

Issue & Focus

China's Newest Energy Frontier: the Arctic



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The Arctic has become China's newest energy frontier. By 2010, there was no doubt that China was taking an active interest in the future development of the Arctic as an area for both future energy exploration and establishment of future commercial routes for the delivery of energy (and other forms of trade) to China. China established its first Arctic research station in October of 2003 in Norway on Svalbard island and has multiple-wavelength monochromatic all-sky CCD imaging systems to monitor aurora phenomena.¹ Since then, China has sought to ensure a permanent place for itself in the future of the Arctic. As one recent report indicated,

For China to ensure a role for itself in the Arctic, measures were taken in 2007 to launch a national research program, covering ten Arctic projects of geopolitical interest: the Arctic and human society,

Arctic resources and their exploitation, Arctic scientific research, Arctic transportation, Arctic law, Arctic policies and diplomacy, military factors in the Arctic, China's Arctic activities, Arctic's strategic position, and China's Arctic policy and recommendations. Even though the official opinion from many is that China is maintaining a wait and see approach, its sheer size and status as a rising global power are causing many countries, especially the Arctic Five, to take notice and monitor China's current policies and Arctic goals.²

This conclusion paralleled similar assessments by the Stockholm International Peace Research Institute (SIPRI) and US observers.³ China's mounting interest in all things Arctic is clearly driven by the prospect that the area could become, at least for part of the year, an ice-free transcontinental waterway that would greatly reduce the cost of shipping to and from China and second, and possibly even more urgent, the prospect of huge energy finds in the Arctic. That interest in energy puts it in a potential confrontation with Russia, which has laid a claim to much of the Arctic as its Exclusive Economic Zone (EEZ) under the UN Law of the Sea (UNCLOS). President Medvedev has

¹ Christopher Summers, "Arctic Solutions: The Frozen (Thawing) Relations of the High North," *Institut Francais Des Relations Internationales*, IFRI, Notes De IFRI, 2011, p. 38.

² *Ibid.*

³ Linda Jakobson, "China Prepares for an Ice-free Arctic," *SIPRI Institute (Stockholm International Peace Research Institute)*, SIPRI Insights on Peace and Security no. 2010/2, 2010, p. 9; Joseph Spears, "The Snow Dragon Moves Into the Arctic Ocean," *Jamestown China Brief*, XI, NO. 2, 2, January 28, 2011.

signed off on a strategy document calling for the building up of forces capable of securing Russia's Arctic interests, laid claim to a vast tranche of the Arctic, and warned that Russia could not rule out that others would use force to deprive Russia of its energy and destroy the balance of forces near the borders of Russia and her allies.⁴ Similarly, Russia's Minister of Natural Resources, Yuri Trutnev, claims that Moscow estimates that the Russian Arctic sector contains 100 billion tons of oil and gas plus other valuable extensive mineral holdings.⁵ Accordingly, the government plans to spend 9.7 trillion rubles through 2039 on offshore exploration for energy, and about half of this will go to the Arctic to include funding for geological exploration, apparently primarily in the eastern, Asiatic section of the Arctic.⁶

Consequently, for Russia the opening up of the Arctic is a vital state interest. Russia's dependence on energy is well known, and the US Geographical Survey has reported that 25 percent of the expected future undiscovered energy supplies are in the Arctic. About 10 percent of current crude oil production and 25 percent of current gas production come from the Arctic, and 80 percent of this oil and 99 percent of this gas already come from Russia.⁷ Russia's current energy strategy presumes growing global, especially European-Asian, dependence on energy and, given the absence of domestic reform, Russia already acknowledges that it will remain competitive in the global economy mainly as

