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## A new Russian policy for the Northern sea route? State interests, key stakeholders and economic opportunities in changing times

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### ABSTRACT

The 2013 NSR regime was explicitly aimed at attracting international users and transit shipping, but recent Russian policies point in a different direction. Expectations of a rapid increase in transit shipping have faded, whereas promoting the swift development of destination shipping serving large resource extraction projects has become a top political priority. Security concerns have become more pronounced, but have not impacted commercial shipping activity noticeably. There are tensions between the ambitions for increased output of minerals and the extensive protectionist measures which have been introduced, but, with one prominent exception, industrial stakeholders seem content with less-competitive shipping arrangements. The 2013 regulatory regime was designed to serve individual voyages. The new developments centre around large extractive projects with individual logistical solutions – including special conditions negotiated with the authorities. The NSR administration has undergone significant change, with a dominant role accorded to the state nuclear energy corporation Rosatom – itself engaged in commercial activities. The room for foreign shipping interests has shrunk, but not disappeared. Their opportunities will depend on alliances with key Russian players.

### KEYWORDS

Arctic; shipping; Rosatom; Novatek; protectionism

## Introduction

Russia has far-ranging interests concerning the Northern Sea Route (NSR), as is obvious from a glance at the map. NSR is the only way to access many areas along the northern coast; further, it offers the shortest way between Russia's east and west. Significant mineral resources have been discovered or are expected along the coast and offshore – and the sea route is also a boundary area between the Russian mainland and the Arctic Ocean. Development – or resurrection – of NSR is a key component of Russia's broader ambitions in the Arctic,<sup>1</sup> 'where all expressions of national identity converge'.<sup>2</sup>

After a period of neglect and diminishing use following the dissolution of the Soviet Union and the transformation of the economy, the NSR has become a central topic in Russian politics, seen by many as a key element in re-establishing Russia as a great power. Also, the regulations and management system for the sea route have undergone significant changes.

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<sup>1</sup>Zysk, "Russia turns north, again: interests, policies, and the search for coherence".

<sup>2</sup>Hønneland, *Russia and the Arctic: Environment, Identity and Foreign Policy*. p. xvii.

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The Russian focus on the NSR has been mirrored in international interest, as the NSR provides a much shorter sailing route between the North Atlantic and the North Pacific than southern routes, e.g. via the Suez Canal, and the lighter ice situation makes trans-arctic transits more feasible. However, many additional factors will determine the potential for international transit shipping on the NSR, and the conditions offered by Russia will be decisive. This article examines the development of the shipping regime on the NSR after the reform of 2013 and discusses factors likely to impact the further direction of the regime. Is the emerging NSR regime likely to encourage international use?

The NSR regime consists of laws and regulations governing shipping activities; also important is Russia's interpretation of the law of the sea (LOS). The administration of the sea route and the division of responsibilities among government agencies is another component in the regime that prospective users must evaluate. Broader trends in Russian policies and the government's interpretation of national interests form the background for understanding today's NSR regime.

NSR policy and regulations are the prerogative of the federal authorities and many government agencies are involved. But, as argued by Sergunin and Konyshev 'Arctic policy-making is a highly centralised process . . . the centre of the decision-making system firmly remains in the Kremlin and the executive agencies'.<sup>3</sup> Nonetheless, the development of the NSR is not only a matter of state policies. Many agencies, businesses and regions can be considered stakeholders, and may ultimately want to influence regulations or management of the sea route. Which stakeholders are likely to carry weight with the federal authorities, and what are their positions?

Our assumption is that the federal authorities will be most attentive to actors they see as crucial for the fulfilment of state interests. During the Cold War, the military had a decisive role in Russia's Arctic affairs. Developments that could interfere with the military's operational needs would meet strong resistance. However, by the 1990s there were strong indications of de-securitisation of the Arctic, especially noticeable regarding petroleum activities in the Barents Sea area. The relationship between the navy and economic actors became more balanced and characterised of cooperation.<sup>4</sup>

In recent years, there is a consistent emphasis on economic development in the Arctic in general and the NSR from the top political leadership. A major priority in the Arctic strategy document adopted in 2013,<sup>5</sup> it is reiterated in the March 2020 'Foundation for state policy of the Russian Federation in the Arctic for the period until 2035'.<sup>6</sup> Ambitions are concretised in plans for investments in icebreakers and infrastructure,<sup>7</sup> and in the goal of transporting 80 million tons of cargo on the NSR by 2024.<sup>8</sup> Thus, development of the NSR is tightly linked to industrial projects in the Russian Arctic. How, then, do industrial actors conduct commercial projects here – and have they any influence on policies and regulations?

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<sup>3</sup>Sergunin & Konyshev. "Forging Russia's Arctic strategy: actors and decision-making," p. 78.

<sup>4</sup>Åtland, "Russia's Northern Fleet and the Oil Industry-Rivals or Partners? Petroleum, Security, and Civil-Military Relations in the Post-Cold War European Arctic."

<sup>5</sup>Government of the Russian Federation. Strategy for development of the Arctic Zone, 2013.

<sup>6</sup>President of the Russian Federation. Foundations for the state policy of the Russian Federation in the Arctic, 2020.

<sup>7</sup>Government of the Russian Federation. Plan for development of the infrastructure of the Northern Sea Route, 2019.

<sup>8</sup>President of the Russian Federation. On national goals and strategic tasks for the development of the Russian Federation for the period until 2024, 2018.

But security concerns are also getting stronger, compared to 15–20 years ago. A major theme in official discourse is the perception of a hostile international environment, fuelled by growing East–West tensions. According to the 2020 ‘Foundation’ document, ‘the build-up of military presence of foreign states in the Arctic and increase in the conflict potential in the region’ is among the main threats to Russian national security in the Arctic.<sup>9</sup> Given this framing of the Arctic and NSR, there are two groups of stakeholders that are likely to have the ear of federal authorities: companies directly involved in economic development on or along the sea route, and the military.

But the ‘Foundation’ document also notes that the slow economic development in the region is a challenge and delays in the development of NFR infrastructure are presented as a security threat.<sup>10</sup> Thus, security and economic development are interlinked at the strategic level; nevertheless, the military and economic actors may have objectively conflicting interests when it comes to practical aspects of navigation on the NSR.

Complicating the discussion of interests and influence is the impossibility of regarding the military as a stakeholder completely separate from the state. And commercial companies, whether state-owned or private, are connected with the state and the political leadership through special arrangements and personal relationships, features of the Russian system summed up in the concept ‘network state’.<sup>11</sup> Few stakeholders have stated their explicit positions regarding NSR policies and regulations. Positions must be inferred, based on a subjective understanding of stakeholder interest.

Our aim then is to seek to understand which interests are prevailing in the development of fundamental NSR policies and to assess whether there is internal conflict over development of the shipping regime, or if interests and actors are aligned.

