



## **Economic and legal problems of the Arctic development**

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### **Abstract**

The paper reveals the problem of developing the Arctic territory by different countries. Today, this problem turns the Arctic expanses into a conflict area of these countries. These territories and resources do not belong to any particular state, because they are not located in anyone's borders. In turn, this fact leads to economic and political problems that arise for a long time. This article includes brief historical information on the progress of the development of the Arctic by various countries and an analysis of the economic situation in our days. In addition, the article examines the existing methods of solving economic and political problems in the Arctic and proposed a possible method of problem solution.

*Keywords:* Arctic, international conflict, oil, gas;

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### **1. Introduction**

The territories of five countries extend to the Arctic Ocean: the Russian Federation, Canada, the USA, Norway and Denmark. Historically, the whole Arctic Ocean, together with all the lands and islands, these countries have divided into sectors. The basis of each such sector is the coastal part of this state, and the lateral lines are the meridians extending from the North Pole to the eastern and western borders of this state [1].

Nevertheless, in 1982, the UN Convention on the Law of the Sea was adopted, which introduced other principles of delineation. According to it, the full sovereignty of the coastal state extends only to the 12-mile space of territorial waters, the airspace above it, the bottom and subsoil. In addition, a 200-mile exclusive economic zone is established. The bottom part of the seas and oceans, as well as the subsoil beneath them, not under the jurisdiction of a particular state, are considered the common heritage of mankind, while all world states have the same rights to exploit their natural resources, and each of them has the right to apply for the development of marine resources shelf in the UN or other specialized organizations. Russia ratified this Convention in 1997 - by this time the document was signed by 159 states and in 108 of them it has been ratified. Becoming the 109th state, Russia lost its sovereignty rights by 1.7 million square kilometers of its Arctic sector. Interesting fact, that the United States has not yet ratified this convention, arguing that it infringes on their national interests.

Lines indicating the lateral limits of the polar sectors, according to modern international law, are not recognized as state borders. And for the last couple of decades, Russia has actually lost a number of Arctic territories. So, in 2010 in Murmansk, President Dmitry Medvedev signed an

agreement with Norway on the division into two equal parts of the disputed space in the Barents Sea (about 175 thousand square kilometers) [3]. In fact, this treaty secures our abandonment of a significant territorial sector in the Barents Sea and the narrowing of the water area for the fishing fleet. It was also recently revealed that the territory of the Barents Sea shelf, which was transferred by Russia to Norway under the agreement, turned out to be a province rich in oil and gas [2]. According to the Norwegian Petroleum Directorate (NPD), two years of seismic exploration revealed the presence in the area of about 1.9 billion barrels of hydrocarbons (15% oil), which in turn increased the estimate of the Norwegian shelf reserves by 11% - to 18.7 billion barrels, reports Reuters.

At the same time, the Murmansk Treaty does not mention the previously adopted resolutions establishing the demilitarized status of the Svalbard Islands, the right to conduct economic activities of the USSR and its special economic rights relating to them. The lack of reference to these agreements allows Norway to raise the issue of reviewing the status of Spitsbergen, including the liquidation of Russian settlements. Moreover, this unfortunate treaty for Russia was perceived by the United States as evidence that our country is ready to make concessions in territorial disputes. Now, American experts are trying to apply the "Murmansk scheme" to solving the problems of the Bering Sea, and possibly the entire "problem area" between the East Siberian Sea and the Bering Strait.

Today, states are trying to expand their polar possessions in a new way - to prove that the ocean floor is an extension of that part of the continental plate on which the state is located. So, Canada, Denmark and Russia are arguing today for the transarctic range of Lomonosov, which is a transarctic bridge with a length of 1800 km and a width of 200 km. In the event that Russia defends the soviet right to own this ridge, it will consolidate behind it about half the surface of the ocean, including the North Pole.

## **2. Discussion**

According to Russian and American geologists, under the bottom of the Arctic Ocean, up to 25% of the world's oil and gas reserves are concentrated. In the Russian sector, according to preliminary estimates, up to 80% of Russia's hydrocarbon reserves are located. In the Kara, Barents and Pechora Seas, 20 oil and gas fields have already been found. In addition, the shelf of the Arctic is rich in platinum, gold, diamonds, rare earth metals, etc.

