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Transcript

Opening up the Arctic: Prospects, Paradoxes and Geopolitical Implications

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Roger Harrabin:

My name is Roger Harrabin. I'm BBC Environment Analyst, which is a curious title to do with BBC redundancy rules. I don't need to explain any further than that. I've been reporting on the environment for 25 years. I've only made one trip to the Arctic, but absolutely unforgettable. I went to Ilulissat, that extraordinary place on the west coast which constantly spawns icebergs.

I'll never forget it, firstly because we were in the middle of summer and we found we could literally film all day. And we kind of didn't need any sleep, which really puzzled me that you had plenty of energy through the day. That was quite interesting psychologically.

And also I will never forget, I did a piece to camera, you know the bit where the reporter talks to the camera, and my cameraman said, 'Where do you want to do it?' I said, 'Oh, let's do it on an iceberg. That would be a great idea.' And we got very excited and we found an Inuit boatman who sailed us out to this iceberg. I said, 'Find us a safe iceberg.' He tested it with his ice hook and said, 'Well my people have been clubbing seals on these for centuries, and this one looks all right to me.'

So I said, 'Are you sure?' And he said, 'Well, I think so.' So my colleague and I decided that advice from the expert on the spot would pass BBC health and safety rules, no doubt. So I got onto the iceberg and the cameraman said, 'Well how do you want to film it?' We were too excited to have planned anything. I said, 'Oh, what about if I turn around on the spot talking to the camera and you go round the iceberg in the boat. That would be really cool.'

So he said, 'Fine, fine, fine.' And he sailed off. And I thought, 'Oh my God. I'm standing on an iceberg! I'm insane!' And we had to do the piece to camera in one take, you know, the adrenaline forced through me. Got it back to the hotel and we looked at it and it looked really rubbish because I was moving so slowly in time with the boat, you couldn't tell we were on an iceberg at all. So it had all been a rather dangerous waste of time.

Anyway. Onto the meeting of the day with rather greater input — Opening the Arctic: Prospects, Paradoxes and Geopolitical Implications. And indeed, there are many of all of those three.

With us is Charles Emmerson, Senior Research Fellow in Environment and Resources from Chatham House. He's going to kick off today. We also have Robert Blaauw, Senior Advisor of Global Arctic Theme for Shell International, and it will be interesting to hear a bit more about Global Arctic Theme and what that means and who is making Shell's policy in the Arctic. And also,

Nicola Clase, Ambassador of Sweden to the UK, Sweden currently in the chair of the Arctic Council.

So I think probably why don't you just kick off, Charles, and we'll get into discussion as soon as we can.

Charles Emmerson:

Okay. I'm going to speak not for very long, because we want to get into the conversation, into the debate. Also, working at Chatham House, I am aware there is actually a trap door here which the others should be aware of, which I think Roger has sort-of mental control over.

So, short time, I want to really make three points. The first is actually not a point, it's a question: Is 2012 the tipping point? Is it the year where things change in terms of Arctic development? Secondly, I want to talk a bit about risks and uncertainties. And thirdly, I want to just raise a few issues as regards politics.

A longer exposition of all of these points is in a report which we did at Chatham House. My colleague Glada Lahn and Lloyd's of London, a little bit earlier this year. And I invite you to download that if you want to pursue some of these.

But I'd like to start with a general point, which is although we talk about *the* Arctic as a singular, there are in fact multiple Arctics. There are many Arctics. Different parts of the Arctic have different conditions, different regulations, different legal systems, different levels of population, different levels of infrastructure, and different interests. So when we think about the Arctic, we should understand it as a multi-form place, rather than as everything south of the North Pole.

So on this first question: Is 2012 the year? Is it the tipping point? Consider just a few things which have happened in the last few weeks and months. Right now, off the north coast of Alaska, Shell may finally be able to drill in off-shore areas, in the Chukchi and Beaufort, after investing an estimated $4 billion, years of litigation, to drill in areas that they believe there's a good prospect of hitting oil. And I'm sure that Robert will talk about this.

