japanese consortium including JNOC bought a 20% interest in Royal Dutch/Shell Group's \$800 m buy-back deal of 1999 to develop Iran's Soroosh/Nowrooz oil fields. Under terms of the deal, the Group had also to provide a loan guarantee of \$60 m for development of the project (Japan team: 2003).

Japan was also said to be interested in the South Pars offshore gas field, the biggest in Iran (Muriel, 2000, p.49). However, Japan has not concluded even one treaty with Iran to build capacities for expanded cooperation. If Japan does the same with other countries especially its neighboring ones, this would be one of the main sources of international economic obstacles for Japan. In 2002 governments of Japan, Iran and Qatar reached a basic agreement to allow a Japanese consortium plus some multinational companies to develop natural gas resources in Iran's South and Qatar's North, the world's largest natural gas development projects off the Iranian-Qatari coast and the largest natural gas development project Japan has ever undertaken (Bridges 2003, p.16). The project was planned to produce liquefied fuel, or gas-to-liquid (GTL) products, such as light oil, gasoline and kerosene, for export to Japan. The combined total cost for the project was expected to amount to more than \$4.5 b. Proved gas reserves in 2004 were 13 tcm (trillion cubic meters) in South Pars and 28 tcm in North Field (International Energy Agency: 2005, p.172). In 2012 they have been reported to be 2.8 tcm and 8.0 tcm respectively. (Moghaddam 2012, p.148) Japan's Inpex, JNOC and JGC were to be the key developers, but an Iranian state-run company along with British and Dutch multinationals, such as Shell, was also to take part in the project. (Japan makes: 2002). Japan did not take part in operational stage of the South Pars development project (Hassani & Nojoomi 2010). The project was later entrusted to companies from developing countries including China. (Farzinnia 2008, p.171) Joint fields are a matter of concern and a source of conflict between the countries. Therefore making the arrangements to jointly administer those fields is of great importance. Discrepancies in operations in one partner country, surely affects the operations in the other one.

#### **4. Japanese Loans to Iran**

Japan is always in fond of paying loans to Iran. Even to encourage Iran in case of Azadegan, Japan had used the loan. But Iranian government due to a nationally important principal is forbidden to take loans from foreign countries unless under urgent need. Offering loans to the Iranian government decreases the Japan's moral credibility in view of the Iranians. Japan has to make changes in its method for cooperation in the Middle East. According to a Chinese proverb; do not give fish to the hungry person, teach him how to fish. But Japan as a great knowledge-based country always has given to Iranians, a great portion of the Middle Easterners, the readymade products or loans rather than know how and technology. This is a simple, somehow obsolete and colonial way, only acceptable to a country like Iran which is under various international difficulties.

In 1993, Japan approved a three-part, low-interest loan of \$3 b package to Iran for certain energy development and infrastructure projects, including the construction of a hydroelectric dam on Karun River (Bridges, 2003, p.15). Reportedly in that time regarding Iran in "mood of change" (Katakura 2002, pp.33-34; Ministry of Foreign Affairs 2001, p.139) the Japanese government, in despite to the US trade embargo on Iran, felt that 'economic aid will be more productive than sanctions in steering Iran away from terrorism' (Drifte 1998, p.130). Japan paid the first installment in 1993, but froze the next payments under US pressures (Zanganeh 2002; Katzman 2003: p.16). On that time the oil prices slide to lowest possible had created the urgent situation justifying the borrowing. The borrowing was as well made due to a change of political attitude in Iran, otherwise



in the years between 1980 and 1988 in which the Iran-Iraq war was a great source of need, no loan was sought. In the 1990s, European and Japanese creditors rescheduled about \$16 b of Iranian debt (Katzman, 2011, p.41). In this way Iran which not many years ago was a creditor country had entered the debtors club. For Iran as a country with third largest reserves of oil it is not justifiable to make borrowing for its development projects. On the other hand there are schemes like build, operate and transfer (BOT) which are not sought by Iran but can substitute the loan without putting the country under pressure of paying back the interest and principal.

In 1994, Iran's Board of Ministers allowed Japanese Ocarina Company to participate in a joint venture with an Iranian private investor for a project aimed at production of paper pulp. Interestingly the Japanese side was to pay loan to the joint venture in form of machinery, equipment and services. Seemingly it has not become operational.

