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50 years after NARA: The evolution and future of the Australia–Japan energy partnership

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KEY MESSAGES

1. Japanese investments in and demand for Australian fossil fuels have played a key role in the development of the Australian energy and mining sector since the 1960s, most notably in Western Australia (WA).
2. While the role of liquified natural gas (LNG) has become an increasingly contentious topic in Australia-Japan relations, maintaining a strong LNG relationship with Japan should remain a policy priority for the federal government. Preserving this relationship will be critical to facilitating Japanese investments in future-facing green industries in which Australia enjoys competitive advantages.
3. Given its highly developed mining sector and access to Asian markets, the WA economy is uniquely placed to benefit from diversifying the economic relationship with Japan towards renewables and green industries.
4. In an increasingly fragmented geoeconomic landscape, the continued strength of the Australia-Japan relationship will be crucial to enable Australian economic diversification while ensuring long-term Japanese energy security.

The Australia-Japan relationship and the energy sector

2026 marks the 50-year anniversary of the signing of the 1976 NARA Treaty between Australia and Japan. Also known as the Basic Treaty of Friendship and Cooperation, the NARA Treaty has served as the foundation of the bilateral relationship. Australia-Japan ties have since flourished, including in the economic domain. Since the late 1970s, Japan has emerged as one of Australia's most central trade partners and a major source of foreign direct investment (FDI).[1]

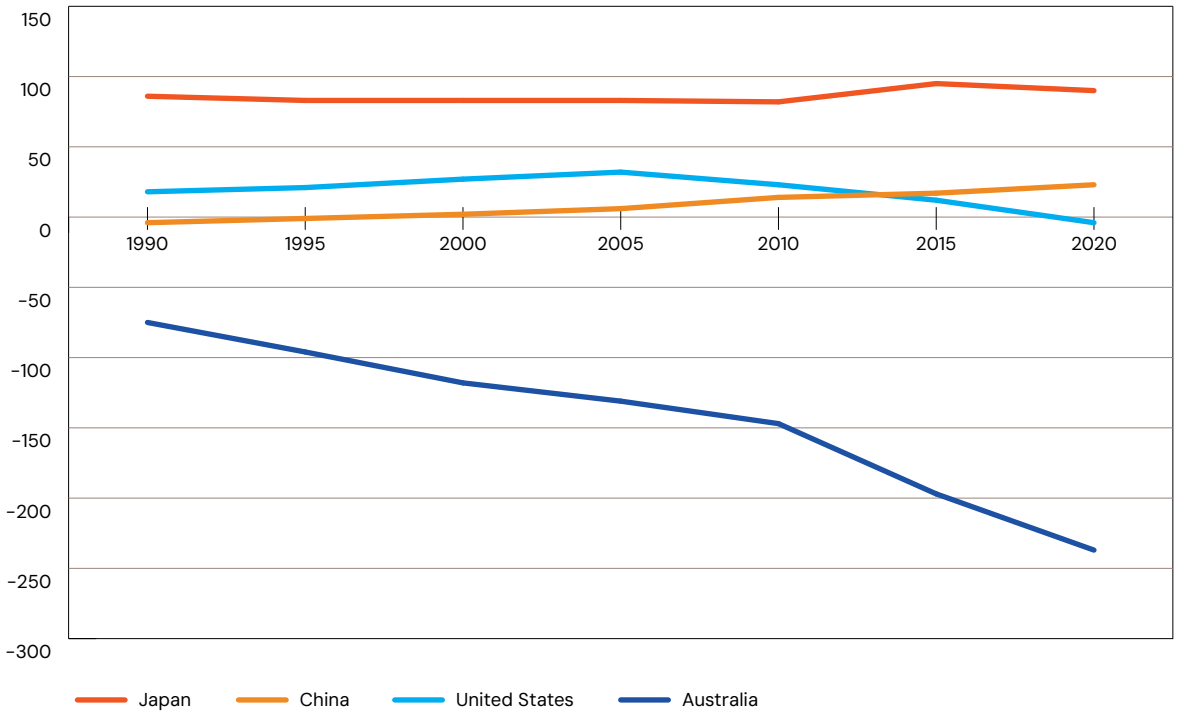
Japanese FDI has been especially central to the development of the broader Australian energy and mining industry. In the 1960s, Japanese firms emerged as the largest investors in and buyers of coal from Queensland and iron ore from Western Australia (WA).[2]

