



Dominique Barjot et Patrick Fridenson (dir.)

# France-Japon, regards croisés France and Japan, a cross-analysis

Mélanges en l'honneur de Terushi Hara  
In memoriam Terushi Hara



Grand ami de la France, l'historien japonais Terushi Hara a ouvert d'importants chantiers scientifiques. Spécialiste de l'étude des ententes, des cartels et des politiques industrielles durant le xx<sup>e</sup> siècle, une grande partie de son œuvre a été consacrée à l'histoire des chemins de fer, d'abord celle des chemins de fer algériens, mais aussi celles, comparées, du Shinkansen japonais et du TGV français. Partant des progrès de l'organisation scientifique du travail, intégrant les problématiques de l'américanisation, Terushi Hara s'est intéressé à la question des transferts de technologie et organisationnels. Son expertise de l'économie française, qu'il a fait connaître aux étudiants japonais, l'a imposé comme un grand historien des entreprises et des processus d'intégration internationaux, notamment de la stratégie des entreprises japonaises en France et en Europe.

Des historiens japonais et français, un historien suisse, un historien canadien et une économiste française offrent dans ce livre leurs contributions sur les thèmes qui ont été les siens, rendant possibles des regards croisés entre France et Japon à l'heure de la mondialisation.

Dominique Barjot est professeur d'histoire économique contemporaine à l'université Paris-Sorbonne (Paris IV) et directeur adjoint de l'UMR 8596 Centre Roland Mousnier. Il a été professeur invité à l'université de Tokyo.

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Terushi Hara (1943-2011) a fait ses études universitaires à Waseda, université privée la plus prestigieuse du Japon, puis en France avant de soutenir au Japon une thèse de doctorat remarquée. Proche de François Caron,

il a été professeur d'histoire économique occidentale à la School of Commerce de l'université Waseda. Il est devenu le spécialiste de l'histoire industrielle et des politiques économiques de la France. À l'origine d'importants programmes internationaux (cartels et missions de productivité), il demeure l'un des meilleurs connaisseurs de l'histoire ferroviaire française et japonaise.



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PREMIÈRE PARTIE

**Terushi Hara, historien des cartels  
et des politiques industrielles**



## CARTELS AND CARTELIZATION IN THE JAPANESE SECTOR OF ENERGY DURING THE INTERWAR PERIOD

*Takeo Kikkawa*

In almost all cases,<sup>1</sup> Professor Hara was the one who introduced me to the conferences or took me to France.<sup>2</sup> The themes of my presentations and publication are electric power, petroleum, and cartels.<sup>3</sup> Therefore, in this paper, I will focus on cartels and cartelization in the Japanese sector of energy during the interwar period.<sup>4</sup> The Japanese example of the interwar period shows that a voluntarist economic policy can stand out in the in front of the strategy of the international cartels. In the oil industry, Japan showed itself equally able successfully to hold its own against the strategy of the international cartels. The sector of the energy offered, in Japan, a very interesting example of the action of cartels. Indeed, in the present paper, are successively approached two fundamental questions for the history of the cartelization: that of the possible regulation by the cartelized private enterprise in a sector characterized by an effect of natural monopoly, as the production, the transport and the distribution of the electricity; that of the state regulation in front of effects of domination by the foreign multinationals to give a chance to the national industry, as in the petroleum industry.

- 1 Professor Terushi Hara was the best teacher for me on academic exchange with French business historians.
- 2 I am newly appreciative of his guidance, and pray for Professor Hara's peaceful repose.
- 3 I have made the following presentations and publications in France: "How did Privatization Develop in Japan? Comparison Between the Electric Power Industry and Telecommunications Business," *Deuxième Congrès international d'histoire de l'électricité*, Paris, July 1990; "On the Reorganization of Japan's Electric Power Industry in 1951," *Colloque international: production et distribution de l'électricité*, Paris, May 1993; "International Cartel and Domestic Cartel in Japan: The Case of Gasoline Agreement of 1932," *Caen Preconference for the 11th International Economic History Congress*, Session C51, Caen (France), September 1993; "The Relationship Between Government and Industry in Japan: An Examination of Three Leading Managers in the Petroleum Industry," *The First Franco-Japanese Business History Conference (on Industrial Democracy: Recruitment and Careers of Business Leaders in Japan and France during the 20th Century)*, Paris, September 1997.
- 4 "International Cartel and Domestic Cartel in Japan: The Case of 1932 Gasoline Agreement," in Dominique Barjot (ed.), *International Cartels Revisited / Vues nouvelles sur les cartels internationaux (1880-1980)*, Caen, Éditions du Lys, 1994, p. 233-241.

## ELECTRIC POWER CARTEL

### The subject

This chapter examines the behavior of the managers of five major electric power companies in Japan regarding the problem of regulating the electric power industry, a topic which provoked an intensive debate in the latter part of the 1920s through the first half of the 1930s.<sup>5</sup> In addition, it attempts to give a perspective on the relationship between the attitudes at this time and eventual state control and reorganization of the electric power industry.<sup>6</sup>

84 In research to date on the issue of regulation of the electric power industry, many commentators have concluded that state control of the industry was unavoidable. This theory stresses that managers of the electric power companies simply pursued private profit, fixing prices and restricting production through such organizations as *Denryoku Renmei*, the League of Electric Power Companies (LEPC).<sup>7</sup> This, it is held, created fertile terrain for state control which promised an abundant and cheap supply of electric power.<sup>8</sup> However, one cannot help but doubt this analysis of the behavior of electric power company managers regarding control of the industry, that is, that they “simply aimed to strengthen the position of private monopolies.”<sup>9</sup> As I have already outlined in a previous essay, most of the managers in the industry had readily accepted the strengthening of public control through such mechanisms as a system for authorizing rate changes, establishing organs of public supervision, and submission of plans for construction of power stations. It was not as if these managers forgot about the public nature of the industry and simply strove for the absolute maximization of profit. In fact, control over the industry did progress to a certain extent, and with the enactment of the Revised Electric

5 “How did Privatization Develop in Japan? Comparison Between the Electric Power Industry and Telecommunications Business,” in *Électricité et électrification dans le monde*, Paris, PUF, 1992, p. 421-428; “La réorganisation de l’industrie électrique au Japon en 1951,” *Bulletin d’histoire de l’électricité*, no. 22, December 1993, p. 155-161.

6 Tokyo Dento, the first electric power company in Japan, was established in 1883. The evolution of the electric power industry in the 130 or so years since then can be roughly divided into four periods: 1) the formative period up to the first world war; 2) the era of the five majors during the interwar years; 3) the period of state control of the electric power industry from 1939 to 1950; 4) the era of the nine private power companies after the reorganization of the electric power industry in 1951. The main focus of this chapter will be the second period, but an attempt will be made to give a perspective on the third and fourth periods as well.

7 A cartel-type organization formed by the five major electric power companies in April 1932.

8 Advocates of this position include such people as Harumi Matsushima, Mamoru Takahashi, and Masako Sakamoto.

9 Mamoru Takahashi, “Denryoku kokka kanri no katei” [“State management and the electric power industry”], *Seikei Ronso* [*The Journal of Political Science and Economics of Hiroshima University*], vol. 22, no. 2, 1972, p. 205.

Power Industry Law<sup>10</sup> and the formation of the League of Electric Power Companies in the early 1930s, a new system had evolved which was able to respond to the social demand for “an abundant and cheap supply of electrical power.”<sup>11</sup>

While failing to grasp the essential nature of the actions of power industry managers regarding regulation of the industry, research to date has jumped to the conclusion, it appeared, that they simply were out to maximize private profit. The origin of this tendency may be found in two interrelated points.

The first is the influence of the populist position,<sup>12</sup> which stresses zaibatsu control over the electric power industry. This viewpoint is linked to the argument that state control of the electric power industry was simply a process of bringing managers in the electric power industry, who represented the interests of a particular fraction of capitalists, under the control of those zaibatsu which looked out for the interests of capital as a whole. This created fertile conditions for portraying electric power industry managers as seekers of private profit. As long as one holds this view, which stresses the subordination of electric power industry managers, it seems only natural to ignore their independent activities regarding controls over the electric power industry. Since I have frequently dealt with the relationship between the zaibatsu and the electric power industry<sup>13</sup> and criticized this populist view, I do not intend to deal directly with the topic in this chapter.

The second point concerns Shohachi Wakao, the president of Tokyo Dento (Tokyo Electric Light Co.). Wakao, who was an executive of the Seiyukai (a dominant political party), funnelled substantial funds from Tokyo Electric Light into the Seiyukai’s coffers in order to promote his own political ambitions. He also fixed company accounts in order to bolster the price of Tokyo Electric Light shares of which the Wakao family held a substantial

10 The Electric Industry Law (*Denki jigyo-ho*) was enacted in 1911 as the fundamental law governing the electric power industry. Major revisions were made to this law in 1931.

11 Takeo Kikkawa, “Denryoku Renmei” [“The League of Electric Power Companies”], in Juro Hashimoto and Haruhito Takeda (eds.), *Ryotaisenkanki Nippon no karuteru [Cartels in interwar Japan]*, Tokyo, Ochanomizu-Shobo, 1985.

12 Harumi Matsushima is perhaps a good example of this tendency which bases itself on this type of popular interpretation.