In 2000, a loan of \$69.3 m was finalized to help complete the Masjid Suleiman hydroelectric dam (Muriel 2000, p.49) on the Karun River in southwestern Iran. In fact principally Iranian legal system is against taking and giving loans unless it is interest free. Therefore basically taking loans from foreign countries unless in case of necessity is condemned. At the times when the oil price slides to the extent where the budget deficit soars high, inevitably the government borrows from the foreign countries but at normal situations it has no justification. However, for a while the government even for accomplishing the projects which were not deemed necessary has taken loans, sometimes selling the oil or gas in advance with discount (as like as considering interest).

These loans all as intergovernmental had political load. When borrowing the targeted project's identity does not matter unless its outcome is set to repay the loan. The Introduction of project is used locally for obtaining the ratification of related organs, justifying the borrowing. Deals whether about loans or other subjects were mostly made between the governmental sectors.

In 2001, the governmental Japan Bank for International Cooperation (JBIC) as one of the four projects, agreed to grant a \$51000 credit facility to Iran's state-run *Sepah* Bank to support Japanese exports of equipment and services for the *Ardakan* Steel Pelletizing Plant. Prior to this deal, the last Japanese buyer's credit was extended to the NIPC in 1976 (JBIC 2001; JBIC provides 2001).

In 2001, a consortium of six major Japanese trading houses and NIOC concluded a \$3.2 m investment deal under which Iran received advance payments for exports of crude oil (Japan-Iran: 2001). This was as well a loan but under the scheme of advance payment for purchasing oil. In this way, not only the principle but also the interest has to be paid in oil.

In 2001, JBIC and Iran's *Mellat* Bank signed an agreement to finance projects awarded by the subsidiaries of NIPC. The first credit of \$229.8 m was to fund a deal awarded by Borzouyeh Petrochemical Co to Toyo Engineering, Korea's LG Engineering and Iran's Sazeh for building the Port *Assaluyeh* Aromatics 4 project. The second of \$153.8 m was to fund a contract awarded by *Shahid Tondgooyan* Petrochemical Co to Mitsubishi Heavy Industries, Tomen and Iran's *Chagalesh* Consulting Engineers for construction of a purified terephthalic acid plant (Japan, Iran sign \$3b: 2001). In fact, in these cases the loan is given for foreign investment but Japanese bankers instead of giving it to the Japanese projecting companies give it to the Iranian company offering the project. With this trickery, the Iranian company undertaking repayment of the debt pledges to spend the loan for accomplishment of the project by mainly Japanese contractors.

In 2004, the JBIC agreed to extend a buyer's credit facility totaling \$154 m to NIPC for a high-density polyethylene (HDPE) plant to be built at Ilam, Iran. Several Japanese suppliers including Mitsui Engineering & Shipbuilding were to use the credit facility for export of equipment and services (Japan provides: 2004). A similar credit facility of three Tokyo Banks HSBC, Mitsubishi and Société Générale co-financed the export of equipment and services by corporate syndicates including Toyo Engineering and Chiyoda for construction of a world-class fertilizer plant in Persian Gulf port *Asaluyeh*. (Banks join: 2004). Once again a loan in a new scheme, the buyer's credit! In this scheme, Japanese loan is directed to be consumed for purchasing determined Japanese goods and services from determined Japanese supplier/s, multiplying a simple deal to the benefit of Japan.

## 5. Japanese technical assistance to Iran

There has been a few technical cooperation plans between Iran and Japan.

In 1997, Japan's International Cooperation Association (JICA) implemented a project in Iran's northwestern city of Tabriz to optimize energy use (ECCJ & IEEJ 1997; and Japan calls 2004). So, the Center for Energy Consumption Control Management (CECCM) was inaugurated, aiming at coordinating energy consumption policies within third and fourth development plans. All high-consuming industrial units had to soon provide their own energy management plans. It was estimated that the rate of power consumption in industrial units would decrease by 10% in every four years as power management education courses start in the center, educating 460 persons each year. The Energy Ministry had to hold special courses for energy management experts from high-consuming units and give them certificates so that they can officially teach relevant subjects to their staff. In the first four years of the plan, the Japanese experts had to directly supervise the process in Iran (Japan to help: 2004).

