

# Historical analysis of the early stage of the Iran-Japan petrochemical project

Naotoshi Umeno (University of Hyogo, Japan)

## **Abstract**

This paper aims at clarifying the launching process of the Iran-Japan petrochemical project (IJPC) focusing on the time period from the late 1960s through the early 1970s. The IJPC is well-known in Japan for its tragic and unfortunate destiny ending with the collapse of the whole project mainly due to adverse external occurrences such as the oil shock in 1973, the Iranian Revolution in 1979, and the Iran-Iraqi War, which lasted for eight years from 1980. The project was finally forced into liquidation in 1989 leaving a huge amount of loss among the companies concerned. In this sense the IJPC is often regarded as the biggest and the worst country risk case in which Japanese companies were involved after the Second World War.

In this paper the author draws attention to two important fact findings which seemed to influence the subsequent development of the IJPC. One was the distinct negotiation skill on the Iranian side, which resulted in the gradual receding position on the Japanese side from the beginning of the project. Iran almost always took the initiative in the negotiation and kept the Japanese side at bay. The other was that there was a complicated conflict of interests not only between Iran and Japan but also among the Japanese companies themselves. They couldn't manage the conflict of interests and this brought about the delay of the project even at an early stage. As a result, the IJPC was trapped with organizational problems.

Since the IJPC ended in failure, all of the Japanese companies concerned have not disclosed any archival documents at all. To cope with this fatal defect for historical research the author applied an oral history approach along with a search for the existing documents such as the secondary literature and articles on the IJPC. The author has carried out more than 30 interviews in total with people who once got involved in the IJPC. Through the oral history approach the author tried to find facts which otherwise had not been disclosed and to analyze the IJPC from a novel perspective based on these new facts.

**Keywords:** Mitsui & Co.; Iran; petrochemical; NIOC; NPC; country risk; conflict of interests

## Introduction

The IJPC was an unprecedented joint venture formed between Japan and Iran to construct and operate a huge petrochemical complex in Iran in the early 1970s. At the beginning the Japanese corporate group was comprised of the leading trading company, Mitsui Bussan Kaisha (MBK, Mitsui & Co.) and three leading Japanese chemical companies: Mitsui Toatsu Chemical (MTC, now Mitsui Chemical,), Toyoh Soda Kaisha (TSK, now Tosoh Corporation,), Mitsui Petrochemical Company (MPC, now Mitsui Chemical). They formed an investment company named the Iran Chemical Development Company (ICDC) in December 1971, with MBK coordinating the whole project and functioning as the Japanese side's representative in negotiating with the Iranian side. The Iranian side in the IJPC was the National Petrochemical Company (NPC), a wholly owned subsidiary of the National Iranian Oil Company (NIOC). Soon after the project was launched, they faced several adverse environmental changes, namely the oil shock in 1973, the Iranian Revolution in 1979, and the Iran-Iraqi War beginning in 1980, which brought about serious damages at the complex. The project was finally liquidated in 1989.

The IJPC used to be well-known in Japan for the worst country risk case suffered by the leading Japanese companies, but nowadays most Japanese business persons and academicians don't know much about it or pay attention to it. Even though people's memory of IJPC has been waning, it must be investigated as this case of failure seems to include a lot of lessons for the international business of Japanese companies in the future. However, there has not yet been any academic research on it mainly because of a lack of archival data. All of the Japanese companies involved in this project are reluctant to open the relevant archives concerning the incident. They seem to think that disclosing data equals showing their own shame to the public. To overcome this difficulty in the research process, the author takes an oral historical approach as well as making use of what literature exists, especially *Document, Iran Petrochemical Project*, written by the journalist, Yasunobu Misato<sup>1</sup>, and an official record entitled *The Record of IJPC Project* compiled by MBK<sup>2</sup>. The latter was not published openly and is still confidential, distributed only to certain companies and individuals involved in the project. In this paper, the author clarifies the very early stage of the

---

<sup>1</sup> Yasunobu Misato. (1983). *Dokumento, Iran Sekika Purojekuto (Document, Iran Petrochemical Project)*. Tokyo: Nihon Keizai Shinbun.

