

State visit to Finland by H.E. Mr Frank-Walter Steinmeier, President of the Federal Republic of Germany onboard Arctia's icebreaker Polaris.

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### **Arctic: Sustainable Investment Connector**

*By Tero Vauraste, CEO Arctia Ltd., Chairman, Arctic Economic Council*

*Your Excellencies, the President of the Federal Republic of Germany, Mr Frank-Walter Steinmeier and Mrs Büdenbender,*

Depending on the definition, the Arctic area is around 4 to 14,5 million square kilometres and it has 4-13 million inhabitants. Hence it is very sparsely populated. Present estimates suggest that indigenous peoples account for about 10% of the total population living in Arctic areas; this proportion varies considerably across the Arctic region. There are over 40 different peoples living in the Arctic.

The climate change impact in the Arctic area is very significant as the temperatures in the Arctic rise with a double-triple pace compared to the rest of the world. This is mostly due to human activity outside the Arctic.

The World Economic Forum has estimated that the Arctic investment potential is around 1 trillion USD. A big potential, but yet this is somewhat less than the annual German exports. Approximately 20% of this investment opportunity lies in the Barents Euroarctic Area.

The energy sector is still considered to hold the greatest potential, but it's not just about hydrocarbons. The Arctic holds vast potential in renewables, including wind, hydro, geothermal, and solar. In the European Arctic, around half of the estimated economic potential is in the energy sector, divided 50-50 into hydrocarbons and renewables. Norway is actively developing new projects in both of these areas.

Infrastructural potential is significant, too. A great example is the development of Lapland, where tourism has increased significantly through the past 20 years. In the recent years, German tourists have borne a great proportion of the increase and new direct flight connections from Germany to Lapland have been opened. There has been increased Chinese funding interest into the Lapland tourism infrastructure.

The Arctic Economic Council was established in 2014 by the Arctic Council. It is now working independently and it has identified seven industry areas to focus on. These are: energy, mining, infrastructure, tourism, fishing and aquaculture, investments in human resources, and capacity-building.

Furthermore, there are five principle pillars, overarching themes, which are:

1. Fostering strong market connections within the Arctic as a vital part of international value chains
2. Encouraging public-private partnerships for infrastructure Investments
3. Promoting stable and predictable regulatory frameworks
4. Facilitating knowledge and data exchange between industry and academia
5. Embracing traditional indigenous knowledge, stewardship and small business

The Arctic Economic Council's work is based on international legacy members and corporate partner memberships as well as indigenous businesses representation. Recently, a German company, Hensoldt Sensors GmbH, was welcomed to the Council as the first German member.

In Finland, the national debt has more than doubled in just a few years. The national debt in relation to GDP has risen from less than 30% to above 50%. The EU debt continues increasing despite the financially positive developments since many years already. The U.S. has also hit its national debt ceiling on multiple occasions.

New ways of funding national investments are needed in order to keep budgets under control, which makes trans-Atlantic and trans-Pacific trade relations increasingly important within today's globalized value chains. Recent tariff establishments are counterproductive in this context. The U.S. decided to put the Trans-Atlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP) to a halt. These developments as well as sanctions and tariffs slow down the economical developments.

For the Arctic's trillion-dollar potential to be realized, international financial value chains are a must. The cash is not going to come from Arctic taxpayers' pockets.

Several years ago, the Arctic Council Task Force recommended the establishment of the AEC, and envisioned a "Pan-Arctic Free Trade Zone." Indeed, establishing strong market connections and ensuring market access within the region is one of the AEC's primary aims. As the international community works on outlining a model for Arctic development, this is timelier than ever; protectionism endangers sustainable development of the Arctic by inhibiting the free exchange of the best-available technologies and services.

Free trade is not a threat to sovereignty, but protectionism is a threat to sustainability. Fortunately, there are exceptions to the trend – the EU-Canada Comprehensive Economic and Trade Agreement ([CETA](#)) and the EU-Japan Free Trade Agreements are important steps as well.

Germany has been the most open economy in Europe with the “degree of openness”, which measures exports and imports in relation to GDP. Hence the country is also well integrated to international financial value chains. Something that the AEC is focusing on in the Arctic business developments.

Out of the eight Arctic countries only Canada and the US are among the most important trading partners for Germany. On the other hand, Germany is the most or second most important trading partner for all other Arctic countries, namely Russia, Finland, Sweden, Denmark and Norway. Taking this into account Germany is in a significant role in Arctic business development via financial value chains, directly or indirectly. Germany and many other European countries are directly or indirectly linked to Russian Arctic with energy imports. The Arctic area provides 15-20% of Russian exports.

Connectivity is one of the four main themes of the Finnish Arctic Council chairmanship. This is also a focus area for the Arctic Economic Council during the current Finnish businesses chairmanship term.

This topic was broadly discussed just last week in the Far East Economical Forum in Vladivostok by President Putin, President Jinping and Prime minister Abe. The statesmen stressed the need to improve connections in the Far East area. You could sense the center of gravity shift towards east whilst the western countries are dealing with things like US imports tariffs as well as Brexit and weakening EU.

