

ARCTIC ECONOMIC COUNCIL: STATEMENT TO THE 2019 ARCTIC COUNCIL MINISTERIAL MEETING

EXECUTIVE SUMMARY

Since its establishment in 2014, the Arctic Economic Council (AEC) has worked to strengthen the Arctic-to-Arctic and Arctic-to-global business connections. Its members represent a wide range of businesses operating in the Arctic from mining and shipping companies to reindeer herding and indigenous economic development corporations. The AEC has increased its membership to cover over 40 Arctic business and indigenous economic development corporations.

Key achievements during the Finnish businesses' AEC Chairmanship:

- Active promotion of the Arctic as a region with economic development potential: over 130 outreach meetings and events and 14 events organized by the AEC globally.
- Contributing with new knowledge through participation in reports on business and financing in the Arctic and through strategic partnerships with Business Index North and AlaskaNOR projects.
- Broadening of the AEC's membership representations with 11 new members.
- New Strategic Plan for 2019 and onwards.
- Establishment of three new Working Groups: Investments and Infrastructure, Energy and Connectivity.
- Work for improved connectivity and increased market connections in the Arctic and globally through the AEC's *Top of the World Arctic Broadband Summits* and through the work of the AEC Connectivity Working Group.
- AEC Maritime Transportation Working Group serves as voice of Arctic shipping operators in international fora and seeks dialogue with relevant Arctic Council bodies. Report on the status of Arctic maritime transportation will be published in May.
- Provide new information and recommendations on responsible resource development in the Arctic through a report focusing on mining in the Arctic.
- Memorandum of Understanding with University of the Arctic and the Arctic Council.

Way forward:

- AEC proposes a collaborative effort with the Arctic Council in the establishment of an Arctic Investment Matrix.
- AEC encourages the Arctic Council to consider endorsing the principles of the Arctic Investment Protocol and collaborate in building a coalition of support around the principles.
- The AEC looks forward to increased collaboration within the fields of transportation and related issues, improved connectivity including the strategic opportunities this provides, development of infrastructure and regulatory frameworks.

May 7, 2019

The Arctic Economic Council (AEC) is pleased to submit a statement regarding business in the Arctic to the Arctic Council Ministerial Meeting in Rovaniemi on May 6-7, 2019.

BACKGROUND

Since its establishment as an independent circumpolar business organization in 2014 during the Canadian Chairmanship of the Arctic Council, the Arctic Economic Council (AEC) has had as one of its goals to provide advice and a business perspective to the work of the Arctic Council. The Arctic Council Fairbanks Declaration 2017 recognized the AEC's role and collaboration opportunities between the two organizations in several sections.

I. 2017 FAIRBANKS DECLARATION AND THE AEC'S WORK 2017-2019

STRENGTHENED CO-OPERATION TO ENHANCE RESPONSIBLE ECONOMIC DEVELOPMENT

Paragraph 17 of the Fairbanks Declaration welcomes the operationalization of the AEC and states that the Arctic Council looks forward to strengthened co-operation in order to enhance responsible economic development and to build partnerships for issues of common interest and capacity-building of Arctic populations.

One of the challenges related to responsible economic development of the Arctic is the general lack of understanding and knowledge of the region's potential. Paragraph 18 of the Fairbanks Declaration recognizes the need for an improved understanding of the economy, socio-economic living conditions and environmental issues in the Arctic. The AEC has actively promoted the Arctic as a region of economic potential to raise awareness and to provide a holistic understanding of the Arctic.

In collaboration with the Nordic Council of Ministers, the AEC launched the report "Arctic Business Analysis"¹ in 2018. The report was made with the purpose of qualifying the current knowledge on business environment in the Arctic. By identifying barriers to trade as well as enablers that drive progress, the report can facilitate further economic development in the region.

The AEC has also served as an expert partner in an analysis focusing on the business financing opportunities across the pan-Arctic region commissioned by the Ministry of Foreign Affairs of Denmark. The analysis points out several specific recommendations on how the Arctic States and institutions can improve innovation, entrepreneurship and business financing in the Arctic.²

¹ [Arctic Business Analysis](#), 2018.

² [Business Financing in the Arctic](#), 2018.