Interest in the development of Arctic resources is fueled by forecasts of global warming. Not only five Arctic countries and northern Iceland, Finland and Sweden say about their economic interests in the Arctic, but also countries very far from this region. All of them have the full right to conduct relevant work in the free economic zone. Their studies in the polar zone are conducted by Germany, India, Japan, and Korea.

### **China rushes to the North**

China is the most active. A few years ago, a Chinese investor tried to buy a large plot of 300 square meters in Iceland for \$ 100 million. km. under the pretext of creating an ecological park. Then, having territory beyond the Arctic Circle, China would have received a reason not to be limited to observer status in the Arctic Council, but to seek permanent membership [4]. However, the authorities of Iceland did not take such a step. China is actively engaged in polar research. In the Norwegian zone of the Spitsbergen archipelago, the Chinese scientific station "Yellow River" operates in the Barents Sea. The Chinese national offshore oil producing corporation (CNOOC - 70% owned by the state) in partnership with the Icelandic group Eykon Energy participated in a tender for a license to explore and produce hydrocarbons off the northern coast of Iceland.

Another large company - the Chinese National Oil and Gas Corporation (CNPC) - acquired a 20% stake in the Yamal LNG project. In addition to the Chinese, OAO "Yamal LNG" also included NOVATEK (60%) and Total (20%) [5]. The project envisages the construction of a plant where natural gas from the Yuzhno-Tambeyskoye field will be liquefied and pumped into large-tonnage LNG tankers. The plant's capacity is approximately 16.5 million tons of liquefied gas per year. In parallel, a seaport will be built here, and an airport will be built near the village of Sabetta on the Obskaya Bay. According to the newspaper Vedomosti, the capital expenditures for the project will exceed \$ 20 billion. It will be financed by a consortium of China Banking Development Corporation (CDB), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB) and Bank of China (BoC).

Against this backdrop, the words of Admiral Yin Zhuo of the People's Liberation Army of China that "the Arctic does not belong to anyone but is the property of the whole world" are telling. At the same time, "China as a country where a fifth of the population of the entire globe lives, must certainly take part in the Arctic development."

Today China intends to actively develop new Arctic routes. According to Chinese experts, this will allow the PRC to reduce the cost of shipping by \$ 120 billion a year, thereby reducing delivery time and significantly reducing fuel consumption. The Northern Sea Route is almost 4.5 thousand kilometers shorter than the route through the Suez Canal. Changed climatic conditions allow it to conduct ships from July to the end of November. Deputy Director of the Chinese Center for the Study of the polar territories Ocean Management Research Lee Primordial Spirit made a statement on the need for China's direct access to the Northern Sea Route: "For us, the question of Arctic exploration key. And we would like Russia to not only meet in the research plan, but also provide favorable conditions for the passage of our ships through its waters. " Tszuntsze Yuan, an expert of the Chinese Institute of International Studies, shared even more frank opinion: "The Northern Sea Route is a global public domain and cannot be controlled by individual states." Based on these conclusions, it is likely that in the near future China will require the provision of the Northern Sea Route a neutral status.

China creates a special northern fleet. In 1993, he bought from Ukraine the largest icebreaker in the world (in its class) - the diesel-electric ship "Snow Dragon". It, however, is not designed for ice more than 1.5 meters thick, but the Chinese say that they build an icebreaker capable of overcoming ice 4.5 meters thick. Recently, along the Northern Sea Route from the port of Taitian to Dutch Rotterdam, the Chinese dry cargo ship Yong Sheng passed - two weeks faster than would continue to sail along the usual route through the Indian Ocean and the Suez Canal. Permission to pass was also received by Chinese vessels Da Cai Yun, Hong Xing. There is also a permission to sail on the NSR of Nordic Bothnia, a ship flying the flag of Hong Kong.