In the Barents Sea, so north of Norway, Statoil has claimed that they have 'cracked the code' of the geology of the area and they have made two quite substantial discoveries in the last year and are pushing ahead with those. They actually already produce natural gas in the Barents Sea. In the Russian

Arctic, you've seen a number of potentially very large deals. It's hard to tell just how large they might eventually be. But a number of potentially very large deals between Rosneft, the Russian state oil company or national oil company, and a number of Western companies, ENI, Statoil and Exxon Mobil.

And President Putin has put the investment potential of these deals, perhaps rather exaggeratedly but nonetheless, at $500 billion. The CEO of Rosneft, Igor Sechin, who by the way used to be Russia's deputy prime minister, has put the number a little bit lower, but still $400 billion. I think those are quite high, but there's potential there.

At the same time, you have onshore developments in the Yamal Peninsula, which are terribly important for Russia's national gas company, Gazprom. There was a paper produced a few years ago that had the title, 'There is no alternative to Yamal'. And I believe that for Gazprom, that's true.

Iceland is considering a licensing round off its coastline. Norway is pushing further north and this year we may get the first shipment of liquefied natural gas (LNG) along the Northern Sea Route, so along the north coast of Russia. And this is in a context of a doubling of shipping, initially from a very low level, but a doubling of shipping year-on-year for the last few years. In Canada, there is an iron ore mine called the Baffinland Iron Ore Mine (sic), which is just going through its final environmental assessments.

And of course all this is on a background of retreating sea ice. The latest figure suggests that we're actually below where we were in 2007. And there was a poll conducted of various scientists about where they expect it to be at the end of this summer. So when Arctic ice tends to reach its minimum. And 15 of the 19 scientists said that they expected there to be less ice this summer than last summer.

So is 2012 the year? Well, also risks and uncertainties. Consider the Shtokman natural gas field, which is off the coast of, the north coast, of Russia. And every year that I've been working on Arctic issues, the date on which the Arctic is expected to be ice-free in summer has come closer. And every year the Shtokman field is just one year away. So it keeps on being delayed again and again and again, and indeed it's just been delayed again.

In terms of uncertainties, think about the flux in the global energy system. Yes, oil prices are quite high, but gas prices have gone down tremendously in some markets over the last couple of years. There's tremendous economic uncertainty more generally. There are questions about what the future fuel of cars will be. Will it actually be petroleum or will it be gas liquids? Will it be something else?

And also, in terms of uncertainties, although we think of the Arctic as becoming more and more hospitable for investment, actually there will still be icing. It will still be very unpredictable when and where the Arctic ices up. And of course there are plenty of risks in all of this which need to be mentioned alongside the opportunities. It's still going to be very, very hard to operate in the Arctic for the foreseeable future. It's not just about ice. It's also about darkness, it's also about remoteness.

And while all of these things by themselves may be easy to deal with, one can point to a strategy and say, 'Well I can deal with remoteness by putting in infrastructure. I can deal with ice by building structures which are ice resistant. Maybe I can drill from on the sea floor itself.' But if you put all these things together, as we argue in our report, you end up with a very, very complicated risk environment.

That of course then leads on to environmental risks. Imagine a Deepwater Horizon in the Arctic. It's not something which one really wants to imagine, but if it were to happen, what would it mean?

I think it's important to distinguish when we think about risk between the chance of something actually going wrong, which is not necessarily higher in the Arctic than anywhere else, and the consequences if it did. I think thinking through the consequences is a very serious business in terms of the environment but also for companies. If something goes wrong in the Arctic, it will affect not just that company, it will affect an industry, it will affect a region.

And then finally, the politics. And I'll leave it on this note. The politics of the Arctic is generally a lot more co-operative than is often reported. Yes, there's more military infrastructure in the Arctic now than five years ago, but less than 25 years ago. The diplomatic signs tend to be quite good. All of the states in the Arctic agree that the Law of the Sea is the way forward in terms of determining who owns what.

