

## Shipping

### Expectations Cool for Arctic Shipping; Countries Maintain Other Interests

Once hailed as the future site of extensive trade, the Arctic's unpredictable weather and sparse population mean it's unlikely to become the next frontier for global container shipping, even if melting sea ice makes its waterways more easily navigable.

Russian, American and Scandinavian experts told Bloomberg BNA that despite the hopes of some countries and international companies that the Northwest Passage would provide a speedy commercial shipping route through North American waters, Arctic shipping lanes will only be able to sustain small-scale destination traffic. This makes discussions of "Arctic competition" somewhat unfounded, said Brookings Foreign Policy Fellow Tim Boersma.

Recent reports that North America's only deepwater Arctic port is closing come as the latest sign that the Arctic may not be a viable economic investment for many countries. However, the region is likely to remain an important geo-strategic space for the U.S., its allies and adversaries.

Canada's Port of Churchill in northern Manitoba was once looked to as the site of future cooperation with Russia. Reports at the end of July, however, said that workers there had been given two weeks notice and the port would cease activity only a month into its short season. From July to November, the port dealt with grain shipments, and while it was only operational five months out of the year, its closing leaves both Canada and the U.S. without a northern deep water port.

"The closing of the Manitoba port shows that it's hard to make things work economically in the Arctic," said Malte Humpert, founder and strategic director of the Washington, D.C.-based Arctic Institute. The fact that the port won't operate this season foreshadows future expectations for Arctic activity, Humpert said, adding that the last two years of low commodity prices have put a damper on those expectations.

"The operators of the port and the operators of the railroad have determined they are no longer interested in those operations," Canadian Minister of Natural Resources Jim Carr told the Canadian Broadcasting Corp., following reports that the port workers had been laid off and activity had ceased for the season.

The port owner, Denver-based transportation company OmniTrax, did not respond to requests for comment.

**Big Trade Barriers.** The Arctic will be a drop in the bucket of the global shipping structure, because global shipping is built on a system, Humpert said, and ships generally stop in eight and 10 ports along their route, dropping off containers and picking others up, to match demand.

"There is no market in between the points on Arctic routes. Global container shipping does not work and will never work in the Arctic regions because it requires populations," Humpert said.

"Global shipping operators are not really interested in the Arctic because the infrastructure doesn't exist yet," said Humpert, adding that development of this infrastructure won't happen overnight. "It's the same reason it takes so long to switch to electric cars from fuel-powered vehicles," he explained. "There's an entire infrastructure set up to ship through the Suez Canal, and operators will continue to use it as long as it's more stable."

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ARCTIC INSTITUTE

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**Destination Traffic.** Despite the hype around transiting the Arctic, "the future for containerized traffic in the Arctic is nonexistent," said David Slayton, a research fellow at Stanford University's Hoover Institute. For that type of large-scale trade, "anticipation and timing are key," Slayton said, adding that neither of these things are possible in the Arctic because of ice and extreme weather.

This reality has dampened some hopes but has not prompted countries to pull out of the region entirely. Russia and China, in particular, are developing joint ventures to satisfy growing population demands for ever larger quantities of oil and gas.

Despite the variability and uncertainty that the Arctic introduces into the shipping system, there will still be "destination traffic in the region," Slayton said, adding that commodities and dry bulk storage are not as time sensitive as container shipments.

The lack of large-scale commercial viability won't stop U.S. activity and interest during certain seasons.

Point-to-point delivery exists in the Arctic today and is a viable option for supporting local economies, but it is unlikely to be politically or nationally important, said Humpert, pointing to shuttle shipments of fish arriving weekly in Portland, Maine, on Icelandic steamship line Eimskip.

**Arctic Realities.** For the most part, Arctic trade will continue to mean moving natural resources out of the Arctic to global markets, said University of Alaska Fairbanks professor and former U.S. Coast Guard officer Lawson Brigham. “Not container shipping, not retooling global trade routes.”

In the decades ahead small niche markets will likely take advantage of melting ice to conduct ocean-to-ocean shipping in the summer, and the region will continue to see bulk carriers, tankers and liquid natural gas carriers, Brigham explained.

“Arctic sea ice is retreating in profound ways,” said Brigham. “However, the Arctic is still covered in ice seven to nine months out of the year and will be into the foreseeable future.”

Despite the presence of ice, Arctic commodity extraction will continue, particularly on the part of Russia, whose Arctic extraction operations will probably expand, said Humpert.

Because 20 percent of Russian gross domestic product is produced above the Arctic Circle, commodity extraction is “the only game in town,” Humpert said, indicating they will continue to extract and hope prices rise.

“Until two years ago, resource extraction was very lucrative,” Humpert said. “Now, not so much.”

As a highly diverse economy, the U.S. doesn’t rely heavily on Arctic commodity extraction.

“I think Alaska will be out of the oil business inside 10 years,” said Steve Carmel, an analyst in global shipping and senior vice president with Maersk Line Ltd. The oil and gas industry is an area in which activity is likely to diminish rather than decrease, at least for the U.S., Carmel said.