The relationship with Japan has been crucial to developing Australia's world-class mining industry, with iron ore, coal, and gas still dominating Australia's export basket today.[3]

The bilateral energy and mining partnership has been shaped by Japan's role as an importer of energy and Australia's energy export capacities. Japan has a highly limited domestic supply of energy, making it far more dependent on energy imports than other major Indo-Pacific economies (see Figure 1). This makes Japan vulnerable to disruptions in global energy markets and has historically made energy security a key policy priority in Japan.[4] Following oil price fluctuations during the oil shocks of the 1970s, Japan started investing heavily in nuclear energy and renewable energy, especially solar.[5] However, popular support for nuclear was undermined by the Great East Japan Earthquake and tsunami and the subsequent Fukushima nuclear disaster in March 2011. To counterbalance this reduction in nuclear power, Japan increased fossil fuel imports. While investment in renewables also increased post-Fukushima, Japanese policymakers prioritised fossil fuels to ensure the stable short-term supply of energy and to maintain industrial competitiveness.[6] Energy policy pre-Fukushima had also predominantly focused on nuclear and fossil fuel energy, creating regulatory path dependencies.

Fossil fuel imports from Australia surged after 2011 and today, Australian firms account for 70 per cent of Japanese coal imports, 60 per cent of iron ore imports, and 40 per cent of liquified natural gas (LNG) imports, making Australia Japan's largest LNG supplier.[7]

FIGURE 1 **Net energy imports (in percentage of energy use)† in Japan, China, the United States, and Australia.**

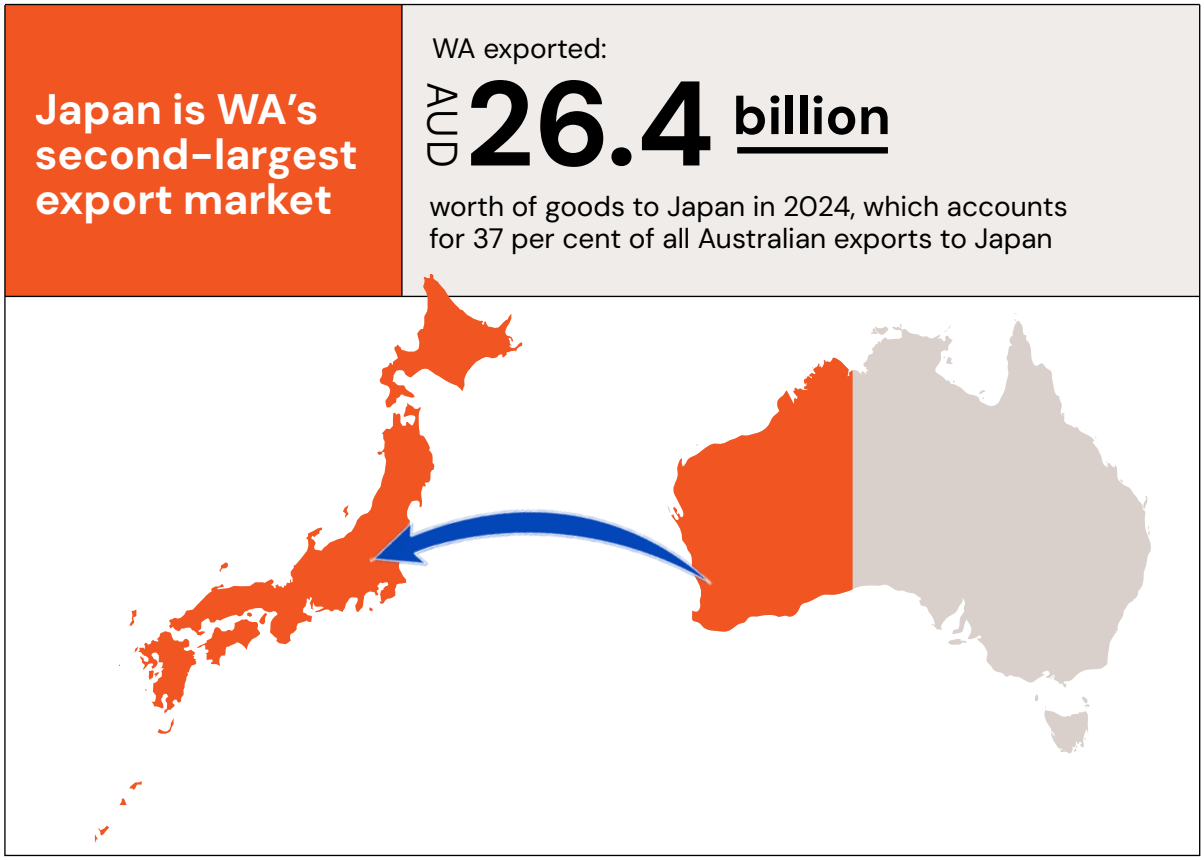


† Negative percentages indicate that the country exports more energy than it imports.