The analysis lists a multitude of different national and regional or international funding and support programs for business in the Arctic, but also states the need to attract venture capital from both national and foreign investors. One of the potential measures proposed in the analysis is the idea of an Arctic Investment Fund that could provide capital to whole or parts of the Arctic. The AEC welcomes the initial proposal and encourages the Arctic states to join further discussions regarding the proposal. The AEC would be happy to engage in collaborative efforts.

FACILITATING RESPONSIBLE INVESTMENTS: WORK ON ARCTIC INVESTMENT PROTOCOL (AIP)

An important tool in enhancing responsible economic development is the Arctic Investment Protocol (AIP)³, originally a product of the World Economic Forum and now managed by the AEC. In the AEC's view, endorsing the principles of the Arctic Investment Protocol, facilitating the work to create a coalition of support around these principles, and making the AIP more tangible offer an excellent arena for the Arctic Council and the AEC to work for common interest – improving the socio-economic conditions of living in the Arctic.

The AEC's Working Group on Investments and Infrastructure has reviewed the principles of the AIP and decided to work on making them more tangible by gathering supplementary information on best practices. This is in line with the recommendations of the 2018 Analysis on Business Financing in the Arctic⁴. The work is conducted in an open and transparent way, providing all stakeholders an opportunity to provide input and influence the outcome.

The AEC encourages the Arctic Council to consider endorsing the principles of the Arctic Investment Protocol and collaborate in building a coalition of support around the principles.

JOINT EFFORT FOR IMPROVED CONNECTIVITY IN THE ARCTIC

Paragraph 19 of the Fairbanks Declaration calls for the Arctic Council to “work with the telecommunications industry and the Arctic Economic Council to encourage the creation of required infrastructure with an eye toward pan-Arctic solutions”. Both the AEC⁵ and the Arctic Council⁶ have contributed with substantial analysis of the current status.

³ [Arctic Investment Protocol](#), 2015. The AIP builds upon the following main principles: 1) Build resilient societies through economic development; 2) Respect and include local and indigenous peoples; 3) Pursue measures to protect the environment of the Arctic; 4) Practice responsible and transparent business methods; 4) Consult and integrate science and traditional ecological knowledge; 6) Strengthen pan-Arctic collaboration and sharing of best practices.

⁴ [Business Finance in the Arctic](#), 2018.

⁵ “[Arctic Broadband: Recommendations for an Interconnected Arctic](#)” (2017)

⁶ “[Arctic Council Telecommunications Infrastructure in the Arctic: A Circumpolar Assessment](#)” (2017)

Unifying three continents, the Arctic has a strategic location and the potential to become a global hub for data highways. Direct traffic flow between Europe and Asia is expected to grow 200 % in the next 5 years. The development of digital economy seeks new routes for improved connectivity, resiliency and cost reductions. Hence the planned subsea cables across the Arctic represent a major development opportunity for our region.

Datacenters are developing into one of the leading industries in terms of electricity demand. With abundance of renewable energy and cool climate, the Arctic can bring the environmental impact of the growing data center industry down – if the region has the connectivity needed for this development.

The AEC sees that broadband development should be considered as equal with the traditional infrastructure planning. A good tool in developing the infrastructure in the Arctic is to combine the business need for connectivity as well as the needs of local communities in public-private partnerships.

The AEC's Connectivity Working Group seeks the solutions to connect even the most remote parts of the Arctic to the world through collaboration, regulatory reform and standardization on national and international level. There is a need for improved connectivity to meet user needs. A long-term strategy in this work is to improve the cross-sector collaboration by creating structures that facilitate effective communication among Arctic business segments, governments, academia and social groups.

An important tool in the AEC's work within connectivity is the AEC *Top of the World Arctic Broadband Summit* (TOW Summit)⁷. One of the major messages from the 2017 and 2018 AEC Top of the World Arctic Broadband Summits was the need for an improved dialogue between businesses, decision-makers and regulators. Stable and predictable rules and regulations are the key to development. This is especially true in the Arctic where the markets are small. The technology industry calls for joint standards for example in regulating subsea cables and in ensuring shared global standards in technology development.

MARITIME TRANSPORTATION

Maritime transportation volumes in the Arctic are on the rise. The annual volume of LNG traffic from Sabetta in Russia is now reaching 15 million tons. Annual transportation volume of iron ore from Baffinland iron ore mine in Canada exceeded 5 million tons for the first time in 2018. This marks the start of increasing transportation volumes in the region.