13 Takeo Kikkawa, “Senzenki Mitsui Ginko no denryoku kinyu” [“Mitsui Bank financing of the electric power industry prior to World War II”], *Shakai Keizai Shigaku [Socioeconomic History]*, vol. 47, no. 1, 1981; also “Godai denryoku to denryoku gaisai” [“The big five electric power companies and foreign bonds”], *Tochi Seido Shigaku [The Journal of Agrarian History]*, vol. 24, no. 4, 1982; and “Mitsui Ginko to Tokyo Dento, Toho Denryoku” [“Mitsui Bank and Tokyo Electric Light Co., Toho Electric Power Co.”], *Keiei Shigaku [Japan Business History Review]*, vol. 17, no. 2, 1982; also “Denryoku Renmei to Denki linkai” [“The League of Electric Power Companies and the Committee on Electricity”], *Shakai Keizai Shigaku [Socioeconomic History]*, vol. 48, no. 4, 1982.

number. At the time the image of electric power company managers as profiteers was widely held and this was not unrelated to Wakao's activities.<sup>14</sup> Wakao's "loose management" finally led to Mitsui Bank intervention in the management of Tokyo Electric Light. This intervention became the ultimate grounds for an argument in favor of the populist view stressing zaibatsu control over the electric power industry.<sup>15</sup>

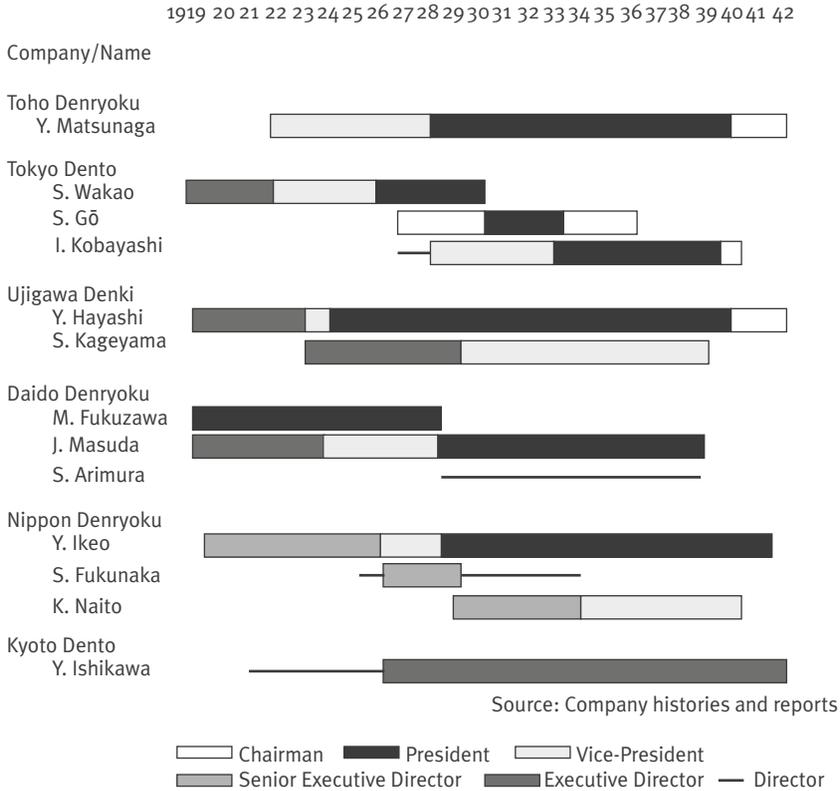
86 However, the point should be made that it is somewhat inappropriate to regard Wakao as a typical manager in the electric power industry at the time. For example, the president of Toho Denryoku (Toho Electric Power Co.), Yasuzaemon Matsunaga, also received considerable capital financing from Mitsui Bank. But in contrast to Wakao's practice of "loose management," Matsunaga developed scientific managerial practices, avoided any intervention by Mitsui Bank and maintained his autonomy. Later, Matsunaga took extreme exception to state control over the electric power industry. After World War II he played a leading role in the reorganization of the power industry and became known as the "king of the electric power industry." The image of managers in the electric power industry during the period from the mid-1920s to mid-1930s changes drastically if one takes note of Matsunaga's behavior.

Bearing in mind the above appraisal of past research, this chapter will explore the behavior of managers for the big five electric power companies regarding the issue of controls over the industry. Concretely, the managers in question include Matsunaga of Toho Denryoku; Shohachi Wakao, Seinosuke Go and Ichizo Kobayashi of Tokyo Dento; Yasushige Hayashi and Senzaburo Kageyama of Ujigawa Denki (Ujigawa Electric Power Co.); Momosuke Fukuzawa, Jiro Masuda and Shinnosuke Arimura of Daido Denryoku (Great Consolidated Electric Power Co.); and Yoshizo Ikee, Sataro Fukunaka, and Kumaki Naito of Nippon Denryoku (Nippon Electric Power Co.). Also included in the study is Yoshijiro Ishikawa of Kyoto Dento (Kyoto Electric Light Co.). While not a manager for one of the big five companies, Ishikawa was a member of the Temporary Bureau to Investigate the Electric Industry (*Rinji Denki Jigyo Chosabu*). The corporate histories of these managers are shown in figure 1.

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14 Because Tokyo Dento was the largest electric power company at the time, Wakao's "loose management" practices attracted public scrutiny.

15 In actuality Mitsui Bank's intervention in the affairs of Tokyo Dento was not a scheme to take over the management of the power industry but was a temporary measure to secure their claims.



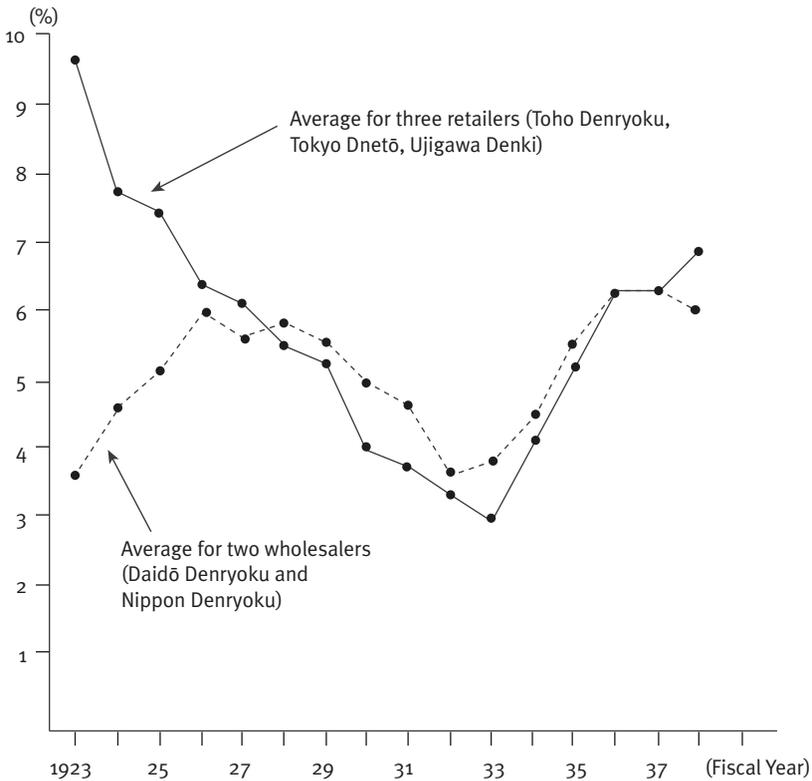
Note: only positions relevant to their main activities are given.

Fig. 1. Corporate profiles of electric power industry managers involved in the issues of industry regulation

### Background of the Regulation Issue

Before getting into a concrete examination of managerial attitudes, a brief survey of the evolution of controls over the electric power industry may be in order.

When electric power wholesalers began to move into the retail market around 1923, intense competition broke out between the five major companies. In an attempt to undercut the competition, three retailers-Toho Denryoku, Tokyo Dento, and Ujigawa Denki contracted for large amounts of power at unfavorable terms with two wholesalers (Daido Denryoku, Nippon Denryoku) in order to secure their market. As can be observed in **figure 2**, this led to a decline in corporate performance for the three retailers and an upturn for the two wholesalers in the 1923-28 period. To overcome this situation, all the power retailers began to call for a restructuring of the industry beginning around the mid-1920s.



Source: Company annual reports

Fig. 2. Return on Assets of Five Major Electric Companies

In May 1926, Tokyo Denryoku (Tokyo Electric Power Co.), a subsidiary of Toho Denryoku, moved into the Tokyo market which resulted in cutthroat competition with Tokyo Dento. The issue of regulating the power industry quickly escalated into a social problem. In June and July of the same year, most of the political parties announced positions regarding the issue of control over the industry. The industry itself also began to deal with the question of controls during the 1927–28 period. In light of the circumstances, the Ministry of Postal Services and Communications (*Teishinsho*) established the Temporary Bureau to Investigate the Electric Industry in March 1927. The ministry's electricity bureau director was put in charge of the new bureau which immediately began concrete preparations for regulating the industry. Representatives of the five major companies and Kyoto Dento comprised the majority on the new bureau. In this way the Temporary Bureau to Investigate the Electric Industry became the first forum where the main electric power companies could come together for substantive discussions on the issue of controls. In September 1928, the bureau adopted a resolution, which recognized the need for implementing such measures

as: recognizing in principle the necessity of regions with exclusive suppliers; implementing a power rate authorization system; submission of construction plans for power generation and transmission; and establishing an electric power commission. At the same time a resolution was adopted concerning the structure of the industry. This resolution did not propose one particular solution but rather included a number of provisions submitted by bureau members.

Basing itself on the recommendations of the Temporary Bureau to Investigate the Electric Industry, the Ministry of Postal Services and Communications established the Temporary Committee to Investigate the Electric Industry (*Rinji Denki Jigyō Chosakai*) in January 1929. Its task was to concretize the measures for regulating the industry. Due to a change in government, the committee had two periods of tenure – the first from January to June 1929 and the second from November 1929 to May 1930. At the beginning of the committee's second session, the new Minister of Postal Services and Communications, Koizumi, dismissed a proposal by his predecessor, Kuhara for a government-industry joint venture which had been tabled during the committee's first session. With the issue of industry structure frozen, subsequent discussions centered on possible regulatory measures within the existing framework of private enterprise. As a result, the committee's proposals, to be tabled by May 1930, called for the reinforcement of public control through such measures as the use of a power rate authorization system, formation of construction plans for power generation and transmission facilities, and the establishment of an electricity commission. These points came into force when they were adopted as part of the Revised Electric Industry Law (*Kaisei Denki Jigyōho*) which was passed in April 1931 and proclaimed December 1932. The committee and the Law also approved the principle of regional monopolies.

During this period the performance of the five major companies, whether wholesalers or retailers, worsened under the influence of the Showa panic from 1929 to 1931 (see **figure 2**). Moreover, with the re-imposition of the ban on gold exports in December 1931 and the fall in the exchange rate, the cost of interest payments on electric power companies' overseas bonds skyrocketed, further aggravating corporate performance in 1932. Under these circumstances the question of reinforcing controls over the industry became a serious matter, and from January to April, 1932, the Conference on Regulation of the Electric Power Industry (*Denryoku Tosei Kaigi*) was held. Participants included the heads of the five major electric power companies, the Deputy Minister of Postal Services and Communications, and representatives of the banking community. At conference sessions the leaders of the five major companies tabled a series of regulatory proposals (more on this later) and the conference became the second major forum where the five major companies came together for substantive discussion on the issue of regulating the industry.

