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Russian Sanctions, China, and the Arctic

Russia's souring relations with the West have given China an Arctic opening.

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Russian Arctic offshore energy efforts are in a period of unwelcome pause, and the flight of Western companies in the face of sanctions imposed by their home countries has left the future of these efforts up in the air. But this state is unlikely to last for long. Western firms have left incredible opportunity in their wake, and China is in the perfect position to benefit.

Over the past 10-15 years, the People's Republic of China (PRC) has systematically increased its activity in the high north through various avenues. Russia's current relations with the West are likely to substantially boost this enterprise, which should concern the international community given the importance that the Arctic will play in the years to come. The region's massive resource reserves, China's growing presence, Chinese challenges to regional Arctic governance, and the current standoff between Russia and the West are a potentially potent combination. This situation should be recognized and efforts should be made to mitigate possible negative consequences.

These efforts, however, should not be directed at preventing Chinese Arctic activity. China's wealth and capital make it an important partner for Arctic nations in developing the high north, and it holds legitimate interests in the region. Rather, China's entry into the Arctic must be managed responsibly through international channels to mitigate or prevent any harmful effects.

Doing so may also create a rare avenue through which the West can seek common ground and understanding with Russia that can be built upon.

China's Interest in the Arctic

China consumes energy on an unmatched scale, and its hunger is only forecast to grow. This makes the Arctic a natural area of Chinese concern. In 2008, the U.S. Geological Survey estimated that the Arctic accounts for 13 percent of the world's undiscovered oil, 30 percent of its undiscovered natural gas, and 20 percent of its undiscovered natural gas liquids. These percentages respectively equate to roughly 90 billion barrels of oil, 1,670 trillion cubic feet of natural gas, and 44 billion barrels of natural gas liquids.

Beyond raw numbers, the Arctic offers China diversity, security and savings. Despite significant inroads with Russia, China is largely dependent on oil imports from the volatile Middle East that must pass through the chokepoint of the Strait of Malacca in Southeast Asia. In 2011, approximately 85 percent of China's oil imports transited this passage. The source and travel path for these resources, and China's current lack of alternatives, are not ideal. Arctic energy sources and shipping lanes provide attractive diversity and security.

Arctic shipping would also substantially reduce transport costs. The distance from Shanghai to Hamburg along the Northern Sea Route over Russia is approximately 30 percent shorter than the comparable route through the Suez Canal. Such a reduction in shipping time and distance will yield large savings on fuel and increase China's export potential to Europe. In 2013, 71 vessels sailed the Northern Sea Route, moving 1,355,897 tons. This is a substantial increase over the four vessels that did so in 2010. China hopes to send 15 percent of its international shipping through the Arctic by 2020.

China's Pivot North

In pursuit of northern opportunities, China has taken substantial steps toward establishing a financial and physical presence in the Arctic and placing itself in the conversation on Arctic affairs. China is spending approximately $60 million annually on polar research (more than the U.S., which actually controls Arctic territory), runs the Chinese Arctic and Antarctic Administration, opened the China-Nordic Arctic Research Center in Shanghai in late 2013, and plans to dramatically increase its Arctic research staff.

China's physical presence in the Arctic has also increased considerably in the past decade. In 2003, it completed the Arctic Yellow River Station, a permanent research facility on Norway's Spitsbergen Island. China also currently possesses one icebreaker directed toward Arctic operations, with another to be completed by 2016. Despite being a non-Arctic nation, it will soon have the same number of Arctic icebreakers as Arctic littoral states Norway and the U.S.

In the realm of international organizations and politics, China has joined a litany of international Arctic scientific groups. In 2013, it also became a permanent observer to the Arctic Council – the eight-member intergovernmental forum that is the center of international Arctic policy formulation.

Similarly, with respect to bilateral relations, the PRC has actively courted northern states, and made substantial progress with both Iceland and Denmark. Following Iceland's 2008 economic crash, China provided it with large aid packages. In 2012, then Chinese Premier Wen Jiabao began his tour of Europe in the small country, and a Chinese-Icelandic free trade agreement was inked in 2013. China is also aggressively seeking energy projects in Greenland and courting Danish leaders.

The targeting of small countries in great need of capital, investment and labor allows China to use its wealth and resources to cultivate economic entanglement and, ultimately, degrees of dependence. As a result, Iceland and Denmark have become very supportive of China having a louder voice in Arctic affairs and policy. Now, something similar is developing between China and Russia.

Russia's Pivot East

The Arctic has always been a vital interest to Russia. It did not open up northern sea routes or energy resource opportunities to outsiders until after the fall of the Soviet Union, when it was desperate for international investment.

As Arctic forums and frameworks developed, Russia was quick to assert control over its share of the region. Along with the four other Arctic littoral states (the U.S., Canada, Denmark, and Norway), Russia signed the Ilulissat Declaration in 2008 asserting regional state predominance in Arctic affairs. Russia also traditionally showed a clear preference for cooperation in Arctic energy development with Western energy firms over those from China and elsewhere.