⁷ The TOW Summit was first organized in 2016 in Utqiagvik (then known as Barrow), Alaska, USA. Based on the business community's request, the AEC organized the TOW Summit again in 2017 in Oulu, Finland and in 2018 in Sapporo, Hokkaido, Japan.

Most of the traffic along Arctic sea lanes consists of destination shipping. While transits along the Northeast and Northwest passages have received media attention, these passages haven't yet materialized into serious alternatives for transit in the North. Regular destination shipping can lay ground for the potential growth of transit traffic.

There are several examples of increasing protectionist measures also in the Arctic. This hinders the development of Arctic maritime transportation. There should be measures to ensure that national interests and the potential provided by international shipping can co-exist.

Questions related to the regulations within e.g. safety of Arctic maritime transportation have in the recent years been on the International Maritime Organization's (IMO) focus. The ground for secure maritime transportation has been laid with the Polar Code coming into effect. Currently, the focus is on making the Polar Code operational. AEC has contributed to this work by participating in the Polar Code Best Practices Forum's events where the AEC has presented experiences collected from the members of the AEC Maritime Transportation Working Group. The challenge now lies in the flag states: how capable will they be in adapting comparable risk assessments for the individual vessels in various geographical locations and seasons? The AEC and its Maritime Transportation Working Group have sought dialogue in Arctic maritime affairs with the relevant Arctic Council bodies and look forward to enhanced collaboration.

RESPONSIBLE RESOURCE DEVELOPMENT

Responsible resource development in the Arctic must be conducted with a comprehensive plan to create sustainable economic benefits, consistent with the aspirations of the people of the region. Successful projects in the Arctic recognize the partnership with indigenous peoples and the role of indigenous knowledge, if chosen to be shared, in the project design. The corporate sector must also work "beyond regulatory compliance" to build trust and create healthy relationships and to earn their "social license to operate".

With large distances between populated centers in the Arctic, resource development projects are often located at distance from communities. To address workforce and capacity-building efforts, there is a need for collaboration between the project developer and governments (national and regional) as well as the local communities including indigenous communities.

The lack of developed infrastructure in the Arctic results in increased costs and has blocked the development of many known ore deposits. In most cases, mining operations in the Arctic must construct their own infrastructure and provide their own power generating infrastructure. Future responsible resource development of the Arctic requires an intentional joint approach between governments, project developers and local communities in developing shared infrastructure that can benefit local residents, entice future economic development in a sustainable manner, and meet the need to protect the Arctic environment. This can be achieved through financial partnerships between governments, resource developers, and indigenous

organizations where costs can be shared across multiple end-users through the use of public-private partnerships and through tax incentives.

Improving regulatory certainty, while reducing permitting delays, with strong government support enables Arctic projects to minimize unnecessary delay and expense. The AEC calls for fairness, timeliness and predictability in regulations. Further, the AEC calls for a harmonized approach between different levels of government with the ultimate goal of “One Project, One Review” with clearly defined timelines. In a global arena, where the costs are lower, a predictable and streamlined approach to permitting can provide the Arctic a comparative advantage.

The availability of accurate, well-documented information on the existing environmental and socio-economic conditions in the potentially impacted region is a precondition for an effective assessment of a proposed resource project. If jurisdictions want to encourage investment, having objective (usually government-funded) data could greatly aid project permitting.

There are often unrealistic expectations about the amount of potential wealth that will be generated by mining. It is imperative that industry and the government educate local communities about the timelines and high capital costs of mining versus other industries.

ENERGY

The Fairbanks Declaration’s paragraph 20 notes the critical role that energy plays in promoting sustainable development. The AEC recognizes that many people live and work in the Arctic, and that industry has been present across the regions for decades. The physical environment has driven solutions for energy efficiency and high operating standards. AEC therefore believes that business activity to utilize resources in the region should be viewed in terms of local benefit and sustainable practices and recognized as complementary to global resources. To address the future energy needs, availability of resources in the Arctic, and the opportunities and challenges associated with the use of these resources, the AEC has established a Working Group on Energy in the Arctic with the aim of providing expertise and balanced information regarding the context and use of the resources. The group is a key resource to collaborate and discuss with AEC stakeholders on Arctic energy issues.