<sup>2</sup> Editorial board of the Record of the IJPC Project. (1993). *IJPC Purojekutoshi (The Record of the IJPC project)*.

IJPC from late 1968, when the original idea of the project was nurtured, to late 1971, when MBK and NPC reached their agreement on the petrochemical joint venture. The data sources are interview records and materials provided by the interviewees that include internal documents of the companies concerned together with the already cited exiting literatures.

### **The origins of the project**

The original idea of the IJPC dates back to November 1968 when Matsuyuki Wakasugi, a vice president of MBK, participated in the Keidanren's (Japan Federation of Economic Organizations) economic mission to Iran. At that time Iran had just started its 4<sup>th</sup> Five-Year Economic Development Plan. The leading Japanese companies, including banking, trading, heavy and electric industries, were regarding Iran as a most prosperous and high potential Middle Eastern country, and thus they expected abundant business opportunities; nobody in the mission doubted Iran's political stability or foresaw the Islamic Revolution which would occur in 10 years later.

Visiting oil wells in southern Iran guided by a president of NPC, Mostoffi, Wakasugi had the feeling that it was wasteful to burn the natural gas associated the oil wells, and he soon came up with the idea that the wasted gas should be used as a material source for the petrochemical industry. He wrote as follows:

“There is a plenty of room for the development of the petrochemical industry making use of ethane, methane and others included in this wasted natural gas and we have to pay more attention to it as a resource for the petrochemical industry in Japan<sup>3</sup>.”

The idea of making use of wasted natural gas for the petrochemical industry was not only Wakasugi's but also Mostoffi's. While guiding him around the oil wells, Mostoffi modestly asked Wakasugi how to use the wasted gas effectively<sup>4</sup>. This question was identified as the first move taken by the Iranian side to push the project forward. From now on much more active measures were to be taken continuously by Iran to get the Japanese side involved in the project.

The original idea of the IJPC sounded quite rational to the Japanese companies concerned in many respects. In those days the Japanese petrochemical industries were under severe criticism for committing serious environmental pollution. They were also facing physical limits to growth due

---

<sup>3</sup> Keidanren. (1968). *Hou Iran Keizai Shisetsudan Houkokusho (The Report of the Economic Mission to Iran)*, pp.121-122.

<sup>4</sup> Misato, *op.cit.*,p.47.

to little geographic space for new petrochemical plants in narrow coastal Japan along with rising material costs. The IJPC also looked ideal to MBK at that time when they were just considering changing their business model from traditional trading to owning and operating their own ventures, especially entering into manufacturing businesses. MBK was unsatisfied with low margins in trading petrochemical products with producers<sup>5</sup>. The petrochemical industry in Japan, however, was so strictly controlled by the Ministry of International Trade and Industry (MITI, now the Ministry of Economy, Trade, and Industry, METI) that there was no room for MBK to enter the industry as a new manufacturer. Moreover, the idea of the IJPC seemed rational, lucrative and exciting not only to the Japanese side but also to the Iranian side. The Iranian emperor, Pahlevi Shah, was eager to catch up with the western countries by implementing aggressive economic measures, which prioritized the petrochemical industry as the most important growth industry.

### **Iranian initiatives**

In December 1968, just after the mission returned to Japan, a secretary of the Iranian Economic Ministry visited Japan and called at MBK to ask them to reconsider the petrochemical project in Iran. Responding to it, the MBK set up a provisional working party under the chemical products division in February 1969. The provisional working party was mainly comprised by staff from the two relevant divisions in MBK, the chemical products division and the chemical plant division, as well as other MBK staff from the corporate finance group and the general administrative section. The working party came to accept a few members “on loan” from other chemical companies soon after. Also in February 1969 MBK dispatched a survey team to Iran to examine the project’s feasibility. Mitsuo Sato, one of the team members from MBK’s chemical products division, recalled his impressions as follows.

‘I had a feeling that this project was not feasible because of the high material cost in Iran. Even though the raw material, wasted natural gas, and labor costs were cheap in Iran, most of the other construction materials had to be imported from the western countries<sup>6</sup>.’

