



# FOCUS NORTH 3-2008

## Resources and the Environment: The New Security Balance

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Over the past decade, security dialogue in the Arctic has been moving away from the strategic balance of superpowers towards the delicate balance between resource development and environmental management. Today the region is viewed from the outside as peaceful, politically stable and a prospective supplier of strategic resources to a troubled world. Climate, political and economic changes are facilitating unprecedented access to the region and its resources, fuelling great expectations for petroleum development, shipping and other commercial enterprise. A principal challenge for the region is how to manage conflicting interests while maintaining the environment's ability to sustain itself, its store of renewable resources, and a healthy base for the societies that live there.

### **Economic security and the environment**

Economic security relates to the supply of essential resources and access to key economic markets.<sup>1</sup> Where natural resources comprise a region's economic foundation, such as in the Arctic, security can be strongly tied to issues of resource ownership, access and exploitation.

The environment forms an important part of today's security discourse because of the integral relationship between security, economic development and ecological sustainability. Where ecological problems threaten social stability or vital economic interests, it may become difficult to treat them separately from the question of regional security.

Regional environmental management has thus become a strong motive force in regional security dialogue and is now part of many states' declared security policy interests, including Norway and Russia.<sup>2</sup>

### **An energy region of global importance**

The Arctic holds 15 percent of the world's known

oil and gas resources with 130 billion barrels of oil and 1500 trillion cubic feet of gas.<sup>3</sup> Russia holds nearly three-quarters of the Arctic's known oil and 90 percent of its gas. Norway has proven petroleum reserves 23 billion barrels of oil equivalent, 40 percent of which is oil and 60 percent gas. The North Sea holds the majority of Norway's reserves (70 percent), with significant quantities in the Norwegian Sea (25 percent) and small, but growing, reserves in the Barents Sea.

Fuelling optimism for Arctic oil and gas is an assessment by the US Geological Survey in 2000 that estimated undiscovered resources in the Arctic at 423 billion barrels of oil equivalent. Subsequent assessments have increased the expectations for some areas and decreased them for others. Taken together, the mean estimate of undiscovered resources in assessed provinces of the Arctic has increased by 36 billion barrels since 2000, to 459 billion barrels of oil equivalent.<sup>4</sup> This resource snapshot will undoubtedly change again when the USGS releases its Circum-Arctic Resource Appraisal in late 2008.

Some analysts believe the North is on the verge of becoming a geopolitical convergence point.<sup>5</sup> The Arctic is seen as a promising, stable source of hydrocarbons in an age when terrorism and political instability threaten energy supplies from traditional sources, and as resources in more accessible parts of the world are depleted.

Despite significant challenges to exploration and production, the conditions for Arctic oil and gas development are improving.<sup>6</sup> Geological information is expanding, climate change and technological advancements are easing physical access, and rising oil prices increase economic viability. Moreover, Russia has ambitions to increase production and develop new markets for its oil and gas.

## Environmental protection

Industrial activities associated with resource extraction, energy production and transportation are the predominant sources of pollution and environmental degradation in the North. Concomitant with the demand for resources is the imperative to protect the environment from which they come.

Without care, exploitation can threaten the sustainability of renewable resources such as fisheries, which comprise the largest local industry in northern Norway. Thanks to the great biological productivity of the Barents Sea, Norway is the world's third largest seafood exporter, valued at 4.6 billion in 2007. Besides controlling adverse interactions from industrial activities, environmental protection includes ensuring renewable resource use such as fishing does not exceed the regeneration capacity of any particular stock.

Environmental protection is an essential component of economic security, as it helps secure the future of important resources and economic activity. In this way, economic security has elements of securing resources for use as well as securing them from use, underscoring that economic security involves a balance between resource exploitation and environmental protection.

## Competition and conflict

The Arctic is experiencing increased competition among states to secure rights of access, ownership and control. News reports have focused public attention on a so-called Arctic Gold Rush as states lay claim to portions of the Arctic Ocean. Although the sense of urgency is actually a race against a deadline in the Law of the Sea, these claims will ultimately form the basis for dividing up the Arctic.

The EU and NATO have expressed concern over the changing geo-strategic dynamics of the Arctic and the potential consequences for international stability and European security interests.<sup>7</sup> Senior EU foreign policy advisers have called for new legal regimes to forestall potential conflict, though Norway considers the region's needs are already adequately addressed by the Law of the Sea.<sup>8</sup>

Nevertheless, there are still unresolved disputes with great resource ramifications, including the Russian–Norwegian maritime boundary and the maritime areas around Svalbard. Resolving the former will not necessarily resolve all problems

and may cause unexpected conflicts. An eventual boundary agreement may open the disputed area to fruitful petroleum cooperation, yet it could also precipitate conflict with fishing interests by ending the fishing industry's current monopoly on activity there.<sup>9</sup>

Disagreement regarding the Svalbard Treaty's application to maritime areas around the archipelago is perhaps the most intractable.<sup>10</sup> Norway's closest allies have long withheld their support regarding Norway's shelf claims around Svalbard; renewed efforts to garner their support have failed to achieve a turnaround. Instead, Russia and the EU have strongly criticized Norwegian enforcement in the Svalbard fishery protection zone, while Britain convened closed consultations with other treaty parties.<sup>11</sup>