I was in Washington last week and maybe only speaking to a perennial optimist, but one of the people I was speaking to there thought even the United States might, possibly, sign up to the UN Convention on the Law of the Sea, perhaps after the elections in November. Lots of Arctic communities are in favour of Arctic development.

So, on one level there's lots of political agreement, which is a very good thing. On the other hand, there are some outstanding areas of disagreement, for example, between the US and Canada in the Beaufort Sea and perhaps around Svalbard. That's a complicated issue. And then there are other interested parties. I spoke about events in the Arctic, people being in the

Arctic recently. Well, Hillary Clinton was recently in the Arctic. So was Wen Jiabao, the Chinese Premier.

Sweden, currently chairing the Arctic Council, has the rather complicated task of helping the other countries determine which of a very wide range of countries, including China, including Singapore, should be allowed to be permanent observers to the Arctic Council.

And then, of course, Arctic development, resource development, is closely linked to geopolitics. And that's particularly the case for Russia. If you look at a photograph of any of those deals between Rosneft and a Western oil company, you will always see Putin standing in the background. And that's basically sending two messages.

The first is: This is very, very important to Russia nationally. The second actually is that it plays into the political economy of the energy sector in Russia itself. The state budget of Russia is increasingly dependent on oil and gas, more dependent now than five years ago. As a consequence of which, pushing into the Arctic is really a national strategic imperative.

And then finally, there's of course the domestic politics of Arctic development. This is a very controversial issue. Greenpeace has been running a campaign on this issue which some of you may have come across. And I think that echoes with some people. That may not make very much difference in Russia perhaps, but it probably does make a difference in the US or Canada. It makes life difficult politically. And it raises the political risks and reputational risks for companies seeking to operate in this arena.

So to conclude, the Arctic is globalising. It's not just an affair of the Arctic countries anymore, although obviously they are in the lead and should be. Secondly, development is likely. It's happening already. But its future pace is very uncertain. And thirdly, and this is a point which we very much get across in the report, there is no such thing as a risk-free development.

To say that there's not risk-free development doesn't mean there should be no development. But we need to have a much clearer understanding of the risks and what we're getting ourselves into. I look forward to the discussion.

Roger Harrabin:

Thank you. Would you like, before we move on, just to add a thought on oil spill response? Because you got to nearly talking about it. In other words, it's

not the risk of the accident happening, it's what happens afterwards. Just offer us a minute on oil spill response.

Charles Emmerson:

Perhaps Robert might like to talk about that, too. My view on oil spill response is that you can put in all the technical means to try and deal with an oil spill going wrong. It's within the capacity of a company or a group of companies to come up with a range of technical responses.

But I think what is very hard to do is to be able to scale up at speed. I don't doubt for one second the technical competence of a very wide range of companies, either operating in northern areas or seeking to operate in the future in northern areas. I think people are very committed to having the right technology to deal with the problem should it arise.

My question is really, well, is that enough? And how can you show us that it is enough? If we talk about Deepwater Horizon, for example, where there was the ability to mobilise a huge number of vessels in quite a short space of time. That doesn't really exist in the Arctic in the same way.

So it's not just a question of an individual company's plan. It's very much a question of an industry's plan and indeed a plan which will then have to be elaborated with government.

Roger Harrabin:

Thank you very much and indeed a plan that might need to be rolled out in an Arctic winter, too. Robert, do offer us your thoughts on this.

Robert Blaauw:

Thank you, Roger, for the introduction. Thank you, Charles, for the fantastic overview of the Arctic. Ladies and gentlemen, it's great to be here and talk about our beloved Arctic.

I'm leading the Arctic theme in Shell. And that means to pull together the capabilities to make our Arctic business succeed. And that is in terms of technology. It's in terms of sustainable development, environmental management, communications and all these subjects.

I travel the Arctic a lot and I'm always impressed by how people are one with nature, both indigenous people and settlers who came to the Arctic. And how

they make full use of the potential of the Arctic and let it be whole. And that 'can do' mentality is very inspirational for us as well.