an energy provider through 2020 if not longer. In September 2010, Deputy Minister of Economic Development, Andrei Klepach, admitted that raw materials would remain the foundation of Russian exports through 2020.⁸ Beyond the centrality of the Arctic to Russian energy exports in general is the fact that the current Russian energy strategy calls for substantially reorienting those exports to the more dynamic Asian markets through 2030, and if the Arctic does indeed open up to greater commercial flows then the development of the Arctic route to Asia is of primary commercial and strategic importance.⁹ Furthermore, if the Arctic, like Eastern Siberia, is a major source of future Russian energy deposits that are to be routed to Asia, the linkage between defense of the Arctic, energy facilities there and in Siberia, and the security of the maritime trade routes and energy facilities all become closely linked issues. In effect, such a maritime "highway" would realize a century-old dream of Russian statesmen of finding an alternative to British and then US maritime dominance, as expressed in the networks pivoting around the Suez and Panama Canals, and would free much of world energy and possibly other intercontinental trade from those chokepoints. According to press reports, "Russia hopes to make the Arctic route a competitor to the Suez Canal and increase cargo traffic along its Siberian coast from two million tons a year now to 30 million tons annually." According to Leopold Lobkovskiy, Deputy Director for

⁴ *Ibid.*, p. 3; Fred Weir, "Russia's Putin Says He Wants Peaceful Division of Arctic," *Christian Science Monitor*, www.csmonitor.com, September 23, 2010; Tony Halpin, "President Medvedev Threatens Russian Arctic Annexation," www.timesonline.co.uk, September 18, 2008.

⁵ Weir.

⁶ Moscow, *ITAR-TASS*, in Russian, September 23, 2010, *FBIS SOV*, September 23, 2010.

⁷ Elana Wilson Rowe, "Introduction: Policy Aims and Political Realities in the Russian North," Elana Wilson Rowe, Ed., *Russia and the North*, Ottawa, CA: University of Ottawa Press, 2009, pp. 9-10.

⁸ Moscow, *ITAR-TASS*, in Russian, September 14, 2010, *FBIS SOV*, September 14, 2010.

⁹ Ministry of Energy of the Russian Federation, *Energeticheskaya Strategiya Rossii Na Period do 2030 Goda*, Moscow, 2009.

Geology of the Institute of Oceanology of the Russian Academy of Sciences, the discovered reserves of hydrocarbons in the Arctic, comprising 51 billion tons of oil and 87,000 billion cubic meters (BCM) of natural gas, make it the third largest reserve in the world after the Persian Gulf and Western Siberia.¹⁰ Moscow is therefore accelerating plans to explore the Arctic—for example, beginning design work on Arctic carriers of liquefied natural gas (LNG).¹¹ Thus, Russia is enhancing its overall capabilities for conducting Arctic explorations as that area becomes more accessible. Indeed, the Russian government intends to boost its LNG exports to 10 percent of its total export deliveries by 2020 in order to exploit this new trend in gas exports.¹² Consequently, Moscow intends to sharply raise hydrocarbon supplies along the Northern Sea Route in 2011, and its officials say that the value of mineral resources in the Arctic exceeds \$30,000 billion. Finally, Arctic development, particularly of energy deposits, “is directly linked to solutions to long-term political, economic, defense, and social problems of the state and will ensure our country’s competitiveness on global markets.”¹³ Two-thirds of the estimated wealth of the Arctic’s resources, according to officials like Deputy Prime Minister Sergei Ivanov, lie in Russia, and the region produces about 15 percent of Russia’s GDP and about a quarter of its exports.¹⁴ Even though these estimates

may well be overly hyped, these statements also show that they have entered into the realm of policymaking and have thus captured policymakers’ thinking about the Arctic, making defense of Russia’s energy interests there a vital interest. The recent deal between Rosneft and BP also highlights just how vital the Arctic is to Russia as the next frontier of its energy exploration program. Nonetheless, because Moscow lacks sufficient capital to develop the Arctic, exploit its energy, build up its infrastructure, and refine and ship the oil and gas it finds to markets by itself, Moscow has sought collaborators, such as BP. However, it has also solicited Chinese participation in those processes. Specifically, Dmitry Kobylykin, the governor of the Yamalo-Nenets Autonomous region in the Russian Arctic, expressed interest in a Chinese partnership in oil and gas development during the World Expo 2010 Exhibition in Shanghai. He said he was ready to offer partners in China a “mutually advantageous and constructive cooperation” in the regional natural resources sector. The Yamalo-Nenets Autonomous Region accounts for more than 90 percent of the natural gas production and around 12 percent of the oil production in Russia. “We are ready to act as intermediaries between an investor country and the oil and gas sector and create a good investment climate,” said Kobylykin.¹⁵ After this statement by Kobylykin, Russia

