
Istituto Affari Internazionali
INTESA SANPAOLO
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The Arctic Route
Climate change impact,
Maritime and economic scenario,
Geo-strategic analysis and perspectives
WEBINAR July 3rd, 2020
12.00 - 13.30 (CET)

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Climate change impact, Maritime and economic scenario, Geo-strategic analysis and perspectives

PRESENTATION OF THE RESEARCH

GIOVANNA PALADINO

MASSIMO DEANDREIS

WEBINAR July 3rd, 2020

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Speaker

GIOVANNA PALADINO

Head of the Technical Secretariat of the Presidency

Intesa Sanpaolo

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A special thanks to the research Team

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- **University of Antwerp**: **Gokce CELIK**, Researcher; **Jonas COELHO RIBEIRO DE RESENDE**, Researcher; **Edwin VAN HASSEL**, Senior Researcher at the Faculty of Transport and Regional economics; **Thierry VANELSLANDER**, Professor at the Department of Transport and Regional Economics.
- **Shanghai International Shipping Institute (SISI)**: **Jiadong FU**, Researcher; **Xiaoying GENG**, Researcher; **Yijie SU,** Researcher; **Shunyi WANG**, Researcher; **Kai XU**, Department Manager of SISI and Senior Engineer of Shanghai Maritime University; **Yushan ZHENG**, Researcher.

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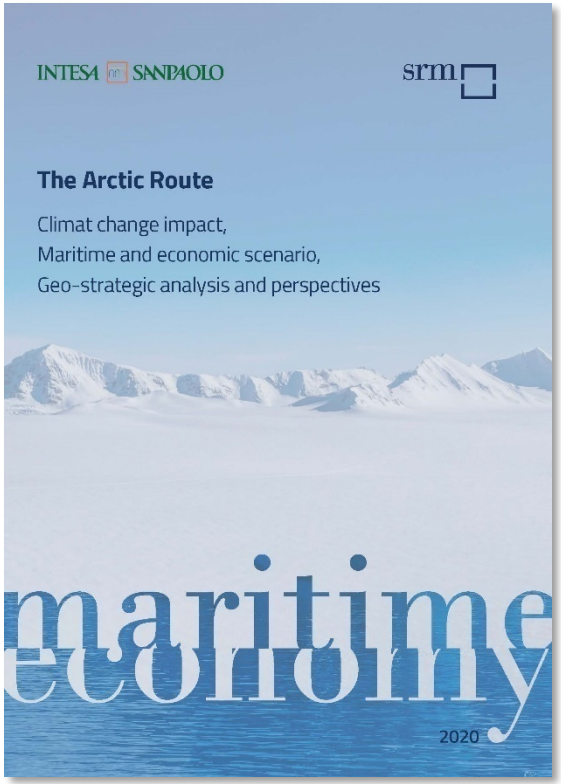
Agenda



- Climate Change & Geostrategic Analysis
- Maritime and energy scenario
- Conclusions

Environmental and climatic framework

Climate change poses some **challenges** to the Arctic Route:

- The full preservation of the Arctic environment
- A more flexible approach that combines economic opportunities and respect for the ecosystem

The **Arctic region** presents

- Difficult operating conditions
- Rapid increase in temperatures

Northern Sea Route:
1) Reduces the time of navigation between Asia and Europe
2) Impacts the Arctic environment

