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Russia Makes Bid for Arctic Shipping Lane Even as Oil Prices Slip

By Matthew Bodner

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Long-discussed Russian plans to develop an Arctic passage rivaling the Suez Canal are finally coming closer to reality, even as low oil prices threaten the financial viability of the route.

After years of little government action, Prime Minister Dmitry Medvedev in June signed off on plans to raise traffic through the icy waters of the passage, known as the Northern Sea Route (NSR), by 20 times to a staggering 80 million tons of freight annually by 2030.

"This is the shortest route connecting Europe with the Far East, from the Asian-Pacific region to the Western half of North America," Medvedev was quoted as saying in a statement on the government's website.

The Russian government's renewed attention to the route has dovetailed with intensified efforts to develop a strong Arctic Coast Guard, which marine experts say is a crucial component of any plan to develop the NSR.

But despite the fundamental promise of the route, Medvedev's target may be overly ambitious. A steep fall in global oil prices has wiped out the savings that would otherwise be offered by the Arctic route, according to experts, meaning the NSR is unlikely to be a goldmine anytime soon.

Northern Sea Route

Although the NSR has been hyped up by the Russian government, it has not yet become the commercial success envisioned in 2013, when Russia created a special administrative entity, the Northern Sea Route Authority, to manage commercial shipping applications for passage.

Last year, only 41 ships passed through the NSR, with the vast majority of them registered as Russian vessels. This was a sharp downturn from 2013, when 71 vessels made the trip, and even then the majority of ships were Russian.

The potential of the route is enormous, though especially as a competitor to Egypt's Suez Canal.

The Suez, which connects the Mediterranean with the Red Sea, is already well established, with an average of 49 ships passing through daily.

However, the distance between Rotterdam, one of Europe's biggest ports, and Shanghai, China's top port, is some 2,000 kilometers longer through the Suez than through the NSR.

As fuel costs make up the majority of the cost of transporting goods, the NSR offers potentially massive savings for shippers, especially as EU-Chinese trade ties deepen.

But even with the cost saving, proponents of the route in its early days were jumping the gun, as critical support infrastructure was not yet in place, according to Richard Hurley, a maritime analyst at consultancy IHS Jane's.

"One of the capabilities we identified was this business of the Coast Guard or search and rescue cover in this area," he said. Without Coast Guard support, insurance rates for shipping companies were high, making it less economically attractive to take the NSR.

"The Arctic is a very dangerous place to cross, compared to most other places that shipping companies go to," said Dmitry Gorenburg, a naval expert at the Virginia-based CNA think tank said.

Although other commercial shipping lanes have hazards of their own — pirates off the coast of Somalia, for example — the Arctic's ice is not to be taken lightly.

"Shipping companies want to make sure there is someone to come and rescue them if they get stuck in the ice, even if they have to pay for it," Gorenburg said.

Coast Guard

Russia plans to start offering better Coast Guard services soon, however, as long-standing

projects and recent government pressure combine to push the NSR forward.

Efforts to build up an Arctic Coast Guard force have been ongoing since at least 2011, when the Federal Security Service (FSB) — the successor to the KGB, which oversees the Coast Guard and Border Guard services — ordered its first of a planned six "Ocean" patrol ships. The vessels, small ships with a displacement of 2,700 tons, are nevertheless built to withstand icy Arctic conditions.

The lead ship, known as "Polyarnaya Zvezda," or North Star, has been completed and is undergoing final preparations for regular service in Kronstadt, near St. Petersburg. Two additional Ocean ships, known in Russia by their "Project 22100" designation, are under construction, and should be ready by 2019.

Plans for new Arctic Coast Guard ships won't stop with the completion of the Project 22100 class, according to Mikhail Barabanov, a naval expert at the Moscow-based Center for the Analysis of Strategies and Technologies (CAST).

"Construction is planned for several larger Coast Guard patrol ships with a displacement of 6,000 to 7,000 tons," Barabanov said, adding that the ships will double as icebreakers. Several design bureaus are now competing for tenders to design the ships, he said.

The Coast Guard is also expanding its infrastructure along the Arctic frontier with a chain of 10 Coast Guard stations. These stations will be used to launch search and rescue operations if ships run into trouble.

Perhaps most importantly, government interest, an all-important factor in Russia's often bureaucracy-snagged political sphere, has been aroused.

While not all the details of Medevev's plan for the NSR were made public, the project will support "navigation-hydrographic and hydrometeorological" work on the route, the "development of sea ports" and the "development of marine equipment, systems and tools," according to the government.

Snags

Neither global warming nor oil prices, though, are cooperating with the government's drive to develop the NSR.

This year, the route didn't open as early as anticipated, as ice littered the route later into the summer than expected, IHS's Hurley said.

Also hurting the NSR's development, according to Hurley, is the collapse of global oil prices — which make the risks of traveling through the Arctic outweigh the cost savings.

The oil price has fallen from a high last summer of more than $110 a barrel to $58 last week as China's economy slows and the Organization of the Petroleum Exporting Countries enters a price war with upstart U.S. oil producers.

"Now, of course the oil price could go back up and the global warming cycle could continue, but there are still a lot of questions," Hurley said. "At the end of the day, the commercial

decision will be made from the cost point of view.

"⊠⊠But even if energy prices are currently low, an efficient Russian Coast Guard would go a long way to making the route attractive to the kinds of international shippers which would typically favor the Suez route.

⊠⊠"One of the big things influencing cost will be things like insurance rates, and they do depend on what is considered to be the risk, and potentially — depending on what your cargo is, such as oil — the risk could be enormous," Hurley said.

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