

The Russian Arctic is turning into an important energy supply route to Europe alongside the Baltic Sea

By Erkki Kotiranta

The current situation in the Caucasus has increased the importance of the Baltic Sea as Russia's import and export route. It is clear that ensuring trouble-free and on-time oil transportation is crucial to the Russian economy.

Oil industry accounts for about 30 percent of Russia's GDP, more than 75 percent of export earnings and about 60 percent of the national budget. These figures indicate the importance of oil for the economy and prosperity of Russia.

Regardless of whether we talk about natural gas, oil, coal, or electricity Europe is the most important market for Russia both at present and in the future. But the Baltic ports will not be able to handle the future flood of Russian oil to Europe. At the moment 60 percent of Russian oil shipments are loaded at ports in the north-east region of the country. The port of Primorsk alone accounts for more than 70 percent of Russian crude oil exports.

The Importance of the Arctic is rising

According to Russian authorities the development of Russian economy depends on further increasing the production of oil and natural gas. They estimate that the production of natural gas is growing at an annual rate of 1 percent. The natural gas pipeline to Europe which is currently on the drawing board supports this view.

Now that the price level of crude oil has stabilized at above USD 140 per barrel, investments in the Arctic area have become profitable. On the other hand, if the current price level remains unchanged, growth prospects are going to diminish which will have inevitable consequences for the Russian economy.

Lukoil's Varanday terminal will be opened by the end of 2008. Shipments will be carried by Sovcomflot with an estimated annual capacity of 3 million tonnes but there are plans to increase throughput up to 12 million tonnes annually.

87 percent of Russian natural gas and oil reserves are located in the Arctic area, compared to only 1 percent located in Southern Russia. The appeal of the Arctic is reflected, for instance, in ship orders. Five arctic tankers with a capacity of over 75,000 dwt have been built recently.

Moreover, Sovcomflot has ordered two vessels of over 114,000 dwt with an option for four additional ships. Gasprom is planning to order dozens of new drilling rigs for the Arctic region by the year 2030. There are also plans for large natural gas carriers.

It is obvious that the increasing demand for oil carriers requires new ice-breaking capacity to ensure the safety of shipments. Russians are planning to order four nuclear-powered icebreakers by the year 2018.

Political aspects

Russia has shown active interest in expanding its Arctic territory. One indication of this effort is the planting of the Russian flag at the North Pole. The expedition was successful, but the media turned the mission against Russia. In 2001 Russia tried to persuade the legal committee of IMO to annex certain Arctic territories to Russia, but IMO did not approve. The proposal will probably come up again in 2012.

We are going to see further activity all over the Arctic in Russian, American, and Canadian territories. Expeditions and seminars will be organised to study the North-East passage, North-West passage and other regions of the Arctic.

The Murmansk region will see significant growth and in the future it will become the main route of energy shipments to Europe and an important supply route to the United States, as well. This means new challenges to shipbuilders and to operations in this area where the nature is extremely sensitive.

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