Based on discussions at the conference, the five major companies proceeded to form a cartel, the League of Electric Power Companies (*Denryoku Renmei*), in April 1932. The League of Electric Power Companies (LEPC), working in cooperation with the Electricity Commission – a public supervisory body established in December 1932 under the auspices of the Revised Electric Industry Law, was able to draw up construction plans for power generation and transmission facilities and arbitrate disputes among the electric power companies. LEPC also undertook a series of independent actions related to cost reductions. These included joint purchases of coal for thermal power stations, mutual supply of surplus power, and a response to the problem of overseas bonds. In this way a new system which responded to the social demand for a “cheap and abundant supply of electrical power” was formed in the 1930–35 period. By the mid-1930s the balance of supply and demand for electricity shifted to an almost ideal level. At the same time the ratio of electricity rates to consumer costs, and the ratio of electricity rates to investment costs declined. As can be observed in **figure 2**, the economic performance of the five major companies rebounded beginning in 1934 due to, among other things, an economic upturn, progress in resolving the overseas bond problem, and lower interest rates. However, in the process of rectifying the situation, the industry lost sight of the necessity of developing its own fundamental approach to regulation, something which had been debated at the 1932 Conference on Regulating the Electric Power Industry and which, as anticipated, would be thoroughly dealt with after the formation of LEPC. This omission created the conditions for the eventual triumph of the concept of state control over the electric power industry. With the announcement of a proposed bill for state control drafted by the Cabinet Research Department (*Naikaku Chosakyoku*) in March 1936, activities connected with the power industry led to an important shift away from self-regulation by the industry to a polemic for state control over the power industry.

The background of the issue of regulating the power industry is roughly as outlined above. In this chapter, the process is divided into three periods: 1) up to the September 1928 resolution of the Temporary Bureau to Investigate the Electric Industry 2) up to the formation of LEPC in April 1932 and 3) from the formation of LEPC to March 1936 when the polemic for state control over the power industry began. The behavior of managers in the power industry will be examined within the framework of each of these periods.<sup>16</sup>

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<sup>16</sup> This chapter does not deal directly with the behavior of electric power industry managers in the debate on state control which took place after March 1936.

The period up to the resolution of the Temporary Bureau to investigate the electric industry

Toho Denryoku: Of all managers in the industry, the person who most quickly got involved in the issue of regulation was Matsunaga at Toho Denryoku.

As early as March 1923, Matsunaga advocated the use of a super power grid and a mixed hydro-thermal power system which together constituted the technical basis to his position on industrial regulation. According to Matsunaga's explanation, hydro-centered electric power generation, which most power companies were utilizing at the time, had a fundamental weakness in that there was a water shortage in winter, when demand for power was at its peak, and a water surplus in summer, when demand dropped. As a result, "constructing hydroelectric power stations to meet maximum winter loads invited a surplus of power in summer and, at the same time, increased financial costs for the extra capital investment thus raising necessarily the unit cost of electricity."<sup>17</sup> In response to this, Matsunaga stressed that "in order to make the most cost-effective use of water for power generation it is necessary to provide power using methods other than hydroelectric generation during the dry season."<sup>18</sup> His solution was a super power grid linking up generating stations over a wide area to compensate for power shortages and the mixed hydro-thermal formula using thermal power stations, with lower construction costs, to provide the additional power. These measures contained the elements necessary to stabilize the power supply thereby increasing demand, and also to lower the cost of power through more efficient use of hydroelectric power stations which were so expensive to build.

Toho Denryoku moved quickly to implement Matsunaga's proposals. In regard to the "super-power-grid," it elaborated a concrete proposal for the whole of Japan in 1923, and in 1924 it announced a project to establish the Dai Nippon Soden (Great Japan Electric Power Transmission Co.).<sup>19</sup> As for the mixed hydrothermal system, Toho built or expanded three thermal power stations in Nagoya, Najima and Maeda. Compared to other companies Toho emphasized thermal power in its development of power resources.

Matsunaga's ideas on industry regulation also dealt with the system as a whole. In February 1928, he advocated measures to reform the system premised on a framework of private ownership and management. At the same time he mounted a large-scale rebuttal of the idea of state control over the industry, which was gaining popularity at that time. Matsunaga's proposals contained

17 Yasuzaemon Matsunaga, "Denki jigyo ni tsuite" ["On the Electric Power Industry"], *Denki Koron* [Electricity], vol. 17, no. 10, 1933, p. 479.

18 Yasuzaemon Matsunaga, "Denki jigyo" ["The Electric Power Industry"], *Shakai Keizai Taikei* [The Socioeconomic System], vol. 9, 1927, p. 393.

19 None of these plans ever came to fruition.

a dual thrust: to strengthen public control through such measures as the introduction of a regulated tariff system and a public regulatory body; and to ensure single suppliers in each region.

In May 1928, Matsunaga published a book, *Denryoku Tosei Shiken* (A Private View on Regulating the Electric Power Industry), which synthesized his views on industry regulation including both technical and institutional aspects.<sup>20</sup> In the preface to the book, Matsunaga stresses the public nature of the industry and the necessity to lower generating costs. Fundamental to the measures Matsunaga advocated were horizontal and vertical regulation. By horizontal regulation he meant the efficient combination of hydrothermal generation in each region with a “super-power-grid” connecting the regions. Vertical regulation implied merging retailers and wholesalers based on the principle of regional monopolies.<sup>21</sup> Matsunaga advocated that such a system be established under strict public supervision to compensate for establishing absolute monopolies in each region. The country would be divided into nine sectors with a single corporation providing integrated management over power generation, transmission, and distribution in each region.

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At the time Matsunaga published *Denryoku Tosei Shiken*, few of the other managers in the industry could fathom the significance of his grand design. Because of this, by 1928 his plans had yet to be put into effect. However, as Matsunaga himself has recollected,<sup>22</sup> when the electric power industry was reorganized in 1951, the ideas in *Denryoku Tosei Shiken* were adopted almost in their entirety. *Denryoku Tosei Shiken* was an historic document, perceiving the postwar reorganization of the industry 23 years before it occurred.<sup>23</sup>

However, one question must be addressed: Why did Matsunaga alone, of all the managers for electric power retailers who were confronted with declining profits due to excessive competition, have the remarkable foresight, as mentioned above, in regard to the issue of regulating the industry? The answer to this question can be traced to the fact that Matsunaga was a great believer in research and surveys. He dispatched a total of over 40 personnel (including executives) of Toho Denryoku for training or study overseas. Within the company he established on an ongoing basis a survey department (*chosabu*), an

20 An outline of *Denryoku Tosei Shiken* is provided in *Toho Denryoku Shi* [A History of Toho Electric Power Co.], 1962, p. 542.

21 In regard to the competition among electric power companies, Matsunaga believed it would result in a lowering of power rates in the short term but an increase in generating costs in the long term due to a surplus of facilities.

22 See Yasuzaemon Matsunaga, *Watashi no nirekisho* [My Life Story], vol. 7, Nihon Keizai Shimbunsha, 1970, p. 406-407.

23 It was because of this that Matsunaga played such a leading role in the postwar reorganization of the electric power industry.

exceptional measure in the context of the industry at the time. The information his overseas employees brought back from Europe and the United States, and the research results of the survey department provided the basis for Matsunaga's views on industrial regulation. For example, his proposal for the "super-power-grid" and mixed hydrothermal formula were gleaned from the contents of a U.S. government-commissioned survey report<sup>24</sup> on a "super-power-grid" which had been brought back by Yutaka Fukuda, one of Toho's overseas employees. With a view to publicize the research work of the company's survey department, a large number of articles and essays were published in the monthly review *Denki Jigyo Kenkyu Shiryo* (Journal of Electric Utility Economics and Engineering) between January 1926 and September 1927. These works were intimately related to Matsunaga's views on industrial regulation. It seems that Toho Denryoku, firmly united around Matsunaga's ideas during this period, aggressively pursued the issue of regulation of the industry.<sup>25</sup>

**Tokyo Dento:** In contrast to Matsunaga, Wakao at Tokyo Dento took little initiative on the issue of regulating the industry even though he also was an executive with a retail power company. According to Kobayashi who, at the behest of Seihin Ikeda of Mitsui Bank, was added to the management of Tokyo Dento in July 1927 to rectify the problem of Wakao's "loose management," Tokyo Dento in this period was so caught up with responding to the competition at the time that it did not have the maneuverability to grapple with the long-term issue of regulation.<sup>26</sup>

**Ujigawa Denki:** In 1926, Hayashi at Ujigawa Denki proposed that wholesalers be nationalized while retailers remain private. Senzo Nagai, who became a member of the Temporary Bureau to Investigate the Electric Industry as a representative of Ujigawa, essentially reiterated Hayashi's proposals within the bureau.

On the other hand, Kageyama, an executive director at this point, was outspoken on the issue of regulating the industry, but from a different perspective than that of Hayashi. In 1927 Hayashi opposed a tariff authorization system, but Kageyama at this time advocated the introduction of the permit system.

**Kyoto Dento:** Ishikawa from Kyoto Dento proposed, in the Temporary Bureau to Investigate the Electric Industry, that wholesalers be nationalized while retailers remain private. This proposal closely resembled that of Hayashi's

24 William S. Murray *et al.*, *A Superpower System for the Region between Boston and Washington*, Washington D.C., Govt. Print. Off., 1921.

25 Other Toho Denryoku executives besides Matsunaga developed positions on industry regulation which resembled Matsunaga's views. Toho Denryoku's representative on the Temporary Bureau to Investigate the Electric Industry also called for the implementation of controls based on *Denryoku Tosei Shiken* at bureau sessions.

26 See Ichizo Kobayashi, "Denryoku tosei no genei" ["A Vision for Regulating the Electric Power Industry"], *Keizai Orai* [*Economic Intercourse*], January 1930.

from Ujigawa Denki which, like Kyoto Dento, was a retailer in the Kansai region. Ishikawa also advocated the necessity of a “super-power-grid” based on his opposition to a municipal takeover of electric power.

**Daido Denryoku:** Daido Denryoku was a wholesaler but came to grips with the issue of regulating the industry earlier than did Nippon Denryoku. Daido had developed its power resources a step ahead of Nippon Denryoku and thus was eager to extricate itself from the ideals of open competition, which could be used as a weapon in the fight for markets. It therefore favored a reorganization of the industry to conform to the interests of wholesalers.

Masuda advocated a complete separation of wholesalers and retailers with the former monopolizing power generation and transmission and the latter specializing in distribution. This idea to split the industry was embraced by Arimura who became a member of the Temporary Bureau to Investigate the Electric Industry as a representative of Daido Denryoku. Arimura pushed this proposal within the bureau.

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On the other hand, Fukuzawa, who through his friendship with Matsunaga had earlier become interested in the issue of regulation of the industry, backed a proposal which differed from that of Masuda or Arimura. Fukuzawa advocated the establishment of a chartered corporation, which in reality would have meant nationalization of the industry. However, he also thought that priority should be given to hydroelectric generation in developing power resources and on this point was in agreement with Masuda and Arimura.<sup>27</sup>

**Nippon Denryoku:** Managers at Nippon Denryoku had little to do with the issue of regulating the industry during this period. The fact that Fukunaka, who became Nippon Denryoku’s representative on the Temporary Bureau to Investigate the Electric Industry, was still espousing the ideals of open competition as late as 1931, is indicative of the low level of consciousness of the managers Nippon Denryoku throughout the 1920s, regarding the issue of industrial regulation.