## State interests, concerns and solutions

### *The 2013 NSR regime*

After the dissolution of the Soviet Union, interest in the NSR was low, both domestically and internationally.<sup>12</sup> Attempts to resurrect the route started in earnest only after it became evident that the ice situation was changing. When the first ‘Foundation for Arctic policy’ document was issued in 2008, ‘exploitation of the Northern Sea Route as a national unitary transport communication’ was listed among basic national interests in the Arctic.<sup>13</sup> Among strategic priorities mentioned was the facilitation (*sodeystvie*) of the use of the NSR by international shipping ‘within the framework of jurisdiction of the Russian Federation and in correspondence with international treaties of the Russian Federation’. The next overarching Arctic policy document, the 2013 Arctic Strategy, repeated the formulations from 2008 about facilitating international use.<sup>14</sup>

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<sup>9</sup>President of the Russian Federation, 2020

<sup>10</sup>President of the Russian Federation, 2020

<sup>11</sup>Kononenko and Moshes. *Russia as a Network State. What Works in Russia When State Institutions Do Not?*

<sup>12</sup>Ragner, Northern Sea Route Cargo Flows and Infrastructure – Present State and Future Potential; Moe, Arild. “Voyage Through the North: Domestic and International Challenges to Arctic Shipping.”

<sup>13</sup>President of the Russian Federation. Foundations for the state policy of the Russian Federation in the Arctic for the period until 2020 and in the longer perspective, 2008.

<sup>14</sup>Government of the Russian Federation. Strategy for development of the Arctic Zone, 2013.

A new law and detailed rules of navigation on the NSR came into force in 2013 (see Gavrilov's article in this issue for details).<sup>15</sup> They reflected a belief that liberalisation and a more market-based approach was necessary to encourage traffic on the NSR. A declared aim of the new law was to 'provide equal access for interested transporters, including foreign'.<sup>16</sup> And in the course of the preparation of the law, international interest in NSR had become a reality, not merely an expectation.<sup>17</sup>

Internationalisation of the management of NSR was not up for discussion. Thus, while the new regime clarified, and in many ways improved, the conditions for commercial operations on the NSR, it did not change Russian interpretations of the law of the sea concerning the jurisdiction, rights and obligations of Russia in Arctic waters, or the rights of other states and their subjects. Nevertheless, the overall impression was that Russia really wanted to attract international traffic.

### **New protectionist regulations**

Regulations with a very different tone were proposed in an initiative from 2015 – when international tensions had increased considerably in the two years since the NSR law and accompanying regulations had come into force. The expressed objective of the new proposal was to limit the use of foreign tonnage on the NSR.<sup>18</sup> The proposal passed through the Duma and became law in 2018.<sup>19</sup> First, the law reserves cabotage for Russian-flagged vessels in the whole of Russia. Cabotage includes voyages between Russian ports, or points of departure and arrival within Russia's exclusive economic zone. Secondly, the flag requirement covers almost all kinds of other maritime activity within the exclusive zone or on the continental shelf (icebreaker escorts, exploration, salvage). Thirdly – and applicable solely to the Northern Sea Route – oil, liquefied natural gas and coal loaded from within the NSR area can be transported only on Russian-flagged ships to the first point of destination or transshipment.

The law contained some possibilities for adjustment. It entered into force 1 February 2018, but implementation of the specific provision for hydrocarbon transports was postponed to 30 December 2018. And importantly, the law stated that exemptions could be granted by the Russian government. The law also made it easier to re-register to Russian flag.<sup>20</sup>

<sup>15</sup>Federal Law. On the introduction of amendments in some legal acts of the Russian Federation in the area of state regulations of merchant shipping in the water area of the Northern Sea Route, 2012; Ministry of Transport of the Russian Federation. "Rules of Navigation in the Water Area of the Northern Sea Route"; Solski, "New Developments in Russian Regulation of Navigation on the Northern Sea Route."

<sup>16</sup>State Duma of the Russian Federation. Explanatory note to the draft federal law "On the introduction of changes in some legal acts of the Russian Federation in the area of state regulations of commercial shipping in the sea area of the Northern Sea Route," 2011; "Правила плавания по Севморпути предлагается сделать идентичными для российских и иностранных судовладельцев." [It is proposed to make navigation rules identical for Russian and foreign shipowners] *PortNews*, 1 December 2010. <http://portnews.ru/news/59937/>

<sup>17</sup>"6 июля 2011 г. в Нарьян-Маре Министр транспорта РФ Игорь Левитин принял участие в совещании Морской коллегии при Правительстве РФ и выступил с докладом "О мерах по обеспечению роста морских перевозок по трассе Северного морского пути". " [On 6 July 2011, Minister of Transport of RF took part in the meeting of the Maritime Board in Naryan-Mar and gave a speech "On measures to facilitate growth in maritime transports along the Northern Sea Route"]. Ministry of Transport of the Russian Federation, *Press release*, 6 July 2011. <https://www.mintrans.ru/press-center/news/4775>

<sup>18</sup>"Shelf nakryvayut flagom." [The (Continental) Shelf is Being Covered by the Flag], *Kommersant*, 16 June 2015. <http://www.kommersant.ru/doc/2747598>

<sup>19</sup>Federal Law. "On amendments in the Code for merchant navigation and recognition of expiration of some provisions of legal acts of the Russian Federation.", 2017.

<sup>20</sup>"Интернационализация Севморпути может быть хороша только в части транзита," [Internationalisation of the Northern Sea Route might be good only in the area of transits] *Kommersant*, 17 November 2011. [https://www.kommersant.ru/doc/3468678?from=doc\\_vrez](https://www.kommersant.ru/doc/3468678?from=doc_vrez)

However, further restrictions were proposed in early 2018.<sup>21</sup> Now the idea was that transport of hydrocarbons out of the NSR area would be reserved for vessels *built in Russia*. Also, the other categories of ships mentioned above would have to be Russian-built. The proposal was developed primarily by the Ministry of Industry and Trade, ‘in coordination’ with the Energy and Transport Ministries, to support the ailing Russian shipbuilding industry.<sup>22</sup> Changes were to take effect already 1 January 2019.

## Stakeholders’ interests and their NSR positioning

### *The military*

Reference to security interests is often made in connection with the NSR. Such interests are often poorly defined, but they revolve around the protection of Russian territory and denial of foreign incursions into areas of strategic significance. Security interests remain: they may be in the background when regulations of navigation on the NSR are being shaped, but are still part of a picture where other concerns play important roles, notably economic interests. As the primary agency for the realisation of the state’s security needs, the Russian military interpret the broadly defined interests and seek solutions. Here the military can be regarded as a stakeholder, with narrower interests than the state, and with a natural inclination to influence the balance in state policies. Although the military does not announce detailed positions on the regulation of NSR shipping, we can infer fundamental positions, based on an understanding of operational interests, and discuss to what extent the NSR regulations conform with these positions, implying possible military influence.

