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## Northern Sea Route: Economic and Political Significance for Russia

**Bartosz Bieliszczuk**

*The Arctic's growing significance for Russia stems not only from the extraction and potential of the natural resources in the region but also the country's strategic goal of taking advantage of rising maritime transport via the Northern Sea Route (NSR). To benefit from the region, Russia is developing its fleet of nuclear icebreakers and has leveraged Chinese investments in the region. Cooperation in the region seems to be advantageous for Russia to achieve its goals, but the growing dependence of Europe on transport via the NSR may help Russia achieve political goals as well.*

**Russia's Ambitious Goals, Challenges.** The Arctic region is Russia's resource base and its significance will only grow. In 2017, Arctic onshore resources accounted for 17% of Russia's oil production and 90% of its natural gas production. The biggest Russian companies are active on the Yamal and Gydan peninsulas and the Arctic continental shelf and the significance of the Arctic for the Russian oil and gas sector were emphasised in Russia's 2008 Arctic strategy and in other strategic documents. According to the U.S. Geological Survey, the Arctic is estimated to hold 30% of the world's undiscovered gas and 13% of its undiscovered oil. In the future, the significance of Russia's claims on the continental shelf will grow as its mainland resources wane.

With such high prospects for offshore reserves, Russia is extending its territorial claims in the Arctic, such as the Lomonosov Ridge, which it says is a portion of its continental shelf. If its claim holds, the ridge would give Russia access to a reserve estimated at 5 billion tonnes of oil and gas (its current oil reserves are around 14.5 billion tonnes).

The Lomonosov Ridge stretches through the North Pole between the archipelago of Russia's New Siberian Islands, Greenland, and Canada's Ellesmere Island. Russia has for years been attempting to prove its claim at the UN. However, Russia cannot be sure of success because Canada and Denmark also have territorial claims to the ridge.

Despite the big potential of reserves on the shelf, Russia has had difficulty exploiting them. Among the obstacles it faces are the sanctions introduced by the EU and U.S. that limit Russia's access to drilling technology. As a result, Russia must replace Western technology with its own or seek replacements abroad. Moreover, Russian companies do not have the necessary experience in offshore work in such a difficult environment and must cooperate with partners with the necessary know-how. Russian law limits offshore licenses for work in the Arctic to state-owned companies with a minimum of five years' experience on the shelf, which means in effect only Gazprom and Rosneft are allowed to operate there, forcing other companies to work with them. In recent years, low oil prices have been another obstacle, making extraction from the most difficult fields unprofitable. Currently, only Gazprom subsidiary Gazprom Neft extracts hydrocarbons on the shelf—in 2017, it produced 2.6 million tonnes of oil and 0.6 bcm of gas from the Prirazlomoye field, the only producing field on the shelf so far—but new production could begin thanks to tax benefits.

**Russia's Militarisation of the Arctic.** Russia seems ambiguous in its approach to the Arctic. Despite its openness to cooperation with foreign companies, it emphasises (for example, in the naval military doctrine of 2017) that the Arctic is an area of growing rivalry. Russia justifies its military presence by the need to secure infrastructure and resources. Russia is developing bases on Kotelny and Wrangel islands in the Arctic and is developing offensive capabilities in the region, among other military activity.<sup>1</sup>

This militarisation is also connected to the growing importance of maritime transport via the NSR since Russian military forces participate in search-and-rescue actions. Russia could also cite the Arctic Council agreement on cooperation in search and rescues in the Arctic as it gives each signatory the responsibility for a specific area in the Arctic, with Russia being responsible for the largest portion.

**The Significance of the NSR.** For years, the route was difficult if not impossible to sail through, but climate change has made it a more attractive trade route as the ice has thinned and open water lasts longer each season. The route from Europe to East Asia on the NSR (following Russia's Arctic coastline) is a third shorter than via the Suez Canal. The efficiency of this route for shippers, along with the production of oil and gas, will be important to Russia far into the future. To secure its interests in the region, Russia has been developing its fleet of nuclear icebreakers (the only country with such vessels), along with bunkering infrastructure and Arctic-class LNG carriers. These ships are intended not only to carry Russian gas—in 2017, one transported LNG from Norway to Asia—but also goods. Russia forecasts cargo transport via the NSR to increase from the 10.7 million tonnes recorded in 2017 to 80 million tonnes by 2024. This will be achieved in part by growing the volume of LNG shipments. In 2013, Russia abandoned Gazprom's monopoly on LNG exports, allowing Novatek to build its Yamal LNG terminal.

Russia also aims to develop its domestic shipping industry, thanks to the nationalisation of transport of natural resources via the NSR. Russian federal shipping code states that oil and gas produced along the NSR must be transported by vessels under Russian flag. From 2019, vessel transporting natural resources have to be built in Russia (for example, state-owned Rosneft plans to build Arctic oil tankers). However, there are exceptions under this law, since Yamal LNG carriers are constructed in South Korea and sail under a foreign flag.

Effective navigation via the NSR requires much coordination, such as ensuring communication with ice breakers, convoys of ships, and meteorological services. Russia is passing most of these competences to Rosatom, already responsible for the country's nuclear industry. Its subsidiary, Rosatomflot, already sees strategic significance in the NSR, where it operates four nuclear icebreakers. This year, the Russian State Duma should approve a law giving Rosatom broad competences in the Arctic, including management of port infrastructure along the NSR and money from the federal budget to maintain it.

**China, a Key Partner.** China has become Russia's most important partner in the Arctic. Two important shareholders of Yamal LNG are the Chinese state oil and gas company CNPC, with a 20% share, and the Chinese Silk Road Fund, with 9.9%. China imports LNG from the Yamal LNG terminal and is interested in further investments in the Arctic, with loans from the China Development Bank or through the Polar Silk Road initiative examples of that.

China also imports Norwegian LNG, but its focus on the NSR stems not only from the resources it needs but also the greater access to rapid sea transport. China-EU trade volume in 2017 was around €573 billion, of which around 60% was sea trade. Estimates are that this trade by 2025 will exceed €650 billion and the significance of the NSR should rise with it.

**Conclusions and Perspectives.** Investments, international cooperation, and amendments to Russian domestic law are meant to allow Russia to benefit from oil and gas production and shipping as well as EU-China trade via the NSR. This route should allow Russia to ship resources to both the European and Asian markets. As for foreign competitors, the current development of the NSR will force them to seek cooperation with Russia, for example, in LNG trans-shipment, especially to decrease the costs connected with operating Arctic-class LNG carriers. Russia's image as a constructive partner will serve its interests best. Therefore, Russian diplomacy is most likely to support international cooperation in the Arctic. This could be another step in strengthening Russia-Europe economic ties, which Russia may hope results in more amicable policy among European countries. If the sanctions against it are prolonged, Russia—thanks to its growing cooperation with China—might signal strategic rapprochement with Asia instead. Cooperation in the energy sector and the NSR would be an important part of this.

The question remains about Russia's long-term policy and the possibility to use the NSR for political leverage, for example, by selectively refusing to provide services for ships under the flag of certain countries. A more confrontational policy cannot be ruled out, prompted by, for example, a denial of Russia's territorial claims in the Arctic. In any case, Russia will be able to conduct more assertive policy thanks to its military build-up, justified by the Kremlin as securing the NSR.

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<sup>1</sup> A. Gawlikowska-Fyk, M. Terlikowski (ed.), *Nordic-Baltic Security in Times of Uncertainty: The Defence-Energy Nexus*, PISM Report, February 2018, pp. 21–22, [www.pism.pl](http://www.pism.pl).