Linda Jakobson, the head of the program for studying China in the light of global security problems of the Stockholm Peace Research Institute, published a study entitled "China is preparing for an ice-free Arctic". She believes that controlling a significant part of regional resources, Russia does not have the technology or capital to exploit these riches. Therefore, it suggests the possible establishment of joint mining enterprises in Russian waters with the involvement of Chinese capital and Western technology.



Fig. 1

## Arctic Provocations

In 1876, at an international conference in Brussels, Western countries stated that states that have great natural resources but do not have the resources to absorb them must open up to the developed countries or be forced to do so. Then it was about the countries of Africa, but since then the emphasis has shifted significantly towards Russia. And today such rhetoric breaks through in the statements of Western politicians. To prepare for the future internationalization of resources in the Russian Arctic sector, the US and the West are actively using environmental issues [3].

Taking into account all of the above, both the military action "Greenpeace", and the appeal of Sergei Medvedev are quite provocative. The HSE professor proposes to abandon the exclusive economic zones in the Arctic, as well as in general from military activities, the extraction of natural resources, commercial fishing and transit commercial was shipping. He argues that Russia cannot rationally and carefully use its territories and therefore has already lost sovereignty over a large part of it.

All this serves as arguments in defense of the convicted "for piracy" Greenpeace. It is noteworthy that they chose not the existing Norwegian drilling rigs, but the Russian platform, which had not yet been put into operation, as their target. For the sake of justice, we note that in Norway Greenpeace also protests - but exclusively peacefully, without committing any illegal actions. Russian Prirazlomnaya has been attacked for several times. Apparently, the previous actions, without arrests, they found insufficiently resonant. The moment of attack was also chosen not accidentally, but timed to the holding of the Arctic Council, which brought together representatives of all countries of the region. A number of politicians believe that the arrest and beating of Russian diplomat Dmitry Borodin in the Netherlands is intended to put pressure on the Russian authorities so that the protesters are released.

## The Russian Arctic today

The proposal of the HSE professor to give the Russian Arctic zone to the international community was described by Vladimir Putin as "complete stupidity," stating that "the Arctic is an integral part of the Russian Federation, which has been under our sovereignty for several centuries. So it will remain in all subsequent times [3]. «According to him, there are American nuclear submarines off the coast of Norway». The flying time of American missiles from this region of the world to Moscow is 16-17 minutes. To say in these conditions that this region should be given to someone's government is complete stupidity. This is an anti-popular stance, I do not even say it is unpatriotic," Putin said.

However, the position of the Russian government regarding the Arctic cannot be assessed unequivocally. After all, over the past two decades, Russia has curtailed most of the northern programs, and these abandoned stations and landfills gave an extra reason to blame our country for its inability to take care of its resources and territories. Throughput of the Sevmorput over the past 17 years has been reduced by 5-6 times. Almost all northern ports, which today live a miserable existence, have been unclaimed. Meanwhile, the Northern Sea Route ensures Russia's strategic security, because it passes only by our waters, does not depend on anyone's borders, and it is he who is the safest and shortest way to deliver cargo from the Pacific to the Atlantic.

Today, on the wave of general interest in the Arctic, the authorities finally announced the revival of the Northern Sea Route. If in 2010 there were only four vessels on the NSR, in 2011 there were 34 of them, and in 2012 - 46. This year the Russian authorities issued permits for 400 flights. However, today the Sevmorput should actually be recreated anew, emphasizes the scientist-arctic scientist Mikhail Zhukov [6]. To open the Arctic ports for foreign ships, it is necessary at least to remove the huge scrap metal dumps left after emergency evacuations and liquidations of military and civilian structures. It is necessary to restore the infrastructure of servicing ships - now there is no one to serve them and nothing. It is necessary to recreate the systems for providing ships with bunker, water, diving and urgent repairs. In order to be able to change the crews of ships, it is necessary to restore the airfields, which were earlier at all ports. It is necessary to restore the hydro meteorological support of the route on a new technical basis.

