

Energy Developments in the Arctic – the Russian Approach

Prof. Dr. Lev Voronkov

MGIMO-University

The energy interdependence is one of the most important components of the overall EU-Russia relations. The EU is the predominantly consumer of these resources and Russia is producer and supplier of them to world markets. From the commercial point of view energy interests of the EU and Russia are quite different.

The EU is the major export market for Russian energy resources. Revenues from this export are critically important for the Russian state budget. Too high dependence of Russia and its social-economic development and prosperity from this main export market may have and already has certain painful geopolitical consequences for the Russian state policy. It is quite dangerous to further increase this dependence and by doing so to provide the leading bodies of the EU with additional tools to exercise political and economic pressure on Russia.

Stable and growing demand of the EU market on Russian energy resources for a foreseeable future is vital for Russia and its oil and gas companies not only in terms of Russian budget, but also for the strategic decision making on investments to exploration, drilling, extraction and transportation of these resources, including Arctic ones, to markets. The “shale revolution” in the United States is seriously challenging the general situation on world energy markets, exercising strong impact on both oil and gas demand and prices. In these circumstances it is quite important to understand that the major problem for Russia as one of the biggest suppliers of hydrocarbons to the EU is getting to become not only the reliability and safety of their deliveries but first and foremost a level of demand on them in the EU states.

Russia can not ignore the EU policy of limiting a share of Russian energy resources on its market, which in practical terms means that the energy market of EU can not be considered as the main one for Russian energy export in a distant future. Construction of pipelines for oil and gas deliveries to the EU market is time- and money-consuming enterprise, increasing (not less important) the regional affiliation and dependence of the Russian export of energy resources on the EU market. There are growing markets for energy resources in Asia, but it is quite problematic to deliver them from Russia (nothing to say about the Russian Arctic) to these new Asian markets only by pipelines. LNG plants in the Arctic are one of the alternatives to be seriously considered.

The discovery of vast hydrocarbon deposits provided the material basis for the rise in the Arctic's geopolitical importance today. The survey «Circum-Arctic Resource Appraisal: Estimates of Undiscovered Oil and Gas North of the Arctic Circle», prepared by the US Geological Service (USGS) in 2008, compares 95% of all oil and gas discovered deposits in other parts of the world having similar geological conditions with different Arctic regions and assess on this basis a probability of hydrocarbon deposits in them. This analytical approach about probable potential deposits needs to be confirmed by direct geological data and by exploratory drillings. The overall non-confirmed hydrocarbon deposits are assessed in 412 bln. barrels in petroleum equivalent, the discovered deposits on land in the Arctic contains 240 bln. In accordance to the USGS, around 22% of undiscovered deposits of hydrocarbons in the world are located on the Arctic shelf or 90 bln. barrels of oil (13% of world undiscovered deposits), 48,3 trillion cubic meters of gas (30% of world undiscovered deposits) and 44 bln. of gas condensate (20% of world undiscovered deposits).

More than 70% of undiscovered oil resources are located in five Arctic provinces, namely: on Alaska and hereabout Arctic shelf; America-Asian basin; eastern shelf of Greenland; eastern shelf of Barents Sea as well as on shelf between eastern coast of Canada and western coast of Greenland. More than 70% of undiscovered gas resources are located in three Arctic provinces, namely: in western-Siberian basin, on eastern shelf of Barents Sea and on

Alaska and hereabout Arctic shelf. The major part of Arctic deposits of natural gas is located on Russian shelf of Kara and Barents seas.

Amid the world community's concern about the provision of energy resources the Arctic hydrocarbon reserves are acquiring global importance, attracting close attention to the Arctic from a large number of influential countries located far outside its boundaries. A division of these resources and rights for their exploitation are closely linked to the legal status of the Arctic areas where these resources are located.

The ratification by Russia, Norway, Denmark and Canada of the 1982 Convention on the Law of the Sea, that have come into force ensured the extension of their jurisdiction to the 200-mile zone of their continental shelf as well as to the corresponding exclusive economic zones with the natural resources located there. In accordance to experts, up to 97% of the Arctic hydrocarbon resources are located within these zones. This means that they are already divided in between the Arctic coastal states. No one state, Arctic or non-Arctic alike, does officially deny these justified rights of the coastal states. This means that there are no reasons to characterize the actual situation in the Arctic as "the fight for resources" due to non-existence of any legal grounds for this as well as of any fight.

The provisions of the 1982 Convention enable the Arctic coastal states to significantly increase - up to 350 nautical miles - the zone of their national jurisdiction on the continental shelf in the Arctic Ocean. To that end, they are to present to the International commission on the limits of continental shelf conclusive evidences that, in particular, the underwater Lomonosov Ridge is the continuation of their continental platforms. Russia, Canada and Denmark are conducting now relevant studies to obtain essential scientific data to submit them to the Commission. But any outcome of their claims will hardly significantly increase the volume of hydrocarbons in possession of individual Arctic coastal states. In case they are not accepted, the right to possible exploitation of resources on the floor of the ocean behind the 200-mile zones of national jurisdictions will be determined by the international Sea-Bed Authority. At the actual stage it is too early to speak about a final

configuration and delimitation of the Arctic shelf. The global commons may not emerge in the Arctic in principle if all of the coastal Arctic states are not parties of the 1982 Convention.

