



Geopolitical Risk Index | Case Studies | 2024

Geopolitics of the ARCTIC POLE

Geopolitical outlooks in the Arctic

A comprehensive overview of the new opportunities, challenges and dilemmas that are reshaping the northern frontier of the world and its implications for the shipping industry in the EU.

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Contents

01

Intro

02

Topic Analysis

03

Advice

04

Conclusion

05

References



Contents

01

Intro

02

Topic Analysis

03

Advice

04

Conclusion

05

References



1987: Soviet Union president Gorbachev said, speaking about the Arctic: ***“Let the North of the globe, the Arctic, become a zone of peace. Let the North Pole be a pole of peace.”***

Despite the Arctic's cold temperatures, **global warming** has occurred at a rate two times faster than the rest of the world over the last 49 years, causing rapid changes in sea ice and in all other physical elements and characteristics of the Arctic.

These phenomena have significant implications, not only environmental, that may put in danger Gorbachev words. The climatic crisis brings about **new economic opportunities** that many countries are eager to exploit. Deposits of **natural gas** and **oil** are being discovered, and with diminishing thick ice, maritime trade could be served with a new **routes**.

Growing interests are transforming the Arctic, from a periphery of the globe to a new **center of geopolitical confrontation** and it is becoming clear how also other major players, geographically distant from the region are anxious to make their voices heard.

The rivalry between **east and west**, involving the emerging power of China, often aligned with Russia, against a weakened hegemony of the United States and its European allies is set to include the Arctic as an unconventional **realm of power** to secure. Tensions along the main shipping routes, local conflicts as well as piracy risk, are forcing to define new strategic goals, such as testing the viability of the **Northern Sea Route**.



