

# Arctic a Road to Promise for Russian Shipping

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SEVERODVINSK, Russia — When severe snowstorms prevented life-sustaining fuel supplies from reaching the frozen Alaskan town of Nome, U.S. officials turned to a Russian company for help.

The relief mission through perilous, ice-choked seas was the first mid-winter fuel delivery to western Alaska capping a year of pioneer shipping, as oil and gas development and climate change increase traffic along northern trade routes sought by centuries of Arctic explorers.

Russia has staked future growth on mining the Arctic's vast energy resources, and reviving a Soviet-era shipping route along its Siberia coast is an integral part of that plan. It could also promise economic revival for Russia's ports and shipyards, struggling since their Soviet-era glory days.

But industry analysts and mariners say ice floes, narrow straits, shallow waters, poor infrastructure and stormy winters continue to loom as obstacles to safe and profitable shipping through the polar shortcut.

"We must develop the Arctic!" said Fazil Aliyev, a sea captain and owner of the tanker that voyaged to Alaska.

"It is profitable for everyone. Our clients win because their cargo is delivered faster, now we need to make it economically viable. ... Try to make it a year-round route," he said, speaking by phone from Vladivostok.

Aliyev's company, Rimsco, tripled cargo along Russia's coastal waterway last year when a warm summer kept the Northern Sea Route open for a record 141 days, almost a month longer than usual.

The circumpolar route is a network of sea lanes across the top of continental Eurasia which crosses Russian waters from the Kara Gate to the Bering Strait and trims some 7,400 kilometers off southern routes.

Danish shipping group Nordic Bulk Carriers said it saved a third of the cost and nearly half the time sending goods to China by sailing north of Russia instead of via the Suez Canal.

"It's a very promising region and an interesting shipping lane that almost halves the distance between Europe and the Far East," Aliyev said.

## **Shipyard's Tough Times**

In the White Sea port of Severodvinsk, defense contracts won by the shipyard and tested at a nearby naval base still pay the bulk of wages.

Big black submarines lumbered out to sea from its docks in ice-free waters without the help of tugboats or icebreakers unusually late into the fall last year.

Built in the 1930s, the state-owned Sevmash shipyard 35 kilometers north of Arkhangelsk, is a jumble of buildings and factory floors big enough to be a town itself, with canteens, churches and a museum for its 27,000 employees.

The shipyard saw tough times in the 1990s as Moscow slashed defense spending, and Russia's share of the global shipbuilding market dwindled to just 0.2 percent. China and South Korea now dominate, with 37 and 35 percent of the market, respectively.

Yelena Makhovetskaya, 27, a graduate of Sevmash's shipbuilding university, said salaries were among the highest in the Soviet Union when her parents moved here in the 1970s. Wages have since fallen against the national average, many people have left and fewer are coming to work in the region, she said.

But new state contracts are fueling a revival. The sector was one of the few to see growth in crisis-hit 2009, with output up 62 percent and another 8 percent in 2010.

Sevmash's director, Andrei Dyachkov, said the shipyard hopes to profit from its know-how in the Arctic to win orders to build offshore drilling platforms, ice-capable support ships and even a floating airstrip to service oil fields in the Pechora Sea.

A race to exploit energy riches in the Arctic sea floor — believed to hold as much as one

quarter of the earth's untapped hydrocarbons — has already brought new contracts.

Under an order from state energy firm Gazprom, Sevmash completed Russia's first ice-resistant offshore production platform, which was tugged out to the Pechora Sea in August to drill at the oil-steeped Prirazlomnoye field.

### **Quick and Pirate-Free**

Russia has long hauled cargoes of oil, iron ore and fish products across its sprawling northern coast, but until 2009 no foreign-flagged merchant vessel had plied the trade link.

When fast-rising temperatures melted Arctic ice cover to its second-smallest recorded area in 2011, a record 34 barges — more than double 2010 and including supertankers — piloted the icy seas.

Shipping giant Sovkomflot plied the coastal waterway with the biggest ship ever, a Suezmax-class tanker loaded with 120,000 tons of gas condensate, while a vessel owned by Scorpio Tanker sailed from the Atlantic to the Pacific Ocean in a record eight days.

Prime Minister Vladimir Putin has cast it as a quicker and pirate-free rival to the Suez Canal.

"I have no doubt this is just the beginning," Putin said of the voyages at an international Arctic forum in September.

With its eye on the billions of dollars earned by Egypt's waterway, Moscow hopes transit tolls and fees from the compulsory lease of one of its atomic-icebreaker escort ships will help fund its own costly infrastructure needs in the Arctic.

Most of Russia's 5,500-kilometer Arctic-facing coast is uninhabited, lacking refueling stations, navigational infrastructure and coast guards to help stranded seafarers.

Its unrivaled fleet of nuclear icebreakers is a financial drain whether or not they are in use since the reactors need to remain constantly on, Arild Moe, deputy head of Norway's Fridtjof Nansen Institute, told Reuters.

"The waterway is considered an important part of national transport infrastructure, as well as a manifestation of Russian interests in the Arctic," Moe said. "The crucial issue is financing."

The Kremlin plans to spend \$1.2 billion through 2014 on its ice-class fleet and build three atomic-powered and six diesel-electric icebreakers by 2020.

Dyachkov described winning these tenders as a potential game changer.

"It would confirm Sevmash as the center for atomic shipbuilding in Russia," he said.

### **Hazardous Waters**

One of the biggest barriers will continue to be the region's formidable winters.

Ice floes, heavy fog and violent storms like those that have hit Alaska this month increase the environmental and safety risks — driving up liability insurance rates.

There is little economic incentive today for shipowners to order the more expensive ice-capable tankers, said Erik Nikolai Stavseth, an analyst at Norway-based Arctic Securities.

"I don't think standard vessels will be out-competed yet — for the next five to 10 years," Stavseth said. "We are going to see more pioneering and more exploratory shipping, but I would not bank on the Northern Sea Route becoming a standard route."

Some scientists say rising temperatures could make sailing the Arctic waters more hazardous — not easier — in the near future, bringing more icebergs and fiercer storms.

"This could be a real problem for offshore platforms and tankers," said Genrikh Alexeyev, an expert on the interaction of the ice, ocean and atmosphere at Russia's Arctic and Antarctic Institute.

The dangers of plying the Arctic seas were spotlighted when a drilling rig with 67 crew members capsized and sank off Russia's far eastern island of Sakhalin in a storm last month, killing 53.

Experts say a leak even a fraction of the size of BP's disaster in the Gulf of Mexico could be devastating in frozen seas — halting dreams of Arctic transformation in their tracks.

"Ice, like a blotter, easily absorbs oil products, and oil stuck to ice can spread colossal distances," said Inna Nemirovskaya, head of the P. P. Shirshova Institute of Oceanology at the Russian Academy of Science.

But Russia is playing the long game in the Arctic.

"For Russia, development of Arctic resources is a vital interest. It is the key to maintaining and increasing gas exports," said Charles Emmerson, author of "The Future History of the Arctic."

"We are witnessing the first of a five-act play."

If and when climate change opens up the Arctic to year-round bulk shipping, Russia has a head start, Aliyev said.

"We've learned in the most extreme weather, so that when it gets easier there won't be anything to be scared of," he said.

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