Moreover, resources such as petroleum are becoming tools of the new strategic arsenal. Russia has repeatedly demonstrated its willingness to use oil and gas politically in support of national interests. Voices within Norway are calling for it to do the same. The Norwegian parliament's (Stortinget) foreign relations committee expressed that Norwegian resources should be a more important element in pursuing its environmental objectives in the North, suggesting that Norway's position as an energy power should be exploited at the highest political levels.<sup>12</sup>

## Managing competing interests in the Barents Sea

How to balance competing economic and environmental interests is a major political challenge in the Arctic and a principal focus of northern security policy, particularly in the Barents Sea. Here, petroleum competes for access with fishing and other interests. Although Norwegian oil and gas exports are valued at 15 times those of seafood, fishery resources are essential to the economy, the society and the country's future.

In an effort to reconcile conflicting interests and increase beneficial uses, the Norwegian government prepared an Integrated Management Plan for the Barents Sea and Lofoten Islands.<sup>13</sup> The government presented the plan in March 2006 after intense internal debate over its central political conclusions.

The plan aims to establish a holistic, ecosystem-based management of all activities. It seeks to facilitate the coexistence of different industries—especially fishing and aquaculture, shipping,

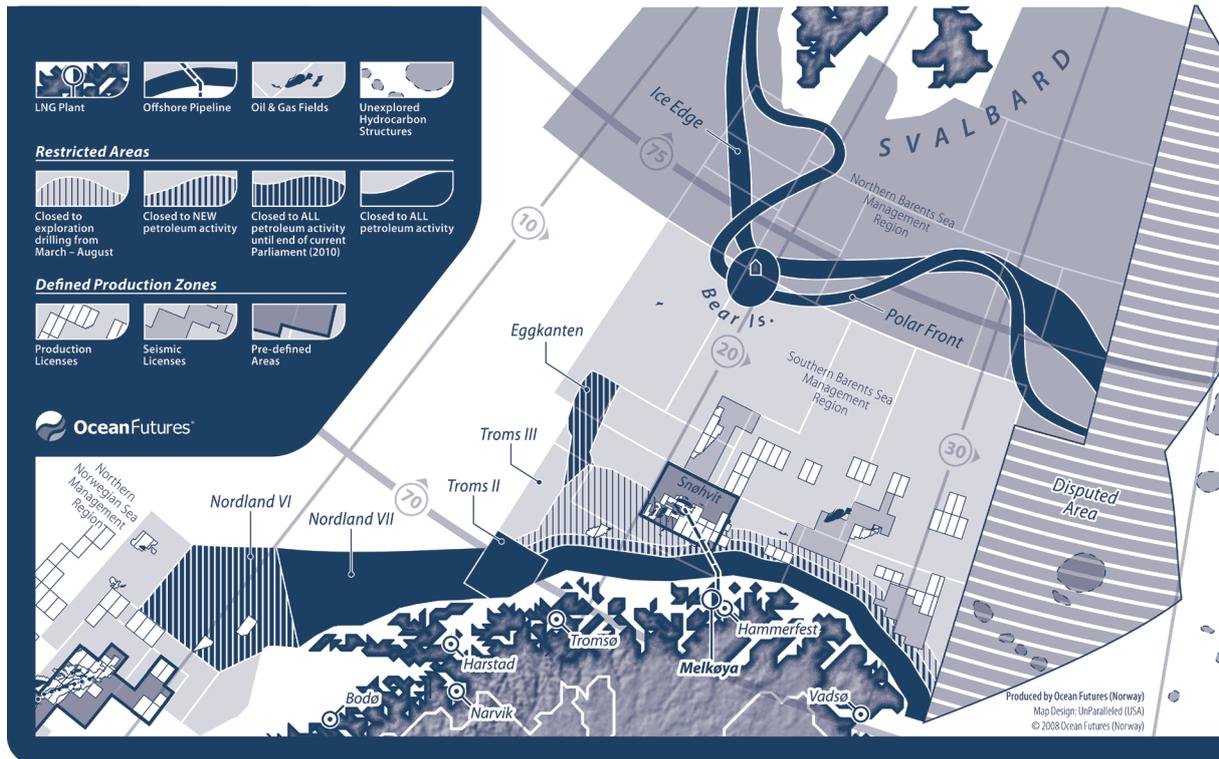


Fig. 1 – Framework for petroleum management in the Barents Sea

petroleum and tourism—while ensuring an increase in activity levels does not place too great a pressure on the environment.

The plan introduces area-based management, where activities and measures are adjusted to an area's environmental characteristics. Several particularly valuable or vulnerable areas are identified; these encompass the key spawning and egg and larval drift areas for major commercial fish stocks, located primarily near shore, along the winter sea-ice edge, within the Polar Drift current, and in the vicinity of Bear Island and Eggkanten shoals (see Fig. 1). Petroleum activity is limited or restricted in these areas, and includes seasonal restrictions on seismic activity.

