

Balancing Development And the Environment

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The recent Davos Forum experts have recommended that Russia's economic growth be focused outside of Moscow, with a particular emphasis on not only those regions already given federal incentives but the Arctic as well. Concurrently, the United Nation's International Maritime Organization is finalizing a new draft of the "Polar Code." This code seeks to regulate the shipping sector to enhance personnel safety and ecological protection.

This code will have a direct impact on the short-term feasibility of Russia's alternative to the Suez Canal, the Northern Sea Route, or NSR. The NSR is significantly shorter at 15 days compared to the Suez's 35 days, a route already losing favor because of piracy. As time-based costs increase, such as diesel fuel, crew costs and anti-piracy insurance, decreasing the length of Asia-European trans-shipment will be a key concern.

In a bid to further utilize the NSR, Russia has recently increased international cooperation in the shipbuilding sector to increase domestic and joint shipyard capacities in the Far East.

But the Norwegian Fridtjof Nassen Institute estimates that cargo must be valued no lower than \$52.75 per ton to be economical. Although this rate may decrease as economies of scale and services supply increase, it is already more than double the Suez's average \$19.6 per ton.

Thus, limiting the NSR to the valuable resource trade, Russia's oil and gas platforms will be a particularly prime target for this new shipping route. But poor oil infrastructure in the region is already estimated to annually contaminate the Arctic Ocean with 4 million barrels, which is frighteningly close to BP's huge 2010 accident in the Gulf of Mexico in which 4.9 million barrels of oil were spilled.

Although a new energy corridor could be the economic savior that Putin has dreamed of, it will require a substantial increase in Arctic capable vessels and icebreakers. This will possibly not only help spur national economic development, but it could also rescue the federal budget from costly northern subsidies. In the near term, Russian is likely to continue upgrading eastern shipyards to accommodate greater regulations concerning shipbuilding standards set forth by the forthcoming Polar Code.

Despite these risk factors, oil and gas extraction and trans-shipment activities along the NSR will likely increase because of economic viability. In the international arena, this energy corridor will increase Russia's flexibility in exerting energy supply pressure on both the European and Asian markets.

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