Source: World Bank data, available at https://data.worldbank.org/indicator/EG.IMP.CONS.ZS?locations=JP-AU-US-CN.

WA is central to the broader bilateral energy partnership, especially in the gas industry. In 1989, Japan received its first LNG shipments from the North West Shelf (NWS) project in northern WA. Operated by Australian energy multinational Woodside, the NWS project has received significant investments from the Japanese firms Mitsubishi and Mitsui.[8] In 2024–2025, WA alone accounted for 30 per cent of Japanese LNG imports.[9] Maintaining the LNG trade with Japan has remained a key priority of the current WA state government.[10]

FIGURE 2 **The Japan–WA relationship**



Although Japan's uptake of fossil fuels has been accompanied by extensive investments in renewables, its ongoing dependence has created tensions between domestic energy sector trends and the global emission reduction targets Tokyo has committed to.[11] Given Japan's pivot towards fossil fuels post-Fukushima, it has often been criticised as a laggard in climate change mitigation.[12]

LNG in the Australia-Japan relationship today

In recent years, Japan's continued focus on LNG imports has created some tension with Australia's domestic decarbonisation agenda. Since first coming into office in 2022, the government of Prime Minister Anthony Albanese has set more ambitious climate targets than previous governments.[13] To reduce long-term emissions and gas prices for Australian consumers, the Albanese administration also established temporary gas and coal price caps and created a domestic gas reserve.[14]

From the Japanese perspective, regulatory changes that seek to reduce LNG production intensify long-term concerns about energy security, leading to criticism that Australia can no longer be considered a reliable LNG partner.[15] This speaks to a partial mismatch in interests: while the Albanese government seeks Japanese investments to advance the domestic production of non-fossil fuel energy technologies like green hydrogen, Japanese firms are becoming increasingly concerned about the future of their Australian LNG investments, making them reluctant to invest.[16]

Ultimately, LNG – and to a lesser extent, coal – will remain part of the Japanese energy mix in the coming years, regardless of shifts in Australia's decarbonisation agenda. Japan's 2025 Strategic Energy Plan pledges to expand support for domestic renewables production and for maintaining the purchase of LNG to serve energy needs as renewables are rolled out.[17] Furthermore, although burning Australian coal will still produce significant emissions, the higher energy efficiency of Australia-origin coal[18] means that it would be more environmentally friendly for Japan to burn relatively 'clean' Australian fossil fuels compared to the more environmentally unfriendly carbon resources that Japan would source from elsewhere.

For Australia, maintaining a constructive LNG relationship with Japan should remain a key economic policy priority. LNG exports to Japan continue to be of key importance to the Australian economy as well as Japan's broader energy security – critical for both the bilateral relationship and regional security more broadly. As will be shown below, Japanese investments and expertise will also be key to the broader development of green industries in Australia.

In order to maintain the LNG relationship, Japanese investors will require a predictable regulatory environment in which they are assured of the long-term security of their investment assets in Australia. Australian policymakers could also provide Japanese counterparts with early warnings over policy changes and greater transparency in decision-making processes.[19]

Diversification, the green transition, and Japanese investments in Australia

Maintaining the gas relationship with Japan can complement the financing and implementation of Australia's broader, long-term economic security and decarbonisation goals. As noted, the mining industry has driven Australia's economic growth over the past decades. While mining will continue to play a key role in Australia's future economy, economic diversification has become more of a policy priority in recent years.[20] Economic diversification will be key in an increasingly fragmented geoeconomic setting, characterised by intensifying strategic competition, continued dependence on resource exports to China, and significant changes in the economic and security posture of the United States.

