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## Political risks of hydrocarbon deposit development in the Arctic seas of the Russian Federation

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### Abstract

Nowadays the process of Arctic development has a long-term international cooperation character. Economic and geopolitical interests of both arctic and non-arctic countries meet in the region. Apart from resource development issues, there are problems concerning security, sustainable development and some others issues conditioned by climate and geographical characteristics of the region. Strategic analysis of political risks for the Russian Federation is carried out. The analysis reveals that political risks of hydrocarbon deposits development in the RF arctic seas appear as lack of coordination with arctic countries in solving key regional problems, failure to follow international agreements. Such inconsistency may lead to political risks, which results in strained situation in the region.

### • Introduction

The Arctic region integration into global political and socio-economical processes is an important stage of its development. Today the role of the Arctic region becomes more and more important in global politics and economics. This area is in focus of resource and strategic interests of both arctic and non-arctic countries. The Arctic countries are trying to codify property for a part of the sea bottom, but they encounter opposition of countries-rivals and countries that have no territories in the Arctic region.

Historically, the arctic area was of no economic and political interest for a long time both for Russia and for other countries. Hard climatic conditions made the industrial and transport development of the region impossible. It restricted economical and political interests of the countries and the issue of the arctic region dominion didn't arise.

Global warming resulted in arctic ice melting and changed the situation essentially. Climate change made the arctic regions, rich in natural resources, more accessible and forced many countries, especially Russia, the USA, Canada, Denmark (acting for Greenland and Faeroes) and Norway (the arctic "five") to redefine they interests in the Arctic region. Arctic sea ice loss gave massive prospective of industrial reclaiming of the region, most of all, offshore oil and gas field development and sea lanes economic potential.

The aim of the article is to analyze geopolitical situation and interaction between countries in the Arctic region, to reveal political risks and contradictions during the deposit development in the Russian Federation arctic seas.



- **The Arctic region legal status**

The UN Convention on the Law of the Sea (UNCLOS) was approved in 1982. It established the order to define the boundaries of the continental shelf for the littoral states. According to the Convention state's full sovereignty of territorial waters extends 12 nautical miles from the baseline, aerial domain above it, bottom and mineral resources. There is also an exclusive economic zone (EEZ) that stretches 200 nautical miles from the state's coast where the state has special right over the exploration and use of marine resources but has no right to restrict other navigation. Moreover the Convention empowers coastline states to extend the shelf zone up to 350 nautical miles if it is proved that ocean floor is a part of the continental shelf [1].

The Convention is ratified by all "arctic five" countries, except the USA. Despite the renunciation of the ratification the USA accept many norms of the Convention as norms of international law and seek peaceful solution of possible continental shelf claims. Under these circumstances national interests of the littoral arctic states moved to the forefront, with their interrelation becoming more pragmatic. These states are interested in unanimous defense of their rights and interests in the Arctic region, which makes "arctic five" communication logical and stable.

Most of the arctic resources are within the national boundaries. Nevertheless, territorial debates are still pressing challenge and include not only debates about boundaries of particular economical zones of "arctic five" countries, but also the issues of security and rights concerning passing through territorial and international waters. Iceland, Sweden and Finland are considered to be arctic countries, apart from Russia, Denmark, Norway, the USA and Canada. Moreover, the number of countries claiming to participate in making decisions on key problems of the Arctic is increasing. For example, such non-arctic states as China, Japan, South Korea and others consider the policy of sharing the Arctic among the arctic countries to be shortfall. They regard the arctic resources as the province of all mankind, so their development should be performed within the framework of international collaboration. Such collaboration should imply free access to the arctic resource for any country that has technical and economical potential.

The modern system of international collaboration in the arctic region is of contradictory character. On the one hand, there is a growing business struggle between the arctic states for strengthening their positions in the region. On the other hand, no country has sufficient scientific and technical potential to implement independent arctic projects. Besides, there are some ecological, social and other problems in the region to be solved in international collaboration. All the countries interested in arctic resource development understand the profit potential and solve geopolitical and economical problems from in terms of international collaboration. Therefore, being the biggest arctic state, Russia should have a clear attitude to the perspective of the Arctic development, national project elaboration and international collaboration in the region [2].

- **Research methodology**

Traditionally political risk identification and analysis imply defining regional political uncertainty influencing business activity results. Risk analysis is of strategic nature, the Arctic region having some territorial, climatic, social and other peculiarities.

The research is based on the hypothesis that political risks of the Russian arctic sea deposit development are manifested in inter-country contradictions concerning the Arctic resource development.