Pollution from oil and gas industry is the chief concern, and may be divided into two components: petroleum production and petroleum shipping. With respect to the former, the government indefinitely closed some areas to exploration, including the Nordland 6 and 7 areas. The plan allows previously permitted exploration activities to continue, but new exploration will not be allowed within 50 kilometres of the coast of Troms and Finnmark. The government will reconsider allowing new activity from 35 to 50 kilometres

offshore when it revises the plan in 2010.

Other measures aim to reduce pollution risks from shipping. These include extending the territorial sea from four to twelve nautical miles, establishing shipping lanes outside the territorial sea, and creating a vessel traffic management system to monitor coastal shipping from Vardø to the Lofoten Islands. These measures are designed to reduce the likelihood of grounding and collision, as well as to increase response time in the event of a ship accident.

Norwegian policy thus allows controlled exploitation and transport of petroleum resources given that protection interests are attended to and given priority. The plan's principal weakness, however, is that it does not address the entire Barents Sea, concentrating almost solely on activities in domestic waters. Except for the export of Russian oil around the Norwegian coast, the plan does not address activities in Russian waters or in the disputed area. A broader initiative is needed that encompasses the entire Barents Sea ecosystem. As discussed in the following section, efforts to influence activities on the Russian side are just now gaining ground.

## Cooperation with Russia

Russia remains a principal security focus for Norway, yet increasingly in terms of resources and environment than defence. Concomitantly, Norway is taking a more assertive role on security in the North. Where Norway once assiduously exercised a policy of self-restraint and non-provocation in the northern border regions, today it is seeking to take the lead in determining the appropriate balance between environmental and development. Erna Solberg, Conservative party leader, remarked, "it is important that Norway lays the premises for development in the North. We cannot, for example, leave it to the Russians to set the standard for managing the environment."<sup>14</sup>

In this context, cooperation with its traditional allies (Canada, France, Germany, Great Britain, USA and the EU) remains important, and Norway has intensified its efforts to gain their understanding and support on northern matters. Yet the most important development in Norway's High North strategy is its effort to expand bilateral cooperation with Russia—a significant departure from decades of convention whereby it dealt with its powerful neighbour primarily through multilateral fora and in concert with its allies.

A basis for Norwegian–Russian cooperation already exists. They share a long tradition in fisheries management, meeting annually to set fishing quotas for the Barents Sea. Still, they have recognized a need to promote stronger ties by building on mutual economic interests. Energy was the obvious starting point, given the confluence of energy interests in the Barents Sea and the central nature of the sector to their economies. The Norwegian foreign minister commented that the petroleum industry could become the main driving force in Norwegian–Russian cooperation with wide-ranging knock-on effects, beginning with the commercial partnership between Gazprom and StatoilHydro to develop the Shtokman gas field.<sup>15</sup> This suggests the source of cooperative initiatives—and influence—will begin to shift from government towards commercial enterprise.

Barents 2020 is an interesting example of public–private partnership in balancing resource development and environment protection. The project aims to harmonize Russian offshore activities with international industry standards for health, safety and the environment (HSE). Although Russian standards are widely perceived as

inadequate, the lack of industry standards written for the Arctic remains a challenge throughout the region. Barents 2020 seeks to develop appropriate standards for the Arctic by adapting Norway's North Sea HSE model with Russia's superior cold climate expertise.<sup>16</sup>

Confluence of interests does not necessarily mean agreement. Setting realistic premises for development that Russia is open and willing to adopt remains a challenge. This is particularly the case should Norway choose to severely restrict resource development on its continental shelf due to environmental concerns. Norwegian self-restraint is unlikely to result in similar restraint on Russian offshore development. Rather, it could reduce the competitiveness of Norwegian commercial participation in Russian offshore activities, decreasing Norwegian influence on the character of Russian resource development.

A comprehensive policy for the Barents Sea will require extensive collaboration between Norway and Russia. The cooperation must take into account that the two countries have conflicting views in some areas and competing interests in others. Nevertheless, they have important mutual interests upon which to build, not least because they are both major energy producers.<sup>17</sup> Barents 2020 is one example of how these mutual interests can contribute to integrating the Russian and Norwegian sectors of the Barents Sea, securing core economic and environmental interests in the North.

## Winds of change in the security balance

Norway's defence minister characterized the northern areas as "one of the world's most stable and peaceful areas," where cooperation defined relations in the region.<sup>18</sup> She asserted the North's continued strategic importance to both Norway and other nations in terms of economic security rather than military security.

This understates the strategic significance of the North, even though it is currently politic to do so. A more realistic assessment indicates the military–strategic aspects are becoming more important, especially because of the region's growing resource potential. The Russian military for one is improving its forces and stepping up its training exercises to strengthen its bid for control over Arctic territory and resources.<sup>19</sup> Thus, the Arctic is once again experiencing winds of change in the security balance. It is the cohabitation between the civil and military sectors that will make up the

security problematique in the future.

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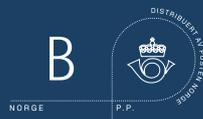
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