

---

## HERE'S WHY RUSSIA WILL WIN AT ENERGY AND DIPLOMACY GAMES IN 2017

- 27.12.2016

---

Forbes, 26 Dec 2016

Somewhere in the jocund vodka-fuelled festivities around Moscow Vladimir Putin is likely raising a toast to 2016, to the month of December in particular. For good or bad, it was personally an influential year for the iron-fisted leader as an energy tsar and western medias favourite villain-in-chief. Russia was an incessant source of consternation to the West, to Putins own delectation I suspect, for much of the year. But this December brought him strategic largesses from three rather unfriendly corners. In the fading weeks of 2016, Japan, Qatar and America have given Russia the perfect gift. They just made sure it will prevail in diplomacy and energy games in 2017 as well.

Let's start with Japan. Putins two-day state visit to Japan over a week ago may as well serve as a primer for anyone looking to do business with Russia next year. The summit between the two neighbours resulted in 60 economic deals, 23 of which included energy agreements signed by Russian state-owned oil firm Rosneft and a conglomerate of Japanese companies. Potentially billions of dollars will flow between Japan and Russia on joint offshore explorations, the construction of another LNG plant in Sakhalin and a gas pipeline connecting Hokkaido.

At first the deals may pass for signs of a rather successful summit. But its what that didnt happen - or happened anomalously - at this highly anticipated state visit that holds the key to Russias pre-eminence in global diplomatic and business spheres in 2017.

Before his first visit to Japan in 11 years Vladimir Putin and Japanese Prime Minister Shinzo Abe had met at least 15 times since 2012, mostly on the side-lines of international events. Abe had seemed more eager than his counterpart to have such a bilateral summit on home ground for mainly two thorny issues that have dogged him personally and politically. The first involved a historical territorial feud with Russia centring fours disputed islands off Hokkaido that Japan calls the Northern Territories. For Abe it was the perfect opportunity to nudge Russia into discussing their potential handover. Japan has long insisted its sovereignty over the islands before their seizure by erstwhile Soviet Union after the WW II. The dispute has remained a hurdle to the unsigned Peace Treaty, the second issue, that the two neighbours never formally pursued since 1956.

To Abes chagrin the Russian left without delivering on either two. Many also viewed Putins plain refusal to accept Abes hospitality offering a traditional hot spa and earlier a gift dog as adding insult to injury. For Japanese media it was disrespecting unofficial diplomatic protocol, a conspicuous snubbing of their premier. But this was Putin subtly playing with boundaries, watching his counterpart unblinkingly, relishing the prospects of cracks under his crest. He almost came and

left on his terms, and showed no obligation to please his host more than necessary. But critically, the summit helped Russia set a template for engagement for 2017. It let Putin lay ground rules on how he should be expected to conduct Russian affairs.

On close scrutiny Abes decision to play host to Putin, even at the risk of violating sanctions against Moscow following its annexation of Crimea two years ago, reveals Japans strategic weakness and desperation to improve ties with Russia.

For one, Japan benefits from Russian energy imports including crude and LNG in critical ways. Its proximity with Russia allows delivery of fuel within days as opposed to weeks for other importers, giving Tokyo important leverage over quantity and pricing over short notice. For the worlds fourth largest economy antagonising fuel suppliers could have a crippling effect on its economy and energy security.

Donald Trumps victory in the US presidential elections has created strategic uncertainty for Japan. Despite retracting suggestions that Japan and South Korea should build nuclear weapons to defend themselves against aggression rather than rely on Americas interventions Trump has succeeded in sending a clear message to Washingtons old allies.

Announced last week Trumps choice of former Exxon chief Rex Tillerson for his secretary of state is Americas proverbial present to Russia just before 2016 ends. Tillersons well-known close ties with Putin and his coterie further diminishes Japans scope for playing the potential mediator between America and Russia.

The third but equally significant pivot towards the Russian power came from Qatar in early December. The renewed engagement between the two, on the opposing sides of the Syrian war, again came wrapped in cooperation on energy deals. Qatar Investment Authority (QIA) along with commodities trader Glencore signed a deal to buy 19.5% stake - a massive slice of the pie - in state-owned Rosneft. By its own chief executive Igor Sechins admission the privatisation deal is the largest in Russias history.

The deal worth \$11.3billion threw a lifeline to Russian economy still reeling from the effects of weak oil prices, economic volatility and US-backed sanctions. But for Qatar the golden opportunity to buy a meaty stake in one of the biggest oil companies in the world not only gave it favourable control on oil market fluctuations it has also afforded it ground for a diplomatic compromise with Russia, a staunch pro-government supporter in the Syrian civil war. Basher al-Assads future as the Syrian president remains unchallenged for now. Some experts see Qatars deal with Russian Rosneft as a reflection of pragmatism in its foreign policy. That pragmatism, however, irrefutably plays to Russias benefit in global muscle-flexing.

Trump's victory last month had already signalled changes in Russias political and economic fortunes. Add to that multi-million dollar energy deals wrapped with tacit political nods from Qatar and Japan, and you now have Russia playing from a position of enormous strength in the new year.