Environmental and climatic framework

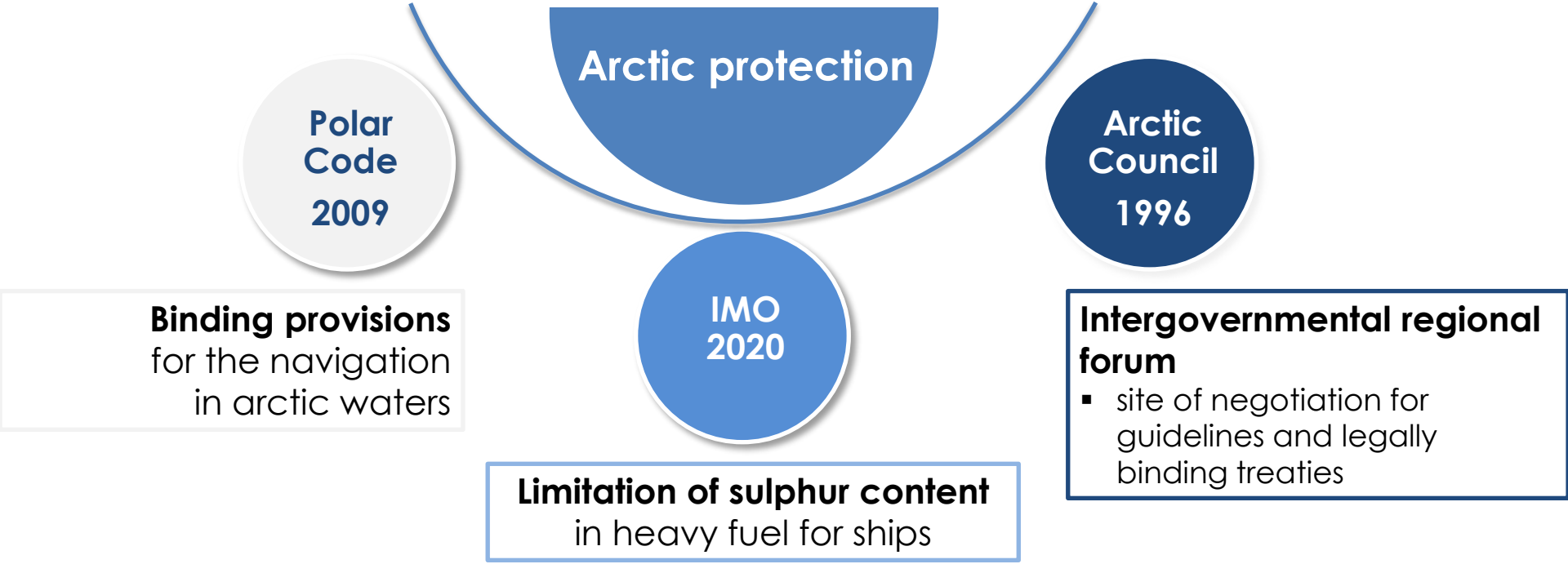
Global warming affects not only the environment, but also 3 main fields of economic activity:

- Onshore fossil resources extraction
- Offshore fossil resources extraction
- Shipping

The Northern Sea Route
can have both positive and negative effects for fisheries and local communities

Environmental and climatic framework

To preserve the Arctic, some mitigating initiatives have been taken:



Geostrategic aspects

The interest in the Arctic region increased…

Huge estimated untapped energy resources

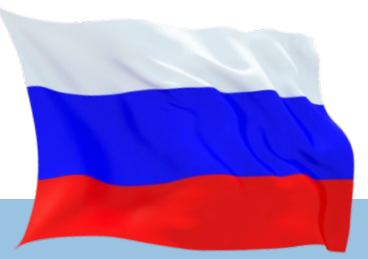
New possibilities for trading routes

A common ground for:

- scientific research
- environmental protection
- logistics

… but will it become a field for competition or cooperation?

Geostrategic aspects: the logistic advantage of Russia



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- Longest and most populated Arctic coastline
- Relevant reserves of energy commodities and minerals
- Big scale oil & gas operations (Yamal, Arctic LNG 2)
- Several State-funded development projects in Siberia and Far East
- Strenghtened partnership with Chinese companies

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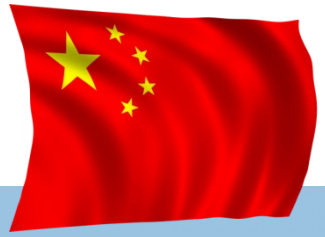
- Inland logistics still insufficient to support year-round traffic
- Port facilities need investments for upgrades
- Outbound traffic vastly outweighs inbound one
- Regional development plans lack integration and synergy

Over time, will the expected capital flow from energy commodities exports finance the development of Russian infrastructure?

Geostrategic aspects: China's need for energy and new markets



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• Significant financial resources invested in SOE to operate in the Arctic • High complementarity with the Russian economy • State funded plans to improve logistics, including the construction of icebreakers • Integration of the Northern Sea Route in the Belt and Road Initiative • Observer status in the Arctic Council	• Investment plan focused more on selected energy projects than on container traffic • Strict regulations to navigate the Northern Sea Route • Long term goal to become an independent Arctic player regardless of the partnership with Russia

The marriage of convenience with Russia will last long enough?