Contents

01

Intro

02

Topic Analysis

03

Advice

04

Conclusion

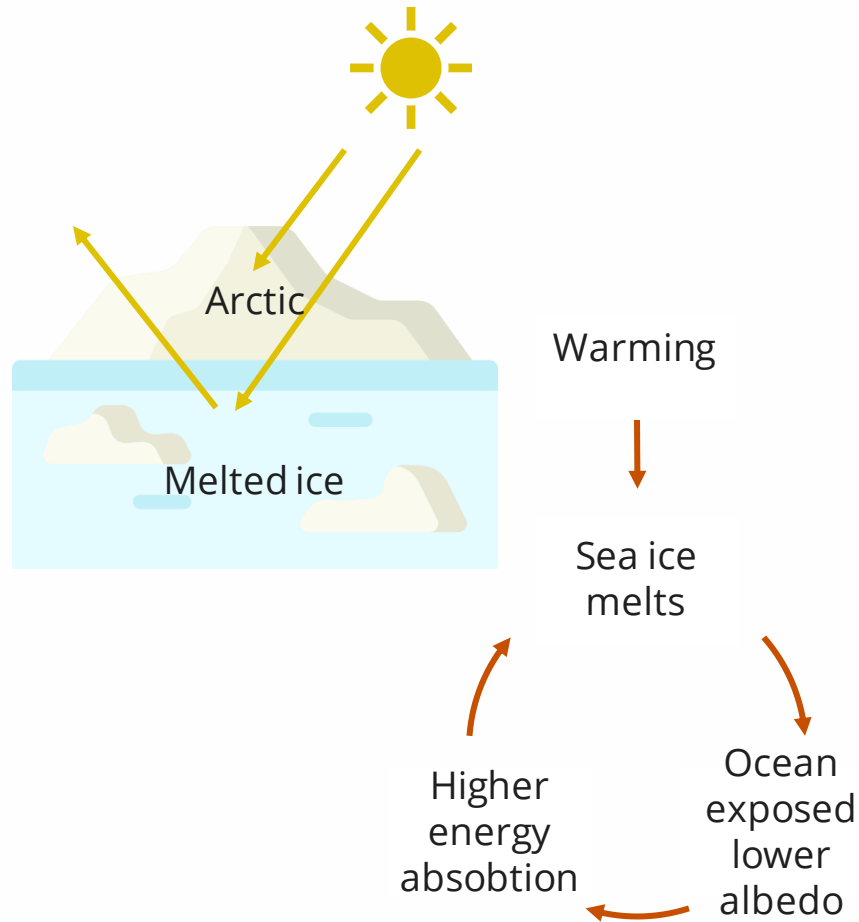
05

References

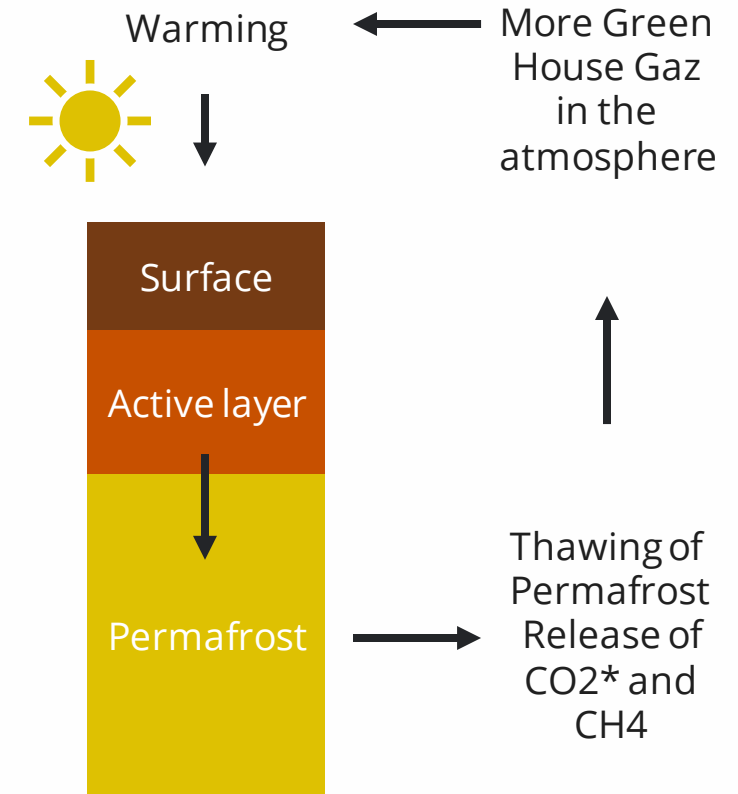


Two feedback loops increasing climate change

The Albedo effect



The Thawing Permafrost



***1700**

bn tonnes of **CO2** are stored in the permafrost



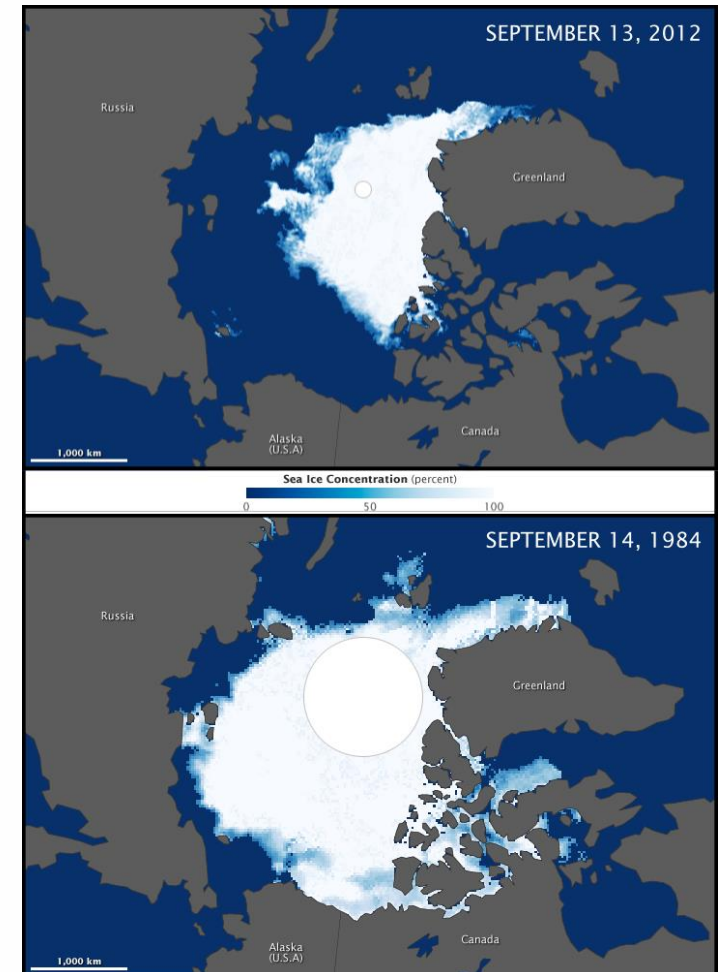
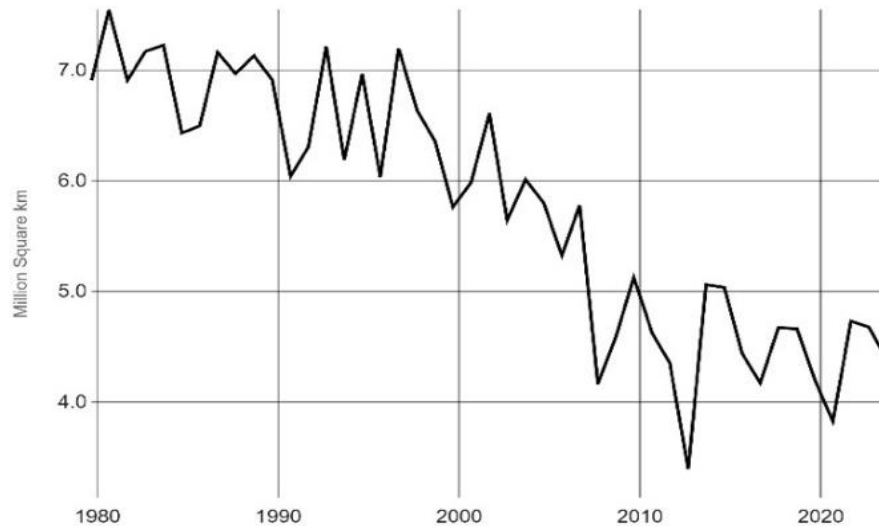
The visible effects of climate change in the Arctic Pole

2x

Pace at which the Arctic is warming

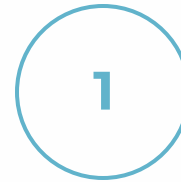
Due to its particular location and associated effects, the Arctic is warming twice to three faster than the rest of the world.

The minimum Sea Ice extent (National Snow and Ice Data Center)





3 possibles trade routes



The Northern Sea Route

The fastest, with **less thick ice, and most equipped** (due to old USSR infrastructures), 2,500 miles along the Russian coast in Russia EEZ.



The Transpolar Sea route

Navigable only with **heavy icebreakers** but expected to be a **viable option in the future**. A route further away from countries coasts.



The North-West Passage

Hard to navigate due to multiple islands of the Northern coast of North America.



3 possible trade routes



1

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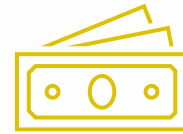


The NSR compared to the Suez Canal



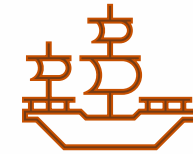
7 days less

- 40% shorter
- 12.000 km with the NSR against the 20.740 km
- More dependent on the weather conditions



Up to 50% lower costs

- Decreasing fuel costs
- Crew costs
- More rotations, higher revenues
- But investments required



Geopolitical Risk

- Less piracy risks
- No bottleneck risk
- Russian risk



Current regulations

THE UNCLOS - United Nations Convention on the Law of the Seas



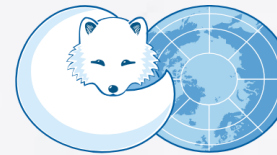
THE LAW
OF THE SEA

- 1982
- Arctic set as neutral zone of cooperation
 - only applicable legislation
- Territorial waters and EEZ definition leaves room for overlapping