Now the theme of today was geopolitical and economic implications of the Arctic opening, challenges and opportunities for investors, infrastructure, local livelihoods and ecology. I will touch on most of them, perhaps without the geopolitical aspects that will no doubt come later. Shell is a global company and it's in the energy business, so I think we do understand geopolitical considerations indeed as well.

Over my years, I've been living abroad for 20 years. I've also lived in Nigeria and Syria. So you will forgive me if I say that the Arctic is a peaceful and stable region. Also that the oil and gas as we know it is on the continental shelves of the Arctic countries. And it is within the economic zones, and it is uncontested. So the regulatory regimes for all of these Arctic oil and gas basins is very well defined by the countries who own them.

I would like to focus a little bit on the opportunities that the Arctic has to offer. I think you all know full well and you've seen those statistics of the US Geological Survey of 22 per cent of the yet-to-be-found oil and gas located in the Arctic. And of course it's an immature area, so it can be much less but it can also be much more.

You also know about the energy challenge. You know that we have seven billion people today and nine billion by 2050. You know that the International Energy Agency believes that energy demand will double by 2050 and it needs to come from many different sources. And renewable will come off strongly, but even by 2050 the IEA believes that there’s 60 per cent of fossil fuels still in the mix.

At the same time of course, we must mitigate the impacts and especially climate change. That's indeed quite a challenge.

Now, when we look at the Arctic, maybe people have the idea that it is a pristine, uninhabited area, inhabited by animals and it's fantastic. And it is. But industrial development in the Arctic is not new. If you look at the various maps, commercial whaling started 500 years ago and since then there never has been a not-productive area in the Arctic for various different industries.

And so is it for oil and gas. Arctic oil and gas exploration started roughly a century ago in Alaska and since then it only very gradually has developed. When one looks at the multi-billion dollar investment for big projects, one understands why that is.

Now, let's have a look at some of the benefits. Let's look at Sakhalin, for instance. It's in the near Arctic. But it's very cold and there's a lot of ice. There's indigenous people. There's a fragile environment. So all the Arctic challenges except the darkness in winter.

Now when we came there in 1990, we saw a pretty desolate island, high unemployment, extremely high risk in road traffic as well as low general health. If you look at Sakhalin Island now, 99 per cent employment, road safety on par with the UK, a vibrant social network of indigenous people looking after their own destiny. It's really going very, very well. Hundreds of billions to the federal government and also for development for the island. Don't forget how much Japan, thanks to Sakhalin, every single cargo of LNG goes to Japan especially after Fukushima.

Now for Alaska, that is an exploration stage, and the University of Anchorage has determined that if it goes to development, the offshore, 55,000 sustainable jobs for 50 years to come and up to $45 billion in payroll and a 93 year revenue to the government and on and on and on. Lots of benefits for local communities, Alaska State and the lower 48 as well. And the Trans-Alaska pipeline will be revived. And that will be running dry in about ten years or so.

Now experience also shows that local communities, workforce development, development in general, capacity building, goes well with oil and gas if run responsibly. That brings me to the 2012 programme and Charles has mentioned it already. The Obama government has offered licences in Alaska to the industry as part of its energy policy. So they determine its importance to explore oil and gas in the Arctic.

We won a number of blocks in the Chukchi and Beaufort Sea and some other companies did as well. Now the plans that Shell made have been subjected to unprecedented scrutiny by the regulatory authorities in terms of the drilling programme, impact assessment, operational preparedness, emissions, emergency response, oil spill response and prevention and so on.

So what is the plan? Charles, you said 2007, you know, less ice than before. Actually in the Bering Strait, there's more ice than in the last 12 years. And therefore it will only move there in the first week of August rather than mid-July. So it shows how indeed, how unpredictable this ice situation is.

We plan to drill three to five wells in Chukchi and Beaufort Sea together in very shallow water, up to 50 meters deep. And the environment at the time in the summer is roughly the same as in the southern North Sea, albeit the sea conditions are milder actually. On top of that, there's 24 hours daylight.