Geostrategic aspects: the United States, a watchful observer

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- Implementing a containment strategy of both Russian and Chinese ambitions
- No urgency to invest heavily in the Northern Sea Route: the US is a net energy exporter through technology
- Interest in enforcing access and freedom of navigation in Russian Arctic

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- Severe lack of infrastructure and icebreaking capabilities
- Difficult / unfair competition with Chinese State conglomerates
- Smaller construction capacity than Chinese counterparts
- Unclear position on climate change

Can the United States actually ignore the Arctic theater?

Geostrategic aspects: the European Union, a hesitant player with prospects

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- Strong normative commitment towards Arctic environmental protection
- Efficient network of Northern ports that can operate as gateways for NSR traffic
- Maritime gas supply chain consistent with its decarbonization and logistics strategies

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- No direct involvement in the Arctic Council
- Lack of a specific economic policy for the Arctic routes
- Sanctions against Russia limit the cooperation on energy

The Covid-19 pandemic has deeply affected the economic and political landscape

- Global slowdown lowered fossil fuels demand
- China's reputation is challenged and its project might face reduced support
- Oil oversupply has worsened

Will the European Union step in and promote the NSR with its rule-oriented approach?

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MARCO BIRAL

Credit Analyst

Technical Secretariat of the Presidency, Intesa Sanpaolo

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Legal perspectives

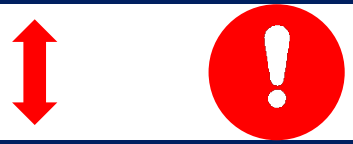
Arctic waters are governed by an articulate system of norms:

The coastal Arctic States:
Canada
Denmark
Norway
Russia
USA

United Nations Convention on the Law of the Sea (UNCLOS, 1994)

Customary international laws	**Legally nonbinding rules**
International Maritime Organization	Arctic Council

In some maritime zones set by UNCLOS lies potential conflict between Legislations.



Article 234 UNCLOS allows Russia to gain more leverage to control the NSR.

Legal perspectives

The European Union is trying to strike a balance between:

- preserving the arctic environment and
- integrating it with its logistic corridors.

→ **European Union Global Strategy and Integrated Strategy for the Arctic (2016)**

→ **Trans European Transport Network (Ten-T)**

The European Union must act both within and outside its boundaries.

Further enhancement of its infrastructures and ports through various policies and tools (like the Connecting Europe Facility).

More elasticity of ports funding at State level.

A possible extension of Ten-T Corridors (Scandinavian – Mediterranean and North Sea – Baltic).

Negotiation with the Arctic Council for a better status.