The European Union launched its' Arctic policy in winter 2016. There are three main areas in the policy: Climate Change and Safeguarding the Arctic Environment; Sustainable Development in and around the Arctic and International Cooperation on Arctic Issues.

It is important to notice that neither this policy nor the Finnish Chairmanship programme for the Arctic Council has a focus on economic issues. This is somewhat contradictory as the trade activity in the Arctic is growing and the investment potential is unquestionable. Hence let's call upon jumping to a next level also by the EU in terms of developing relevant trade issues and policies. EU-Japan Free Trade agreement is a great example of such a policy development, which would be needed in the Arctic, too.

The EU Arctic Policy notes that:

”The European part of the Arctic also has significant potential to support growth in the rest of Europe. However, as the EU does not currently have a complete north-south traffic connection, it could explore the merits of strengthening links to the Arctic through trans-European networks, for example from Finland to Norway, providing access to the Arctic Ocean.

Through its Member States and its close ties with Iceland and Norway (as members of the European Economic Area), as well as with Greenland<sup>24</sup>, the EU can play an influential role in shaping the future development of the European part of the Arctic through the application of EU rules relevant for the

EEA25 and the deployment of financial instruments. Cooperation between countries and regions in the European Arctic has been good, for example in the context of the Barents-Euro Arctic Council and the Northern Dimension policy framework.”

There are various important projects around the beforementioned connectivity theme and the previous policy note.

These include the potential rail link from the Arctic Ocean to the Baltic Sea which could be further linked to Europe either through TEN-T Motorways of the Seas modelling or even with a suggested tunnel connecting Helsinki and Tallinn. The Finnish Transportation Agency is investigating these corridors and fresh reports are expected during the rest of the year.

Baltic Sea countries have been collaborating in many ways in infrastructural and security issues. The history provides a great example, whereas Germany and Finland have been forerunners in international icebreaker collaboration. The countries had a joint icebreaker “Hanse” from 1966 to 1998, for more than 30 years. The vessel was not needed very often in Germany and after Hanse’s departure from the area in 1998 such capacity has not been set anymore because there has not been significant icebreaking needs in the German waters of the Baltic Sea. This type of collaboration should be more widely enhanced as with a better utilization of the available resources would benefit customers’ needs.

Another very important initiative is the proposed data cable linking Europe and Asia through the Northern Sea Route. This would significantly speed up the pace of data transfers and hence improve effectivity and save money. This initiative has been well driven by the former Finnish PM Paavo Lipponen.

The rail link, data cable and pipelines are costly investments with a need of international funding. Public Private Partnerships provide a good model for long-term infrastructural investment funding. International consortiums are needed but unfortunately the current unstable situation limits the private investors’ willingness to go to the Arctic.

Mapping of the Arctic Sea started during the 15th century, as did efforts to trace various Arctic sea routes. A Finnish-born polar explorer, [Adolf Nordenskiöld](#), was first to navigate the Northern Sea Route in 1878, successfully sailing from Norway through to the Pacific. The feat (for which Nordenskiöld was made a baron) did not, however, mean that the Arctic was readily accessible for travel and development, and livelihoods remained based upon traditional fishing and hunting.

An obvious area for setting a sustainability precedent today is in shipping, as maritime activity in the Arctic will undoubtedly continue to increase. Seaways are usually considered the most economical means of transport. The three main routes in question are the Northern Sea Route, which is critical to the Russian economy and in which China has taken a major interest; the Northwest Passage, which connects the Atlantic and Pacific via the U.S. and

Canadian Arctic; and, in the next decades, a direct route above the North Pole can also become viable. In 2017 Russia and China set an agreement on joint development of the Northern Sea Route. Quite recently the Japanese shipping company MOL entered into an agreement with Russian Far East development officials to foster their shipping through the NSR.

In previous decades, these routes have been used only marginally, bearing only a few million tons of cargo. During the next 10 to 20 years, that figure is expected to jump into the tens of millions of tons, mainly due to increased industrial activity in the Russian Arctic. As we speak, a Danish container vessel is transiting through the NSR as a test voyage. LNG-powered newbuilds for the Finnish shipowner ESL shipping will arrive home in the forthcoming weeks through the NSR. The President of Russia recently announced a target to increase the traffic up to 80 million tons by 2025. China launched their second research icebreaker earlier this month.

Collaboration between research and business communities is a priority in the Arctic. The European Commission, Finland and Germany will co-host the 2nd Arctic science ministerial meeting next month in Berlin. The aim of this meeting is to promote the results of the deliverables agreed at the 1st meeting, increase capacity to respond to major societal challenges in the Arctic, encourage further scientific cooperation among a large number of countries and representatives of indigenous people.

Mr President, the Finnish deliverable to the First Ministerial was the Arctic 100 Expedition, international collaboration for providing icebreakers as research platforms. As this expedition materialized only in relatively limited terms during a transit voyage of Arctia's icebreaker Nordica through the NWP we now seek enhanced collaboration in the context of this conference and hopefully, with support from German Arctic Office.

And finally, as we have broadly discussed the importance of free trade, we seek the decisionmakers' support in lowering barriers of trade for the best of sustainable export and import and investments in the Arctic.

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