The initial objective of the survey team was relatively modest: to examine the feasibility of

---

<sup>5</sup> MBK usually gained around 3 per cent margins from trading in petrochemical products in those days, which contrasts with foreign counterparts gaining about 10 per cent margins from the same trading; interview with Tatsuo Nagashima, a former vice president of the ICDC, on December 26, 2007.

<sup>6</sup> Interview with Mitsuo Sato held on September 8, 2006.

constructing an ethylene plant with a capacity of 400,000 tons, of which 300,000 tons was to be exported to Japan and the rest was to be consumed in Iran.<sup>7</sup> Thus, the initial plan was confined only to the upstream operation in the industry. When the Japanese survey team visited the NPC, they were strongly impressed by how well-prepared the Iranians were. The Iranian officials of the NPC provided the Japanese team with several materials including a thick book of the Five-year Economic Development Plan, a document package containing joint venture agreements with foreign companies, and a draft of basic agreement of the petrochemical project. Sato remarked:

‘When we witnessed those documents presented, we felt that Iran was quite accustomed to dealing with foreign business partners and that they must have been trained by the British, that is, the Anglo-Iranian Oil Company<sup>8</sup>.’

The result of the study carried out by the initial survey team was that producing ethylene in Iran was not feasible due to high construction costs, as team members had expected beforehand. After the team returned to Japan, the project seems to have been put on hold for a while and no new movement from MBK could be indentified. While the petrochemical project stagnated on the Japanese side, the Iranians took action to move things forward. At the end of April in 1969, the Iranian Foreign Minister Zahedi visited Japan accompanying a president of NIOC, Mina. They met the Japanese Prime Minister Eisaku Sato and asked him to cooperate in the oil development in southern Iran. This offer from Iran was a sort of windfall to Japan, since the country had been eager to develop its own oil sources for long time instead of relying on imports through the powerful international oil majors. Prime Minister Sato responded favorably to Iran’s offer and instantly directed one of the government agencies, the Japan National Oil Development Corporation (JNODC, now Japan Oil, Gas and Metals National Corporation, JOGMEC) to do a field survey in Iran. The first mission was sent to Iran in June 1969, but they didn’t get any information they needed. The NIOC officers was reluctant to give detailed information on the wells and they didn’t even tell the area name of the wells, Laurestan. At their second visit in October 1969, after tough negotiation with NIOC, the survey team was at last provided with various field data. The Iranians explained that the area was prospective and asked the Japanese

---

<sup>7</sup> *The Record of the IJPC Pproject*, p.14.

<sup>8</sup> An interview with Mitsuo Sato held on September 8, 2006.

The Anglo-Iranian Oil Company, now BP, used to dominate the Iranian oil industry for almost half century until 1951 when it was nationalized by the Iranian government. See J.H.Bamberg. (1994). *The Hisotry of British Petroleum Company, Volume 2, The Anglo-Iranian Years*, Cambridge: Cambridge University Press.

team to write a draft of a provisional contract to develop the Laurestan oil field.<sup>9</sup>

As for the petrochemical project, MBK sent the second mission to Iran in November 1969 for renegotiation to improve its unfavorable feasibility. The mission proposed that the IJPC produce Liquid Petroleum Gas (LPG), which had a big market in Japan. But the NPC refused to accept it arguing that LPG was a matter for the NIOC. At first the Japanese mission adopted the negotiation policy that they would withdraw from the petrochemical project if their proposal was rejected by Iran. But they couldn't follow this policy since the Iranians showed a strong enthusiasm for the petrochemical project. Mitsuo Sato, one of the mission members, recalled as follows.

'We couldn't find firm evidence that the project was hopeless. The feasibility was conditional on the Iranian side. If they would compromise with some operating conditions, the project might recover its feasibility. So we couldn't decide firmly that the project should be thrown away<sup>10</sup>.'

