COUNCIL on FOREIGN RELATIONS

Center for Preventive Action

POLICY INNOVATION MEMORANDUM NO. 14

Date: February 16, 2012

From: Melissa Bert

Re: A Strategy to Advance the Arctic Economy

The United States needs to develop a comprehensive strategy for the Arctic. Melting sea ice is generating an emerging Arctic economy. Nations bordering the Arctic are drilling for oil and gas, and mining, shipping, and cruising in the region. Russia, Canada, and Norway are growing their icebreaker fleets and shore-based infrastructure to support these enterprises. For the United States, the economic potential from the energy and mineral resources is in the trillions of dollars—based upon estimates that the Alaskan Arctic is the home to 30 billion barrels of oil, more than 220 trillion cubic feet of natural gas, rare earth minerals, and massive renewable wind, tidal, and geothermal energy. However, the U.S. government is unprepared to harness the potential that the Arctic offers. The United States lacks the capacity to deal with potential regional conflicts and seaborne disasters, and it has been on the sidelines when it comes to developing new governance mechanisms for the Arctic. To advance U.S. economic and security interests and avert potential environmental and human disasters, the United States should ratify the UN Law of the Sea Convention (LOSC), take the lead in developing mandatory international standards for operating in Arctic waters, and acquire icebreakers, aircraft, and infrastructure for Arctic operations.

REGIONAL FLASHPOINTS THREATEN SECURITY

Like the United States, the Arctic nations of Russia, Canada, Norway, and Denmark have geographical claims to the Arctic. Unlike the United States, however, they have each sought to exploit economic and strategic opportunities in the region by developing businesses, infrastructure, and cities in the Arctic. They have also renewed military exercises of years past, and as each nation learns of the others' activities, suspicion and competition increase. When the Russians sailed a submarine in 2007 to plant a titanium flag on the "north pole," they were seen as provocateurs, not explorers.

The continental shelf is a particular point of contention. Russia claims that deep underwater ridges on the sea floor, over two hundred miles from the Russian continent, are part of Russia and are legally Russia's to exploit. Denmark and Canada

also claim those ridges. Whichever state prevails in that debate will have exclusive extraction rights to the resources, which, based on current continental shelf hydrocarbon lease sales, could be worth billions of dollars.

Debates also continue regarding freedom of navigation and sovereignty over waters in the region. Russia claims sovereignty over the Northern Sea Route (NSR), which winds over the top of Russia and Alaska and will be a commercially viable route through the region within the next decade. The United States contends the NSR is an international waterway, free to any nation to transit. The United States also has laid claim to portions of the Beaufort Sea that Canada says are Canadian, and the United States rejects Canada's claim that its Northwest Passage from the Atlantic to the Pacific is its internal waters, as opposed to an international strait. Canada and Denmark also have a boundary dispute in Baffin Bay. Norway and Russia disagree about fishing rights in waters around the Spitsbergen/Svalbard Archipelago.

U.S. CAPACITY IN THE ARCTIC IS LACKING

Traffic and commercial activity are increasing in the region. The NSR was not navigable for years because of heavy ice, but it now consists of water with floating ice during the summer months. As the icebergs decrease in the coming years, it will become a commercially profitable route, because it reduces the maritime journey between East Asia and Western Europe from about thirteen thousand miles through the Suez Canal to eight thousand miles, cutting transit time by ten to fifteen days. Russian and German oil tankers are already beginning to ply those waters in the summer months. Approximately 150,000 tons of oil, 400,000 tons of gas condensate, and 600,000 tons of iron ore were shipped via the NSR in 2011. Oil, gas, and mineral drilling, as well as fisheries and tourism, are becoming more common in the high latitudes and are inherently dangerous, because icebergs and storms can shear apart even large tankers, offshore drilling units, fishing vessels, and cruise ships. As a result, human and environmental disasters are extremely likely. Despite the dangerous conditions, the Arctic has no mandatory requirements for those operating in or passing through the region. There are no designated shipping lanes, requirements for ice-strengthened hulls to withstand the extreme environment, ice navigation training for ships' masters, or even production and carriage of updated navigation and ice charts.

Keeping the Arctic safe with the increased activity and lack of regulations presents a daunting task. The U.S. government is further hindered by the lack of ships, aircraft, and infrastructure to enforce sovereignty and criminal laws, and to protect people and the marine environment from catastrophic incidents. In the lower forty-eight states, response time to an oil spill or capsized vessel is measured in hours. In Alaska, it could take days or weeks to get the right people and resources on scene. The nearest major port is in the Aleutian Islands, thirteen hundred miles from Point Barrow, and response aircraft are more than one thousand miles south in Kodiak, blocked by a mountain range and hazardous flying conditions. The Arctic shores lack infrastructure to launch any type of disaster response, or to support the growing commercial development in the region.