¹⁰ “Russian Scientist Says Arctic Has Almost As Much Oil and Gas As the Gulf,” *Moscow, ITAR-TASS*, in English, September 22, 2010, *FBIS SOV*, September 22, 2010; *Moscow, Interfax-AVN Online*, in English, August 9, 2010, *FBIS SOV*, August 9, 2010.

¹¹ *Moscow, Interfax*, in English, September 9, 2010, *FBIS SOV*, September 9, 2010; Reykjavik, *Eyjafjall*, in Icelandic, September 23, 2010, *FBIS SOV*, September 23, 2010; “Equatorial Guinea Signs Gazprom Deals,” *Reuters*, September 28, 2010; *Moscow, Interfax*, August 31, 2010, *FBIS SOV*, August 31, 2010; “Putin Says LNG, Shelf Gas Projects a Priority,” *Reuters Africa*, October 11, 2010.

¹² *Moscow, Interfax*, in English, September 17, 2010, *FBIS SOV*, September 17, 2010.

¹³ *Moscow, ITAR-TASS* in Russian, October 2, 2010, *FBIS SOV*, October 6, 2010; *Moscow, ITAR-TASS*, in English, October 6, 2010, *FBIS SOV*, October 6, 2010.

¹⁴ *FBIS SOV*, October 2, 2010.

¹⁵ “Russia Invites China to Explore Arctic,” *www.upi.com*, May 3, 2010.

invited China – the world’s fastest-growing economy that requires 10 percent of global energy demand while meeting 95 percent of those needs with domestic energy supplies – to exploit oil and gas reserves locked in the “Russian section of the Arctic.” In 2010, China, with an interest in sustainable energy supplies, was offered a “mutually advantageous and constructive cooperation” in exploring and exploiting the regional natural resources base with Russia.¹⁶

China’s Entry into the Arctic

China evidently needed no encouragement. By 2009, contracts had been signed for China to receive Russian oil from Northern Russia’s Yuzhno Khilchuyu field in Nenets Okrug.¹⁷ China is also talking to the interested parties about a railway from China through Russia and Scandinavia to Norway’s port of Narvik that could presumably transport Arctic commerce too.¹⁸ The Director of the Chinese Arctic and Antarctic Administration, Qu Tanzhou, has said, “China, like other countries under the framework of the United Nations Convention on the Law of the Sea, has the right to participate in the exploration of the Arctic.” Furthermore, he observed that the Arctic contains an estimated 30 percent of the world’s undiscovered gas and 13 percent of its undiscovered oil **“which are global**

resources, not regional.”¹⁹

More recently, the China National Petroleum Corporation (CNPC) has signed an agreement with Russia’s commercial shipping agency, Sovkomflot, about Arctic shipping, including hydrocarbons.²⁰ Thus, in 2010, Novatek sent 70,000 tons of gas condensate to China from Murmansk accompanied by two icebreakers.²¹ According to this agreement, China will likely become a major player in the Arctic’s trade, and it will also become the main destination for goods shipped through the Northern Sea Route. Moreover, it is likely that a significant part of future Russian oil and gas production will ultimately go to China.²²

Stimulated by the lure of these resources under conditions of global climate change and the rising salience of the Arctic in world politics after Russia staked a loud claim and increased its military patrols there, China has advanced its interests in the region. These interests go beyond the existing very strong polar research capability, which gives every sign of growing by an order of magnitude.²³ Accordingly, SIPRI reports that China is already building an icebreaker for polar expedition as well as allocating more money for scientific research of the Arctic.²⁴ Apart from the polar research projects, China attended the Ilulissat Ministerial Conference of the Arctic Council in 2008 as an observer (along with South Korea), and has obtained

¹⁶ Caroline Muekusch, “The Arctic Sea Competition: Strategic Competition (Part 2), *Second Line of Defense*, November 28, 2010, <http://www.sldinfo.com/?p=11643>.