After the second mission came back from Iran, nothing new happened on the Japanese side and the project seems to have gotten stuck again. One more, it was up to Iran to break this stalemate. In January 1970 the technical manager of the NPC, Hajarizadeh, visited Japan and talked about how the project should proceed for the immediate future. This was a sort of trigger for MBK to back to the project and then the third mission was dispatched in April 1970 to collect further information to confirm the project feasibility. In June 1970 another Japanese study team consisting of several ammonium specialists from the MTC visited the Shahpur Chemical Company (SCC) to inspect the plant operational ability of the Iranians. SCC was a joint venture formed between the NPC and the US American company Allied Chemical. But the company announced its withdrawal from Iran at that time. So, the Iranian government asked MBK to find a Japanese partner to operate the plant after Allied Chemical left. MTC members concluded after the plant tour that the Iranians would be able to operate the plant by themselves as long as they were given proper technical trainings and instructions<sup>11</sup>. The report of the MTC really encouraged MBK which hadn't had much confidence

---

<sup>9</sup> See the following two reports compiled by JNODC. Sekiyu Kaihatsu Kodan. (1969). *Iran Shuccho Houkokusho (The report of Business Trip to Iran)*. Sekiyu Kaihatsu Kodan. (1969). *Dai Niji Iran Shuchou Houkokusho (The Second Report of Business Trip to Iran)*.

<sup>10</sup> Interview with Mitsuo Sato held on September 8, 2006.

<sup>11</sup> Interview with Shiro Ishiwada, a former member of the IJPC's living and accommodation department, held on July 28, 2006. See Shiro Ishiwada.(1981). *Orenjiuro no Honou o Otte (Searching for Orange Flame)*.Tokyo: Tokyo Shinbun Shuppanyoku.

in the project's feasibility and still hesitated to take a step forward<sup>12</sup>.

### **Conflict of interests within MBK**

In the middle of June in 1970 the NIOC unexpectedly announced that the contract for the Laurestan oil development project would be changed from a private contract, supposedly with the Japanese, to a competitive international bidding<sup>13</sup>. The Laurestan project had been coordinated and negotiated mainly by JNODC and Mitsubishi Corporation. But the latter decided to withdraw from the project considering that it was too risky to commit themselves to the project under the new conditions. So, JNODC had to find new partners who were willing to tender for the bid. The NIOC had already posted three qualifications for bid tenders. First, they should have enough capital. Second, they should have technology for oil development. Third, they should have markets for oil produced. Regarding the capital, JNODC was successful in finding a suitable entrepreneur, Shinzou Ohya, a president of Teijin Corporation. Teijin was an established textile company but trying to pursue a diversification strategy to go beyond the traditional textile industry, and the oil business looked most lucrative and had most prospects for the future. Ohya decided to join the bidding team. Concerning the technology, a Japanese oil development company named Northern Sumatra Oil Development Company (NOSODECO) was chosen as a team member since both Ohya and a president of NOSODECO, Kinji Miwa, knew each other well as fellow-alumni. As for the market for the oil, the oil division of MBK was included in the bidding process because MBK had an oil refinery in Japan, which was a 50-50 joint venture with the Mobile Oil Company. The members of the oil division of MBK did not recognize the petrochemical project which had been already undertaken by the chemical products division within the same company, because the petrochemical project was still treated confidentially in the chemical products division at the time. Now, three Japanese companies were to start searching for what additional conditions were necessary to make a successful bid.

The chemical products division of MBK did not know what was happening in the oil division of their company either. At this moment the petrochemical project and the Laurestan oil project were

---

<sup>12</sup> An interview with Mitsuo Sato held on September 8, 2006.

<sup>13</sup> When a representative of the Beirut branch of JNODC at that time, Mou Yabe, paid a courtesy call to Mina at NIOC, Mina told him about the news as if it was an ordinary announcement. An interview with Mou Yabe held on July 26, 2004.

two completely different ventures and both of the projects proceeded separately under different divisions of the same company. In October 1970 a director of the NPC, Sharifi, came to Japan to sign a memorandum to carry out a joint feasibility study for the petrochemical project and then the third mission of MBK was sent the following month. The result of this joint feasibility study was to be compiled in a report, named the “Blue Book” after the color of its cover.

In February 1971 the fourth mission of MBK visited Iran with the purpose of calculating the construction costs more accurately than before. The mission leader was Kikuji Nakagawa, who came from the chemical plant division of MBK. Unlike its predecessors, this mission was mainly conducted by the chemical plant division instead of the chemical products division and this resulted in serious organizational conflicts between the two. Mitsuo Sato who had committed to the project from the beginning as a member of the chemical products division lamented as follows.