Within the military, the Northern Fleet is most directly affected by the interpretation and implementation of shipping regulations in the NSR area. The Fleet Commander has argued for greater awareness of foreign interests in the Arctic: ‘the problem of a widening foreign military presence and increased intelligence activity and training exercises by NATO countries in Norway remains ... Russia is developing a plan to intercept aggressive actions by foreign countries’.<sup>23</sup>

In recent years, the Northern Fleet has stepped up its activities in the Arctic and has reportedly established monitoring systems for surface as well as underwater activity along the sea route,<sup>24</sup> indicating that the capacity to control shipping (with a mandate to do so) is a priority for the military. Further, the more international traffic goes through NSR, the stronger the argument for control.<sup>25</sup> Clearly, enforcement of an extensive control regime would conflict with shipping interests favouring unimpeded transit and swift processing of documents.

The 2008 ‘Foundation for State Policy’ document seemed to imply a role for the military when it noted, among military and security tasks, the need to conduct technical

<sup>21</sup>“Севморпуть в импортозамещение,” [The Northern Sea Route in import substitution] *Kommersant*, 22 March 2018. <https://www.kommersant.ru/doc/3579782>

<sup>22</sup>“Каботаж – только для судов с российских верфей,” [Cabotage – only for ships from Russian yards] *Fishnews*, 22 January 2018. <https://fishnews.ru/news/32992>

<sup>23</sup>Vilkova “The potential requires development.”

<sup>24</sup>Северный флот создает систему мониторинга Севморпути. [The Northern Fleet demands monitoring of the Northern Sea Route, *RIA Novosti*, 3 November 2017. <https://news.rambler.ru/army/38325166-severnoy-flot-sozdaet-sistemu-monitoringa-sevmorputi/>

<sup>25</sup>Gudev, “Non-military threats to security in the Arctic.”

controls in straits, estuaries and lagoons along the NSR.<sup>26</sup> However, more recent policy documents have toned down any specific role for the military in the management of NSR navigation. The 2013 ‘Arctic Strategy Document’ merely stressed ‘the need for military readiness to secure Russian sovereign rights in the Arctic’ and ‘the capacity to carry out unimpeded all forms of its activity, including in the exclusive economic zone and on the continental shelf ...’.<sup>27</sup> The new ‘Foundation’ from 2020 was even less specific, only mentioning generally heightened military readiness in the Arctic.<sup>28</sup>

When concerns were raised over insufficient control capacity in the NSR, spurred by a Kara Sea incident involving a Greenpeace vessel engaged in protest actions against petroleum exploration, a law was enacted to ‘provide security for the Russian Federation in the conditions of increasing transport activity in the water area of the Northern Sea Route’.<sup>29</sup> No mention was made of the military – neither in the government’s ‘explanatory note’, nor in the debate in the Duma committee. The solution chosen was to mandate the Border Service (the mother organisation of the Coast Guard) to control adherence to the regulations for navigation in the NSR.<sup>30</sup> Although this paragraph provided legal backing for the use of force against offenders, it also showed that the Russian government wished to avoid actual militarisation of the management of the sea route.

It is logical that the Russian Navy pays special attention to the operations of foreign naval forces. The law of the sea gives the right of innocent passage, including for warships, through a coastal state’s territorial waters.<sup>31</sup> This principle is not controversial, but the delimitation between internal waters and territorial waters can be. In the internal waters, the coastal state has complete jurisdiction. The military would presumably like to have as expansive internal waters as possible and Russia has needed to update the exact boundaries. In 2013 the task of drawing up straight baselines in the Arctic was given to the Ministry of Defence,<sup>32</sup> which promised to complete the work by 2020.<sup>33</sup> This apparently did not happen, as the promise was repeated in the new ‘Foundation’ from 2020.<sup>34</sup> There may be several explanations for the delay, but it shows that the military did not succeed in, or were not given resources for, completing a task in the Arctic which they regarded as important, and which had been strongly advocated at government level.

Navigational rights in the straits of the NSR are a particular concern. The Russian position is that these relatively narrow straits are internal waters; thus, the scope for regulation is very wide.<sup>35</sup> Certain other states, notably the USA, hold that these straits fall

<sup>26</sup>President of the Russian Federation, “Foundations for the State Policy of the Russian Federation in the Arctic for the Period until 2020 and in the Longer Perspective,” 2008.

<sup>27</sup>Government of the Russian Federation, “Strategy for Development of the Arctic Zone, 2013”.

<sup>28</sup>President of the Russian Federation, “Foundations for the State Policy of the Russian Federation in the Arctic for the Period until 2035,” 2020.

<sup>29</sup>State Duma of the Russian Federation. Explanatory note to the draft federal law “On Amendments to Chapter 23.10 in the Federal Code on Administrative Offences,” 2016.

<sup>30</sup>Federal Law “On Amendments to Chapter 23.10 in the Federal Code on Administrative Offences,” 2016.

<sup>31</sup>Brubaker, “Straits in the Russian Arctic.”

<sup>32</sup>“Рогозин: проект развития Севморпути требует доработки.” [Rogozin: draft for development of the Northern Sea Route requires revision] *TASS*, 24 May 2016. <https://tass.ru/ekonomika/3308495>

<sup>33</sup>“Минобороны намерено до 2020 года уточнить морские границы России в Арктике.” [The Ministry of Defence intends to define the maritime borders of Russia in the Arctic before 2020] *Ria-Novosti*, 24 May 2016. <https://ria.ru/20160524/1439014272.html>

<sup>34</sup>President of the Russian Federation, “Foundations for the State Policy of the Russian Federation in the Arctic for the Period until 2035”.

<sup>35</sup>A Russian legal school of thought has a very expansive view on internal historical waters and argue that they include the semi-enclosed seas along the NSR, like the Kara Sea, Laptev Sea etc. But this is not official Russian policy.

under the UNCLOS definition as ‘straits which are used for international navigation between one part of the high seas or an exclusive economic zone and another part of the high seas or an exclusive economic zone’.<sup>36</sup> Ships under foreign flag have transit rights in such straits, even if they are within the territorial waters of the coastal state. Transit rights are very similar to ‘innocent passage’ through the territorial seas, but they go further, as submarines do not have to navigate on the surface.