The research is based on the analysis of requirement documents, arctic strategies of the states and international non-governmental organizations' reports.

- **Geopolitical position of the Russian Federation**

Geopolitical stance and perspectives of socio-economical development of the Russian arctic region are based on principles of globality (all the processes in the region are influenced by global trends) and sovereignty (the region is a part of the national state system and plays a part in state national security protection).

Russian part of the Arctic is the region of particular state geostrategic interests and long-term economical interests of the society in terms of natural resource development and their rational use, global ecological balance and national security. This fact makes the region to be regarded as a separate object of state politics [2].

No arctic topical issue can be solved without Russia's participation and support. Almost half of the arctic area and waters, limited by Arctic Circle belong to the Russian Federation. The most immense world ocean shelf zone rich in unique resources borders on the Russian arctic coastline. 80% of shelf area girding the Arctic Basin belongs to Russia [3].

Arctic deposits development is not only of resource value for Russia [4, 5], but it also has transport and infrastructural potential (Northern Sea Route development [6]) and social and economic development of the north territories as well. Massive water resources, unique biological marine resources are concentrated in the Arctic region; moreover their sustainability is higher than in the south tropical seas. Besides, it is particularly important to develop a unique life-support and survival system in extreme conditions and to conserve the historical-cultural heritage of north nations.

However, there are risks and uncertainties impeding the Arctic development [7]. In particular, the shelf sea hasn't been thoroughly investigated in terms of geology and geophysics [8], another problem is restrained attitude of petroleum companies towards the region [9].

- **Effective interaction of states in the Arctic region**

Nowadays the most important issues are Russia's presence in the Arctic and its participation in strategic decision-making and problem solving on the arctic resource development.

Experts tend to agree that Russia is a strong geopolitical rival and the leading player in the Arctic region. Particularly, the experts from Council on Foreign Relations, CFR) in their report «The Emerging Arctic» [10] consider that it is not the climate change that is so important, but its consequences that lead to growing activity of the states interested in the region development. At the same time it is noticed that Arctic's development depends on Russia's influence first of all.

In general situation in the Arctic is stable and foreseeable. There is no strong evidence to assume that some arctic issues cannot be solved within the interaction of the states. All interested parties agree that region's countries are able to overcome disagreements appearing between them from time to time and provide the Arctic with strong and structural interaction. Organizing full-fledged and diversified collaboration between the arctic states is a guarantee of finding accurate response for new challenges and menaces [3].