‘The main members of the fourth mission came from the chemical plant division and they called themselves ‘a true mission’ implying that they are truly professional plant engineers and that we, the chemical products division’s members, are amateurs. They implicitly suggested that the previous feasibility studies carried out by us were not reliable, so they would try it again from scratch. I had a feeling that they were humiliating us... We, the chemical products division, were responsible for the entire project because the provisional working party was set up under our division instead of the chemical plant division. From our view point, the investment size, its return rate, and the market are top priority criteria at the beginning of the project. But the members of the chemical plant division didn’t seem to care about such things. Their business focus was purely on how much plant equipment they could sell. The more they could sell, the more they could earn. This was a typical case of a conflict of interests<sup>14</sup>.’

On the contrary, Kikuji Nakagawa, a mission leader from the chemical plant division, took a completely different view.

‘The task of our division was to sell industrial plants to big business groups and government agencies in developing countries. In this process we tried to use various effective human connections based on sophisticated information about the host countries. The chemical products division didn’t understand the important role we were playing nor did they realize the professional capability we had. They regarded us as simple traders, just moving equipment from one place to

---

<sup>14</sup> An interview with Mitsuo Sato held on September 8, 2006.

another only to earn margins<sup>15</sup>.

The conflict of interests between the two divisions of MBK was to grow further and this organizational problem partly contributed to the delay of the project. Kikuji Nakagawa said in retrospect. 'If we hadn't had such a messy conflict inside MBK, we could have finished the project scheme much faster. That means that we could have avoided the adverse effects of the oil shock in 1973'<sup>16</sup>.

### **Coupling the two projects**

As for the Laurestan oil development project, the Japanese companies, especially Teijin and NOSODECO, were energetically collecting the information to win the bid. In April 1971, a president of NOSODECO, Kinji Miwa, held negotiations with a director of the NIOC, Mina, over the additional conditions necessary to win the bid. Mina raised two unexpected conditions to Miwa. One was the implementation of the petrochemical project in Iran and the other was to set up a jointly-owned oil marketing company between Japan and Iran. Miwa was surprised to hear these demands since he did not know about the petrochemical project, which had been undertaken separately from the Laurestan project, mainly by MBK. At this moment, Iran considered these the two projects as being linked.

Now that the petrochemical project became one of the important additional conditions to win the bid for the Laurestan oil development project, MBK came under pressure to make a final decision on whether or not they should go in. They were placed in a headache-producing dilemma. Considering the poor feasibility of the project, they were still reluctant to go ahead with it as a private company. On the other hand, if they decided to give up the project, Japan would lose the Laurestan oil interest which seemed to make one of Japan's dreams come true, that is, to hold its own oil interest in oil-producing countries.

MBK finally decided to go ahead. There were several considerations behind this decision<sup>17</sup>. First, Iran was showing a strong enthusiasm for the project. Second, MBK expected some compromises in operating conditions from the Iranian side. Third, MBK thought that they would have time to negotiate with Iran after getting the bid of the Laurestan. Taking an optimistic view,

---

<sup>15</sup> An interview with Kikuji Nakagawa held on September 21, 2006.

<sup>16</sup> Ibid.

<sup>17</sup> *The Record of IJPC Pproject*, p.26.

MBK expected to improve the profitability of the project in the future.

On April 29<sup>th</sup> in 1971, the Japanese companies working on the Laurestan project tendered the bid, fulfilling general conditions such as a 35 million-US dollar sign-on bonus and, in two appendices, also satisfying the two additional Iranian requirements: the implementation of the petrochemical project and the foundation of the jointly-owned oil marketing company. On April 30<sup>th</sup> the “Blue Book”, the result of the joint feasibility study conducted by both the NPC and MBK, was finished after intensive work. The report predicted that the project would generate a 14 per cent return on investment (ROI), which was still low according to the MBK’s expected figure of 20 per cent. The “Blue Book” indicated a series of petrochemical products that the project might produce – a significant departure from their initial, much more modest product scheme.