Even prior to the 2014 sanctions, tensions between Russia and the West altered Russian calculations. Given disagreements over the handling of international situations (the Libyan intervention and the Syrian Civil War, for instance) and Western condemnation of Russian actions (such as its 2008 invasion of Georgia and tainted 2012 elections), Moscow found it prudent to diversify its energy partner and customer base beyond a strong reliance on Europe and the West. Energy-hungry China is a natural partner for that diversification.

While energy trade between Russia and China has been steadily advancing since the mid-2000s, early 2013 saw the first major Arctic cooperative deal between the countries. The China National Petroleum Corp. (CNPC) contracted with Rosneft to survey three areas of the Arctic in the Pechora and Barents Seas. Later that same year, CNPC announced it would partner with Novatek, Russia's largest independent natural gas producer, and take a 20 percent stake in the Yamal Project tapping the resource rich Arctic South Tambey gas field.

Although Russia's turn east has thus far been largely on its terms, this year's sanctions are changing the dynamic. Compared to smaller countries, Russia has traditionally not been as susceptible to foreign influence. Yet the sanctions are taking a significant toll and severely limiting its potential Arctic partners, leaving Russia with few places to turn. When it comes to its needs and bargaining stature with China on Arctic issues, Russia is progressively finding itself in an even weaker position than that which Iceland and Denmark occupy: in need of capital and funding but severely limited in partner choice.

Western Sanctions as Chinese Arctic Opportunity

While initial Western sanctions avoided Russia's economically important energy industry, later measures have targeted this area robustly, with express focus on Arctic energy procurement. As a result, Western firms such as Exxon, Eni and Statoil have pulled out of operations in northern Russia, leaving Russian firms in need of financial and technological partners.

Absent Western companies, there are a limited number of places to turn for the financing and technology necessary for Arctic resource ventures. There is, quite frankly, no replacement for the technological expertise of Western firms. Yet Russia has demonstrated its willingness to lease or buy necessary technologies from any source it can, reuse old Soviet technology, or simply prevent Western companies from taking their equipment so it can operate them itself. In terms of financing, Russia has a ready and established partner in China, a country not above using Russia's isolation to its advantage.

The resource rich Kara Sea is likely the first place where Western sanctions will significantly benefit China. Exxon and Rosneft jointly discovered a massive reserve in the region estimated to contain 11.9 trillion cubic feet of natural gas and 750 million barrels of oil. After completing the much more complex tasks of exploration and drilling but before pumping any gas or oil, Exxon was forced to pull out. Now, Russia is faced with an expensive undertaking that necessitates a partner – and China is in an excellent position to assume Exxon's stake in the resource operation for several reasons.

For one, Russia has already begun talks with China to sail rigs from the South China Sea to the Arctic Ocean to replace exiting Western installations. Rosneft, which is currently studying Arctic offshore cooperative offers from Asia, has also contracted to sell a 10 percent percent stake in one of Russia's largest oil fields and "Rosneft's biggest production asset" to China, evidencing its readiness to partner with China on nationally important projects to ease sanctions-related burdens. In addition, Chinese prospecting areas in the Pechora and Barents Seas in the Russian Arctic directly abut the Kara Sea.

While assuredly not negating the impacts of Western sanctions, partnership with China in the face of these measures offers Russia much of what it needs: convenience, capital, financial backing, and a ready customer. It gives Russia an outlet as Western pressure mounts in response to its aggressive regional actions. As such, Sino-Russo partnership in the Arctic sustains and reinforces a cooperative framework that stands in opposition to Western international initiatives.

Just as with Iceland and Denmark, China will slowly increase its trade and Arctic partnerships with Russia to substantial levels. This will breed a level of economic dependence. Trade between Russia and China was already trending upward before Western sanctions were levied; these measures will serve to speed up this process. Russia's lack of alternative partners gives China a distinct advantage in any negotiations, and the PRC has displayed this new dynamic by driving hard bargains in energy deals reached with Russia since the Ukrainian crisis began.

Concerns Over a Chinese Arctic

What is concerning about the impact of Western sanctions on China's entry into the Arctic is not the PRC potentially "locking up" a substantial portion of the Earth's untapped resources. Rather, the issue is the introduction of a large, assertive, and potentially combative actor into already tense Arctic relations where Arctic states have a host of conflicting claims to the region that will likely only be exacerbated as global warming opens it up.

China declares itself to be a "near Arctic state" and an "Arctic stakeholder," even though its northernmost territory lies more than 1,000 miles south of the Arctic Circle. As the most populous country in the world, China claims that it should have a say in Arctic policy and disagrees with Arctic issues being decided by Arctic states alone. More broadly, given the region's resource reserves, shipping lanes, and implications for global warming, China argues that Arctic state interests and claims must be balanced against international interests in the seas and resources of the region.