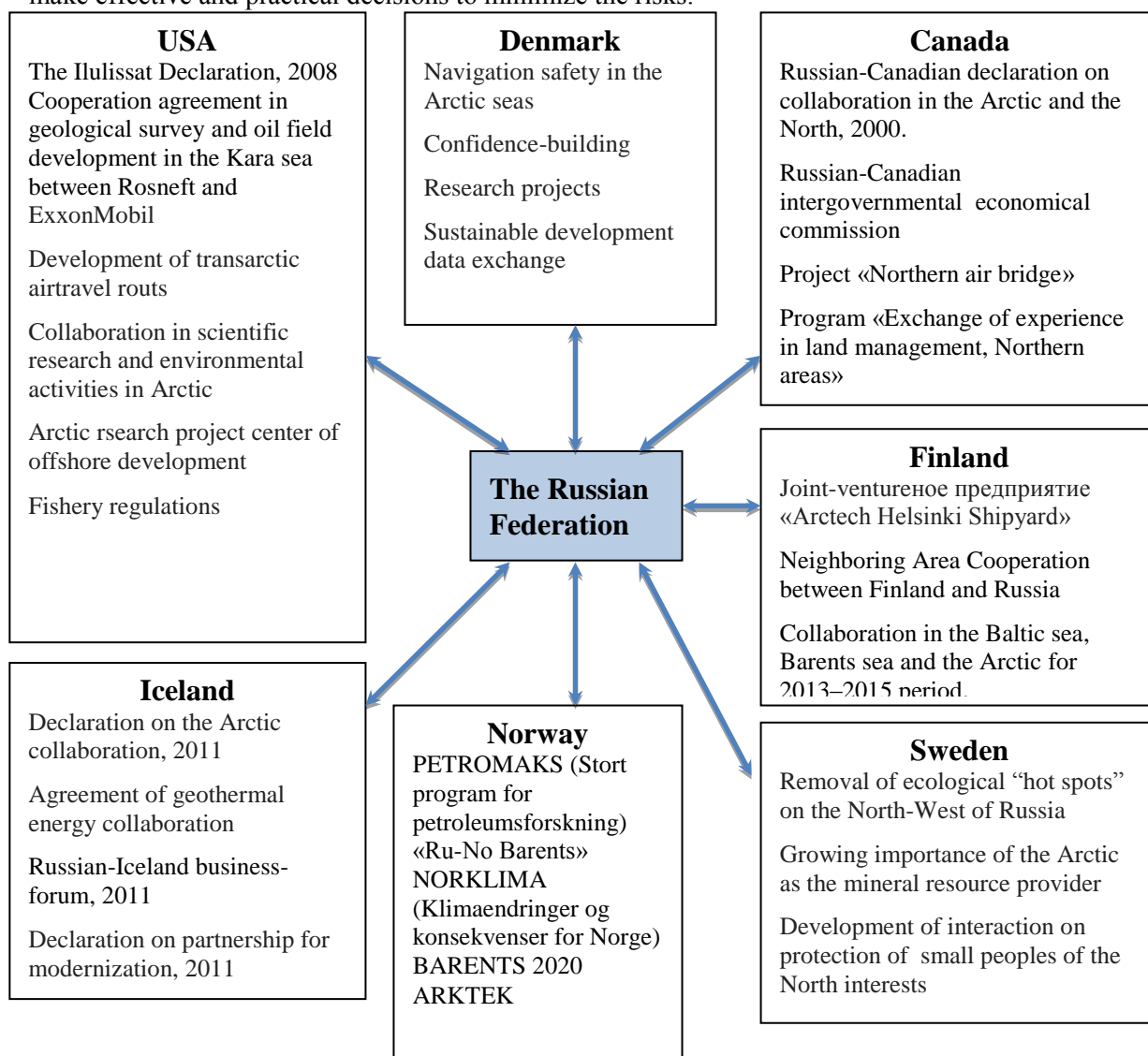
The key points of the international collaboration in the region are identified in the new version of the Russian Federation foreign policy Concept, passed on February 12<sup>th</sup> 2013. "Russia provides an initiative and constitutive line directed at strengthening heteromorphic international cooperation in the Arctic. Implementing national interests successively, Russia proceeds from sufficiency of present international contract and the legal base for successful problem-solving in the region, including setting the out boundaries of the continental shelf in the Arctic Ocean by means of a dialogue". It is underlined Russia's readiness to mutually beneficial co-operation with non-arctic states "when they respect independence of sovereign right and jurisdiction of the arctic states in the Arctic region" [11].

International cooperation in the Arctic has positive trends; there is development of the following activity fields: research, ecology, technology, fishing industry, shipping and others (figure 1). The arctic states have clear agreements on respecting international law and solving problems by using the cooperation mechanisms. Arctic states community united by historical, cultural, economical and other factors implies some presence of specific interests that can be implemented on the basis of mutually beneficial co-operation. Nowadays collaboration is based on reciprocal conventions or mutual projects of the states (including cooperation with international organization).

Expanding activity in the region makes the arctic states solve complicated tasks. Primarily it is necessary for the countries to coordinate legislation on different aspects of the region's development.

International organizations play a special role in solving disputable issues (table 1). Arctic Council, Council of the Barents Euro-Arctic Region, EC and NATO are the most powerful organizations.

Interaction experience with these organizations has rather positive trends, despite the fact that their functions, enforcement powers, structure and activity character are heterogeneous, as well as states' attitude to these organizations is different. For example, longstanding cooperation of the arctic states in the framework of the Arctic Council let them define challenges and risks existing in the Arctic, and make effective and practical decisions to minimize the risks.



**Figure 1.** Examples of effective cooperation of Russia and arctic states (Author's edition).

**Table 1.** International organization participation of the states interested in the Arctic region.

	«Arctic five»	UNCLOS	Arctic Council	EU	NATO	UNSC
Canada	+	2003	Member States		+	Permanent member Permanent member
Norway	+	1996	Member States	+	+	
USA	+	Not ratified	Member States		+	
Russian Federation	+	1997	Member States			
Denmark (Greenland and Faroe Islands)	+	2004	Member States	+ Greenland and Faroe Islands are	+	

				not part of EU		
Sweden		1996	Member States	+		
Finland		1996	Member States	+		
Iceland		1985	Member States		+	
France		1996	Observer	+	+	Permanent member
Germany		1994	Observer	+	+	
The Netherlands		1996	Observer	+	+	
Poland		1998	Observer	+	+	
Spain		1997	Observer	+	+	
United Kingdom		1997	Observer	+	+	Permanent member
People's Republic of China		1996	Observer			Permanent member
Italy		1995	Observer	+	+	
State of Japan		1996	Observer			
Republic of Korea		1996	Observer			Non-permanent member
Republic of Singapore		1994	Observer			
Republic of India		1995	Observer			

The latest strengthening of international organizations' role let us hope that mutual understanding is going to be a key factor of cooperation between countries. International organizations' resources create potential possibilities for Russia to develop cooperation in the Arctic in the longer term. Nevertheless, it is necessary for Russia to stand for its' interests in the Arctic to the full extend.