On May 2<sup>nd</sup> it was revealed that the Japanese group made the highest tender. But this did not directly mean that Japan automatically obtained the oil interest. Mina of the NIOC called the Japanese negotiation team and asked them to submit a letter of confirmation from MBK to implement the petrochemical project. He also made a new demand on them for setting up an oil refinery in Iran and said that Japan would have a good chance if they satisfied these two requirements. Iran set a deadline for the answer from Japan by the first week of June. Two key persons of the Laurestan oil negotiation team, Shinzou Ohya and Kinji Miwa, talked around the Japanese Prime Minister and other relevant ministers such as the Foreign and Finance Ministers, along with the top management of MBK, to persuade them to satisfy the conditions made by Iran.

At the end of May, two members of MBK went to Iran and held talks with the NPC’s top executives including president Mostoffi. MBK conveyed their decision that they agreed in principle with implementation of the petrochemical project on condition that both Iran and Japan should cooperate in improving the profitability, and that a revision in the previous appendices was made such as replacing the idea of setting up a jointly-owned oil marketing company with that of founding an oil refinery in Iran. The NPC officials answered that Japan would surely get the Laurestan interest as long as MBK would promise to do the petrochemical project and that a signing ceremony for the Laurestan deal should be simultaneous with that of the petrochemical project. Moreover, the NPC officials informed MBK representatives that the basic agreement of the petrochemical project should be subject to ratification of the Iranian National Assembly, and that the Japanese side had to get an informal consent from the Japanese government on this matter

by the time the NPC would place the bill on the agenda. Finally, the NPC asked MBK representatives to send a telex from MBK vice president Wakasugi to the NPC president Mostoffi stating that MBK in principle had accepted the results of “Blue Book”. On June 1<sup>st</sup> Wakasugi sent Mostoffi the telex mentioned the above. On June 10<sup>th</sup> the NPC sent MBK a telex that the board of the NPC also agreed the petrochemical project.

On June 30<sup>th</sup> the Japanese group bidding for the Laurestan project received an award letter from the NIOC. The last part of the letter read as follows, ‘This acceptance is subject to the signature of a letter of intent between your group and the NIOC’s wholly owned National Petrochemical Company in respect of the envisaged Petrochemical Joint Venture<sup>18</sup>’. A few days before MBK received the award letter, the NIOC gave the Japanese group the following important information. First, the letter of intent concerning the petrochemical project had to be signed in Teheran between the NPC president Mostoffi and the MBK top executives by July 3<sup>rd</sup> or 4<sup>th</sup> in 1971. Second, a draft of the letter of intent would be sent from the NPC to MBK by the end of June. Third, the basic agreement of the petrochemical joint venture has to be signed by August 15<sup>th</sup> in 1971<sup>19</sup>.

### **A new organization exclusive for the Iranian project in MBK**

On July 1<sup>st</sup> in 1971 MBK set up a formal organization within the chemical products division exclusively dedicated to the Iranian project named the Iran Petrochemical Development Section. The new organization was formed on the basis of the previous informal working party, i.e. it was a team composed of various members from different divisions and departments within MBK as well as several members “on loan” from other chemical companies such as MTC, TSK, and MTC. Five months later these chemical companies were to join the ICDC, an investment company on the Japanese side in IJPC. The section leader Kenji Tomio made a general explanation of the Iranian project to the participants at the meeting as follows:

‘At the beginning the petrochemical project got started as an independent one. But now that this project is closely linked with the Laurestan oil interest, the petrochemical project became a must. We are obliged to sign the contract for the Laurestan oil development simultaneously with the

---

<sup>18</sup> *The Record of IJPC Project*, p.32.

<sup>19</sup> *Ibid.*, p.32-33.

letter of understanding (L/U)<sup>20</sup> for the petrochemical project by July 27<sup>th</sup> and we are also supposed to conclude the Basic Agreement (B/A) of the petrochemical joint venture with Iran on August 15<sup>th</sup>. Time is limited, and we have to handle the situation by sorting the issues out to the technical, legal, finance, and marketing areas<sup>21</sup>.’