An initiative from the Russian military was intended to ‘liquidate a legal vacuum in the exploitation of the Northern Sea Route’, by extending the notification scheme for transits on the NSR to include foreign warships.<sup>37</sup> According to reports on the draft, circulated in early 2019, foreign warships would have to submit a notification minimum 45 days prior to entering the NSR and would be stopped by force if entering without permission.<sup>38</sup> As a last resort, they might be destroyed by the Russian military. Some Russian lawyers argued that the provision could be justified by UNCLOS Article 234 as a measure to prevent pollution.<sup>39</sup> But it seems the measure was, in addition to general military concerns, also a response to the non-notified transit of the French Navy’s assistance vessel Rhône in September 2018.<sup>40</sup>

As of June 2020, the new regulation had not been adopted. Given the secrecy surrounding military security issues, any conclusions must be drawn with great caution. It is still possible that a regulation will be adopted; the fact that it has come as far as a concrete (albeit unpublished) draft suggests at least that the government has not wanted to nip this initiative in the bud. But this can also be seen as another instance of the government denying the military greater influence in NSR management and policies. Moreover, with foreign naval transits on the NSR unlikely to become frequent, the case for stricter controls which may have a negative impact on the image of NSR and foreigner user interest does not look very strong.

## Commercial stakeholders

### Novatek and Yamal LNG

As noted, the development of NSR is now tightly connected to mineral extraction projects in the Arctic. A new group of strong stakeholders have arrived, who were not very significant when the 2013 law and regulations were adopted. Thus, it is in relation to subsequent regulations that they may have had or have a potential impact. Among the commercial stakeholders, the privately owned gas company Novatek stands out.

After a rapid and impressive construction process, the Yamal LNG project on the eastern side of the Yamal Peninsula started producing in December 2017. Yamal LNG is majority-owned and operated by Novatek, but also has French Total as an important co-owner (20%) as well as Chinese shareholders (29.9%). The gas was to be transported by 15

<sup>36</sup>Article 37, United Nations Convention on the Law of the Sea; White House, “Northern Sea Route includes straits used for international navigation.”

<sup>37</sup>Россия не намерена сдавать Арктику” [Russia does not intend to give up the Arctic], *Nezavisimaya gazeta*, 11 March 2019. [http://www.ng.ru/armies/2019-03-11/8\\_7527\\_regulations.html](http://www.ng.ru/armies/2019-03-11/8_7527_regulations.html)

<sup>38</sup>Ibid.

<sup>39</sup>“Холодная волна: иностранцам создали правила прохода Севморпути” [Cold wave: Rules for passage of foreigners on the Northern Sea Route have been created], *Izvestiya*, 6 March 2019. <https://iz.ru/852943/aleksei-kozachenko-bogdan-stepovoi-elnar-bainazarov/kholodnaia-volna-inostrantcam-sozdali-pravila-prokhoda-sevmorputi>

<sup>40</sup>“Russia Tightens Control Over Northern Sea Route.” *The Maritime Executive*, 8 March 2019. <https://www.maritime-executive.com/article/russia-tightens-control-over-northern-sea-route>



icebreaking LNG carriers custom-built in Korea, to be completed between 2017 and 2019, to foreign markets from the new port of Sabetta. All the carriers save one were owned by non-Russian companies; and none of the carriers, including the one owned by Russia's Sovcomflot, planned to sail under Russian flag.

The new protectionist regulations were clearly a challenge to the commercial plans of Novatek, which planned a series of LNG projects in the Yamal/Ob Bay area following Yamal LNG. When the 'flag law' was under discussion in the Duma, warnings were heard that it could complicate financing of new gas carriers, even if exemptions were granted. But the immediate problems for Yamal LNG were solved when it emerged that the law would not be applied retroactively, and would thus not apply to the series of LNG carriers contracted before the law entered into force.<sup>41</sup>

The proposal to reserve transportation for Russian-built vessels set in motion an open dispute with Novatek, which argued that implementation of the law might put further LNG development in jeopardy. Within few years, Novatek would need a new series of icebreaking LNG carriers for its next project, Arctic LNG-2, and LNG carriers had never been built in Russia.<sup>42</sup> According to Leonid Mikhelson, the president and biggest owner of Novatek, the proposal was 'in essence harmful'.<sup>43</sup> Reportedly, the Ministry of Energy withdrew its support for the proposal; implementation from 2019, as originally planned, was obviously impossible, since relevant ships built in Russia were non-existent.<sup>44</sup> Nevertheless, at the end of 2018 Novatek surrendered and agreed to order 15 Arc 7 ice-breaking carriers from Zvezda, the new super-yard under establishment in the Far East, for delivery between 2022 and 2025 – but only for a price similar to the cost of building in Korea, 315 USD million per carrier. The company required and expected subsidies for the difference in costs, which at Zvezda were anticipated to be significantly higher.<sup>45</sup> The terms of the subsidies are not clear, but in any case, the project will require an active infusion of budget money into the yard. The major uncertainty concerns the implementation schedule, even if substantial parts of the new carriers are built in Korea.

By March 2019, the government confirmed and extended the solution for Novatek by publishing an order that permitted use of the 15 contracted, and partly delivered, icebreaking Arc7 carriers for Yamal LNG plus 13 other conventional LNG carriers under foreign flag, all individually listed, until 2043.<sup>46</sup> The Arc7 carriers will transport the LNG from the production sites of both Yamal LNG and Arctic LNG-2 to reloading terminals to be constructed at the eastern and western gates to the Russian Arctic; the conventional carriers, which are less expensive to build and operate, will bring the gas further, to the customers.

The legislative process was protracted, however, and only in August 2019 was a text submitted by the government to the Duma. The proposed version of the law confirmed that the requirement for Russian-built ships would not apply to vessels built before or contracted

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<sup>41</sup>"Арктическую нефть прикроют флагом" [Arctic oil will be shielded by the flag], *Kommersant*, 17 November 2017. <https://www.kommersant.ru/doc/3468853>

<sup>42</sup>"Сверхвредная идея" [A super-harmful idea], *Kommersant*, 24 April 2018. <https://www.kommersant.ru/doc/3612583>

<sup>43</sup>"Это просто вредная идея по существу" [It is in essence simply a harmful idea], *Kommersant*, 25 July 2018. <https://www.kommersant.ru/doc/3695432>

<sup>44</sup>"СПГ-танкерам не закроют Севморпуть" [Will not close the Northern Sea Route for LNG carriers], *Kommersant*, 25 October 2018. <https://www.kommersant.ru/doc/3780597>

<sup>45</sup>"Российский газовоз нагрузили ценой" [Russian gas carrier burdened by the price], *Kommersant*, 12 February 2019. <https://www.kommersant.ru/doc/3881485>

<sup>46</sup>Government of the Russian Federation, "On the use of foreign vessels for realisation of projects for production of liquefied natural gas."

before the law entered into force.<sup>47</sup> But the restriction on foreign-built vessels for the next LNG projects stood firm. Interestingly, the process was held up because concerns were raised about possible conflict with international agreements to which Russia is party.<sup>48</sup>

The provisions had not been formally adopted as of June 2020, but *politically* the new regulations were already operative. They involved the possibility of exemptions granted by the Russian government; lobbying for such exemptions continued, as it was obvious that the regulations could not be implemented immediately. And the tussle over further shipbuilding has continued, as the need for tankers is growing. An additional series of new Arc7 carriers will be needed when production from Arctic LNG-2 is ramped up, and the government and president did first not signal willingness to have them built abroad. But in early 2020, Novatek got permission to order ten Arc7 carriers from abroad, on the argument that Zvezda would not have capacity to deliver in time.<sup>49</sup> The company also announced it would order five more carriers from Zvezda for the Ob LNG project before 2025 and envisaged ordering additional 15–17 carriers from the yard before 2030, for the projects Arctic LNG-1 and Arctic LNG –3.<sup>50</sup> Thus, total orders at Zvezda will amount to 35–37 Arc7 carriers before 2030.