#### • Discussion

Strategic analysis of the political risks of hydrocarbon deposit development in the Russian Federation Arctic seas shows that the region's sustainable development is not only limited to the protection of resource interests, but requires to solve global geopolitical issues within international process of globalization.

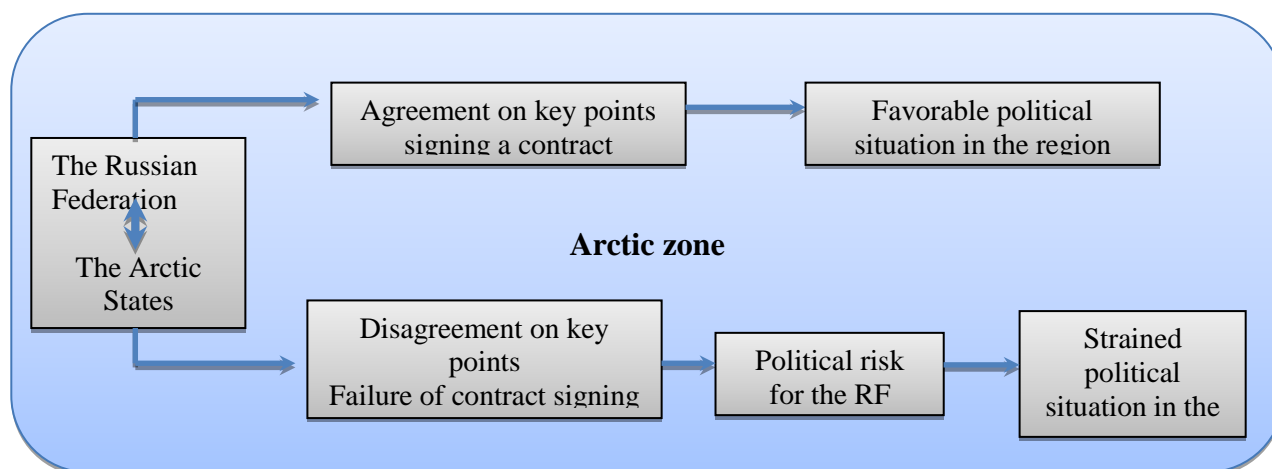
Political risk of disagreement on key arctic issues, uncertainty of the agreements, some disputable issues can have negative consequences for Russian business activities in the Arctic (figure 2). Such risk potential may impede the implementation of the projects concerning field development key problem-solving. International cooperation in the Arctic development is certainly unconditioned for Russia, though its implementation should not contradict Russia's national interests.

The other political risk for Russia is the necessity to protect its' EEZ and the continental shelf as well as to keep national control over the Northern Sea Route. Non-arctic states' initiatives to impose international form of arctic issues management and transform the Arctic Council into intergovernmental organization cause some worries. The "Arctic five" countries consider the present Arctic Council form optimal and international legal base to be sufficient to solve disputable arctic issues. Nevertheless the matters under high discussion, such as freedom of the Northern Sea Route navigation gives Russia ground for straightening its presence in the region, including on disputed territories.

#### • Conclusions

The analysis defines the most significant political risks of hydrocarbon deposit development in the Russian Federation arctic seas.

Considering growing economical and geopolitical interests of many countries in the Arctic, Russia needs to take expedient measures to strengthen its presence in the Arctic. First of all, it is necessary to start developing its legal shelf areas, which will make Russia the owner of the corresponding deposits. This will bring us to productive economical cooperation with other countries.



**Figure 2.** Possible options of states' cooperation in Arctic (Author's edition).

Secondly, it is necessary to start the dialogue between the interested parties to strengthen process of decision making in key arctic issues and to make as many agreements as possible. Development of the regional governmental system is of great importance as well. It is necessary to exclude gaps in legislation and to develop common approaches to solving the key arctic issues. Moreover, it is important for Russia to develop its ways of informational influence to position Russia on the world stage as an equitable arctic country.

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