Supranational regulations are still weak

THE ARCTIC COUNCIL



ARCTIC COUNCIL

- 1996
- 5 Arctic coastal states (US, Canada, Russia, Greenland and Norway)
 - Iceland, Finland and Sweden
- Discussion and cooperation through a consensus-based decision-making model



A new geopolitical picture. Russia has new claims

Russia is claiming the North Pole, encompassing a geographical, political end economical statement

Claiming the Arctic

Russia has filed a revised claim with the UN for disputed territory





Various actors have interests in the region

The NSR could open up enormous economic opportunities, and is attracting an increasing number of players, some of them surprisingly far from the region.



Russia

- Claims that the whole transit happens in territorial waters and the state EEZ
 - Controls the costs of the NSR
 - Builds infrastructure



The European Union

- Advocates for the right of innocent passage
 - Promotes peace, security
- Pushes environmental regulations + emissions reductions



China, India, Germany

- Chinese Arctic policy since 2010, claim for “quasi-Arctic State”, investments in the new route
- A possible agreement between Russia and India to accustom Indian seamen to the working conditions of the NSR
- Push to recognize the Arctic Circle as common heritage of mankind preventing the establishment of exclusive rights



An opportunity to seize for Russia



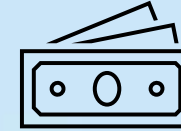
Government Arctic Policy

- Established during the cold war
- Mobilising vast resources and investments to develop the Nordic coastal region.



INFRASTRUCTURE

- Extraction sites are being built
- Refineries
- Ports
- 50 vessels with Arctic navigation capabilities



INVESTMENTS

- In 2019 \$41 billion of tax incentives over the next 30 years were announced for Rosneft to implement a massive new oil field.
- In 2020 \$300 billion were allocated to overall Arctic infrastructure.



Contents

01

Intro

02

Topic Analysis

03

Advice

04

Conclusion

05

References



Geopolitical due diligence



Aftermath of the invasion of Ukraine

- Observe current and possible future sanctions negotiation.
- EU ban on crude imports and attempt to halt ship-to-ship transfers of oil off its shores.
- Avoid PR problems determined by cooperation with Russia



Monitor the state of the Russian-Chinese relations

- China, a powerful stakeholder on the rise, is building its own infrastructures along Russian arctic ports: *Murmansk, Sabetta*, etc with Chinese rails and support installations
- “Polar Silk-Road”



THE LAW
OF THE SEA

Monitor positions and discussions on the interpretation of UNCLOS

- European shipping companies, alongside their governments, should use all means to inspect arising opportunities and to prevent others from establishing monopoly.

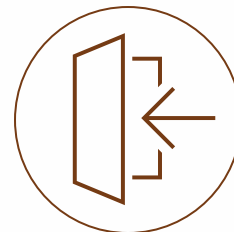


Getting **hands-on experience** to reduce **entry costs** for the NSR



Obtaining know-how

Getting knowledge through collaboration with already existing Baltic or Northern Sea crews. Obtaining information on navigating the north. Prepare for peculiar weather, specialistic tools and ice-class vessels



Market Penetration

Through joint-ventures or acquisitions of specialized companies beneficial for future NSR development



Going green for the Arctic



Environmental Regulations

Shipping industry, international organizations and governments should push for **regulations** and **standards**



Creating entry barriers

Regulations as a new entry barrier for Russian and Asian companies



Limiting the risk of oil spills

Oil spills on sea ice are harder to clean than regular oil-spills. In case of accident, no proper infrastructure, emergency crews or procedures are available.