#### **The period up to the formation of the league of electric power companies**

**Toho Denryoku:** Even in this period, Matsunaga maintained his previous fundamental orientation regarding both the technical and institutional arrangements for regulating the industry. However, judging the creation of one company per region difficult at the time, he took the position of putting top priority on the formation of power pools as a first step: “Where two or

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<sup>27</sup> While friends on a personal level, Matsunaga and Fukuzawa took opposite positions on the issue of controls. In short, Matsunaga promoted private ownership and joint use of hydro and thermal power while Fukuzawa emphasized nationalization with priority on hydro development.

more suppliers exist in a single region the power supply will be integrated into a common pool.”<sup>28</sup> Toho Denryoku put Matsunaga’s idea into action, interconnecting transmission lines with Mie Godo Denki (Mie Consolidated Electric Power Co.) in 1930 and with some electric power companies in Kyushu in 1931. In this way it concentrated on forming power pools in its main areas of operation, the Chukyo and North Kyushu regions.

After visiting Europe and the U.S. in 1929 on a mission to study holding companies in the power industry, Matsunaga began to champion the use of holding companies as a means to regulate the industry. After his arrival home, he tabled a new and even more practical set of ideas, including the use of a holding company to control the five major companies and the establishment of another company to administer the power pool and which would be jointly financed by the five major electrical power companies. Matsunaga pushed for the implementation of these new ideas at the Conference on Regulating the Electric Power Industry in 1932. The new proposals maintained the idea of horizontal controls through a “super-power-grid” and a mixed hydrothermal formula as outlined in Denryoku Tosei Shiken. Dropped, however, was the idea of vertical control through merging wholesalers and retailers to achieve one supplier per region.

As it had in the past, Toho Denryoku actively sought to lower generating costs during this period also. Toho’s Takema Miyagawa aggressively rebutted the views of Sueichi Murase of Daido Denryoku, who said power rates did not have to decline along with the general cost of living, reflecting the interests of wholesalers. Miyagawa said such a view was tantamount to abandoning their customers to the new diesel engines.

Tokyo Dento: At Tokyo Dento, Wakao was finally forced out of the position of president in June 1930 with Go and Kobayashi effectively taking control of management.

In October 1928, Go sponsored a conference for the leaders of the five major power companies during which he proposed his idea of a merger of the five companies. Three years later, however, in December 1931, he abandoned the idea of this merger for all intents and purposes, judging that its realization was problematic. Go did not directly participate in the Conference on Regulating the Electric Power Industry. Go’s idea of a giant merger was the simplistic proposal of a business go between, and failed to provide concrete solutions to problems such a merger would entail, including the evaluation of assets, disposition of personnel, and disposal of liabilities.

<sup>28</sup> Yasuzaemon Matsunaga, *Denki jigyo* [The Electric Power Industry], Tokyo, Nippon Hyoronsha, 1929, p. 106.

Beginning in 1929, Kobayashi advocated the necessity of lowering generating costs and believed this could be accomplished through two measures – setting up single suppliers in each region and reinforcing public supervision of the industry. In 1931 Kobayashi proposed the establishment of a thermal power company to regulate the industry, a proposal which contradicted Go's. However, right after Go had more or less abandoned the idea of a merger of the major companies, Kobayashi began to advocate a regulatory proposal premised on the fusion of the five companies, in March 1932. Kobayashi submitted this idea to the Conference on Regulating the Electric Power Industry. The proposal called for the amalgamation of the five major companies and a division thereafter to create one retail and one wholesale company. The wholesale firm, after having reduced the capital to one half, would then double its capital through an injection of government funds, and the company would become a joint public-private venture. The objective of Kobayashi's proposal was to write down the fixed assets of the wholesale company by halving its capital. The backdrop to the proposal was Kobayashi's view that "the only way to lower production costs is to cut down on construction costs."<sup>29</sup> In general, however, Kobayashi's regulatory proposal lacked measures to reduce generating costs through technical means such as a "super- power-grid" or the joint use of hydro and thermal power generation and, in that sense, his proposal could not hold a candle to Matsunaga's. This was the inevitable outcome given Kobayashi's lack of experience in power industry management.<sup>30</sup>

Ujigawa Denki: By 1931, Hayashi no longer maintained his previous theory on regulation which called for nationalized wholesalers and private retailers. At the Conference on Regulating the Electric Power Industry, he submitted a new proposal. On the surface this new proposal was based on the theory of regional mergers and embraced the concept of "one region-one company," with the country to be divided into eight regions. Taken in conjunction with the fact that Hayashi also took a position favoring thermal power at this time, his proposals had much in common with Matsunaga's Denryoku Tosei Shiken. It seems likely that if Hayashi had aggressively promoted regional mergers in the Kansai region,<sup>31</sup> where powerful wholesalers such as Daido Denryoku and Nippon Denryoku were located, then an important step would have been taken in the implementation of Matsunaga's Denryoku Tosei Shiken.

<sup>29</sup> Ichizo Kobayashi, "Denryoku tosei no genei" ["A Vision for Regulating the Electric Power Industry"], *op. cit.*, p. 176.

<sup>30</sup> Kobayashi was originally a manager in the electric-rail business.

<sup>31</sup> The operational bases for the various companies were as follows: Tokyo Dento was in the Kanto region; Toho Denryoku was in the Chukyo and North Kyushu regions; Ujigawa Denki, Daido Denryoku, Nippon Denryoku and Kyoto Dento were in the Kansai area.

In reality, however, Hayashi was extremely conservative regarding mergers within the Kansai area. This was due to the fact that the main objective of Hayashi's theory of regional mergers was to bring out the differences between the Kanto and Kansai regions: "Regulation through mergers is necessary in the Kanto region but in the Kansai area agreements are, for the most part, already in place so that such measures are unnecessary."<sup>32</sup> Such was the ultimate conclusion of Hayashi's new proposals.

That Hayashi took a conservative position regarding controls over the power industry in the Kansai area at this time is due to his understanding that no great surplus of power existed in the region. This perception was based on the fact that in Kansai the proportion of thermal generating plants was also greater than in other regions, because construction costs were lower, making it easier to respond to fluctuations in demand. Other managers from the Kansai area, such as Daido Denryoku's Masuda or Kyoto Dento's Ishikawa, were also optimistic about the problem of surplus power at the time.

As for Kageyama at Ujigawa Denki, even after his views on the power rate authorization system were realized through the enactment of the Revised Electric Industry Law in April 1931, he continued to pursue the issue of industry regulation. However, Hayashi continued to differ with Kageyama's support of the idea of merging the five majors, an idea which Hayashi had already panned. "In both the Kanto and Kansai regions cooperation has already come about," Kageyama said in 1932.<sup>33</sup> In contrast to the situation at Toho Denryoku which stood united around Matsunaga's point of view, Ujigawa Denki, Tokyo Dento and Daido Denryoku seemed to have consistent differences of opinion among managers with regard to the issue of regulating the power industry.

Daido Denryoku: In this period, Fukuzawa continued to support the establishment of a chartered corporation, and Masuda and Arimura continued to advocate the complete separation of wholesalers and retailers. Masuda attended the Conference on Regulating the Electric Power Industry where he elaborated his theory of the complete separation of wholesalers and retailers.

Also, in an attempt to defend the position of wholesalers, Murase and Arimura respectively refuted the ideas of a reduction in rates or a write down of assets.<sup>34</sup>

32 Yasushige Hayashi, "Denki toseijo yori mitaru denki jigyo no taikai" ["The Electric Power Industry Structure from the Regulative Viewpoint"], in *Asu no denki jigyo* [*The Electric Power Industry of Tomorrow*], Tokyo, Denki Shinposha, 1931, p. 21.

33 Senzaburo Kageyama, "Showa 7 nen no denki jigyokai" ["The Electric Power Industry in 1932"], *Denki Keizai Jigyo* [*The Journal of Electric Economics*], January 1932, p. 19.

34 Retailers at the time used the polemic for reductions in power rates to try and get major price cuts in power purchases from wholesalers.

Nippon Denryoku: As was explained earlier, Fukunaka embraced the ideas of open competition during this period. Ikeo also took this stand, emphasizing the negative aspects of regional monopolies. Neither presented any concrete proposals for regulating the industry. At Nippon Denryoku the principal person to become involved in the issue was Naito, who took over as senior executive director from Fukunaka in 1929. Naito had moved over from Toho Denryoku the same year and initially held views on regulation similar to those of Matsunaga. However, Naito gradually embraced the views of a wholesale manager and in December 1931 expressed support for Murase at Daido Denryoku in the debate Murase was having about rates with Miyagawa at Toho Denryoku. Later Naito formulated a proposal for the formation of the League of Electric Power Companies. Advantageous to wholesalers, the proposal provided for recognition of existing power contracts and was submitted to the Conference on Regulating the Electric Power Industry. After being amended a number of times to better reflect retailers' interests, the proposal was adopted and in April 1932 the League of Electric Power Companies (LEPC) was created.

#### The period after the formation of LEPC

Toho Denryoku: Matsunaga drew no immediate conclusions about LEPC when it was first established. However, when LEPC decided to move into hydroelectric development again, Matsunaga reacted sharply to what he saw as a reemergence of a fetish for hydro power and began to vigorously criticize LEPC.

Matsunaga immediately submitted a proposal to establish a company to regulate thermal power, which would be jointly financed by the private and public sectors, but LEPC's committee specializing in planning power generation rejected his proposal. LEPC gave two reasons for rejecting Matsunaga's proposal. First, it judged the proposal difficult to implement due to legal matters and possible problems in financing and operations. Secondly, it had given initial priority to Kansai Kyodo Karyoku (Joint Kansai Thermal Power Co.) which had been established by four Kansai companies – Ujigawa Denki, Daido Denryoku, Nippon Denryoku and Kyoto Dento – in July 1931.

Matsunaga had, from early on, attached importance to the development of thermal power plants in the Kansai region. He had hoped to incorporate them in his "super-power-grid" for national use, and they played a key technical role in his concept of industry regulation. The fact that the four companies had stolen his thunder by arranging for the joint use of thermal power within the Kansai region dealt a mortal blow to Matsunaga's plans. When he had first announced the idea of a thermal regulatory company, he had taken a dim view of the establishment of Kansai Kyodo Karyoku.