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MASSIMO DEANDREIS

General Manager

SRM Economic Research Center – Intesa Sanpaolo

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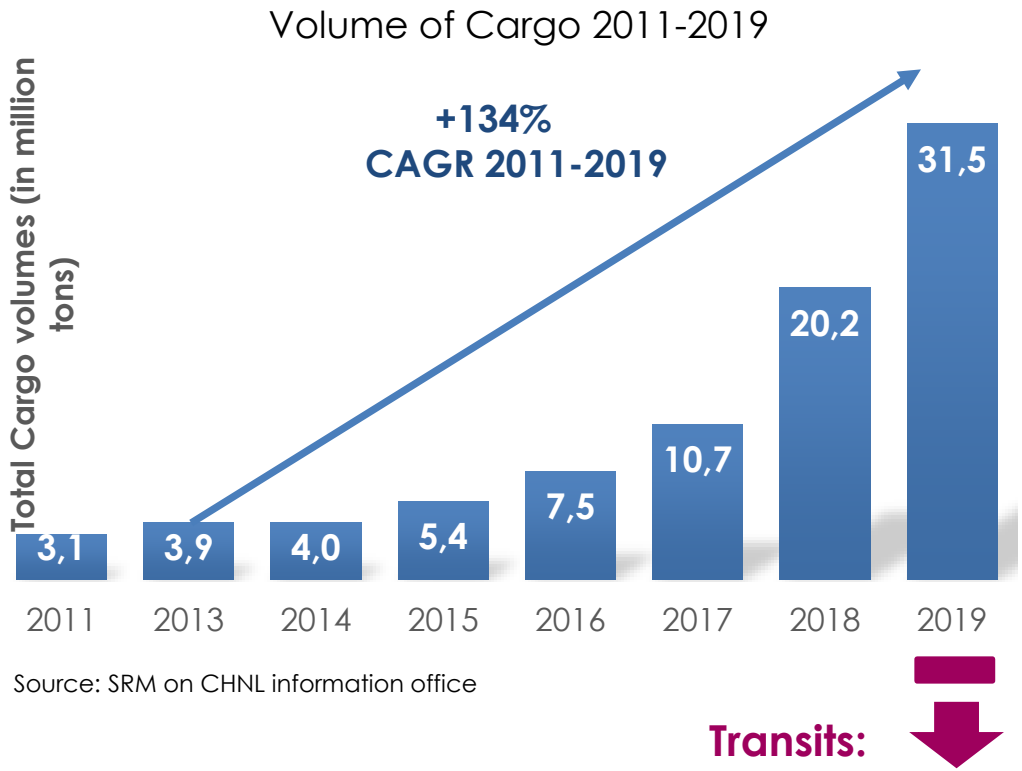
The Arctic Maritime routes

Routes along the Arctic

- There are **three** main routes along the Arctic: **The Northern Sea Route (NSR), the North-West Passage (NWP) and the Transpolar Sea Route (TSR).**
- **The NSR is the most promising one** as it is the link between **Europe and Asia** and for its **less harsh climate.**
- In 2019, **the NSR was open to transits for 30% of the year** from July to the beginning of November.

Source: SRM on Arctic Portal

The brilliant performance of the NSR



Source: SRM on CHNL information office

- 2011-2019: the NSR shows **a dramatic increase**. In 2019, 31.5 million tons were handled.
- The **NSR** is a **regional route**: **98% is SSS** activity **concentrated** on the Russian port of **Sabetta (55%).**
- **Transits** (almost 700,000 tons) are only **a part of** the **handling activity.**
- In 2018, **Venta Maersk (3,600 Teus) completed the 1st containership transit** along the NSR (between S. Korea and Germany).
- **Chinese COSCO is the most active shipper** in the NSR (19% of transits only in 2019).

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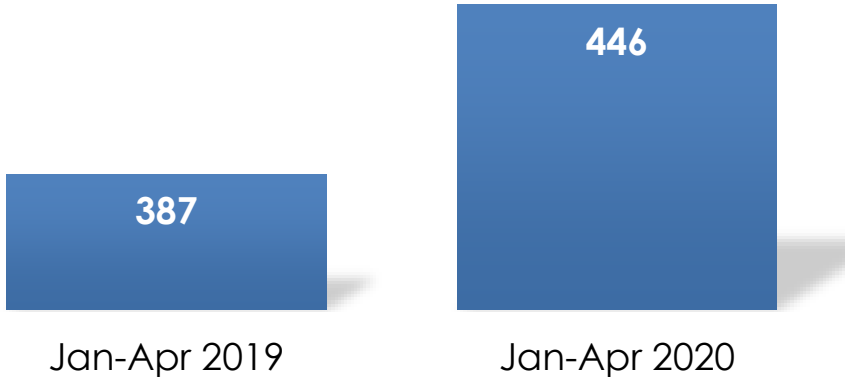
…even in the period Jan-Apr 2020 (during the Covid-19)