For the time being, a decision has been made to revive the military base on the Novosibirsk Islands, where the military left in 1993. The airfield will be rebuilt here and the joint work of the representatives of the Ministry of Emergencies, hydrologists, and climatologists will be organized to ensure safety and efficiency of work on the Northern Sea Route. In addition, 910 million rubles have been allocated from the state budget for the creation of 10 complex emergency rescue centers of the Ministry of Emergency Situations. The first two of them are open in Naryan-Mar and Dudinka, the rest of them till 2015 should be created in Pevek, Murmansk, Arkhangelsk, Vorkuta, Nadym, Anadyr, Tiksi and Provideniya.

The program of development of hydrocarbons on the continental shelf of Russia provides for 2030 to bring the level of oil and gas condensate production to 10 million tons, gas - up to 170 billion cubic meters per year. The main areas of extraction are the Barents Sea, Ob and Taz. The Russian authorities intend to stimulate the development of oil and gas fields on the Arctic shelf through long-term tax incentives.

At the forum in Sochi, the president of Rosneft Igor Sechin said that his company intends to begin exploratory drilling in the Kara Sea and open a deposit with reserves of 3.5 billion tons of oil and 11 trillion cubic meters of gas. The volume of investments in the Kara Sea research in 2013 will be more than 1.5 billion rubles. Rosneft's partners in developing Arctic deposits are the world's leading energy corporations - ExxonMobil, Norway's Statoil and Italian Eni. At the same time, we recall that 19.75% of the shares of Rosneft itself are owned by British Petroleum.

To develop the Kara Sea deposits, Rosneft, according to its vice president, will need 500 supply vessels. United Shipbuilding Corporation (USC) does not have the ability to enforce such requirements, so it will have to make orders for the supply of ships, including abroad. To avoid

this in the future, Rosneft, as part of a consortium of investors, is going to purchase a super-project in the Bolshoy Kamen (Primorsky Krai) and some other assets that are part of the Far Eastern Shipbuilding and Ship Repair Center of the USC.

As for Gazprom, he intends to develop the Russian Arctic shelf together with the British-Dutch company Royal Dutch Shell. At the same time in the "Gazprom" the state owns only 50.002% of the shares. Owners of the remaining 49% are not advertised. It is only known that 26.955% of the company's shares are invested in American depository receipts issued by the US Bank of New York Mellon.

Both Gazprom and Rosneft sell a fair share of their products through the Gunvor Group, which is equally owned by two Swiss citizens - Finnish citizen Gennady Timchenko and Swedish national Thornbjorn Tornquist.

In view of all these circumstances, the HSE professor paradoxically turns out to be right: the extraction of Arctic hydrocarbons will not bring much benefit to Russia and will enrich mainly certain private owners and foreign corporations.

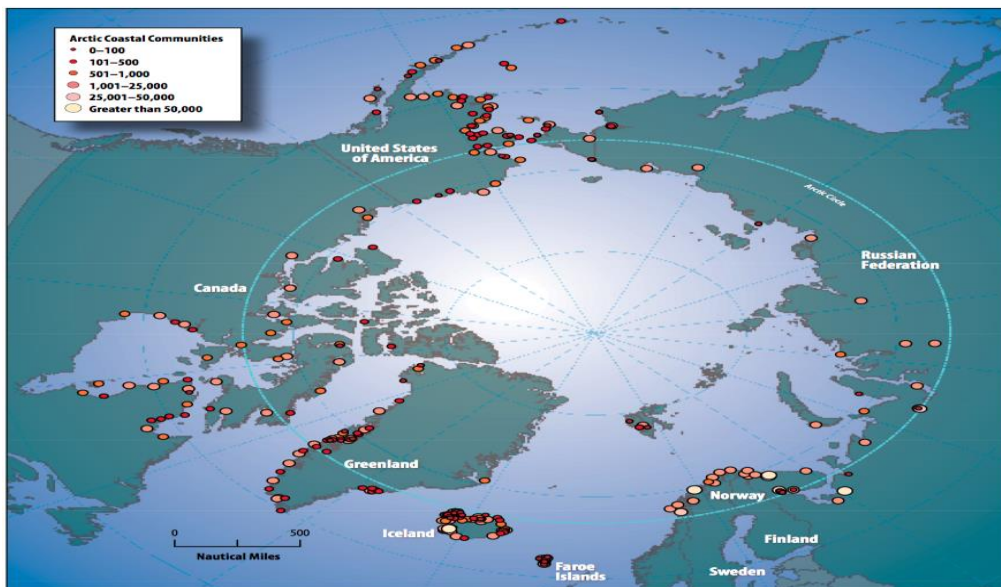


Fig. 2

Nowadays, there are three possible methods for solving the problem of the final division of the Arctic between the northern states:

First, the formation of maritime boundaries due to the shelf zone and such parameters as the length of the continental shelf, the length of the coastal zone (200 nautical miles), and also the zone neutral in the northern states located in the center of the Arctic and accessible only to fishing and commercial navigation[7] .

Secondly - the historical method. It means that the division takes place in accordance with the pace of development of this region by different countries.

Finally - the formation of maritime boundaries in accordance with the extent of the coastal zone of each state. This method is similar to the first, except for the fact that the neutral zone is also divided.

In addition, the authors propose to consider another method, guided by the maritime infrastructure of northern states interested in possessing Arctic resources.

We want to disassemble in detail each of these approaches:

1. The advantages of dividing the territory in accordance with the shelf of each state are the division of the disputed zone into areas that are promising for minerals extraction, as well as the creation of a free zone for navigation and transport routes that do not violate maritime state borders. This approach is illustrated in Figure 1.

The drawbacks of this approach are the fact that Russia will lose a significant part of the territories rich in mineral reserves, as well as the fact that sooner or later the issue of dividing the neutral zone will still be affected. These two factors determine our rejection of this approach to territorial division.

2. Regarding the historical method of separation of territories, it is worth noting that it is quite difficult to form maritime boundaries.

Firstly, this is due to the various ways in which the Arctic studies each country-balloons, submarines, research drifting stations and icebreakers. Besides, the borders will prove extremely difficult if guided by documentary information. As a result, countries with developed maritime infrastructure will have to spend more time and to face significant financial losses in order to obtain permission to cross an alien maritime boundary, which could cause an international conflict.

Therefore, the authors regard this approach as at least controversial from the point of view of the rights to control the territory, but at the same time it is economically advantageous. [1].

3. The third method is similar to the first in that the boundaries are drawn in accordance with the coastline of each state, but the final separation does not provide for the creation of a neutral zone.

For the Russian economy, this method is the most profitable, since the Russian sector contains large areas with rich mineral resources, which provides long-term prospects for our country.

The disadvantage of the method is the possible disagreement with countries that have a small coastline related to the Arctic territories.

4. The fourth method of dividing the Arctic proposed by the authors takes into account the interests of small countries with developed maritime infrastructure, whose income directly depends on their territories. In addition to the third method, it was suggested to introduce an individual index for each country, reflecting the level of development of maritime infrastructure and the use of its marine areas, and, accordingly, the impact of these factors on government revenues. The infrastructure map of the Arctic countries is shown in Figure 2. As you can see, the color points show the main Arctic ports and their turnover [7].

Thus, the authors hope that this proposal will lead to the necessary balance in terms of the economic balance of competing countries, and will also enable each country to develop a potential source of income. In addition, it was proposed to ban the development of water resources belonging to another country, without a special document authorizing work in the territory of another state and containing the appropriate conditions for concluding this agreement, taking into account the economic benefits.

Such a policy will allow Russia to receive a significant portion of natural resources in the adjacent marine areas. In addition, this will help resolve a number of disagreements in the Kara Sea between domestic and foreign companies.

### **3. Conclusion**

Based on the foregoing, we want to draw your attention to the most effective method of dividing the Arctic from the position of resolving the growing conflict and forming the maritime borders of the northern states, taking into account their maritime infrastructure and the length of the shoreline. For the Russian economy, this decision means the preservation of significant areas that have prospects for development in the long-term economic perspective. In addition, it should

be noted that the selected method of forming maritime boundaries will provide Russia with about half of the Arctic territories.

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