Matsunaga's position on industrial regulation isolated him in the business world during this period. At the same time the issue of controls began to create noticeable dissension within Toho Denryoku.<sup>35</sup>

**Tokyo Dento:** While withholding judgment on LEPC immediately after its creation Kobayashi continued to push for the implementation of his regulatory proposals premised on the merger of the five major companies. However, in May 1935 he introduced a completely new proposal for a major government-sponsored development of hydroelectric power. Kobayashi's views on regulation were consistent in their inconsistency. They ranged from the idea of establishing a thermal power control company, to splitting wholesalers and retailers after merging the five major companies, to a proposal for a major state sponsored development of hydro resources.

**Ujigawa Denki:** Hayashi took a more positive view of LEPC than had Matsunaga or Kobayashi. Hayashi, who at the Conference on Regulating the Electric Power Industry had already judged special control measures for the Kansai region as unnecessary, seemed to believe that the industry would gain some stability with the formation of LEPC. In fact he began to tone down his involvement in the control issue after LEPC was established. Kageyama also followed the same pattern of disengagement.

**Daido Denryoku, Nippon Denryoku:** Masuda at Daido Denryoku and Naito at Nippon Denryoku were both keen on LEPC. In a sense this was only natural considering that it was Naito at Nippon Denryoku, a wholesaler, who originally came up with the idea of creating LEPC. Both Daido Denryoku and Nippon Denryoku displayed similar proclivities thereafter. For example they both strongly supported LEPC's policy to further develop hydro resources and after LEPC was established they both toned down their involvement in the control issue.

#### Summary and perspectives

From the analysis above, it is clear that one cannot simply reduce the behavior of power industry managers in the late 1920s through the early 1930s to "an attempt to reinforce private monopolies."<sup>30</sup> A large number of managers for retail power companies, which had direct contact with the actual power users, more or less acknowledged the public nature of the power industry and attempted to reduce power costs during this period. Among them, Matsunaga at Toho Denryoku strongly advocated reducing power costs and recognized the public nature of the

<sup>35</sup> For example Miyagawa from Toho Denryoku participated as a member of LEPC's committee specializing in planning power generation which rejected Matsunaga's proposal for a thermal power regulatory company.

industry. It ended up that his incisive book, *Denryoku Tosei shiken*, predicted the postwar reorganization of the industry. Based on Matsunaga's behavior, one might well interpret the issue of power industry regulation in this period as the precursor to the postwar reorganization of the industry and not, as commonly believed, the precursor to state control of the power industry.

In reality, however, Japan's electric power industry did not go directly from industry self-regulation to reorganization. Instead, it had to experience a radical change in structure through state control. One issue here must be addressed: why were the ideas in Matsunaga's *Denryoku Tosei Shiken* not implemented immediately?

100 In this regard, the form of industrial controls in the Kansai area was of particular significance. The most distinctive feature of Matsunaga's *Denryoku Tosei Shiken* was the proposal to merge wholesalers and retailers based on the concept of having one company per region. To that extent, the success or failure of his proposals in *Denryoku Tosei Shiken* depended very much on whether powerful wholesalers such as Daido Denryoku or Nippon Denryoku accepted a regional merger in the Kansai area where they were based. In fact a merger of retailers and wholesalers did not progress in the Kansai region. The fact that Hayashi at Ujigawa Denki, the largest retailer in the region, rejected the necessity of mergers in the Kansai region while promoting the theory of regional mergers had important repercussions.

The key aspect to the technical component of *Denryoku Tosei Shiken* was in the application of a "super-power-grid" and in the formula for joint use of hydro and thermal power. Matsunaga placed great importance on the thermal power stations in the Kansai area. Incorporating them into the "super-power-grid" for national use was central to the technical side of his theory on industrial regulation. In reality, however, the issue of utilizing the thermal power facilities in Kansai was resolved within the region itself. The establishment of Kansai Kyodo Karyoku by the four Kansai companies clearly demonstrated this.

As president of Toho Denryoku and a director of Tokyo Dento, Matsunaga was able to bring his influence to bear in the Chukyo, North Kyushu, and Kanto regions on the issue of regulating the industry. He was unable, however, to make full use of his powers in the vital Kansai area. After the publication of *Denryoku Tosei Shiken*, Matsunaga gradually had to abandon his "one company, one region proposal," and his isolation in the electric power industry following the formation of LEPC may be traced to his views on regulation.

While confident of the validity of his views on industry regulation, Matsunaga became isolated in the business world and thus became extremely irritable. One can sense this in the strident reaction he displayed in response to the LEPC's decision to reengage in hydroelectric power development.

Within Toho Denryoku, Matsunaga's irritation carried over to another: Daijiro Ide. Ide had accompanied Matsunaga on his 1929 survey mission to Europe and the United States, and had played a crucial role both in the formation of Matsunaga's theories on industrial control, and as a member of Toho's survey department. Ide's objective, like that of Matsunaga, was to centralize management of the electric power industry through the "super-power-grid" and the joint hydro-thermal power system. However, unlike Matsunaga, who fundamentally remained a proponent for maintaining the power industry in the private sector, Ide gradually began to promote state control of the industry in the 1930s. This may be attributed to the fact that the increasingly impatient Ide came to the conclusion that no matter how long he remained in the private sector, achieving unified management in the power industry would be impossible. Ide left Toho Denryoku and became an advisor with the Cabin Research Department. He, along with Kiwao Okumura, a government researcher, drew up the Research Department Proposal which established government control of the power industry as its foundation. Ide later played a central role as an advocate for state control of the power industry.

Matsunaga and Ide thus became spokespersons for their respective camps in the debate over state control of the industry. Their positions on state or private leadership of the industry were diametrically opposed, but they were united in their desire to achieve centralized management and an "abundant and cheap supply of electric power." The nature of the confrontation between these two people differs substantially from the heretofore popular portrayal of the debate over state control as a confrontation between power industry managers who "only hoped to reinforce private monopoly" and government officials (and zaibatsu) who aimed for an "abundant and cheap supply of electric power." In the future I hope to reexamine the debate over state control from a new angle concentrating on the controversy between Matsunaga and Ide.<sup>36</sup>

## OIL CARTEL

### The subject

Ever since Keiichiro Nakagawa, then-president of the Business History Society of Japan, pointed out the importance of studying business history in its international connections at the 1986 annual conference, such studies have seen a boom. According to Nakagawa, "what is meant by business history in

<sup>36</sup> For a broad perspective on research into state control of the electric power industry, see Takeo Kikkawa, "Denryoku kokka kanri kenkyu no shin shikaku" ["New Insights on Research of State Control of the Electric Power Industry in Japan"], *Aoyama Keiei Ronshu* [*Aoyama Journal of Business*], vol. 19, no. 4, 1985.

its international connections is ‘any problem in business history that has an international relations character,’ and if one narrows the topic to Japan, for instance, then the key task lies in clarifying the “international response of the government and big business acting as one.”<sup>37</sup>

Yet Nakagawa’s argument regarding the key problem of business history in its international connections in the context of Japan is slightly superficial. The reason is that his interest is focused solely upon the “response of the Japanese side,” and the aspect of “the contribution of the overseas side to Japan” is, for all practical purposes, ignored. The key task in business history in its international connections where Japan is involved surely requires that one clarify both the aspect of “the response of the Japanese side” and “the contribution of the overseas side.”

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This present study considers the relations between international cartels and cartels within Japan, taking as its theme the cartel agreement on the sale of gasoline that was concluded in Japan in 1932 (the “Six-Company Agreement”). The reasoning behind this study is that, in dealing with this topic, we are able to see both sides at the same time: the Japanese response and the part played by the overseas countries. On the Japanese side we have Nippon Oil Company, Ogura Oil Company and other domestic oil companies, as well as their supervisory government authority, the Ministry of Commerce and Industry. On the overseas side, we have Rising Sun Petroleum Company, a member of the Royal Dutch-Shell group from England and The Netherlands, and the Japan branch office of the Socony-Vacuum Corporation,<sup>38</sup> an American company. Each of these will be concrete objects of our investigation. In addition to the above four companies, the other two that took part in the “Six-Company Agreement” were Mitsubishi Oil Company<sup>39</sup> and Mitsui & Company.

When one studies the relations between international cartels and domestic cartels, naturally, one must look at the petroleum industry. If one looks at the total amount of assets in Japan in 1941 on the eve of the Pacific War, one finds that, of all the foreign capital enterprises with at least 50% foreign capital in Japan at the time, Rising Sun was at the top of the list, followed by

37 Keiichiro Nakagawa, “Kokusai kankei keieishi e no mondai teiki” [“Business History in its International Connections: Defining The Issue”], in *Keieishi Gakkai Dai 22kai Taikai Hokokushu* [Collection of papers given at the 22nd Conference of the Business History Society of Japan], 1986, p. 83, 85.

38 The merger in the U.S.A. of Socony and Vacuum in July 1931 led to the birth in Japan, in August 1932, of Socony-Vacuum Japan (through the merger of Socony Japan and Vacuum Japan). Therefore, strictly speaking, in this article we shall be looking at Socony Japan and Socony-Vacuum Japan.

39 Since Mitsubishi Oil was an amalgamated enterprise set up by a 50-50 funding arrangement between Mitsubishi of Japan and Associated Oil Company of the U.S., it could be considered as standing in the middle, between the Japanese side and the overseas side.

Standard-Vacuum Oil Company<sup>40</sup> (Standard-Vacuum Japan was the successor of Socony-Vacuum Japan).<sup>41</sup>

The commonly accepted position has insisted upon the leadership role in the “Six-Company Agreement” on gasoline sales taken by the two overseas-owned oil companies (Rising Sun and Socony-Vacuum) and the advantageous position of the international cartels over the domestic cartels.<sup>42</sup> Yet one thing that cannot be overlooked is the fact that, as is attested by other documents, the total value of the two overseas companies’ share of gasoline sales in the Japanese market actually fell considerably as a result of the “Six-Company Agreement”.<sup>43</sup> If this is correct, it calls into question the accuracy of the commonly accepted insistence on the ascendancy of overseas cartels over domestic cartels. Through the present study we hope to shed new light on the relations between the overseas cartels and the domestic ones.

#### International oil cartels connected with Asia

Among the Japan-related sources presently kept in the London head office of Shell International Petroleum Company,<sup>44</sup> there is a document that describes the contents of a cartel agreement regarding the Asian market, an agreement that is thought to have been concluded in September 1929 between Royal Dutch-Shell and Socony (Standard Oil Company of New York).<sup>45</sup> The purpose of this 1929 agreement was to equalize the amount of gasoline sales made by Royal Dutch-Shell and Socony in the East Asia market, and this included Japan.

By 1932, however, the content of the agreement between the two companies in regard to the East Asia market was changed so that it would mutually guarantee the sales share they already had, in regard to gasoline as well as in regard to other petroleum products. Thus, on 13 June 1932,

40 In September 1933, the two U.S. oil companies Socony-Vacuum and Standard Oil Company of New Jersey each put up half the funds to set up an overseas subsidiary named Stanvac (Standard-Vacuum Oil Company). As a result of this, Socony-Vacuum Japan was reorganized in September 1933 into Stanvac Japan.