Very prominent and influential Chinese scholars and officials push this rhetoric. For example, the head of the European department of the China Institute for International Studies recently pronounced: "Countries closer to the Arctic, such as Iceland, Russia, Canada, and a few other European countries may tend to wish the Arctic were private or that they had priority to develop it, but China insists that the Arctic belongs to everyone just like the Moon." Similarly, the director of the Chinese Arctic and Antarctic Administration has stated that "Arctic resources…will be allocated according to the needs of the world, not only owned by certain countries." And in response to Russian Arctic territorial claims, Chinese Rear Admiral Yin Zhuo declared that "the Arctic belongs to all the people around the world as no nation has sovereignty over it."

In the context of the country's quest for natural resources, Chinese attitudes toward the Arctic are unprecedented. While it has been aggressive in pursuing resources around the globe, China has also maintained a clear respect for sovereign claims in doing so. Its rhetoric concerning the Arctic diverges from this practice.

Moreover, the PRC has become increasingly bellicose over issues it considers to be "core interests." Nowhere is this more vivid than in the South China Sea, where Chinese maritime claims go well beyond what can be realistically claimed under the United Nations Convention on the Law of the Sea, to which it is a party. China's growing physical presence in the Arctic, the statements of prominent government officials, and the region's significant potential benefits encourage the sense that China may label its activity in the region as a core interest. The introduction of such a large actor into Arctic international relations with interests beyond mere investment and trade – i.e., claims and ownership – is a recipe for elevated conflict in a region that already possesses its share of tension due to the often incompatible claims of Arctic littoral states.

Finally, the economic dependence being nurtured between China and certain Arctic nations has the potential to hasten the arrival of the situation noted above. This dependence could give China an amplified voice in northern affairs and an ever-deepening Arctic presence. For Iceland and Denmark, Arctic trade with and investment from China are significantly more important to them than the reverse is for the PRC. This gives those countries a strong incentive to support China's regional ambitions and, accordingly, affords China significant leverage. As Russia becomes increasingly isolated and its economy suffers due to its actions in Ukraine and resulting sanctions, it will find itself in a similar position in Arctic interactions. Russian support for Chinese Arctic ventures and interests will begin to grow in attractiveness out of a desire to gain investment and trade, and not to offend its sole significant partner.

Managing Developments

The task for the international community, and Arctic states in particular, is not to attempt to prevent Chinese entry into the Arctic, but to minimize the potential negative impacts this may have on regional and international relations. China is coming, and this is not necessarily a bad thing. After all, it has the finances and capital to significantly spur northern development and it does possess legitimate interests in the Arctic. But China's entry must be handled responsibly, and there are several avenues through which this can be pursued.

The most important one is utilization of the Arctic Council, which the U.S. will chair for a two-year term starting 2015. Members of this forum should craft and propose measures and agreements that further solidify regional governance of the Arctic. This action will make it clearer what level of voice Arctic states will accept from outside actors and will hopefully serve to decrease existing tensions in the region by emphasizing Arctic unity. In turn, this will help dissuade and avoid an overly assertive or disruptive Chinese entry.

Similarly, there must be increased effort from Arctic littoral states to address and resolve territorial disputes through multilateral and bilateral means. The frozen state of many contradictory claims to Arctic sovereignty represent failures of regional governance, evince a lack of consensus on the region's international status, and leave open avenues for non-Arctic states to disruptively assert themselves and increase tensions. Resolution or at least more open discussion and outlining of Arctic territorial disagreements will further solidify littoral state predominance in the region and limit the possibility of disruptive interjections from non-Arctic countries.

In addition, states should not strive to discourage northern countries from seeking and accepting Chinese investment and partnership, but should instead encourage diversity in regional contracting. The benefits of spreading development and other contracts among entities from different countries must be reiterated. Diversification lessens state vulnerability to the actions of a single actor, and also lessens the single actor's ability to influence Arctic affairs through local investments.

In relation to Russia, the Arctic partner diversification recommendation is applicable largely only in terms of Chinese enterprises, given its current isolation – although Russia has also moved in the direction of partnering with India in the Arctic. Moscow is no doubt aware of the risks of becoming too deeply entangled with a single entity. Furthermore, it may seem as though Russia might welcome another non-Western voice in Arctic discussions, but its history of protectiveness over its northern endowments makes this unlikely. When it comes to determining Arctic policy and claims of interests and resources, fewer voices, not more, are better for Russia. Therefore, measures aimed at reinforcing Arctic state authority and outlining limits to the influence of outside actors in the region through the Arctic Council will be very attractive to Russia. This is likely an area ripe for Russo-Western cooperation that can perhaps, in turn, be expanded upon to further alleviate international tensions.

Although it has always been essential for the international community to address and manage China's entry into the Arctic, recent Western sanctions against Russia have hastened the need for action. Luckily, there are useful international methods for such undertakings that maintain the correct balance between being too reactive and being overly complacent. China's increasing Arctic presence has potential positives on numerous fronts, and with the application of prudent policy they are highly attainable.