The Energy Working Group (EWG) seeks to provide balanced information regarding the context, availability and use of Arctic Energy resources. EWG collaboration with the Arctic Council Sustainable Development Group is critical to gain and share data with the Arctic Renewable Energy Atlas Phase II (AREA II) project and to gain support for the EWG product. The EWG has initiated some work on mapping of resources and energy context but continues to pursue collaboration with SDWG. Whilst initial contact with SDWG has been positive, we have been advised that the AREA II project is delayed and on hold whilst project plan is being revised. Similarly, SDWG has stated that collaboration needs to be agreed across the SDWG participants which can be discussed at the next meeting in September 2019. Based on this

status, the EWG will freeze current project work until there is agreement with SDWG. The EWG will remain active under the AEC as a resource to assess and respond to Energy related requests from Arctic Council and other key stakeholders.

II. WAY FORWARD: FURTHER COLLABORATION AND CONCLUDING REMARKS

The Finnish business community's AEC Chairmanship has focused the organization's work around the AEC's five overarching themes⁸. In addition, the Finnish businesses prioritized work around the themes of Safe, Competent and Interconnected Arctic.

The AEC entered its second strategic planning period in 2019. The pillars of the new strategy are titled *Economic Growth*; *Global AEC*; *Arctic Stewardship in Action*; and *Strong Organization*. The AEC will continue its work connecting the Arctic and global businesses and value chains. The AEC will also advocate for a focus on responsible investments and inclusion of local and indigenous communities in Arctic business operations.

- In collaboration with other partners, the AEC has actively contributed towards an increased understanding of the Arctic business and financing opportunities. The AEC has also promoted a more holistic understanding of the Arctic and the region's business potential. The AEC welcomes the idea of an Arctic Investment Fund as presented in the analysis "*Business Financing in the Arctic*", and encourages the Arctic states to join the discussions regarding the proposal. The AEC is willing to contribute to a collaborative effort.
- A central tool in the AEC's efforts in enhancing responsible economic development is the Arctic Investment Protocol. The AEC encourages the Arctic Council to consider endorsing the principles of the Arctic Investment Protocol and collaborate in building a coalition of support around the principles.
- With the strategic location of the Arctic, the planned subsea cables across the region represent a major development opportunity. Considering the small size of the Arctic markets, stability of rules and regulations and joint standards are a key to development. Combining the business need for connectivity as well as the needs of local communities can form create public-private partnerships which can promote development of connectivity. The AEC is willing continue meaningful collaboration with the Arctic Council as a part of public-private initiative to improve connectivity.
- Maritime transportation volumes in the Arctic are on the rise, and regular destination shipping in the Arctic can lay ground for the potential growth of transit traffic. Increasing protectionist measures can hinder the development of Arctic maritime transportation.

⁸ The overarching themes of the AEC's work are:

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

The AEC looks forward to enhanced collaboration with the relevant Arctic Council bodies and the Arctic states within issues related to maritime transportation.

- Responsible resource development in the Arctic must be conducted with a comprehensive plan, and development calls for partnerships between the project developers, local communities as well as governments. The lack of developed infrastructure leads to increased costs. The AEC calls for the development of shared infrastructure through public-private partnerships and tax breaks. The AEC also calls for fairness, timeliness and predictability in regulations and for a harmonized approach between different levels of government.

Signing of a Memorandum of Understanding between the Arctic Council and the AEC culminates a very positive development in our mutual relationships. The AEC looks forward to the further development of our collaboration and is willing to provide a business perspective to the important work of the Arctic Council.

The AEC is very grateful to the Government of Finland and the Finnish Ministry for Foreign Affairs for the excellent collaboration during the 2017-2019 chairmanships. The financial support provided by the Ministry for Foreign Affairs of Finland has been of significance for the AEC's ability to serve as the voice of pan-Arctic business community and to provide input to the work of the Arctic Council. The respective Secretariats have excellent working relationship, and AEC Secretariat recognizes with gratitude the good dialogue during the formative years of its operations. The AEC looks forward to continued excellent collaboration with the incoming Icelandic Chairmanship of the Arctic Council.