One of the most important tasks for the newly-founded section was to obtain cooperation from other chemical companies. Through visiting and negotiating with them, MBK realized that there was a wide gap in their perception and enthusiasm for the project. The most enthusiastic company was TSK while the least was MPC. MTC was in-between. The differences among the three companies reflected the situations facing each company at that time.

TSK had been working on the internationalization of their business since the late 1960s<sup>22</sup>, and thus showed a strong interest in the Iranian project compared to the rest of the others. The top executives of the company were from the Industrial Bank of Japan and they were well known for holding a broad vision on their business and were inclined to think things from a national point of view<sup>23</sup>. In talks with MBK, TSK conveyed its intentions to join the project ‘as a business partner rather than a technical partner<sup>24</sup>’. They emphasized that they would not like to do the job as engineering contractors do, but they would welcome the use of any process technologies or licenses in production as long as they were technically feasible.

In contrast to TSK, MPC was very negative toward the Iranian project despite being a member of the same Mitsui corporate group. MPC had already launched three international joint ventures in America, Korea, and Thailand when MBK called on MPC. So, they thought that they could not afford to participate in yet another international joint venture; besides they had a feeling that Iran was such a far-away and unfamiliar country that they found it risky to do the business there on a large scale<sup>25</sup>. Judging from these circumstances facing them, MPC wanted to refuse to join the project. But they could not do it, because they recognized themselves as a member of the Mitsui group. Although MPC was to decide to participate in the ICDC as a minority shareholder later,

---

<sup>20</sup> The letter of intent was renamed into the letter of understanding (L/U). The contents of L/U consisted main part of the B/A.

<sup>21</sup> A note of the section meeting provided by Mitsuo Sato.

<sup>22</sup> Tosoh. (2006). *Toyo Soda Yonjyunenshi (The 40 years of Toyo Soda)*:Tokyo

<sup>23</sup> An interview with Shiro Ishiwada, a former member of MTC, held on August 4, 2008.

An interview with Madoka Tashiro, a current CEO of Tosoh, held on December 27, 2007.

<sup>24</sup> A note of the section meeting provided by Mitsuo Sato.

<sup>25</sup> An interview with a former member of MPC who wants to be anonymous held on August 26, 2008.

their negative attitude toward the project was to last over the whole proceeding.

MTC, another member of Mitsui group, took an ambiguous attitude toward the project. MTC was struggling in confusing situations just after merging with another company within Mitsui group in the late 1960s. The company lacked enough capital to launch a big project of its own and it was burdened with redundant personnel after the merger. In this respect the Iranian project might have been attractive to MTC because it would give a good opportunity to handle the redundancy problem without bearing the capital risk on their own. On the other hand, the project did not look advantageous to MTC, because they would not have any chance to use their own technologies or licenses in Iran. Even though the company possessed excellent ammonium and urea plant technology and related licenses, the Iranian project did not include a plan to use any of them at all. Therefore, unlike TSK and MPC, MTC wouldn't be able to expect good returns from using their own licenses in the project. Considering such things, MTC was somewhat reluctant to join the project. However they could not turn it down for the same reason as MPC, viz. that they were a member of Mitsui group<sup>26</sup>.

Since MBK was a trader not a maker, it could not accomplish the Iranian project without the cooperation of the chemical companies. But it was not easy for MBK to coordinate the diverse interests of each company. The conflict of interests among the chemical companies was to deteriorate further as the project went on. This was another reason why the IJPC project was not going smoothly even at the early stage, and the situation was surely irritating the Iranian side.

On July 27<sup>th</sup> in 1971 the Japanese side of both the petrochemical project and the Laurestan oil project went to Iran for signing the two agreements, the L/U for the petrochemical joint venture and the contract for the joint oil development. At first MBK and other relevant members of the petrochemical project went to the NPC headquarters, where MBK as a representative of the Japanese group signed the L/U. After that, another group of the Japanese members of the Laurestan project went to the NIOC headquarters for signing. Nearly three years had already passed since the initial idea of the IJPC was born in November 1968.