The investment required is staggering, as are the expected LNG export volumes – some 70 mill. tons by the end of the 2020s. That would make the Yamal-Ob Bay area one of the main LNG-producing centres in the world, on a par with Qatar, and a key component in Russia's economic future.<sup>51</sup> For these reasons, the project promotor, Novatek, clearly has a strong position vis-à-vis the authorities. Novatek has argued that protectionist measures could jeopardise the rapid development of LNG projects in the Arctic; and others have pointed out that the conditions shipping groups set for participation in the financing and ownership of the next series of LNG-carriers might be negatively impacted. Novatek may have reduced this risk when it decided to establish its own shipping company, Arctic Maritime Transport, with China's COSCO and Russia's Sovcomflot as partners.<sup>52</sup>

Novatek has managed to achieve most of its major objectives concerning LNG transport by way of special permissions and exemptions from the new legislation. It has not been able to prevent the new legislation, which appeared to be its initial goal. The explanation is that resource extraction and exports are not the only economic interests affected by NSR policies.

### Shipbuilding

The regulations mandating the use of Russian-built ships are directly connected to the political priority of supporting Russian shipbuilding. In turn, security arguments and self-

<sup>47</sup>State Duma of the Russian Federation "On amendments to Chapter 4 in the Code of merchant shipping for the Russian Federation," 6 August 2019.

<sup>48</sup>Legal division, State Duma of the Russian Federation. "Conclusion on the draft federal law No 769222–7 "On amendments to chapter 4 in the Code of merchant shipping for the Russian Federation"."

<sup>49</sup>"Новатэк сможет заказать газовозы за рубежом" [Novatek may order gas carriers abroad], *Kommersant*, 23 January 2020. <https://www.kommersant.ru/doc/4227604>

<sup>50</sup>"Михельсон: у "Новатэка" нет противоречий с "Газпромом" по вопросу конкуренции в Европе." [Mikhelson: There are no contradictions between Novatek and Gazprom on the question of competition in Europe] *Tass*, 23 January 2020. <https://tass.ru/ekonomika/7585953>

<sup>51</sup>Henderson & Moe, *The Globalisation of Russian Gas*.

<sup>52</sup>"NOVATEK Creates Maritime Arctic Transport Company", Novatek Press Release, 18 May 2018. [http://www.novatek.ru/en/press/releases/index.php?id\\_4=2437](http://www.novatek.ru/en/press/releases/index.php?id_4=2437); "Novatek teams up with Chinese partner for Arctic shipping," *Barents Observer*, 12 September 2018. <https://thebarentsobserver.com/en/2018/09/novatek-teams-chinese-partner-arctic-shipping>

reliance have been invoked in support of the sector, but the need to resurrect advanced industrial production and regional development concerns is also important. With the establishment of the giant Zvezda shipyard near Vladivostok, where construction started in 2016, the sector has become an even more important stakeholder in NSR than earlier.<sup>53</sup> The yard, which will be able to produce a wide range of ships, was originally intended to have a special role in supplying offshore platforms and supply ships. The oil company Rosneft, designated to front Russia's offshore offensive, was tasked with leading the establishment of the 'super-yard', as the key founder. However, offshore development has been postponed and other markets, not least in the Arctic, have become critical for the yard, which is seen as the key to the rebirth of Russia's shipbuilding industry, as well as to economic development in Russia's Far East.

Rosneft remains in charge of the Zvezda yard. It has considerable political influence through this position on NSR development, together with the Ministry for Industry and Trade, which is responsible for shipbuilding in the government.<sup>54</sup> Also, the United Shipbuilding Corporation, the state holding controlling most of the remaining yards, counts as a stakeholder, with a special interest in access to new building contracts.<sup>55</sup> A political preference for sending orders for new Arctic vessels, icebreakers, as well as gas carriers and other ships, to Russian yards has been apparent for some time. The new legislation has codified this policy. The shipbuilding sector ensures continued support for protectionist measures.

### Other cargo producers

While Novatek/Yamal LNG has become the largest cargo producer in the Arctic with a business plan tightly linked to the development of the NSR, there are also other major companies engaged in or planning engagement in the extraction of raw materials to be transported on the route. These projects are pivotal to the government's ambitions for the development of Russia's Arctic Zone; more specifically, they are needed to fulfil the goal of transporting 80 million tons of cargo on the NSR by 2024. This means there is a willingness in the government to offer tax relief and subsidies to secure progress, but also that the companies have some negotiating strength regarding the framework and conditions for their operations.

Among commercial enterprises, *Norilsk Nickel* (now *Nornickel*) used to be the dominant cargo producer on the NSR; indeed, the nuclear icebreaker fleet was to a large extent developed to serve the transport needs of that structure. However, in 2008 the company decided to abandon long-term contracts with Atomflot, and instead rely on its own fleet of vessels operating autonomously.<sup>56</sup> This severe challenge to the icebreaking company revealed a conflict of interest in the organisation of navigation. Nevertheless, Nornickel continued to rent icebreaker assistance on a short-term basis; and, in 2019, facing an

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<sup>53</sup>Zvezda. "О судостроительном комплексе 'Звезда' [Concerning the shipbuilding complex 'Zvezda'] <http://www.sskzvezda.ru/index.php/ru/about>

<sup>54</sup>"Сизифов ренессанс. "Суперверфь" "Звезда" как очередная попытка возрождения судостроения в России," [The Sisyphos renaissance. "Superyard" 'Zvezda' as the latest attempt at resurrection of shipbuilding in Russia] *Kommersant*, 28 December 2018. <https://www.kommersant.ru/doc/3828155>

<sup>55</sup>United Shipbuilding Corporation. "United Shipbuilding Corporation: the largest shipbuilding company in Russia," <https://www.aosk.ru/en/>

<sup>56</sup>Мое, 2014, op. cit.

expected shortage of icebreakers, signed a 10-year contract for services – keeping a channel open in the mouth of the Yenisey River.<sup>57</sup>