In 2000, Japan stated that as a way of providing jobs for Iran's unemployed it will help Iran develop small and medium-sized enterprises (Muriel, 2000, p.50). But, in practice just a little was seen about, may be because of non-suitable situation in Iran.

In 2001, The JICA and the Ministry of Agriculture Crusade conducted a Study on improvement of irrigation, drainage and agricultural development in Gorgan plain, an area of approximately 800 km<sup>2</sup> in *Golestan* province. The study was as well to conduct a feasibility study on the prioritized projects; and transfer technology through on-the-job training in course of the Study.

In 2002, a three year joint project for improvement of the standards of audio-visual aid in vocational training was inaugurated at the Iran's Instructor Training Center (ITC), by the Iran's Technical & Vocational Training Organization (TVTO) and the JICA. For the purpose, equipped studios and classrooms were established at the ITC (Japan Technical: 2003). This project as a training course included a very limited amount of trade in services. In March 2002, following a study on Tehran's air quality (JICA 1997) which revealed that pollutants are causing 4000 deaths per year and equal amount of cancer cases (Shafie-Pour et al 2005, p.44), Iran's Department of Environment (DOE) and the JICA agreed to cooperate in reducing Tehran's pollution level by 16% by the year 2014. In the meantime, however, Tehranis had to continue to resort to face masks to protect themselves from air pollution (Iran: Environmental: 2002). Tehran was to invest \$2.2 b in a 15 years period. For the purpose, the World Bank, Japanese experts, and Iranian environmentalists worked out a compromised plan including steps to rehabilitate public transport and phase out old automobiles (Iranian oil: 2005). For some years, some improvements were made (Ebtekar 2009, p.295) but changes in government policies, diversification of sanctions including imposing of trade bans even on import of equipment's filtering the emissions, supply of out of standard petrol to the local market, and use of the mazut as a fuel in the power plants ruined whatever had been done for the clean air, day by day deteriorating the situation. Iranians constitute approximately 1% of the world's population but in 2007 they have contributed about 2% of the global CO<sup>2</sup> emissions. (Shafie-Pour et al 2007, p.360)

In August 2002, the JICA and the Tehran Center for Earthquake and Environment Studies (CEST) affiliated to Tehran Municipality, had made a joint study for three years so in 2003 they held the 1st seminar on comprehensive master plan study on urban seismic disaster prevention and management of the greater Tehran area. (Japan Technical: 2003).

In September 2002, the JICA and the DOE's Tehran Province Directorate after a joint study for three years held a Seminar on "study of strengthening and improving air quality management in the greater Tehran area". (Japan Technical: 2003).

In 2003, the JICA and the Ministry of Agricultural Crusade started a study on the Gharasu river basin agricultural infrastructure development in the Kermanshah Province, covering an area of approximately 12,500 ha. Objectives of the plan were to examine the feasibility of improving irrigation, drainage and agricultural activities with the participation of farmers selected from the study area; and to transfer technology to the Iranian counterparts through on-the-job training in the course of Study. (Japan Technical: 2003).

In 2004, spending \$4 m the national training center for energy management was established in Tabriz by relying on the know-how and technology from the JICA (Japan to expand: 2004). This as well was an educational project in which Japan exported services to Iran along with a trivial amount of technology and know-how.

In 2004, the JICA was involved in a plan to restore Anzali Marsh (Tokyo: 2004). In fact what Japanese has been called for cooperation in are fields of urgent need for assistance in Iran. But in fields like Anzali March and air pollution in fact technical cooperation can do almost nothing. What can the technical cooperation do where the authorities knowingly are making decisions destructive to the Anzali marsh and many other marshes and wetlands, or knowingly are adopting air polluting policies such as expanding car making industry rather than expanding railroads?

In 2005, a month-long educational workshop for managers and experts of Iranian tourism industry was held in the Iran's Embassy in Japan. The JICA had pledged to organize five similar educational workshops (Managers: 2005). Surprisingly such a workshop has been held in Tokyo rather than in Tehran or elsewhere in Iran.