41 Masaru Udagawa, “Senzen Nihon no kigyo keiei to gaishikei kigyo, jo” [“Business Management and Foreign Affiliated Companies in Japan Before World War II (pt. 1)”], *Keiei Shirin* [*The Hosei Journal of Business*], vol. 24, no. 1, 1987, p. 17.

42 Tosuke Iguchi, *Gendai Nihon sangyo hattatsu.shi II, sekiyu* [*History of the Development of Modern Japanese Industries II: Petroleum*], Tokyo, Kojunsha, 1963, p. 246.

43 Shinjiro Kitazawa and Ushinosuke Ui, *Sekiyu keizairon* [*Petroleum Economics*], Tokyo, Chikura Shobo, 1941, p. 380, and Ministry of International Trade and Industry (MITI), *Shoko seisaku shi dai 9kan, sangyo gorika* [*History of Commercial and Industrial Policies*, vol. 9: *Rationalization of Industries*], 1961, p. 435.

44 The memorandum, telegrams, and letters that I rely upon from this point on are all to be found in these Japan-related documents.

45 Memorandum covering the markets of Japan, Korea, North China, South China proper, Formosa, Indo-China and Siam, September 1929.

Royal Dutch-Shell sent a telegram to all of the companies with which it had relations in Asia, Africa, and Australia (in the case of Japan, to Rising Sun), informing them that an agreement to maintain the status quo in sales share (using 1931 as the norm) had been made among Socony,<sup>46</sup> Texaco (Texas Corporation), Gulf (Gulf Refining Company), Sinclair (Sinclair Refining Company), and Atlantic (Atlantic Refining Company).<sup>47</sup> Of these companies, the only one affected by the agreement to maintain the status quo in Japan was Socony.

Was the international cartel agreement regarding Japan, entered into between Royal Dutch-Shell and Socony, actually able to exert any force in the Japanese market? This question will form the focus of the present study as we look into the parties involved in the 1932 “Six-Company Agreement.”

#### Leading up to the “Six-Company Agreement”

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The formal signing of the agreement on gasoline sales in Japan that was known as the “Six-Company Agreement” took place on 25 October 1932. This section will be devoted to tracing the events that led to this point.

The international cartel agreement between Royal Dutch-Shell and Socony was not terribly effective in the Japanese market. This can be confirmed by studying the four tables given below (tables 1 to 4).

Table 1. Amounts of Gasoline Sales in Japan, by companies

Company name	January-December 1931			January-July 1932		
	Sales	Share A	Share B	Sales	Share A	Share B
	1,000 units	%	%	1,000 units	%	%
Rising Sun	6,077	33.0	34.5	4,005	33.8	35.1
Socony	3,990	21.6	22.6	2,074	17.5	18.2
Nippon Oil	4,700	25.5	26.7	2,905	24.5	25.5
Ogura Oil	2,350	12.7	13.3	1,866	15.7	16.4
Mitsubishi	499	2.7	2.8	551	4.6	4.8
Hoyama	40	0.2	-	71	0.6	-
Others	776	4.2	-	383	3.2	-
<b>Total</b>	<b>18,432</b>	<b>100</b>	<b>100</b>	<b>11,855</b>	<b>100</b>	<b>100</b>

Source: Letter, The Rising Sun Petroleum Co. to The Asiatic Petroleum Co., 13 September 1932.

Note: 1. “Share A” refers to the share in overall sales; “Share B” refers to the share of the total value of sales of the six companies taking part in the 1932 “Six-Company Agreement.”

2. “Socony” also includes Mitsui & Co. sales figures.

3. These figures are for sales only in Japan proper, so do not include sales in Korea and Taiwan.

<sup>46</sup> Socony continued business as an operating company within the United States even after the 1931 formation of Socony-Vacuum, until June 1934.

<sup>47</sup> Telegram, London to Cairo, Cape Town, Yokohama, Surabaya, Colombo, Melbourne, Nairobi, and Saigon, 13 June 1932.

Table 2. Royal Dutch-Shell's Target Figures for the "Six-Company Agreement" (as of mid-July 1932)

Company name	Sales quota Units	Share %
Rising Sun	7,399,600	33.6
Socony-Vacuum	4,845,000	22.0
Nippon Oil	5,483,300	24.9
Ogura Oil	2,218,400	10.1
Mitsubishi Oil	1,250,000	5.7
Others	803,700	3.7
Total	22,000,000	100

Source: Telegram, Yokohama to London, 1 July 1932.

Note: 1. These figures are for the period July 1932 to June 1933.

2. "Socony-Vacuum" also includes Mitsui & Co.

Table 3. Draft Proposal of 23 July for the "Six-Company Agreement"

Company name	Share (%)
Rising Sun	32.93
Socony-Vacuum	21.62
Nippon Oil & Ogura Oil	36.36
Mitsubishi Oil	5.68
Others	3.41
Total	100.00

Source: Telegram, Yokohama to London, 23 July 1932.

Note: 1. The total quota for sales quantity is 22,000,000 units.

2. Notes 1-3 of Table 2 apply here, too.

Table 4. Unofficially Agreed-upon "Six-Company Agreement" as of August 1932

Company name	Sales quota Units	Share %
Rising Sun	7,093,475	32.2
Socony-Vacuum	4,656,525	21.2
Nippon Oil	5,250,000	23.9
Ogura Oil	2,750,000	12.5
Mitsubishi Oil	1,500,000	6.8
Others	750,000	3.4
Total	22,000,000	100

Table 1 gives the actual figures for the quantity of gasoline sales in the Japanese market between January 1931 and July 1932, broken down by companies.<sup>48</sup> Table 2 shows the target figures desired by Royal Dutch-Shell from the conclusion of the "Six-Company Agreement" – these figures were proposed by Rising Sun on 1 July 1932<sup>49</sup> and authorized the same day by Asiatic (Asiatic

<sup>48</sup> Letter, The Rising Sun Petroleum Co. to The Asiatic Petroleum Co., 13 September 1932.

<sup>49</sup> Telegram, Yokohama to London, 1 July 1932.

Petroleum Company),<sup>50</sup> the parent company (Rising Sun was a Japan subsidiary of Asiatic, which belonged to the Royal Dutch-Shell group). Royal Dutch-Shell informed Socony in the United States of these figures,<sup>51</sup> and it obtained the latter's approval.<sup>52</sup> In other words, we can consider the target figures expected from the "Six-Company Agreement" as representing the wishes of both Royal Dutch-Shell and Socony. Also, the reason figures for Mitsui & Co., one of the six companies that took part in the agreement, are consistently included within the figures of Socony (or Socony-Vacuum) is that Mitsui & Co. was selling the latter's petroleum products.

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Table 3 shows the draft proposal for the "Six-Company Agreement" has of 23 July 1932.<sup>53</sup> As can be seen by comparing this table with table 2, the share allotted to the two overseas oil companies Rising Sun and Socony-Vacuum at the draft proposal stage has gone down from the target figures (from 33.6% to 32.9% for Rising Sun, from 22.0% to 21.6% for Socony-Vacuum). In contrast, the combined total of the shares for the two largest domestic oil companies, Nippon Oil and Ogura Oil, have increased from 35.0% to 36.4%.

Table 4 shows the unofficially decided figures for the "Six Company Agreement" as they existed on 3 August 1932.<sup>54</sup> As a comparison of this table with table 3 will show, the shares allotted to Rising Sun and Socony-Vacuum have gone down even further than they were at the draft proposal stage: from 32.9% to 32.2% for Rising Sun, and from 21.6% to 21.2% for Socony-Vacuum. On the contrary, the share of Mitsubishi Oil has risen dramatically (from 5.7% at the draft proposal stage to 6.8%), and its quota for sales has increased from 1,250,000 units to 1,500,000 units.

Thus in the unofficially decided figures given in table 4, the shares allotted to Rising Sun and Socony-Vacuum had fallen below the target figures given in table 2 as the goal of the two companies: by 1.4% for Rising Sun (from 33.6% to 32.2%) and by 0.8% for Socony-Vacuum (from 22.0% to 21.2%). In addition, neither Rising Sun nor Socony-Vacuum were able to achieve the task of maintaining their 1931 sales shares in the Japanese gasoline market, as the telegram of 13 June 1932 from Royal Dutch-Shell had stipulated. (A comparison of the 1931 Share A given in table 1 with table 4 shows that Rising Sun's share had gone down by 0.8%, from 33.0% to 32.2%, and that Socony-Vacuum's had gone down by 0.4%, from 21.6% to 21.2%.)

<sup>50</sup> Telegram, London to New York, 1 July 1932.

<sup>51</sup> *Ibid.*

<sup>52</sup> Telegram, New York to London, 6 July 1932.

<sup>53</sup> Telegram, Yokohama to London, 23 July 1932.

<sup>54</sup> Telegram, Yokohama to London, 3 August 1932.

It is clear from the above particulars that, for international cartel members Royal Dutch-Shell and Socony, the 1932 “Six-Company Agreement” in Japan regarding gasoline sales was unsatisfactory. This was especially true for Royal Dutch-Shell; for Socony (later Socony-Vacuum) the “Six-Company Agreement” had some aspects that could not necessarily be considered disadvantageous.

As can be seen in table 1, Socony’s sales share in the Japanese gasoline market fell dramatically in the first half of 1932. This was caused mainly by the fact that, when the costs of importing gasoline rose for the Socony branch in Japan as a result of the steep fall in the yen exchange rate that began with the re-embargo on gold export in December 1931, the company was unable to cope with the gasoline price-cutting competition.<sup>55</sup> The fall in the yen exchange rate also dragged up the cost of importing gasoline for Rising Sun, but because in 1932 the slump in the yen’s value vis-à-vis the U.S. dollar was much greater than its slump vis-à-vis the British pound, the impact on Socony was much greater than that on Rising Sun. Now, when you compare tables 1 and 4, it becomes clear that the quota for the amount of gasoline sales allotted to Socony under the “Six-Company Agreement” guaranteed that Socony would recover to a considerable extent the share it had lost in the first half of 1932.<sup>56</sup>

For Royal Dutch-Shell, however, the contents of the “Six-Company Agreement” were clearly disadvantageous. Even after the agreement actually went into effect, Rising Sun and its parent company, Asiatic, continued to voice their dissatisfaction with the agreement.<sup>57</sup> A comparison of Share A in table 1 with table 4 shows the undeniable fact that Rising Sun’s gasoline sales share has been reduced. Facing the upcoming conclusion of the “Six-Company Agreement,” Royal Dutch-Shell and Socony, which had their own international cartel agreement, did everything they could to maintain the 1931 level of their share of gasoline sales in the Japanese market,<sup>58</sup> but, mainly because Rising Sun’s share fell, in the end the combined figures for these two companies did not achieve the target figures (this can be seen by comparing the 1931 Share A figures and the figures in table 4: there was a 1.2% decrease, from 54.6% to 53.4%). It is on the basis of these figures that one must conclude that the

55 As a result of fierce competition among the oil companies, the market price of gasoline in Japan fell from a level of 45 sen per gallon in March 1932 to the level of 32 sen per gallon in July-August 1932.