Then furthermore, we leave before the ice comes back. We've been there before in the 80s and 90s. We drilled 15 wells successfully without any incident and so we know the pressure regime, which actually is the effect of five lessons in deep water Gulf of Mexico where the Macondo incident happened.

So I think we were really well prepared. And indeed the plan for oil spill response and prevention has been scrutinised to the end. It's the best reviewed plan on the planet. And if we wouldn't be confident that we could go there, we wouldn't, because nobody wants an incident to happen and if an incident would happen then it's over for the industry altogether. So it won't happen.

Now the concerns of local communities have been integrated in our science programmes. We have blackout periods during the whale migration. We have zero discharge when the whales go by. And we have protected species observers on board. Four on every single vessel and we have 22 vessels.

Now wherever the industry goes, it brings a lot of science to the table. Over the last five years alone, we spent something like 60 million on science programmes, on the Bentones, on the water column, on the sea mammals, on noise mitigation, on sound and effects on whales and what have you, on birds. And we have a really good understanding of the ecosystem holistically together with the regulatory authorities which have done a lot of studies.

I can go on. This is my passion, but we only have a few minutes and there needs to be a good debate as well. Let me also mention Greenland. It's a bit of a new kid on the block for oil and gas, but it's very, very exciting. This summer we will run a large 3D seismic programme in the Baffin Bay with specialised ice class seismic vessels. And we hope to obtain some early information on the prospectivity of the blocks we have in the high north.

Now Greenland is huge. It's a huge island, the size of India. But so far, only 13 wells have been drilled and no commercial hydrocarbons have been found. Well, note that in the Gulf of Mexico, the North Sea, tens of thousands of wells have been drilled and we're still making major discoveries today. So Greenland is immature. It will take many, many years to test its prospectivity and it's important to manage that expectation as well.

Now let me get to a close by saying that the Arctic is a region of co-operation between all those stakeholders that have a skin in the game. We work with many stakeholders in support of our programmes. It's governments, it's the Arctic Council, it's local communities, academia, NGOs, other industries, and of course the oil and gas industry itself.

Let's face it. HSE – help save the environment – is an area for co-operation. And we must get it right together. Now thank you for this opportunity to make this introduction. I really look forward to a constructive panel discussion and questions from the audience. Thank you.

Nicola Clase:

Thank you. I thought I'd just start with sharing a memory from many years ago, my first encounter with the Arctic which was actually in Murmansk, shortly after the breakup of the Soviet Union, where we had been touring with an atomic icebreaker. But on our way back we found out that we were stranded in Murmansk because the airline that I'd taken had gone bankrupt.

And there was a Finnish bus driver who met us and very nicely said he would drive us back to Sweden which we didn't really appreciate. And the governor of the northern part of Sweden said that we'd be very happy if you could find something that will fly us back to Sweden or Finland. And we rented a helicopter from Aeroflot with a Ukrainian pilot and it turned out to be a helicopter that had been owned by the Russian military that had flown troops to Afghanistan.

And the problem we had was of course that when we crossed the Finnish border that they hadn't repainted the helicopter, there was a red star underneath and then the Ukrainian pilot said that was not very smart. But we survived.

So Sweden is an Arctic country and currently, as was pointed out, holds the chairmanship of the Arctic Council. And we may not have the direct exposure to the northern seas as other Arctic states, but the Arctic still matters a great deal to us.

Northern Sweden is sparsely populated, but the greater Arctic area of Sweden is still home to about one million people including the indigenous army. And the Arctic has long formed a central part of the Swedish economy. We export iron ore from very large mines and about 35 per cent of our domestic energy comes from hydro power plants in the greater Arctic region.

And Sweden has a strong Arctic tradition within and beyond our own borders. In fact, the Swedish government adopted its first Arctic strategy just last year. And sustainable development is the key word in that strategy. The opportunities in the Arctic should be seized but the significant challenges in the region must also be met with great determination.