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“It’s all about economies of scale,” Carmel told Bloomberg BNA, explaining that just because a route might be shorter does not make it less expensive. Due to the shallow depths of the Northwest Passage, ships passing through would be forced to carry less cargo than on a traditional route, increasing the cost on a per-

unit basis, Carmel said. “I don’t ever foresee the Northwest Passage being useful on a meaningful scale,” he said. “As long as it’s cheaper, companies will use the traditional routes.”

**Collaboration With China.** Establishment of a container line from the Russian far north to Europe and Asia is high on the Russian agenda, a Russian trade analyst told Bloomberg BNA, and government-level discussions between Russia and China are under way.

The container line would function like a shuttle, with specialized vessels able to navigate the Arctic most of the year. However, the massive investments needed to develop the necessary infrastructure pose significant barriers, the analyst said, asking not to be identified by name or title.

Current U.S. and European Union sanctions on Russia have opened the door for a strong economic relationship with China, the analyst said, which granted loans worth \$12 billion for the financing of Yamal LNG, a liquefied natural gas plant at Sabetta, in northern Russia. These sanctions may slow Russia’s Arctic activity, the analyst added, as they restrict access to the technology vital for development.

**Canadian Prospects.** If sanctions were relaxed, there could be future benefits for the U.S. in small-scale Arctic trade, according to Barnard College and Columbia University professor and foreign policy analyst Kimberly Marten.

Although there is no official trade deal, Marten pointed to announcements about a proposal to strengthen the connection between Murmansk, Russia, and Manitoba that could cut the cost of a trade link between the two countries. “If Canada were to become a destination for Russian trade, it would have a positive impact on the U.S.,” Marten said, adding that although the U.S. is unlikely to do much trading itself, it would use the infrastructure that would have to be developed there.

The proposed partnership would diversify shipments in and out of the Port of Churchill; however, commercial activity has been “put on ice” as long as sanctions are in place and the Port of Churchill remains inactive, Marten said.

**Future Fishing.** As Arctic waters begin to warm, a new interest for the U.S. is likely to emerge in the form of fishing, a senior State Department official told Bloomberg BNA. “Commercial fishing may move higher into the Arctic Ocean in the future as waters warm,” the official said, explaining that cold water fish will begin to move further north to cooler temperatures.

The State Department is watching for signs of commercial fishing moving north, the official said, and is in negotiations for a legally binding fishing agreement that would put protections against large-scale fishing in the Arctic until scientific research had been carried out to ensure protection of the region and until a regional fisheries management organization had been set up.

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**The Northern Sea Route Option.** Despite apparent disinterest from many other nations, Russian President Vladimir Putin has been pushing development in the Arctic, specifically of the Northern Sea Route, which stretches east from the Russian Arctic and around to Asia. Use of this route could make the Arctic more economically interesting for the U.S. in the future, the State Department official said.

If Russia succeeds in advertising the Northern Sea Route as viable option, shipping traffic in the Bering Strait would see an increase, the official said, as ships from China and Japan would travel north through the strait and then turn west on the Northern Sea Route toward Europe.

This traffic could prove an economic benefit for Alaska, the official said, and there is movement there to attract private investment in deep water ports in either Nome or Port Clarence to take advantage of ship traffic coming through the Bering Strait.

The Arctic is an issue of great importance to lawmakers outside of Alaska as well, and several members of Congress, including Sen. Maria Cantwell (D-Wash.), have pushed for increased numbers of ice breaking ships in the U.S. Coast Guard fleet as a means to support the economies in Washington and Alaska, both of which rely on Arctic activity at their ports.

“It’s critical that we include significant investments in the U.S. Coast Guard polar ice breaking fleet as we discuss the U.S. Arctic strategy,” Cantwell told Bloomberg BNA. “Icebreakers are key to America’s access to the Arctic, which is tremendously important to the economy in both Washington and Alaska, and will only continue to grow in the years ahead,” she said.

**Arctic Strategy.** Brookings Foreign Policy Fellow Tim Boersma pointed to the success of the Arctic Council as evidence that the Arctic is unlikely to become an arena for conflict.

“This is a region where member states have set aside disagreements and come to find common ground,” Boersma said, adding that he doesn’t buy into the narrative of “Arctic Competition.”

Despite being encouraged by the collaboration carried out by various countries in the region, Boersma said that as more countries find they have a stake in the region, cooperation could become more complicated.

Even without the possibility of conflict, the U.S. should remain vigilant in the region, the Hoover Institute’s David Slayton said.

“The Arctic is an invaluable geo-strategic space for North American defense,” Slayton said, adding that despite the need to protect economic interests in the north and keep an eye on the Bering Strait, the U.S. doesn’t have the infrastructure to do it.

While Carmel said he sees no real value in militarizing the Arctic, he agreed that the U.S. should be “situationally aware” of what is going on in the region, and maintain its ability to operate there.

Although the Arctic is unlikely to pan out as the next frontier for global container shipping, these world powers both within the Arctic region and outside it still retain interests in the region, both economic and strategic.

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