In 2005, Iran's Petrochemical Plants' Management signed a six monthly agreement with Japan's Toyo Engineering Co to conduct the Hazards and Operability (HazOp) studies on the utility, feed and production piping of the petrochemical plants located in the Imam Khomeini Port Special Economic Zone (Petrochemical: 2005). Formerly, there was another agreement for HazOp study of the Borzooyeh Petrochemical Company's 4th Aromatic plant between Iran and Japan (Safety: 2004).

Technical cooperation between Japan and Iran is simply summarized in some training courses or seminars and consultative assistance to public projects such as improvement of air quality in Tehran, earthquake studies, and energy management. There is no case of considerable technology transfer or any contract for transfer of technology between Iran and Japan.

## 6. Sanctions

Obviously the relationship between Japan and Iran is now due to sanctions somewhat suspended.

During the 1990s, EU and Japan, maintaining a policy of “critical dialogue” with Iran, refused to join the 1995 US trade and investment ban on Iran (Katzman, 2011, p.41). On 1995 the situation was not this deteriorated and there was no UN sanctions ratified against Iran. Japan like other countries was worried about Iran’s potential nuclear program and its links with North Korean missile exports, but, in contrast to the long-standing tough US line on Iran, until 2003 had worked steadily and quietly developing many agreements with Iran (Bridges, 2003, p.15). Surely Japan was not happy joining the imposing sanctions against Iran. Japan's National Energy Strategy of increasing the ratio of *Hinomaru oil*, or oil developed and imported through domestic producers, from the current 15% to 40% by 2030, was to lead to its further political involvement in Iran (Shaoul, 2005, p.3). So, the Japanese will purport to find solutions to overcome this problem otherwise such a joining will cost much to them. (Faiola & Linzar, 2006, p.2)

In March 2006, it was reported that Japan’s Nippon Oil would reduce its purchases of Iranian crude oil by 15%. Showa Shell, the largest Japanese importer of Iranian oil, also reduced its purchases (Middle East Economic Digest, 2006). These were in harmony with western countries similar endeavors. Japan’s company significantly increased the sanctions impact (Faiola & Linzar, 2006, p.1). In May 2006, the OECD downgrading Iran’s credit rating for official credits assessed it at the same level of risk as the countries with active insurgencies (U.S Treasury, 2006). In June 2006, the Union Bank of Switzerland (UBS) and the Credit Suisse had ceased their activities with Iran. ABN Amro and HSBC also curbed their dealings. Energy firms Baker Hughes, ConocoPhillips, and BP reportedly suspended dealings with Iran. In September 2006, the US Treasury banned Iran’s *Saderat* Bank from access to the US financial system (Middle East Economic Digest, 2006). In fact, banning every international activity of Iran was under way and whoever dealt with this country was likely to be sanctioned. This bulk of sanctions can halt a countries international economy down. The implementation of anti-Iran sanctions in Asia started from Japan (Farzinnia, 2008, p.175). However, Japan not yet decreasing its trade with Iran to zero, purchases Iran’s oil in an extent below the sanctions threshold.

The whole world or at least developed countries have sacrificing many opportunities worked for many years to solve the Iranian nuclear problem avoiding the war or even aggressive sanctions. Japan joined the sanctions, but the recalcitrant countries such as China and Russia did not. The very heavy (Moattir 2011) loss suffered by Japan and other countries from imposing sanctions give signs that this situation must not take a long time, otherwise the obedient countries may resort to harsher remedies, even the war to end this situation up. This may even lead to a war between recalcitrant and obedient countries.

What is being at present done under the sanctions is re-dividing the Iranian opportunities between the governments of the western and eastern countries but that is the Iranian people who are paying for the sanctions from their lives, careers, patrimonial treasures and even from their future. The above said re-division due to urgent need of the China and India to the western markets and investments cannot be shaped well up. Surely the sanctions have affected the Iran’s not only economic but also social situation. Expansion of government sector to most possible extent, unemployment, air pollution, villagers immigration to the cities and so on are totally or partially sourced from sanctions. Day by day the sanctions are getting increased and diversified, causing new aspects of effects to appear. For instance high rate of unemployment makes the government to increase the capacity of universities for keeping the youngsters in while pending for job. This unwanted boost in higher education brings about a very complicated social situation.