The people who live in the north, they need jobs and economic growth just like everyone else. But this development must be balanced with protection of the sensitive Arctic nature and engagement with local societies. Indigenous population must have the possibility to maintain and develop their identity; culture, knowledge transfer and traditional living, such as reindeer herding, must be upheld.

And we should bring the strengths that we have: strong research traditions, advanced technology, not least in environmental protection, and experience in icebreaking and ice management that we have from the Baltic Sea. It is with the same basic attitude that we approach the broader Arctic issues that are dealt with in the Arctic Council and beyond. Because we see an exploding interest in the Arctic that has come as a result of globalisation, of climate change, and of advances in modern technology.

The Arctic warms twice as fast as the global average. And the ice in the Arctic is melting at an alarming pace. The receding ice cap which researchers of the Arctic Council say will not exist in the summertime in 30 to 40 years is a stark reminder to all of us of the dramatic effects of climate change.

At the same time, the receding ice cap combined with scientific and technological progress, opens opportunities previously blocked. We see the emergence of new trade routes that in the long run are likely to change the global transport logistics.

Last year, 34 vessels transferred through the North East Passage, north of Russia, and the number will probably increase this summer. Perhaps not very much compared to the about 18,000 vessels that passed through the Suez Canal last year, but significantly more than the ten that passed the year before.

And even if difficulties remain, and even if the North West Passage might be further into the future, there will be a gradual increase in vessels travelling through the Northern Sea Route. We see exploration of resources, oil, gas, and minerals becoming possible and even profitable at locations where this was unthinkable just only a decade or two ago.

Companies and countries are eager to secure control over assets that were previously unknown or considered irrelevant. And we see the economy growing and population increasing in parts of the Arctic where unemployment and harsh living conditions only recently forced people to move out.

Our task is to do what we can to ensure that opportunities are seized and challenges met. We must promote sustainable development and ensure that there is respect for indigenous populations.

Many issues can only be solved at a global level or in specialised fora. It is for example through an inclusive global agreement that we can effectively combat climate change through a reduction of greenhouse gas emissions. It is through agreement by those concerned and an orderly process within the Law of the Sea Convention that remaining territorial issues in the Arctic can be resolved.

And it is through the adoption of a mandatory Polar Code in the International Maritime Organization that we can best promote safe Arctic shipping. We believe that the Arctic Council can make an important contribution in those key areas.

On climate change, the Swedish chairmanship of the Arctic Council seeks to raise the profile of Arctic issues in the international climate negotiations to promote action on so-called short-lived climate pollutants and, as a matter of priority, reduce the black carbon emissions that are known to have a significant regional effect.

On new shipping routes, we have signed an Arctic search and rescue agreement, the first legally binding agreement under the auspices of the Arctic Council. And on exploration of Arctic resources, we made the prevention of pollution and other forms of negative environmental impact a key priority for the Council.

Under our chairmanship, a taskforce is negotiating a treaty on co-operation in preparedness and response for possible oil spills in the Arctic. And when it comes to exploration of Arctic resources, it is essential that the highest safety standards are respected and that local communities are properly consulted.

The possibility of an oil spill, similar to the one that we saw in the Mexican Gulf some years ago, would not only devastate the sensitive Arctic environment but also the future of many of the people that live in the region that are dependent on vulnerable ecosystems.

For awhile, we feared that the arms race that took place in the Arctic region during the Cold War would be replaced by a fierce race for resources with alarming security implications. This has not happened. Instead we see an acceptance that there are shared Arctic interests and a lot to be gained by working together.

The Arctic Council, bringing together all Arctic countries around the table and having the permanent participants involved at all levels, is central in this process. And as we look to the future, I believe that the Arctic Council can make an exceedingly important contribution.

Next year, we round up the first cycle of chairmanships of the Arctic Council. And to mark this important and somewhat symbolic occasion the Arctic states have decided to outline, for the first time ever, a statement on a common vision for the Arctic region that will be adopted in May of next year.

And finally, the Arctic is one of the world's least explored and last wild places. We all need to co-operate to protect this unique Arctic environment.