As part of this diversification and economic security drive, the Albanese government has also sought to increasingly 'green' the Australian economy, including by promoting green manufacturing under the government's 'Future Made in Australia' industrial policy scheme.[21] Indeed, Australia has many of the qualities required to make it a global power in green transition industries: it has significant solar and wind resources, and its highly developed energy and mining industry is well-positioned to make Australia a market leader in industries such as green iron, green steel, and green hydrogen.[22]

To facilitate industrial transformation, Australia will require inward FDI from trusted partners. The relatively small size of the Australian market means that companies often struggle to develop economies of scale in which production becomes more cost-efficient and price-competitive as production volumes increase.[23] This means that Australian industries rely on access to and investment from international markets to develop economically competitive industries and firms. Australian firms will specifically require offtake agreements through which a buyer commits to purchasing a set share of future output for a set period of time. Offtake agreements are crucial to generate long-term plannability and ensure that firms' operations remain sufficiently profitable, including for projects related to critical minerals and renewables. The Australia–US critical minerals agreement struck in October 2025, for instance, includes offtake agreements to ensure price stability in emerging critical minerals markets.[24]

Japan is uniquely positioned to partner with Australia in ways that advance the broader transformation of the Australian economy and the long-term energy security of Japan.

Japanese government ministries and agencies like the Japan Organization for Metals and Energy Security (JOGMEC) have experience with supporting and coordinating Japanese private sector investment in Australia to enhance supply chain resilience for critical minerals, such as rare earth elements.[25] Japanese companies are already involved in the development of green industries in Australia, playing a leading role in existing projects involving hydrogen, ammonia, and methanol production.[26] In 2022, Australian and Japanese representatives celebrated the inaugural hydrogen delivery from Australia to Japan via the world's first liquified hydrogen tanker.[27]

Building on these strong existing investment ties with Japan will be key for Australia to diversify its economy toward green industries and advance its domestic decarbonisation agenda.

Beyond building up infrastructure investments, Australia and Japan could cooperate on sharing technological know-how and co-developing new technical capacities, share stockpiles to mitigate short-term reductions in mineral supplies, and finalise offtake agreements to stabilise supply chains.[28] The expertise of Japanese companies will be particularly valuable in the development of technologies such as hydrogen carriers, power storage, and next-gen renewables systems that can support Australian decarbonisation goals.[29] Australian energy grid companies, in the meantime, will be able to provide know-how in operating renewable-focused grids as the take-up of renewables in Japan accelerates. To incentivise greater investments from Japan, the Australian Government will likely have to step up its financial support for renewable projects, especially for hydrogen and ammonia projects that face profitability issues, to make these projects more attractive for private investors and economically viable in the short-term.[30]

In this context, maintaining the LNG relationship with Japan should ultimately be understood as laying the foundation for maintaining long-term Japanese energy security while enabling the industrial transformation of the Australian economy.

The way forward

Maintaining and diversifying the energy relationship with Japan will be particularly crucial for WA. Its natural resource endowments and its local mining industry and expertise makes WA central to Australian efforts to develop competitive advantages in emerging industries such as green iron and green steel.[31] The high concentration of critical mineral deposits will also make WA crucial to broader efforts in reducing critical mineral supply dependencies on China.[32] WA also has other relative green transition advantages over other Australian states and territories, including its geographical proximity to Asian markets, abundant solar and wind resources, deep-water ports, and space for large-scale renewable deployment. In the end, the green transition in Australia will go through WA.

Ultimately, the shift towards renewables and a continued LNG partnership with Japan will both inform the broader Australian decarbonisation agenda and form a key pillar of the bilateral relationship. As strategic dynamics in the Indo-Pacific shift and the future posture of the United States is more unclear than ever, both Australia and Japan must look beyond the US and reinforce their cooperation with trusted partners. Developing the Japan-WA energy partnership will be particularly crucial as both Australia and Japan accelerate the decarbonisation of their economies.

Policy recommendations:

1. The federal and state governments in Australia should improve policy transparency and inform Japanese investors about long-term policy developments that may affect Japanese energy investments in Australia (and especially WA).
2. To facilitate the rollout and expansion of future-facing industries with Japanese counterparts, the Australian Government should expand financial and regulatory support for emerging sectors, such as green iron, under the 'Future Made in Australia' umbrella.
3. Australian and Japanese public and private sector representatives should explore pathways to enhance innovation related to the green transition in both countries, for instance through greater cooperation between Australian and Japanese universities.

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