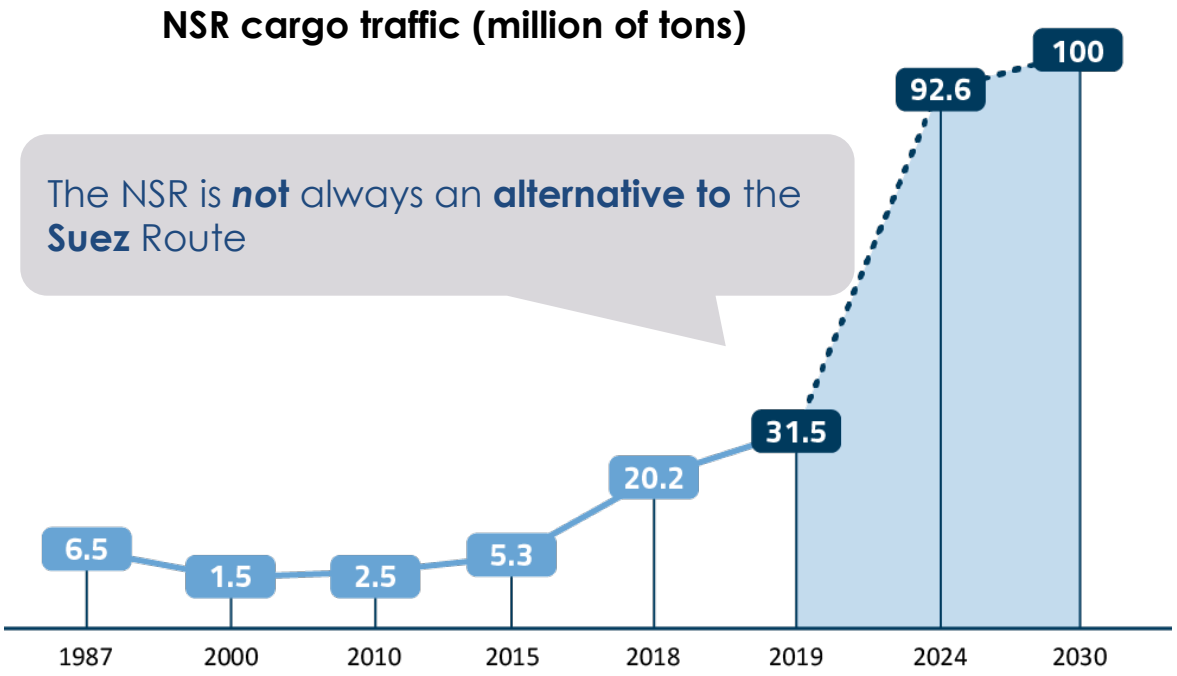
NSR Traffic in January-April 2020
(N° of Voyages)



Source: SRM on CHNL information office

- Between January and April 2020 NSR **activity did not stop** (+15% on January- April 2019).
- this is happening also because **shipowners** are looking for new **routes at lower costs** as in the case of circumnavigation of the Cape of Good Hope.

The route is expected to grow even more



Source: SRM on rosscongras.org

- **Russian government officials** predict cargo volumes on the NSR as high as **92.6 million tons by 2024**, and **by 2030** they hope to add a significant part of **international transit to that**.
- Russia expects shipping along the NSR to **increase more than threefold by 2030 compared to 2019 levels.**

An example of the NSR impact: route benefits

- The figure shows examples of routes and **the impact of the NSR**

Trade Route	SUEZ Days	NSR Days
Yokohama-Rotterdam	31	19
Shanghai-Rotterdam	29	22
Shanghai-Genoa	24	31