The USA is not a party of the 1982 Convention on the Law of the Sea. The recent refusal of the US Senate to ratify the Convention means that the United States does not actually limit the breadth of its Arctic shelf in principle. By doing so the USA does acquire the possibility to utilize the hydrocarbon resources of its Arctic shelf not only equally with other coastal Arctic states but also with certain competitive advantages due to noncompliance of the USA to financial and limiting commitments of the Convention concerning, in particular, the sea-bed resources behind the limits of national shelf in the Arctic. At the same time, the United States has signed the Ilulissat Declaration of five coastal Arctic states in 2008 saying that all of them are committed to act in the Arctic in accordance to international law in general, and law of the sea, in particular. On top of it, US Secretary of State John Carry has signed the statement of the Arctic Council in Kiruna on 15 May 2013 saying (quotation) “We are confident that there is no problem that we cannot solve together through our cooperative relationships on the basis of existing international law and good will. We remain committed to the framework of the Law of the Sea, and to the peaceful resolution of disputes generally”. This has been done after the recent refusal of the US Senate to ratify the 1982 Convention on the Law of the Sea.

Representatives of the five coastal states bordering on the Arctic Ocean – Canada, Denmark, Norway, the Russian Federation and the United States of America - met at the political level on 28 May 2008 in Greenland and adopted the Ilulissat Declaration that is the firm ground for their actual interaction. The Declaration says that “the law of the sea provides for important rights and obligations concerning the delineation of the outer limits of the continental shelf, the protection of the marine environment, including ice-covered areas, freedom of navigation, marine scientific research, and other uses of the sea. We remain committed to this legal framework and to the orderly settlement of any possible overlapping claims. This framework provides a solid foundation for responsible management by the five coastal States and other users of this Ocean through national implementation and application of

relevant provisions. We therefore see no need to develop a new comprehensive international legal regime to govern the Arctic Ocean". The "Arctic 5" does intend neither compete nor replace the Arctic Council. This group of coastal Arctic states may deal with specific problems of their common concern and by doing so to support and compliment the activity of the Arctic Council.

There is no legal space for non-Arctic countries or international organizations to operate independently on the Arctic states in the zones of their national jurisdiction. The members of the Arctic Council have made a statement in Kiruna in May 2013 that decisions on all levels in this council are the exclusive right and responsibility of eight countries, which have signed the Ottawa declaration. By making this statement they reaffirmed their intention to resolve all the Arctic problems in their zones of jurisdiction without any interference of third countries or actors. On top of this eight member states declared their commitment to strengthen the role of the Arctic Council as the body not only shaping, but also making the Arctic policy. Apart from the legally-binding Agreement on cooperation on aeronautical and maritime search and rescue in the Arctic, signed in 2011, Arctic Council States signed recently a new legally-binding Agreement on Cooperation on Marine Oil Pollution Preparedness and Response in the Arctic which will substantially improve procedures for combatting oil spills in the Arctic.

It is important to emphasize that commercial companies of the Arctic and non-Arctic states alike are entitled to get involved into Arctic issues in accordance to their interests under conditions that are determined by the Arctic states in their zones of jurisdiction. The business forum at the Arctic Council is open for these companies. In accordance to the Russian legislation, only Russian companies with state shares and having experience of activity on shelf during not less than five years are entitled to work on the Russian shelf (Gasprom, Rosneft and Zarubezhneft). Other Russian and foreign companies may become partners of them. Several foreign oil and gas companies are already involved into such an activity (Statoil, ENI, Total, Shell, BP and others) in Russia. The share of the state oil monopoly Rosneft in the Russian production of natural gas and the share of gas state monopoly Gasprom in the Russian production of oil are growing and they start to compete with each

other. The monopoly for gas export belongs to Gazprom. There are other internal producers of natural gas in Russia, but they are not entitled to export their gas independently on Gazprom. At the same time the gas deposits of Rosneft, for example, are too large to consume them all internally. The growing understanding of necessity for Russia to produce and deliver LNG to world markets is accompanied by demands to liberalize its export.

Some of the non-Arctic states (China, France, Germany, Japan, India, Italy, Poland, Spain, South Korea, Singapore, the Netherlands, the United Kingdom) and international NGOs (including International Association of Oil and Gas Producers) are now observers at the Arctic Council. The members of the Arctic Council expressed their readiness to provide this status to all those who are able to contribute to its activity, share the commitment of member states to resolve conflicts peacefully and obey to the rules for observers, determined by the member states. Decisions on this matter are taken unanimously by them. The EU is properly represented in the Arctic Council by its three permanent members (Denmark, Finland and Sweden) and seven observers (France, Germany, Italy, the Netherlands, Poland, Spain, United Kingdom). Taking into account that the Arctic policy is determined by the EU Council, there is no lack of information about activities of the Arctic Council for the EU decision-making on the Arctic policy. The EU is the member of the Barents/Euro-Arctic Council taking part in its activity concerning the European part of the Arctic. The strive of the EU to get an observer status in the Arctic Council is political rather than pragmatic one aimed at emphasizing the institutional engagement of the EU in the Arctic issues.