56 Telegram, Yokohama to London, 3 August 1932.

57 Telegram, Yokohama to London, 23 August 1932; Telegram, London to Yokohama, 23 August 1932; and Letter, Andrew Agnew (Director of The Asiatic Petroleum Company) to Richard Airey (New York), 21 October 1932.

58 Telegram, New York to London, 8 July 1932; Letter, Agnew to Airey, 11 July 1932; and Telegram, London to Yokohama, 23 August 1932.

international cartel of Royal Dutch-Shell and Socony was not completely effective in the Japanese market.

108 As tables 1 and 4 show, the direct cause for the reduction in the sales share of Rising Sun and Socony-Vacuum as compared to 1931 levels through the “Six-Company Agreement” was the increase in Mitsubishi Oil’s share. As a matter of fact, it was to prevent such a situation from developing that the two overseas companies had taken concerted action in accordance with the spirit of the agreement to maintain the status quo. Eventually, though, the concerted action of the two companies did not succeed. Mitsubishi Oil was born in February 1931 by the merger of Japan’s Mitsubishi and America’s Associated (Associated Oil Company), with each party putting up half the capital, and it began operations in December of that year.<sup>59</sup> This led Socony to apply pressure on Associated in the United States, the purpose being to prevent any rapid increase in Mitsubishi Oil’s share of gasoline sales in 1932. When negotiations first got under way in regard to Mitsubishi Oil’s sales quota for the period July 1932 to June 1933, Socony was insisting on 1,200,000 units, while Associated was insisting on 1,300,000 units.<sup>60</sup> Socony and Associated compromised by agreeing on 1,250,000 units, on 20 June 1932.<sup>61</sup>

Royal Dutch-Shell, meanwhile, maintaining close contact with Socony, rendered assistance from the sidelines in an effort to have negotiations wrapped up between Socony and Associated in the United States. Thus, for example, Associated earnestly requested Rising Sun and the Socony Japan branch not to carry on negotiations with oil companies in Japan regarding the “Six-Company Agreement” until its negotiations with Socony were concluded,<sup>62</sup> and Royal Dutch-Shell, as well as Socony, acceded to this request of Associated.<sup>63</sup>

Even though Associated agreed to the 1,250,000-unit quota for Mitsubishi Oil gasoline sales in the period July 1932–June 1933, the Japanese partner

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59 Accordingly, as I mentioned in note 34, Mitsubishi can tentatively be placed as somewhere between a Japanese oil company and an overseas oil company. In actual fact, however, 1) Associated’s percentage of the funding did not exceed the 50% set down in what the Japanese government looked on at the time as tentative guidelines; 2) because Mitsubishi Oil adopted the policy of refining imported crude oil that the Japanese government was pushing, it received the same treatment as the other domestic oil companies that were refining domestically, and so even after the enactment of the Petroleum Industry Law in 1934 it increased its share of sales in the Japanese gasoline market. Also, along with the start of Mitsubishi Oil operations in 1931, Mitsubishi Corporation ceased the importing and selling of gasoline it had carried on until then.

60 Telegram, New York to London, 15 June 1932; and Letter, Airey to Agnew, 21 June 1932.

61 Telegram, New York to London, 20 June 1932; Telegram, London to Yokohama, 21 June 1932; and Letter, Airey to Agnew, 21 June 1932.

62 Telegram, New York to London, 15 June 1932.

63 Telegram, London to Yokohama, 16 June 1932.

in Mitsubishi Oil, Mitsubishi, vehemently opposed it.<sup>64</sup> And, as mentioned earlier, in the “Six-Company Agreement” Mitsubishi Oil’s quota was set at 1,500,000 units. Thus the concerted action by Socony and Royal Dutch-Shell to forestall a rapid rise in Mitsubishi Oil’s share eventually ended in failure.

It should be clear from everything that has been said so far that the international cartel of Royal Dutch-Shell and Socony were not completely effective in the Japanese market. One may well ask how such a situation developed. In the remainder of this section we shall look into the causes behind their ineffectiveness.

The first and most important cause was the fact that in Japan, unlike other countries in Asia, there existed a number of strong domestic oil companies, as a result of which there was a limit to Royal Dutch-Shell’s and Socony’s market domination. Thus, for example, when Rising Sun received the telegram of 13 June 1932 mentioned earlier, in which Royal Dutch-Shell informed the company of an agreement with Socony to maintain the status quo, it sent off a reply two days later, saying that, because the domestic oil companies were very active in Japan, it did not think the agreement with Socony would have much direct effect.<sup>65</sup> Faced with the double blow of higher costs for importing gasoline as a result of the fall in value of the yen from December 1931 and the severe price war that went on from the spring of 1932 through the summer, both Rising Sun and Socony Japan did their utmost to have the gasoline market price recover, but to achieve this goal it was absolutely necessary to form a cartel agreement with the domestic oil companies.<sup>66</sup> In seeking to understand why Rising Sun took part in the “Six-Company Agreement” even though this meant accepting a fall in its share, we can look for the fundamental reason here.

The fact that Nippon Oil, Ogura Oil, and Mitsubishi Oil were able to compete to some extent against Rising Sun and Socony Japan (and later Socony-Vacuum Japan) can be traced to a number of factors, of which the two most important would be: 1) all three companies had adopted from very early on the policy of consumer-site refining, according to which they would import crude oil and refine it in Japan; and 2) the Japanese government protected this policy through tariff amendments in March 1926 and June 1932 (amendments that imposed heavier import tariffs on petroleum products than on crude oil).<sup>67</sup> This policy asserted itself in Japan in the mid-1920s, around which time the only other

64 Telegram, Yokohama to London, 27 June 1932; and Letter, Airey to Agnew, 29 June 1932.

65 Telegram, Yokohama to London, 15 June 1932.

66 Letter, Agnew to Airey, 1 June 1932; and Telegram, London to New York, 7 July 1932.

67 Also operative here was the fact that, compared with Nippon Oil, Ogura Oil, and Mitsubishi Oil, which were importing only crude oil, Rising Sun and Socony Japan/Socony-Vacuum Japan, which were importing petroleum products, were much more severely hit by the fall in the exchange rate.

country in the world where the same policy was in place was France.<sup>68</sup> Royal Dutch-Shell and Socony had adopted the mainstream policy of the time, that of producer-site refining, and the two companies were unable to deal sufficiently with this (internationally) anomalous consumer-site refining policy that began to spread in Japan.<sup>69</sup> Rising Sun and Socony Japan proposed regulating crude oil exports to Japan from June 1932 as a means to counteract this consumer-site refining policy,<sup>70</sup> but because this proposal was opposed by the petroleum companies in California, which were the principal exporters of crude oil to Japan, in the end it was never to see the light of day.<sup>71</sup>

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A second reason why the international cartel of Royal Dutch-Shell and Socony were not sufficiently effective in the Japanese market is the fact that the mutual understanding between the London and New York head offices and their Japanese organizations in Yokohama (the Japanese corporations Rising Sun, Socony Japan, and Socony-Vacuum Japan) was not always what it should be. This is shown very clearly by the clash of opinions between the head offices and their Japanese representatives over the sale price of gasoline in Japan from spring to summer of 1932. The head offices in London and New York time and again recommended that the latter immediately raise the gasoline prices in order to get around the worsening imbalance of earnings and expenses resulting from the fall in the yen's exchange value.<sup>72</sup> But these recommendations of the head offices completely ignored the realities of the gasoline market in Japan, where a fierce price war was under way, and consequently Rising Sun and Socony Japan refused to raise prices, giving as their reason the existence of the competitive pressure from the domestic oil companies.<sup>73</sup>

If one is to judge just from the Japan-related documents kept in the archives of the London head office, Royal International Petroleum, the situation in 1932

68 Tosuke Iguchi, *Gendai Nihon sangyo hattatsu.shi II, sekiyu, op. cit.*, p. 254-257.

69 Takeo Kikkawa, "Business Activities of the Standard-Vacuum Oil Co. in Japan prior to World War II," *Japanese Yearbook on Business History*, vol. 7, 1990, p. 52-54.

70 Telegram, Yokohama to London, 15 June 1932.

71 For more details on this point, see Takeo Kikkawa, "1934 nen no Sekiyu Gyoho to gaikoku sekiyu kaisha to no kosho" ["The Petroleum Industry Law of 1934 and Negotiations with Overseas Petroleum Companies"], in Kaichiro Oishi (ed.), *Senkanki Nihon no taigai keizai kankei [The Overseas Economic Relations of Japan Between the Wars]*, Tokyo, Nihon Keizai Hyoronsha, 1992.

72 Letter, Airey to Agnew, 27 April 1932; Letter, Agnew to Airey, 5 May 1932; Letter, Agnew to Airey, 1 June 1932; Telegram, Yokohama to London, 16 June 1932; Telegram, New York to London, 28 June 1932; Letter, Airey to Agnew, 29 June 1932; and Telegram, London to Yokohama, 29 June 1932.

73 Letter, Agnew to Airey, 5 May 1932; Letter, Agnew to Airey, 1 June 1932; Telegram, Yokohama to London, 16 June 1932; Telegram, London to New York, 21 June 1932; Telegram, Yokohama to London, 1 July 1932; and Telegram, Yokohama to London, 2 July 1932.

was that Royal Dutch-Shell had not sent enough staff to Rising Sun,<sup>74</sup> and the important decisions regarding the Japanese market were made at the London head office. Under such a system, naturally it was impossible to take prompt and suitable counteraction in Japan's petroleum trade, where a consumer-site refining policy that was different from that followed in most of the world had asserted itself.