The oil companies dependent on Arctic navigation include *Gazprom Neft*, which has run year-round operations from its Novy Port field on the Yamal Peninsula since 2016, with its own fleet of six ice-breaking shuttle tankers able to take some 8.5 million tons to Murmansk annually.<sup>58</sup> Also, this company has found it important to enter into a long-term arrangement with Atomflot.<sup>59</sup> The oil company *Neftegazholding* has significant assets on the Taymyr Peninsula, and a project planned to reach an output level of 26 million tons is underway. Extensions may increase output to 50 million tons.<sup>60</sup> But to reach such levels, enormous investments are needed. *Neftegazholding's* *Payakhskoe* project is the biggest Russian oil project for many years, but its institutional weight would increase considerably with the realisation of an ‘Arctic cluster’ through a joint venture with *Rosneft* – *Vostok Oil*.<sup>61</sup> Also, *Lukoil* and *Gazprom Neft* are contemplating new projects in the region with maritime logistics, making them potential stakeholders in NSR. However, the main battle in the earlier stages of these projects is about tax conditions.<sup>62</sup>

Other industrial stakeholders in the development of navigation along the NSR include the backers of the coal projects on the Taymyr Peninsula. One project, discussed for some years, was expected to deliver 19 million tons per year; it has been delayed and its future is uncertain since the project owner, *Vostokugol*, decided to sell the project in February 2020, with no new owner announced.<sup>63</sup> Another coal project on Taymyr – *Severnaya Zvezda* (Northern Star) – is planned to produce 10 million tons.<sup>64</sup>

For all the industrial companies engaged in or planning large-scale activities in the Arctic, icebreaking is an important cost factor, although to differing extents. Perhaps they see the Russian icebreaker monopoly enshrined in laws and regulations that prevent foreign icebreaking companies from competing, as well as Atomflot’s near de facto monopoly, as problematic. This includes the companies which developed their own icebreaking transportation vessels. They have wanted to minimise the need for icebreaker assistance from icebreaking companies (Atomflot), but have found that autonomous navigation, even if technically possible, is not always economically effective, as it entails lower speed than can be achieved in a channel held open by icebreakers.

If Atomflot does not misuse its monopoly position and demand unjustified rates, the resource companies are unlikely to pick a fight. Moreover, it is not self-evident that an independent icebreaker company would charge less than Atomflot, as the latter enjoys

<sup>57</sup>“Норникель” и “Газпром нефть” арендуют ледоколы “Росатома” на 10 лет.” [Nornickel and Gazprom Neft will rent icebreakers from Rosatom for 10 years] *RBC*, 6 December 2019. <https://www.rbc.ru/business/06/12/2019/5de8fff39a79470b36b2925c>

<sup>58</sup>Gazprom Neft. “The Novy Port project.” <https://www.gazprom-neft.com/company/major-projects/new-port/>

<sup>59</sup>“Норникель” и “Газпром нефть” арендуют ледоколы “Росатома” на 10 лет.” [Nornickel and Gazprom Neft will rent icebreakers from Rosatom for 10 years].

<sup>60</sup>“Нефтегазхолдинг приступил к промышленному освоению Пайяхского месторождения,” [Neftegazholding proceeded with industrial development of the Payyakhskoe field] *Neftegaz.RU*, 14 June 2019. <https://neftegaz.ru/news/drill/454079-neftegazholding-pristupil-k-promyshlennomu-osvoeniyu-payyakhskogo-mestorozhdeniya/>

<sup>61</sup>“Арктический кластер Таймыра.” [Taymyr’s Arctic cluster] *Geoenergetika.ru*, 2 August 2019. <http://geoenergetics.ru/2019/08/02/arkticheskij-klaster-tajmyra/>

<sup>62</sup>“Роснефти” замораживают Арктику.” [The Rosnefts will freeze the Arctic] *Kommersant*, 20 August 2018. <https://www.kommersant.ru/doc/4066359?>

<sup>63</sup>“Востокуголь” уходит с Таймыра,” [Vostokugol’ will leave Taymyr] *Kommersant*, 3 February 2020. <https://www.kommersant.ru/doc/4242213>

<sup>64</sup>“Северная звезда” создаст угольный комплекс на Таймыре за 35 млрд руб.,” [Severnaya Zvezda will create a coal complex on Taymyr for 35 bill. roubles] *Kommersant*, 10 April 2019. <https://www.kommersant.ru/doc/3938938>

substantial subsidies from the state. The largest user of icebreaking services, Novatek, nevertheless toyed with the idea of establishing its own fleet of strong LNG-powered icebreakers, but it ended up creating a joint venture with Rosatom to that end.<sup>65</sup>

For transport of their products, these companies will probably rely mainly on their own fleets, as Nor Nickel and Gazprom Neft do, or on long-term contracts with a designated shipping company, as these projects will require specific technological solutions. From a business perspective, these cargo producers would prefer competition between shipping companies offering services – but with the protectionist legislation in place, choosing a foreign shipping company is no longer possible. Thus, the conditions for international shipping are not of much significance for them. Moreover, the logistical solutions for these projects are likely to be developed as large package deals where long-term transport arrangements, state support and icebreaking services are included. Regulations and procedures (like non-transparent fees) directed at individual voyages on the NSR will not be relevant.

The requirement to use Russian-*built* ships is a more serious challenge also for other resource companies than Novatek, and it may hinder the realisation of industrial plans. In a review of the government's National Projects in late 2019, Russia's Audit Chamber concluded that there would not be a sufficient number of ice-strengthened transportation vessels or icebreakers to serve all the extraction projects under preparation.<sup>66</sup> Thus, the ambitious plans for increased volumes on the NSR are pitted against support for Russian shipbuilding in stark terms.

### **Atomflot and Rosatom – stakeholder or government agent?**

Since implementation of the law on the NSR in 2013, a major shift in the administration of NSR has taken place. A struggle between the Ministry of Transport and the state nuclear corporation Rosatom – which has Atomflot as a subsidiary – started in 2016, when the government announced that it wanted to reform the management of the NSR.<sup>67</sup> A compromise reached in June 2018 divided functions between Rosatom and the Ministry of Transport according to a 'two-key' principle. But it was obvious who got the bigger key. The Ministry would be responsible for developing laws and regulations and controlling their implementation. Rosatom would take control over the current operation of the NSR and, crucially, manage state property and assets in ports, in addition to the icebreakers, and would coordinate and distribute state investments and collect state income. Navigational and hydrographical support would be the joint responsibility of the two agencies.<sup>68</sup> The process was formally concluded when the State Duma on 11 December 2018 adopted a law specifying the role of infrastructure

<sup>65</sup>“NOVATEK Creates a Joint Venture with Rosatom,” Novatek Press Release, 12 September 2018. [http://www.novatek.ru/en/press/releases/index.php?id\\_4=2660](http://www.novatek.ru/en/press/releases/index.php?id_4=2660)

<sup>66</sup>Audit Chamber of the Russian Federation, “Report on preliminary results of expert-analytical activity “Monitoring of progress of the realisation of measures in the Complex plan for modernisation and expansion of the backbone infrastructure.”