¹⁷ “Northwest Russian Oil for China,” www.barentsobserver.com, August 14, 2009.

¹⁸ “China Wants Nordic Railway Link,” www.barentsobserver.com, June 17, 2010.

¹⁹ Summers, p. 40 (Emphasis author).

²⁰ “China’s New Foothold on Northern Sea Route,” www.barentsobserver.com, November 26, 2010.

²¹ Summers, p. 40.

²² China’s New Foothold on Northern Sea Route,”

²³ Paul McLeary, “The Arctic: China Opens a New Strategic Front,” *World Politics Review*, www.worldpoliticsreview.com, May 19, 2010; Solna, Sweden, SIPRI, in English, March 1, 2010, *FBIS SOV*, March 4, 2010; Frederic Lassere, *China and the Arctic: Threat or Cooperation Potential for Canada?* China Papers, No. 11, Centre of International Relations, University of British Columbia, Vancouver, 2010, pp. 3-5.

²⁴ Chan, p. 7.

formal status at the Council as an observer and intends to play a growing role there.²⁵

While PRC polar experts strongly support further exploration of the Arctic, the country's dependence on exports and greatly increased shipbuilding capabilities naturally would lead it to examine closely the prospects for greater exploitation of the Northern Sea Route and the commercial possibilities along its length.²⁶ As China is also flush with capital, a SIPRI report by Linda Jakobson noted that

Another potential multilateral joint venture in which China's capital could be used in exchange for the opportunity to gain the experience it seeks in deep-water drilling projects is the ongoing cooperation between Statoil, Total, and Gazprom to develop the first phase of the Shtokman gas fields in the Barents Sea. This is regarded not only as a huge commercial opportunity but also a formidable technological challenge.²⁷

In particular, it could invest, as suggested above, in Russia's Arctic energy projects, which require huge foreign investments if they are to materialize, thus giving it a major stake in this critical Russian region and energy sector.²⁸ Furthermore, in 2010 China looked into the possibility of investing in Iceland, a country whose vulnerability has grown due to the ongoing global financial crisis. That would allow China direct entry into Arctic infrastructure from the European side of the ocean.²⁹

Accordingly, China has publicly stated its interests in the Arctic and demands to be taken account of there. Hu Zhengyue, Chinese Assistant Minister of Foreign Affairs, made a statement outlining China's overall Arctic agenda while attending an Arctic forum organized by the Norwegian government on Svalbard in June 2009. Hu said,

"When determining the delimitation of outer continental shelves, the Arctic states need to not only properly handle relationships among themselves, but must also consider the relationship between the outer continental shelf and the international submarine area that is the common human heritage, to ensure a balance of coastal countries' interests and the common interests of the international community." Professor Guo Peiqing put it more directly: "Circumpolar nations have to understand that Arctic affairs are not only regional issues but also international ones." Guo has estimated that about 88 percent of the seabed of the Arctic Ocean would be under the control of the Arctic littoral states if the Commission on the Limits of the Continental Shelf were to approve all the existing or expected claims to the Arctic Ocean continental shelf.³⁰

Essentially, this means that China, though not a member of the Arctic Council, disputes any claims of sovereignty in the Arctic waters beyond the littoral countries' twelve-mile limit or economic exclusion zone if they signed the

²⁵ *Ibid.*: Arvind Gupta, "Geopolitical Implications of Arctic Meltdown," *Strategic Analysis*, XXXIII, NO. 2, March-April, 2009, p. 177; "Norway Welcomes China to the Arctic," www.barentsobserver.com, August 31, 2010.

²⁶ Hong Kong, *Ta Kung Pao Online*, in Chinese, September 15, 2010, *FBIS SOV*, September 15, 2010.