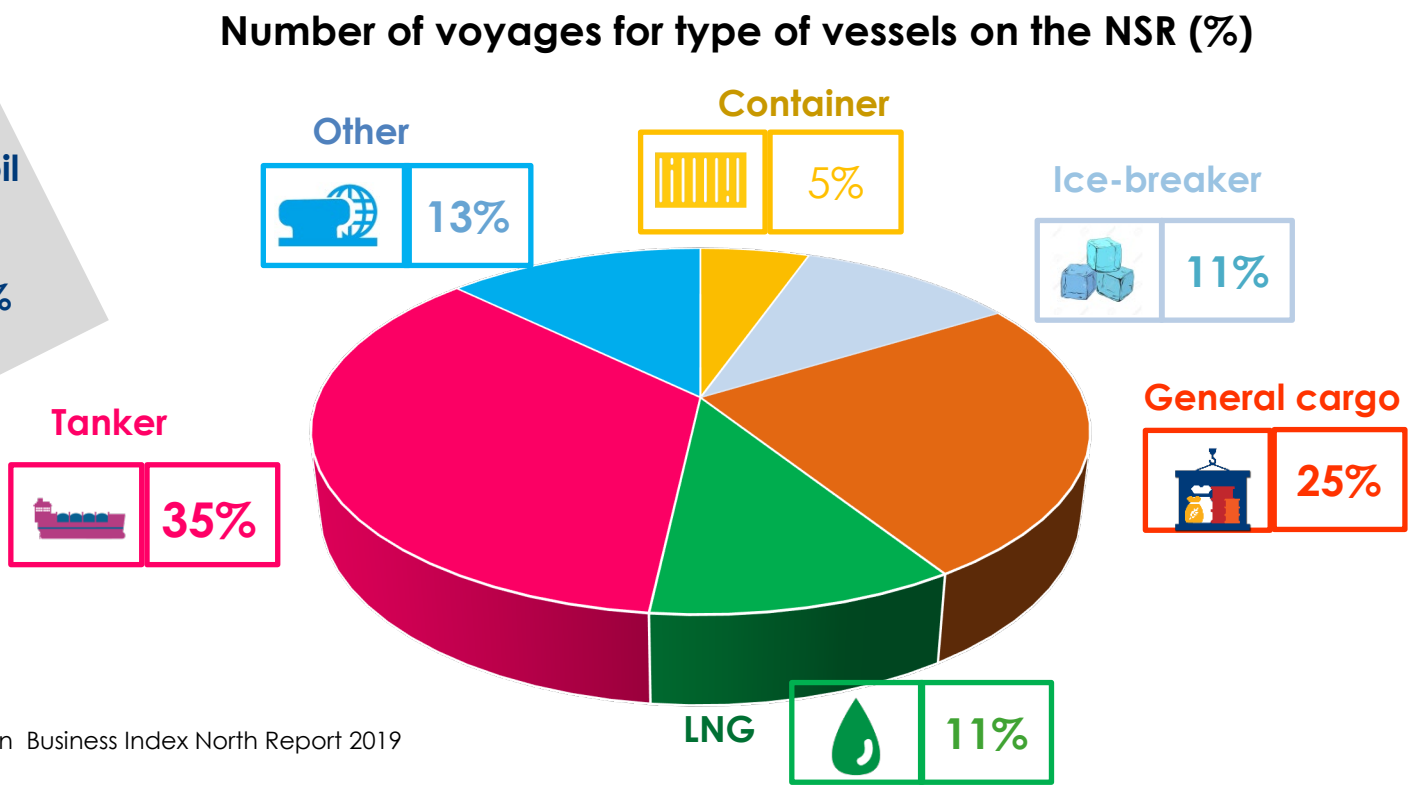
Convenient route

Point of indifference: Ho Chi Minh C. (Rotterdam) & Yokohama (Genoa)

Source: SRM elaboration

Different trade type along the NSR

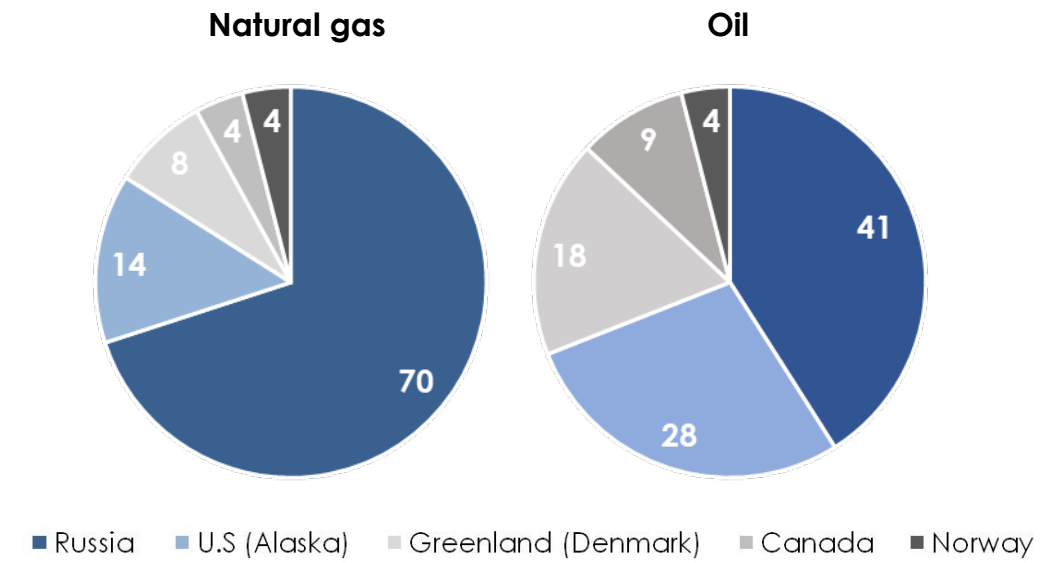
The voyages of oil tankers and LNG ships covered 46% of market share