<sup>67</sup>Moe & Brigham, op. cit.

<sup>68</sup>“Минтранс и “Росатом” не поделили ключи от СМП. Белый дом в ручном режиме будет распределять их полномочия,” [Mintrans and Rosatom have not divided the keys to NSR. The White House will apportion their authority in manual mode] *Kommersant*, 26 June 2018. <https://www.kommersant.ru/doc/3669555>; “Северный компромисс: как “Росатом” и Минтранс поделят Арктику,” [Northern compromise: How Rosatom and Mintrans will divide the Arctic] *RBC*, 26 June 2018. <https://www.rbc.ru/business/26/06/2018/5b2cbcf79a794777ed047268>

operator for the Northern Sea Route, as outlined above.<sup>69</sup> This reinforced the strong position Atomflot/Rosatom already held as premise-setter and controller of the most important Arctic infrastructure – the nuclear icebreakers.

In areas where Rosatom was not given exclusive authority, other government bodies, notably the Ministry of Transport, would perform their functions in coordination – *soglasovanie* – with Rosatom. A key issue, and a bone of contention between the Ministry of Transport and Rosatom, was the authority to issue permits to sail the NSR. The latter wanted to take over this key function from the Northern Sea Route Administration. The Deputy Transport Minister reportedly voiced concerns that Rosatom – with Atomflot – would like to have this role, to entail maximum use of its icebreakers.<sup>70</sup> However, in the model finally supported by the government, the Ministry – through the NSRA – is to continue to issue permits, although in coordination with Rosatom.

Thus, Atomflot and Rosatom have become responsible for execution of state policy on the NSR, at the same time as they have stakeholder interests. This was illustrated when Deputy Prime Minister Trutnev in June 2019 heavily criticised Rosatom's plan for infrastructure development of the NSR for being overly focused on icebreakers, referring to Rosatom's new broader responsibility as infrastructure operator.<sup>71</sup>

Atomflot's core function is to operate icebreakers. It has a clear interest in revenues, even if it receives substantial state subsidies. Revenues are dependent on the volume of traffic with icebreaker escort, but also on the size of the escort fees. It follows that Atomflot's top priority must be protection of its de-facto icebreaking monopoly – and, with the latest reorganisation of the NSR, it would seem in a good position to do so. The rules for navigation on the NSR stipulate that only icebreakers under Russian flag can render icebreaking services.<sup>72</sup> There is hardly any support in Russia for changing this clause. Atomflot has also extended the scope of its services by acquiring diesel-electric port icebreakers to serve the port of Sabetta, effectively closing this 'market' for other icebreaking providers. In addition, Atomflot has resurrected the nuclear-powered container ship *Sevmorput'*, built in the 1980s, to offer freight services along the NSR.<sup>73</sup> For occasional users of NSR, such developments may have positive aspects, as they could mean improved services. On the other hand, monopolisation of services may also discourage users from planning long-term investments, as they may fear of becoming totally dependent on Atomflot, as regards specification of services as well as prices.

Atomflot has also paid attention to increasing the volume of NSR shipping as a source of revenue. It took an active interest in exploring the possibilities for increased transit navigation and was instrumental in developing simplified administrative procedures. It also helped persuade the Ministry of Transport to allow rebates on the escort fees to attract traffic, preceding formalisation in the law from 2013, as discussed above.<sup>74</sup>

<sup>69</sup>Federal Law, "On amendments to some legal acts of the Russian Federation," 2018.

<sup>70</sup>"Северный компромисс: как "Росатом" и Минтранс поделят Арктику," [Northern compromise: How Rosatom and Mintrans will divide the Arctic]

<sup>71</sup>"План "Росатома" сочли слишком ледокольным," [Rosatom's plan considered too icebreaking] *Kommersant*. 26 July 2019. <https://www.kommersant.ru/doc/4041403>

<sup>72</sup>Ministry of Transport of the Russian Federation, "Rules of Navigation in the Water Area of the Northern Sea Route".

<sup>73</sup>"Контейнеровоз-лихтеровоз "Севморпуть" в 2019 году совершит два рейса с рыбой по СМП," [The container ship/barge carrier *Sevmorput'* will in 2019 conduct two voyages with fish on the NSR] *PortNews*. 5 March 2019. <https://portnews.ru/news/273320/>

<sup>74</sup>Мое, 2014. op.cit.

But these were positions at a time when there were surplus icebreaking capacity and a need to extend the income base. With the implementation of the large-scale extraction projects in West Siberia and the accompanying needs for maritime logistics, icebreakers have become a scarce commodity. The plans for further expansion of resource projects require more icebreakers, and the state actively supports the expansion of the icebreaker fleet. These developments put Atomflot and Rosatom in a favourable position, not having to worry about finding new customers on their own.

However, with the recent changes in NSR management structure, the responsibilities and interests of Rosatom have changed. In its new role as an infrastructure operator, Rosatom is expected not only to serve the needs created by others, it now has prime responsibility for facilitating the development of the cargo base, expressed in the goal set by President Putin of 80 million tons of cargo by 2024 and continued increase thereafter.<sup>75</sup> Clearly, most of this volume is expected to come from resource extraction projects, and very much is deemed achievable. Still, uncertainty remains around 20–30 million tons. One solution for Rosatom might be to encourage international use of the NSR, including transits. However, the corporation is thinking in other terms. It has argued that significant growth in international transits will not take place before 2030, 'but before then we shall show the world that [NSR] really is a stable functioning, even under severe conditions, international waterway. And we can show with our own cargo flows'.<sup>76</sup> Rosatom has decided to go even one step further, announcing plans to establish its own international container shipping business.<sup>77</sup> The idea is to create a company that would operate globally, shipping cargos that could use the advantages of the NSR, either directly or via transshipment hubs. In late 2019 Rosatom obtained a large stake in a company controlling a container terminal in the Far East, as well as six terminals in the Baltic Sea.<sup>78</sup>

If such plans, which involve the procurement of a substantial container fleet, are realised, preferences and priorities regarding regulations may be altered. Rosatom would have little interest in encouraging other users, building up a transit monopoly instead. As an infrastructure operator, it would be able to effectively set the terms for transit; if large investments are made in a transit fleet, that will be a strong argument for shielding it from competition.