U.S. LEADERSHIP IN ARCTIC GOVERNANCE IS LACKING

Governance in the Arctic requires leadership. The United States is uniquely positioned to provide such leadership, but it is hampered by its reliance on the eight-nation Arctic Council. However, more than 160 countries view the LSOC as the critical instrument defining conduct at sea and maritime obligations. The convention also addresses resource division, maritime traffic, and pollution regulation, and is relied upon for dispute resolution. The LOSC is particularly important in the Arctic, because it stipulates that the region beyond each country's exclusive economic zone (EEZ) be divided between bordering nations that can prove their underwater continental shelves extend directly from their land borders. Nations will have exclusive economic rights to the oil, gas, and mineral resources extracted from those outer continental shelves, making the convention's determinations substantial. According to geologists, the U.S. portion is projected to be the world's largest underwater extension of land—over 3.3 million square miles—bigger than the lower forty-eight states combined. In

addition to global credibility and protection of Arctic shelf claims, the convention is important because it sets international pollution standards and requires signatories to protect the marine environment.

Critics argue that the LOSC cedes American sovereignty to the United Nations. But the failure to ratify it has the opposite effect: it leaves the United States less able to protect its interests in the Arctic and elsewhere. The diminished influence is particularly evident at the International Maritime Organization (IMO), the international body that "operationalizes" the LOSC through its international port and shipping rules. By remaining a nonparty, the United States lacks the credibility to promote U.S. interests in the Arctic, such as by transforming U.S. recommendations into binding international laws.

A COMPREHENSIVE U.S. STRATEGY FOR THE ARCTIC

The United States needs a comprehensive strategy for the Arctic. The current National/Homeland Security Presidential Directive (NSPD-66 / HSPD-25) is only a broad policy statement. An effective Arctic strategy would address both governance and capacity questions. To generate effective governance in the Arctic the United States should ratify LOSC and take the lead in advocating the adoption of Arctic shipping requirements. The IMO recently proposed a voluntary Polar Code, and the United States should work to make it mandatory. The code sets structural classifications and standards for ships operating in the Arctic as well as specific navigation and emergency training for those operating in or around ice-covered waters.

The United States should also support Automated Identification System (AIS) carriage for all ships transiting the Arctic. Because the Arctic is a vast region with no ability for those on land to see the ships offshore, electronic identification and tracking is the only way to know what ships are operating in or transiting the region. An AIS transmitter (costing as little as $800) sends a signal that provides vessel identity and location at all times to those in command centers around the world and is currently mandated for ships over sixteen hundred gross tons. The United States and other Arctic nations track AIS ships and are able to respond to emergencies based on its signals. For this reason, mandating AIS for all vessels in the Arctic is needed. The U.S. government also needs to work with Russia to impose a traffic separation scheme in the Bering Strait, where chances for a collision are high. Finally, the United States should push for compulsory tandem sailing for all passenger vessels operating in the Arctic. Tandem sailing for cruise ships and smaller excursion boats will avert another disaster like *RMS Titanic*.

To enhance the Arctic's economic potential, the United States should also develop its capacity to enable commercial entities to operate safely in the region. The U.S. government should invest in icebreakers, aircraft, and shore-based infrastructure. A ten-year plan should include the building of at least two heavy icebreakers, at a cost of approximately $1 billion apiece, and an air station in Point Barrow, Alaska, with at least three helicopters. Such an air station would cost less than $20 million, with operating, maintenance, and personnel costs comparable to other northern military facilities. Finally, developing a deepwater port with response presence and infrastructure is critical. A base at Dutch Harbor in the Aleutian Islands, where ships and fishing vessels resupply and refuel, would only cost a few million dollars per year to operate.

Washington could finance the cost of its capacity-building efforts by using offshore lease proceeds and federal taxes on the oil and gas extracted from the Arctic region. In 2008, the United States collected $2.6 billion from offshore lease sales in the Beaufort and Chukchi Seas (off Alaska's north coast), and the offshore royalty tax rate in the region is 19 percent, which would cover operation and maintenance of these facilities down the road.

The United States needs an Arctic governance and acquisition strategy to take full advantage of all the region has to offer and to protect the people operating in the region and the maritime environment. Neglecting the Arctic reduces the United States' ability to reap tremendous economic benefits and could harm U.S. national security interests.

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