Source: SRM on Business Index North Report 2019

The Arctic: a strategic maritime energy corridor

Distribution of **undiscovered hydrocarbon resources** among the Arctic Costal states **(%)**



- Total undiscovered conventional fossil resources: **90 billion barrels of oil**;
- Approximately **1,700 trillion cubic feet** of **natural gas;**
- **44 billion barrels of liquid natural gas.**
- **Russia: 70% Gas & 41% Oil**

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OLIMPIA FERRARA

Head of Maritime Economy Observatory

SRM Economic Research Center – Intesa Sanpaolo

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Energy Investment: Yamal LNG

- ❑ **LNG is one of the strategic and sustainable driver of shipping**
- ❑ **Yamal LNG** is one of the largest LNG projects in the world

- **Project:** 98.1% completion.
- **Total investments** nearly $**30.5 billion** at the end of 2019**.**
- **Three liquefaction trains in operation.**
- **Sabetta port** takes part in this project with an handling of 20.7 mln. tons in 2019.
- **Production** 2017-2019: 27.2 million tons of LNG.
- **A twin project** was placed: **Arctic LNG-2.**

Source: SRM elaboration

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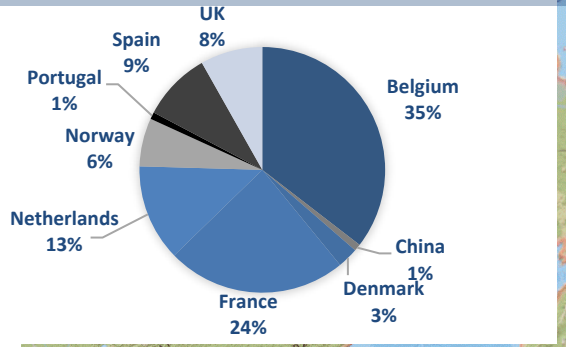
LNG transportations on NSR in Jan-May 2020

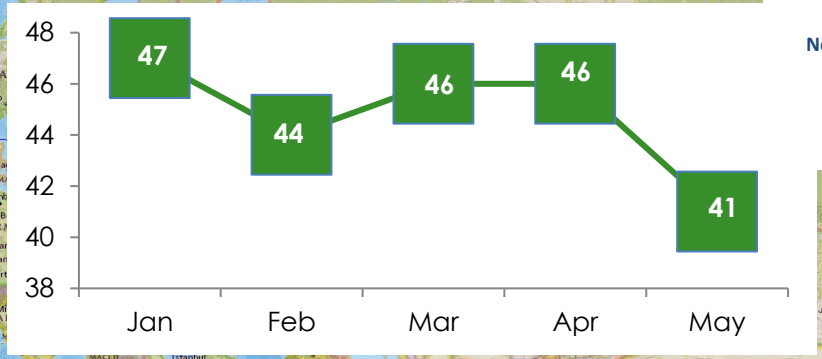
NORD University

Sabetta

Export voyages from Sabetta in Jan-May 2020



N. Voyages of LNG carriers in Jan-May 2020



Source: SRM on CHNL information office

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Conclusions

1. The **Arctic Route** has great **potential** as a **transoceanic route**, but this will probably become more apparent **in** the **long term** rather than in the near future.

2. Suez and the Mediterranean will remain central for a long time. The development of the Artic route will be complementary

3. **Climate change and the enviromental impact** are **critical issues** for the exploitation of the Arctic Route both for shipping and energy sector.

4. **The Arctic** is currently a **maritime energy corridor** rather than a global cargo route.

5. The international and complex **legal framework needs to be harmonized** to avoid drawbacks.

6. A **geo-political context still in balance**: between **competition and cooperation**. Will the **Covid-19** pandemic **change the game?**

Thank you for your attention