²⁷ Linda Jakobson, "China Prepares For an Ice-free Arctic," *SIPRI Institute (Stockholm International Peace Research Institute)*, SIPRI Insights on Peace and Security no. 2010/2, 2010, p. 9.

²⁸ *Ibid.*

²⁹ Summers, p. 39.

³⁰ Jakobson, p. 10.

UN Convention on UNCLOS. Furthermore, although China is lacking an Arctic coast, it stated the following recently: "The Arctic belongs to all the people around the world as no nation has sovereignty over it."³¹ This statement along with the aforementioned remarks by Qu Tanzhou directly challenge Russia's assertion of sovereignty over Arctic waters beyond its territorial limits and Moscow's intention to develop that area unilaterally or with collaborators enjoying a subordinate position, thereby questioning a cornerstone of Russian policy and the "vital interests" cited above.

Beyond these challenges to Russia, there is clearly some military interest among the Chinese Navy. Thus, PLAN Rear Admiral Yin Zhuo stated that the Arctic belongs to all the people of the world and no nation has sovereignty over it according to UNCLOS.³² He believes that there is a scramble for the Arctic under way that encroaches on China's interests, and that China and other nations "should find their own voices" regarding the Arctic. In particular, China should become an indispensable player in Arctic exploration, especially as the exploitation of the Arctic "will become a future mission of the navy."³³ While such sentiments have hardly become policy, they are not isolated as there are notable exponents in China's navy and expert community of an aggressive policy to get foreign bases and to conduct missions beyond China's immediate coasts.³⁴ Beyond the

expressions of such sentiments, even if China's navy may still be unable to compete with the US Navy in projecting power abroad, there is little doubt that it is building quite vigorously for a capability to project naval and air power well beyond China's shores.³⁵ Further, these capabilities not only threaten US allies and interests, as Russian planners well know.

While the Arctic problems and issues, as China knows and admits, have hitherto been resolved by peaceful means like the 2010 Russo-Norwegian treaty,

China appears to be particularly wary of Russia's intentions in the Arctic. Chinese observers have made note of Russia's decision in August 2007 to resume long-distance bomber flights over the Arctic and the planting of a Russian flag on the Arctic seabed that same month. Guo Peiqing has said that the disputes in the Arctic are in fact "Russia and some other states' challenge to the international order and international law after the end of the cold war." China and the rest of the world would be at a disadvantage if Russia's claims over the underwater terrain between the Lomonosov and Mendeleev ridges are legitimized because, in that case, Russia alone would have rights to the resources in that area. Even if that claim is unsuccessful, some Chinese Arctic specialists have expressed concern that the commercial advantage of the Arctic routes would substantially decrease if Russia

³¹ Gordon G. Chang, "China's Arctic Play, The Diplomat from 3/10/10, <http://the-diplomat.com/2010/03/09/china's-arctic-play/> <blocked><http://the-diplomat.com/2010/03/09/china%E2%80%99s-arctic-play>, quoted in Muekusch.

³² Minnie Chan, "Admiral Urges Government to Stake Claim in the Arctic," *South China Morning Post*, March 6, 2010, p. 7.

³³ *Ibid.*

³⁴ See the remarks of Shen Dingli, in Geoff Dyer and Richard MacGregor, "Beijing Builds to Hold US Power at Bay," *Financial Times*, January 19, 2011, p. 6.

³⁵ *Ibid.*, Ronald O' Rourke, *China Naval Modernization: Implications for U.S. Navy Capabilities-Background and Issues for Congress*, Congressional Research Service, December 23, 2010; pp. 5-7; US Department of Defense, *Annual Report to Congress on Military and Security Developments Involving the People's Republic of China 2010*, Washington, D.C., 2010, pp. 29-37; Christopher D. Yung and Ross Rustici with Isaac Kardon and Joshua Wiseman, *China's Out of Area Naval Operations: Case Studies, Trajectories, Obstacles, and Potential Solutions*, Fort Lesley J. McNair, Center for Strategic Operations, Institute for National Security Studies, National Defense University, 2010.

were to unilaterally charge exorbitant service fees for ships passing through its EEZ waters.³⁶