## Conclusions: where is the NSR heading?

Russia's ambition to turn the NSR into an international waterway of global significance has been reiterated many times over the last 15 years. Improved conditions for international shipping were a key concern in the reforms included in the new NSR legislation

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<sup>75</sup>Вячеслав Рукша: "Росатом должен обеспечить российские мегапроекты в Арктике," [Vyacheslav Ruksha: Rosatom must facilitate Russian mega-projects in the Arctic.] *Strana Rosatom*, 9 April 2019. <https://www.rosatom.ru/journalist/interview/vyacheslav-ruksha-rosatom-dolzhen-obespechit-rossiyskie-megaproekty-v-arktike/>

<sup>76</sup>Ibid.

<sup>77</sup>"Росатом' хочет стать мировым лидером морских перевозок," [Rosatom wants to become a world leader in maritime transports] *Vedomosti*, 20 November 2019. <https://www.vedomosti.ru/business/articles/2019/11/20/816799-rosatom-liderom>

<sup>78</sup>"Росатом и Группа компаний "Дело" будут совместно развивать транспортно-логистический бизнес." [Rosatom and the Delo group of companies will together develop a transport-logistical business] Rosatom press release, 3 December 2019. [www.rosatom.ru/journalist/news/rosatom-i-gruppa-kompaniy-delo-budut-sovmestno-razvivat-transportno-logisticheskij-biznes/](http://www.rosatom.ru/journalist/news/rosatom-i-gruppa-kompaniy-delo-budut-sovmestno-razvivat-transportno-logisticheskij-biznes/)

effective from 2013. Since then, however, changes in state policies and in the constellation of stakeholders indicate that other priorities have become more important.

These developments have two intertwined drivers. Firstly, the successful completion of Yamal LNG and the Novy Port oil projects demonstrated that the potential for resource extraction with maritime logistics was greater than envisaged only ten years ago. This insight matured at the same time as it became clear that international transit would not take off as anticipated in the years 2010–2012. Highly ambitious plans for the development of resource projects along the Siberian coast have become a cornerstone of state policy – with major implications for the sea route, where the focus has shifted from transit to destination shipping and all-year use of the whole NSR for that purpose.

Secondly, since 2012, and especially since 2014, there have been alterations in Russia's political course. Domestic industrial development and import substitution became a top priority after the imposition of Western sanctions, singling out technology transfer to Arctic offshore energy projects. This line of policy has lent strong support to protectionist measures in shipbuilding. Russia's expressed policy has been to isolate the Arctic from East/West tensions; nevertheless, perceived military threats in the Arctic are invoked in policy documents as well as public discourse. This again reinforces the Russian policy of self-reliance and might also justify a more active control regime. However, Russia has refrained from militarising the NSR. And it has not been possible to identify an overt conflict of interest between the military and commercial companies regarding navigation on the NSR.

Contradictions and conflict of interest can be found between different commercial stakeholders. The resource base and the projects developed have shown that it is possible for Russia to achieve a significant development in its Arctic Zone on its own terms (albeit with significant foreign participation in the LNG projects). The protectionist measures introduced for shipment of resources out of the Arctic reflect the belief that Russia can maximise economic benefits without reliance on international competition.

As noted, there have been protests against protectionism from at least one key stakeholder (Novatek), arguing that protectionism may delay the realisation of the highly prioritised resource extraction projects. Exemptions have been granted – to the obligation to sail under Russian flag, as well as the requirement to only use Russian-built ships. New exemptions and improvisations should be expected if the pace of development of Russian shipbuilding fails to keep up with the transportation needs of the resource-extraction projects. But these will be exceptions: there is no reason to expect a total reversal of policy. For outsiders, constant revisions and exemptions from regulations mean unpredictability.

Other actual or potential Russian stakeholders in Arctic navigation are largely satisfied with the situation, or they keep silent. Given the intricate interconnections among the major Russian companies and the state, this is hardly surprising. Almost all projects in the Russian Arctic are dependent on some form of special arrangement with the government, notably tax concessions; given the Russian political system, they are unlikely to oppose major policy decisions, even if they regard them as negative for their business. The sole exception has been Novatek's biggest owner, who apparently felt that his project was so important that it gave him greater clout. But even he had to accept the new conditions.

Not only has the attention changed from transit to destination shipping, but there is also a shift from a focus on individual journeys to large, long-term logistical arrangements. This means that the weaknesses in the shipping regulations from a ship-owner perspective are becoming less relevant. Conditions for transportation from the huge



extractive projects will be decided in each case, as large package deals. Institutional backing for improving existing regulations is weak.

The NSR administration has also undergone a change. The reform implemented in 2012/2013 heralded greater transparency, market elements and improved conditions for international transit – but the new structure, with Rosatom in control of most aspects of running the NSR, seems to go in the opposite direction. Whereas the argument for the reform is better coordination and higher efficiency, for users of the NSR it also represents a potential monopoly problem, as the key authority is also engaged in commercial operations.

Against these major changes in state priorities, framework legislation and administration of the NSR, adjustments in more technical regulations of shipping pale. Although the conditions for international transit do not rank high on the agenda now, Rosatom is probably able and willing to adjust procedures if this is deemed helpful for users – as well as Rosatom's own operations. If Russia really wants greater international use of NSR it will need to prepare the ground, not only with infrastructure. Existing regulations have worked relatively well for the small number of ships transiting NSR: much larger traffic volumes would require other solutions.

The developments discussed in this article indicate that Russia's policies for the NSR are becoming more inward-looking: concern for international use is not high on the agenda. Development of the NSR is now primarily part of a big project which is about extracting resources in the Russian market and bringing them to market. The Russian government has realised that only when stable year-round navigation – serving resource extraction projects in the Russian Arctic – is established, will the international shipping industry start to show real interest in the NSR. But even if the infrastructure comes into place, a booming transit business will not start automatically. Russian preferences may have changed by then, and it may appear economically more attractive to maintain a de-facto monopoly on Arctic transits than to encourage competition. The serious consideration in 2020 in a government commission of extending the boundaries of NSR, to Murmansk and Sakhalin, respectively, reflects the view that Russia has more to gain by maximising its own shipping activities than inviting international competition. Reportedly, the proposal was withdrawn out of concern for international reactions, but nevertheless, it illustrated that important framework legislation is not necessarily settled.<sup>79</sup>

Inside Russia, there seems to be little interest in changing the current trajectory. Heavyweight international actors like China or perhaps some of the big liner companies might perhaps try to lobby for a more transparent regime, in exchange for long-term investments. But such actors may also have to choose between supporting general rules or making special arrangements with Russia for themselves.

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<sup>79</sup>102 “Власти отказались от расширения границ Северного морского пути” [The authorities rejected extension of the borders of the Northern Sea Route], *RBK*, 20 June 2020. <https://www.rbc.ru/business/20/06/2020/5eeeb19f9a7947cf-d9e8abaf?noredir=true>

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