Protect the fauna

Binding rules to protect the fishing resources and wildlife as a whole





Reduce emissions

EU Net-Zero Industry Act: welcoming the inclusion of clean fuels for shipping, including advanced biofuels and e-fuels

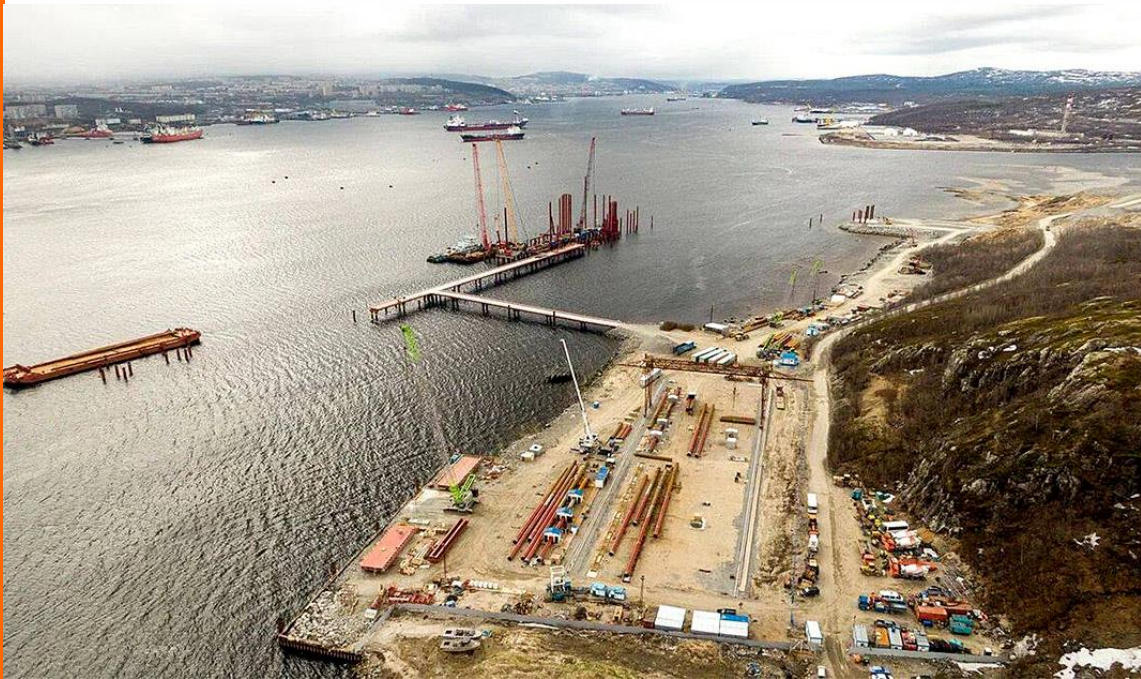


A new **voice** for the future of Arctic shipping - the EU point of view

	Entity	Type	Capability to deal with future issues	
Existing	Arctic Council	Platform of dialogue for the nations involved in the Arctic development		it could fail in providing any clarity on the future of the Arctic
Creating a new voice	Existing entity (like BIMCO)	assess all factors, upcoming threats for the industry and develop long-term strategies		Enabling the NSR to become a viable commercial alternative beneficial for all
	New one			



**It happens
now...**





Contents

01

Intro

02

Topic Analysis

03

Advice

04

Conclusion

05

References



In assessing viability of new **commercial routes**, it is crucial to consider the **geopolitical and environmental situation**. The opening of the **NSR**, while offering tangible benefits in terms of navigation times and costs, entails significant **challenges**, including the need to navigate an evolving landscape of international regulations and increasing risk of frictions among superpowers .

Enterprises must be proactive, not just in adapting their operations to the physical conditions of the Arctic but also in anticipating and responding to developments that could influence the accessibility and viability of these routes. **Geopolitical due diligence** is something that cannot be overlooked by anybody eager to operate in the region.

Sustainability must remain at the core of expansion strategies. Promoting sustainable practices will not only mitigate the environmental impact of naval operations but will also strengthen the market position of European companies as leaders in eco-friendly navigation. The adoption of clean fuels and strict adherence to stringent environmental regulations will be decisive.

Only through a well-considered and multifaceted strategy will commercial companies be able to fully exploit the NSR along with Arctic's **potential**, while promoting peace and sustainability in one of earth's last frontiers.



Contents

- 01 Intro
- 02 Topic Analysis
- 03 Advice
- 04 Conclusion
- 05 References



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