Undoubtedly, China's energy hunger and rising capabilities are behind this stance. The International Energy Agency (IEA) predicts that China's energy demands will require more than \$4 trillion worth of investments until 2030 if the country is to meet its spiraling domestic needs, and China's investments in Russia have already given it access to Russia's Arctic areas.³⁷ Moreover, the statements here by Foreign Ministry officials, naval leaders, and Qu Tanzhou display the common belief that China has rights in the Arctic and that it will not be content to play a minor role here even if its precise objectives remain a matter for future determination.³⁸

However, Chinese assertions (which contradict its restrictive view of national sovereignty where its vital interests are concerned, as in the South China Sea) have already triggered a Russian response, not in keeping with the professed identity of views between these two neighboring great powers. In October 2010, the Commander in Chief of the Russian Navy, Admiral Vladimir Vysotsky, announced the continuing buildup of these two fleets in the Arctic, along with the efforts to build up the coastal reconnaissance surveillance system and the Air Forces. Likewise, submarine patrols will also continue in the Arctic.³⁹ Moscow may also step up Arctic patrol flights by Ilyushin IL-38 and TU-142 aircraft.⁴⁰ However, most amazingly, Vysotsky, most

likely speaking with authorization from above, recently singled out China as a threat. Vysotsky said,

There are a lot of people who wish to get into the Arctic and Antarctic from an economic point of view. ... We have already been observing how a number of states, which are not members of the Arctic Council, are setting out their interests quite intensively and in various ways. In particular, China has already signed agreements with Norway to explore the Arctic zone. We know about the economy and infrastructure that exist in China today, which is becoming our serious partner from both positive and problematical sides. ... Therefore, Russia needs to form its rational position and, at the same time, not give up any of its interests. There are not long-standing relationships, overt opponents, or overt allies in the Arctic yet. But I believe the most problematic relations will be with those countries, which are not traditional members of the Arctic Council.⁴¹

Vysotsky's clear admonition to China to keep out was only one in a series of Russian moves indicating mounting Russian concern over China's overall increased military capabilities and the adoption of corresponding measures to reinforce Russia's military position in the Far East more generally. However, from the interaction of these two states' officials, it is now clear that questions of energy and other forms of security in the Russian Far East not only cannot be separated from the region's

³⁶ Jakobson., p. 12.

³⁷ Summers, p. 42.

³⁸ Ibid.

³⁹ Moscow, *RIA Novosti*, in Russian, October 2, 2010, *FBIS SOV*, October 2, 2010; Moscow, *RIA Novosti*, in Russian, October 1, 2010, *FBIS SOV*, October 1, 2010.

⁴⁰ Moscow, *RIA Novosti*, in Russian October 1, 2010, *FBIS SOV*, October 1, 2010.

⁴¹ "Navy Commander Says Russia to Fight for Arctic As China Sets Its Eyes On It," Moscow, *ITAR-TASS*, News Agency, in Russian, October 4, 2010, *FBIS SOV*, October 4, 2010.

energy agenda, but that these linkages now fully comprise both Arctic energy and the military defense of the Arctic, which are equally vital interests for the Russian Federation.

It is clear from the foregoing assessment that the opening up of the Arctic to both commercial and energy exploitation has highlighted not just the linkages between energy and defense in Asia but also that, notwithstanding endless professions of shared interests, a visible rivalry between Russia and China over the issues of energy and security has now surfaced. Inasmuch as China's Arctic policy is still undergoing definition, we cannot say how or whether this rivalry will end, either with amity or discord, or some combination of the two. However, we cannot doubt, either, how central the Arctic is to Russia's definition of its energy and Asian future, or the fact that China for the moment has decided to contest Russia's claims there. The confrontation has begun, and we cannot presage its future. However, clearly, not only is the Arctic Russia's newest energy frontier, it has become China's new frontier as well, and despite the Russo-Norwegian treaty of 2010 delimiting the European side of the Arctic, the Russo-Chinese competition is still an unregulated and open competition.