In August-September 2010, Japan and South Korea announcing sanctions similar to those of the EU declared that their automakers Toyota, Hyundai, and Kia Motors would cease selling automobiles to Iran (Katzman, 2011, p.49). Both countries adopted measures limiting trade financing and financing guarantees for and new banking relations with Iran; sanctioned numerous named Iranian entities such as IRISL and Iran Air; froze assets of UN-sanctioned entities and 15 Iranian banks; and restricting new projects in Iran’s energy sector called for restraint on ongoing projects (Katzman, 2011, p.42). The sanctions adopted by both were far more extensive than what expected by the US officials (Katzman, 2011, p.39). Japan announced full adherence to strict export control regimes when evaluating sales to Iran. For a long time sanctions of limited nature were imposed more or less by a few countries, but now sanctions of expanded nature are getting imposed somehow precisely by many developed countries. These are isolating Iran. It is not understandable! Why Iran is taking this much of sanctions on? What is it working for which justifies bearing this much of sanctions? Are the UN and these countries all in wrong?

In 2010, a US State Department announcement exempted INPEX of Japan under a special rule from sanctions, but the firm announced that it is shedding its stake in the Azadegan development project (Katzman, 2011, p.9).

In 2011 more bans were imposed on Iran. However, sometimes imposing sanctions leads to only shift of opportunities. For instance, China shifting to Iran leaves some other opportunities in other countries intact for those supporting the sanctions. In this way Iran would be availed of relatively lower degree machinery, equipment and services. Experience shows that this has weakened Iran in the long run.

In 2011, some firms still continued to run the financial risk of doing business with Iran. Some of the well-known Japanese firms continuing to do so were Bank of Tokyo-Mitsubishi UFJ, Canon, Sony, and Mitsui and Co (Katzman, 2011, p.49). On the other hand, many companies may announce that they have cut their trade relations with Iran but in reality under disguises even through smugglers export their goods to Iran or make imports from Iran. Abundant availability of particular foreign goods in Iran and plenty of Iranian products in apparently obedient countries can prove this hypothesis.

In 2012, sanctioning purchase of oil from Iran and cutting Tehran off from access to the hard currencies had a very deteriorating impact on the Iranian national economy (Faiola & Linzar, 2006, p.2). These kinds of sanctions result in something like 'oil for food' which was already imposed against Saddam in Iraq.

In November 2013, between 5+1 (five permanent members of the UN Security Council plus Germany) and Iran an interim deal signed to limit Iran's enrichment of uranium in consideration for loosening sanctions. It went into effect from 20<sup>th</sup> January 2014, but its future is not yet clear.

## 7. Conclusion

Despite having a long precedence of relations, lack of long term treaties in between and lack of concern for each other's luck show that these two have traded without making friendship.

In fact these two have not attempted to legally diversify their trade relations. There is no bilateral treaty signed between them on trade relations such as agreement for promotion of investment or for avoidance from double taxation. Even, despite huge bulk of financial facilities transferring between them, there is no general agreement to cover the possible legal disputes. Conclusion of three bilateral treaties between Japan and Iran for bilateral encouragement and protection of investment, for Bilateral Air Transportation, and for Commercial and Maritime Shipping have been allowed by the Iran's Board of Ministers in respectively 1998, 1999 and 2000, but no sign of their conclusion was found.

Existing regulations have not been formulated in a way to boost the transfer of technology from Japan to Iran. To stabilize the current of oil, Japan rather than concluding general agreements only giving huge amounts of loan has prepaid the oil. Japan has never taken care of Iran as a friend. At these hard days of Iran, Japan could join the negotiations between Iran and 5+1 countries to make assistance for solving the problem with less side effects for the Iranian people and industries specially the oil industry, but Japan did not do so. Besides, during the 1980s and 1990s many Iranians under the unsuitable economic situation in Iran travelling mainly with tourist visas to Japan were illegally recruited to most difficult or most dangerous Jobs in that country, but Japan never proposed to conclude a bilateral agreement with Iran for bringing the situation of those defenseless workers in order.

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