## **Conclusion**

There are two facts identified in the early process of the IJPC project and both influenced the slow

---

<sup>26</sup> An interview with Shiro Ishiwada, a former member of MTC, held on August 4, 2008.

progress of the project. The one is a powerful leadership in the negotiation process on the Iranian side. The other is the conflict of interests on the Japanese side

The Iranian initiative was outstanding in the start-up stage of the project. Even though the initial idea of the project seemed to come from MBK's vice president Wakasugi, the actual promoters were surely the Iranian officials of the NPC and the NIOC. The historical evidence showed that the Iranians visited MBK many times within a few years and asked them to consider launching the project every time. As soon as the Iranians noticed MBK hesitating to go on the project considering its poor feasibility, the Iranian side exercised significant pressure using the Japanese interest in the Iranian oil production. Thus, the NIOC, the NPC's parent company, suddenly appeared before Japan bringing a "special gift" of a participation in an Iranian oil field for which Japan had been longing. Before, the oil interest and the petrochemical project had looked like completely separated projects to the Japanese side. But both were certainly linked together closely. In retrospect, one might infer that Iran used its oil resource as a carrot to move Japan toward the petrochemical project. The Iranians must have known Japan's Achilles' heel. Securing oil resources was/is a crucial matter to Japan, so MBK could not reject the petrochemical project despite its poor feasibility in the cause of gaining the oil interest. This situation definitely characterized a weak bargaining position of Japan and placed Iran in a strong bargaining position. Asymmetry in the bargaining power structure between Iran and Japan was generated at the very beginning.

Finding the conflict of interests within the Japanese side at the early stage of IJPC was another important fact because such a state of confusion surely delayed the progress of the project. There were two facets in the conflict of interests: one between the chemical products division and the chemical plant division in MBK, the other was among the Japanese chemical companies. The conflict inside MBK seemed to be produced by its corporate organization and culture. MBK has long been known for its decentralized management system. Each division has to do business and generate returns on its own. The task of the IJPC was assigned to the chemical products division instead of the chemical plant division. But both the provisional working party and the subsequent special section for the project were composed of mixed members from different divisions of MBK as well as from other chemical companies. Each pursued its own interest and profit around IJPC, and that resulted in a divergence of interests and, sometimes, conflicts. The top managements of

MBK at that time could have solved the problem as a general leader by providing stronger leadership, but they did not play such a role at least at this early stage. The behavior of MBK in this situation might be understood in the context of its corporate organization and culture.

In any event, the IJPC was to proceed on the basis of the preconditions laid down above. These features of the early stage of the IJPC influenced its subsequent development in a path-dependent way.

## References

All references are written in Japanese except for Bamberg's work. The original Japanese titles are translated into English.

### <Books>

Bamberg, J.H. (1994). *The History of the British Petroleum Company Volume 2, The Anglo-Iranian Years*. Cambridge : Cambridge University Press

Ishiwada, Shiro. (1993). *Searching for Orange Flame*. Tokyo: Tokyo Shinbun Publishing.

Misato, Yasunobu. (1983). *Document, Iran Petrochemical Project*, Tokyo: Nihon Keizai Shinbun.

### <Reports and Company History>

Editorial board of the Record of the IJPC Project. (1993). *The Record of the IJPC Project*. Tokyo:

Keidanren. (1968). *The Report of the Economic Mission to Iran*, Tokyo:

Japan National Oil Development Company. (1969). *The Report of Business Trip to Iran*. Tokyo:

Japan National Oil Development Company. (1969). *The Second Report of Business Trip to Iran*. Tokyo:

Toyo Soda Corporation. (2006). *The 40 years Company History of Toyo Soda*. Tokyo:

### <Archival sources>

A note of the section meeting in Iran petrochemical development project of MBK in 1971.

### <Interviews >

Ishiwada, Shiro. a former member of the IJPC's personnel department, August 4, 2008.

Nagashima, Tatsuo. a former vice president of ICDC, December 26, 2007.

Nakagawa, Kikuji. a former member of chemical plants division of MBK, September 21, 2006.

Sato, Mitsuo. a former member of chemical products division of MBK, September 8, 2006.

Tashiro, Madoka. a current CEO of Tosoh, December 27, 2007.

Yabe, Mou. a former director of JNODC, July 26, 2004.

Anonymous interviewee, a former member of MTC, August 26, 2008.