

High Costs Dash Global Plans to Develop Arctic

By [The Moscow Times](#)

October 27, 2014



Sunrise over the Arctic Ocean, north of western Russia.

Despite high hopes for Arctic business from mining to shipping as the ice melts rapidly and temperatures rise twice as fast as the global average, few firms say the sums still make sense.

An oil price slump and cheaper commodities, including iron ore, together with tensions between the West and Russia over Ukraine, are adding new disincentives.

Examples of extra outlay abound. Ice-breaking tankers able to carry gas from Siberia cost \$100 million, or 50 percent, more than normal vessels and hundreds of millions of dollars are needed to upgrade railways serving Arctic ports.

Added to that, for many companies, winter darkness, ice and vast distances mean that Arctic investments are a non-starter.

"There is a need for a reality check by the business community," Norwegian Shipowners Association head, Sturla Henriksen, told Reuters at an Arctic business conference he hosted this month in Bodø, a Norwegian Arctic port.

Even where costs are not prohibitive, getting a loan to fund projects has been made far more difficult by uncertainty over tensions between the West and Russia, said Peter Evensen, chief executive of Canadian-based Teekay LNG Partners.

In July, Teekay and China LNG ordered six liquefied natural gas (LNG) tankers to export gas from Russia's Yamal Peninsula from 2018 under a \$27 billion project by Russia's Novatek, France's Total and China National Petroleum Corp.

"The big question for Yamal LNG and for suppliers such as us is, 'Can you get financing?'" Evenson said.

Teekay was looking for funding from China and Russia — along whose coast the main Arctic shipping route runs — since Western banks were being discouraged from lending, he said.

Cold Mountain

Away from the conference, on a mountain pass near the Norwegian port of Narvik, Stein-Hugo Steffensen of the Ofoten Railway shows off a new section of track and a cover to protect against avalanches installed this summer costing \$4 million.

"This is the Norwegian answer to the Suez Canal," he said of the link between the Atlantic and Baltic Seas that opened in 1903 and controls exports from the Swedish mines — one of the reasons the Nazis invaded Norway in 1940.

Steffensen wants hundreds of millions of dollars to upgrade the railway linking Swedish state mining company LKAB's iron ore mine in Sweden to the port of Narvik — where wagons need to be hosed with water to unfreeze cargoes in winter — to meet a projected rise in exports despite low world prices.

Although climate change is opening the Arctic, ice is not disappearing as fast as some forecasts. Former U.S. Vice President and climate campaigner Al Gore, in a speech accepting the Nobel Peace Prize in 2007, quoted from one researcher predicting an ice-free Arctic Ocean in the summer of 2014.

Arctic sea ice covered about 5 million square kilometers this summer — almost twice the size of India.

The thaw is opening a short-cut route along the north of Russia between the Pacific and Atlantic Oceans. But higher Russian charges for ice-breaker escorts and sanctions on Moscow after it annexed Crimea have dampened interest.

The number of voyages supported by Russia's Atomflot ice-breaker fleet so far this year has fallen to 28, including some on domestic routes, said Sergei Balmasov of the Northern Sea Route Information Office.

Last year, 71 ships used the route in a surge from four in 2008. And some experts say that

the world should avoid the Arctic altogether, because oil and shipping are too costly.

"There is absolutely no hurry. There is much too much oil right now. And in any case it will be the most expensive oil in the world," Norwegian shipping magnate Fred Olsen said.

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