A third reason is that, while on the head-office level of Royal Dutch-Shell and Socony basically harmony was maintained, on the Japan-scene level there occurred frequent differences of opinion between Rising Sun and Socony Japan/Socony-Vacuum Japan. We have already seen, looking at table 1, how Socony's share of gasoline sales in Japan fell dramatically in the first half of 1932. Now, from table 5, we can see that this trend was even more remarkable in the case of kerosene. An irate Socony Japan/Socony-Vacuum Japan directed its complaints of unfair price-cutting not only at the domestic oil companies but also at Rising Sun.<sup>75</sup> Rising Sun rejected the criticisms in very strong terms.<sup>76</sup>

There is nothing among the Japan-related documents kept in the archives of the London head office of Shell International Petroleum to shed light on the matter, but the chances are good that Socony Japan/Socony-Vacuum Japan substantially supported the "Six-Company Agreement," which meant a considerable recovery of the share in the gasoline sales it had lost in the first half of 1932. If this were the case, then in the process of negotiating the final terms of the cartel agreement, Rising Sun would have backed itself into a corner. It seems highly likely, then, that one more reason why Rising Sun was forced to accept a reduced share according to the terms of the "Six Company Agreement" can be found in these circumstances.

#### After the conclusion of the "Six-Company Agreement"

In this section I deal with the period from 25 October 1932, when the "Six-Company Agreement" was formally signed, up to 4 May 1933, when the Mining Bureau of the Ministry of Commerce and Industry announced two draft proposals that would form state control measures over the petroleum industry. Let it also be noted that the announcement of these two draft proposals by the Mining Bureau was to be a direct cause of the enactment of the Petroleum Industry Law in March 1934.

74 Letter, Agnew to H. W. Malcolm (Managing Director of the Rising Sun Petroleum Company), 9 May 1932.

75 Telegram, New York to London, 6 July 1932; Letter, Agnew to Airey, 8 July 1932; and Letter, Airey to Agnew, 21 September 1932.

76 Telegram, Yokohama to London, 29 June 1932; Telegram, London to New York, 7 July 1932; Letter, Agnew to Airey, 8 July 1932; Letter, Agnew to Airey, 11 July 1932; and Letter, Agnew to Airey, 29 September 1932.

When one looks at the period from October 1932 to May 1933 in the light of the theme of the present study – the relations between international oil cartels and the Japanese market – one must note two facts. The first fact is that the influence on the Japanese market of two companies that had formed an international cartel, Royal Dutch-Shell and Socony, was repeatedly being restricted. The second fact is that the Japanese government, principally through the Mining Bureau in the Ministry of Commerce and Industry, increased its interventions in the petroleum industry.

112 Let us look at the first fact. Because of factors such as the fall of the yen exchange rate and the influence of tariff amendments, Rising Sun and Socony-Vacuum ranked lower in November 1932 than a domestic oil company (Nippon Oil) as regards price competitiveness.<sup>77</sup> This trend was especially conspicuous in the case of Socony-Vacuum, and the fundamental cause for the serious business slump into which Socony Japan/Socony-Vacuum Japan fell in 1932 can be found here. In an inferior position as regards price competitiveness, Socony-Vacuum and Rising Sun were unable to hold the trump cards in negotiations over the number of sales units or the sales prices of gasoline in Japan.<sup>78</sup> Likewise, another big threat to Socony-Vacuum and Rising Sun was posed by steady developments being made by a newcomer to the field, Matsukata Soviet-Japanese Petroleum Company, which aimed at outdoing the existing domestic oil companies by a low-price offensive based on the import of Soviet-made petroleum products.<sup>79</sup>

Socony-Vacuum Japan and Rising Sun also faced a similar situation in the kerosene market. Once the “Six-Company Agreement” on gasoline had come into effect, moves got under way in November of 1932 to come to some cartel agreement on kerosene.<sup>80</sup> But even though both the domestic oil companies and the overseas oil companies agreed on the principle of maintaining present shares, there was a difference of opinion on the norm determining present share, with the overseas companies wanting 1931 levels to be the norm, and the domestic companies wanting 1932 levels to be the norm. The result was difficult sailing for the negotiations.<sup>81</sup> (See Table 5 for the changes in the kerosene sales shares in the 1931 and 1932 periods). Ultimately, it seems, no cartel agreement

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77 Telegram, Yokohama to London, 11 November 1932.

78 Telegram, Yokohama to London, 6 April 1933; and Telegram, London to Yokohama, 6 April 1933.

79 Telegram, Yokohama to London, 3 December 1932.

80 Telegram, Yokohama to London, 16 November 1932.

81 Telegram, Yokohama to London, 16 November 1932; Telegram, London to Yokohama, 17 November 1932; Telegram, Yokohama to London, 3 December 1932; and Letter, C. M. Howe [The Asiatic Petroleum Company] and Agnew to The Rising Sun Petroleum Company, 30 January 1933.

on kerosene was formed. The one thing that can be said with certainty, however, is that the international cartel of Royal Dutch-Shell and Socony was not able to carry out, in the Japanese market, its basic policy of maintaining 1931 levels of sales share<sup>82</sup> in regard to kerosene, either, just as it had failed to maintain those levels in regard to gasoline.<sup>83</sup>

Table 5. Kerosene Sales in Japan, by Companies

Company name	January-December 1931		January-July 1932	
	Sales 1,000 units	Share %	Sales 1,000 units	Share %
Rising Sun	620	17.9	319	17.7
Socony	1,010	29.1	327	18.1
Nippon Oil	991	28.6	528	29.2
Ogura Oil	543	15.6	424	23.4
Mitsubishi Oil	35	1.0	89	4.9
Others	272	7.8	122	6.7
Total	3,471	100	1,809	100

Source: Letter, The Rising Sun Petroleum Co. to The Asiatic Petroleum Co., 13 September 1932.

Note: 1. "Socony" includes Mitsui & Co.

2. Figures refer only to Japan proper, and do not include Korea and Taiwan.

It can be seen in the second example that stronger Japanese government intervention in the petroleum industry was brought about when the Metropolitan Police Board became involved when consumers protested the reactionary rebound of gasoline prices<sup>84</sup> after the "Six Company Agreement" went into effect. Since this time, the practice in Japan has been such that whenever there is to be a rise in prices of petroleum products, the approval of the Mining Bureau of the Ministry of Commerce and Industry must be obtained in advance. Furthermore, on 4 November 1932, the Ministry of Commerce and Industry decided that the gasoline manufacturing industry and the gasoline sales industry fall under the Law Controlling Important Industries.<sup>85</sup>

The Japanese government's increased intervention in the petroleum industry, while only to be expected, meant even greater limitations on the influence of international cartels on the Japanese market. In one respect, however, Rising Sun and Socony-Vacuum Japan hoped it would have a good effect: that the Japanese government would check the newcomer, Matsukata Soviet-Japanese

<sup>82</sup> Telegram, London to Cairo, Cape Town, Yokohama, Surabaya, Colombo, Melbourne, Nairobi, and Saigon, 13 June 1932.

<sup>83</sup> Telegram, London to Yokohama, 1 February 1933.

<sup>84</sup> After the unofficial agreement was arrived at on the terms of the "Six-Company Agreement," the market price of gasoline in Japan rose from the 32 sen per gallon level to 42 sen per gallon in September 1932, and to the level of 49 sen per gallon in December of the same year.

<sup>85</sup> Telegram, Yokohama to London, 8 November 1932.

Petroleum Company.<sup>86</sup> The Japanese government, however, did not take any particular action against the Matsukata company in December 1932.<sup>87</sup>

#### Summary and perspectives

As should be clear from the above considerations, the international cartel entered into between Royal Dutch-Shell and Socony was not completely effective in regard to the “Six-Company Agreement” on gasoline sales in the Japanese market that took effect in 1932. Accordingly, the hitherto commonly accepted position that stresses the advantages held by the international cartel over the domestic cartel in the “Six-Company Agreement” must be revised to square with the facts.

114 In the 1932 petroleum industry case taken up in this study, the “response of the Japanese side” to the “contribution of the overseas side” was quite strong. We can look for the fundamental cause making that possible in the fact that the domestic oil companies adopted very early on the consumer-site refining policy that would spread around the world after World War II. This fact reveals that, in Asia, a region that was backward in economic development, Japan showed relative advancement, that it was a “medium advanced nation.”<sup>88</sup> Perhaps the reason Royal Dutch-Shell and Socony could not always take suitable action in the Japanese market<sup>89</sup> was that all they had were Asian strategies aimed at backward countries, and no sophisticated overseas strategies suitable for Japan, a “medium advanced nation.”<sup>90</sup>

Today, as many are discussing the need for Japanese business to internationalize, one would be inclined to imagine a situation in which Japanese businesses late to internationalize are feverishly trying to cope with internationalization. Yet, in reality, as Keiichiro Nakagawa points out, in the business history of a late industrialized country like Japan, “international relations have been deeply entwined right from the beginning of industrialization.”<sup>91</sup> Of course, the problems brought on by international relations change from age to age, but in responding to fluctuations in the international environment, Japan’s

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<sup>86</sup> Telegram, Yokohama to London, 3 December 1932.

<sup>87</sup> *Ibid.*

<sup>88</sup> Japan was later in adopting the consumer-site refining policy on petroleum than the more advanced industrial country France. In those regions that were backward in economic development, on the other hand, the very adoption of the consumer-site refining policy was impossible. It is with these facts fully in mind that I suggest that the widespread adoption of the consumer-site refining policy at this time is proof of Japan’s “medium advancement” status.

<sup>89</sup> Thus, for example, as late as January 1933 Asiatic was giving a negative assessment of the consumer-site refining policy in Japan. On this point, see Letter, Howe and Agnew to The Rising Sun Petroleum Company, 30 January 1933.

<sup>90</sup> For more details on this point, see T. Kikkawa, “Business Activities of the Standard Vacuum Oil Co...,” *op. cit.*

<sup>91</sup> Keiichiro Nakagawa, “Kokusai kankei keieishi e no mondai teiki,” *op. cit.*, p. 83.

businesses and governments have had an abundance of experience. This can be seen from the case taken up in the above study, as well as from Japan's response to trade and capital liberalization in the 1960s, Japan's response to the two oil crises in the 1970s, and so on. It is important to keep these things in view as we push forward positive research – research that adheres to the flow of Japanese business history – on “the contribution of the overseas side” and the “response of the Japanese side” from the perspective of business history in its international connections.

The sector of the energy thus supplied, in Japan, a revealing example of the action of cartels. The administration and the big Japanese zaibatsu, through the agreement of cartel on the gasoline, in 1932, knew how to impose on the companies of the oil international cartel conditions of supply more favorable to the strategic interests of the country. Besides, it is attested that the Japanese cartel of the electricity arose from a will of regulation and from rationalization of the production, from the transport and from the distribution of the electricity. In a debate dominated by Wakao Shohachi, close relation of the party Seiyukai, Daijiro Ide, favorable to state control of the production, and Matsunaga Yasuzaemon, it is the latter which took it: rebalancing of the production for the benefit of the thermal electricity, creation of a national system of regulation of the transport (“super power grid”) and management by the profession, through the League of Electric Power Companies.



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