

# CROSS-BORDER COOPERATION IN THE BARENTS REGION

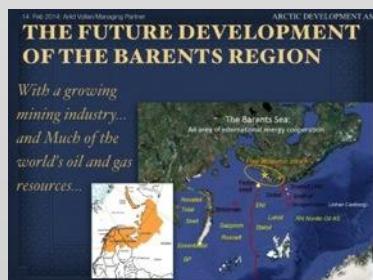
*This paper was presented at the joint session of the 4<sup>th</sup> International Conference:*

## 'Innovative and Safe Cooperation in the Barents Euro-Arctic Region'

May 22-24, 2014: [Karelian Research Centre](#) of the Russian Academy of Sciences, [Petrozavodsk](#), Russia.

The Barents Region offers vast opportunities for people-to-people cooperation, cultural interaction, business development, industrial growth and other cross border activities.

The border regions are often the least economically developed parts of a country. It is important that we promote the border not as a drawback, but rather as a comparative advantage, which can help stimulate growth and prosperity.

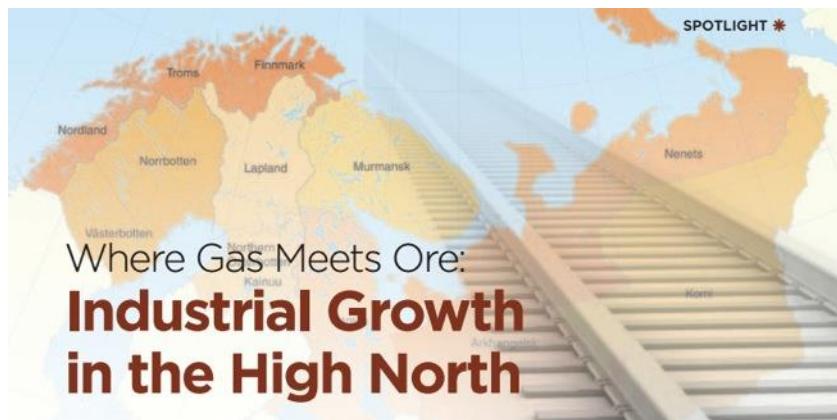


Arctic Development AS works with Russia and China. The company has a focus on industrial development in the Barents Region, and has an agreement Pechenga District Municipality, for the industrial development of Pechenga Fjord. A number of seminars / meetings are held on what is referred to in this paper. The Barents Secretariat supports this project.

Norway need to stimulate economic activity across the border

**Finnmarken**

Arctic Development AS has made proposals to the Norwegian government to make the Barents region more attractive for investments.



By Arild Volland, Managing Partner, Arctic Development AS

**The Barents region is today a booming industrial growth area. The mineral industry is expanding rapidly and a large part of the world's remaining petroleum reserves are located in the High North. This provides new opportunities in a fast growing area where gas meets ore. The Northern Sea Route reduces transportation distance between China and Western Europe by up to 40 per cent compared to sailing via the Suez Canal.**

Together with increased mining activity, the development of new ports and rail links brings new industrial platforms. Most of the minerals used in industrial production are present in the Barents Region.

### *The landing of gas*

Projections show the landing of gas in the Barents region will bring extensive regional industrial development in the region. In addition, new opportunities will arise for mineral processing.

The Barents region has oil and gas, and all the other raw materials that the world needs. This must also be reflected in the development of the region. It must be a sustainable developed industry, creating new local jobs. To achieve sustainable regional development, Russia, Finland and Norway should consider bringing in more international players. The Arctic is an area that requires international cooperation. Increased business activity in the Arctic will also contribute greatly to domestic economic development in Russia, Finland, Sweden and Norway

**To achieve this, we have to create communities in the Barents region where people want to live, with new jobs, new infrastructure, and the necessary transport corridors.**

"Cross-border cooperation unfolds primarily on local level between authorities and civil society groups, but has the potential to boost trust in inter-state relations and neighbourhood affairs. With cross-border cooperation we build trust on the level of the local man and woman in the border towns but also between governments and state officials" From an interview with General Secretary Rune Rafaelsen in The Norwegian Barents Sekretariat. [READ MORE](#)



The Barents region includes the northern parts of Russia, Finland, Sweden and Norway. The Barents region is larger than Germany, France, Spain and Portugal combined. This is the region in Europe closest to CHINA. With all its natural resources, the Barents region can incubate new endeavours in many areas of society and can produce unexpected solutions with global relevance. The remote location is a major asset. It is a space outside the centres and away from consensus-driving forces. The Barents Region can become a theatre of industry.



The new Northern Sea Route – open eight months of the year and transporting 50 billion tonnes of cargo – is a possibility within the near future, shipping representatives told an audience at the Arctic Circle conference in Reykjavik, October 13, 2013. ([See article online here.](#))

In 2013 a Chinese cargo ship, Yong Sheng, became the first commercial vessel to reach Rotterdam from Asia via the Northern Sea Route. The voyage took only 33 days from Dalian in northeastern China.

Russian authorities state that 668 permits were issued to ships to sail through its waters in 2013. ([See article online here.](#))



## Travelling in, taking profits – and returning home

We must not get into a situation where oil workers each week come from elsewhere in the world – travelling in, taking profits – and returning to their homes elsewhere. We need a policy that prevents the Barents region getting the same treatment as many developing countries.

**To avoid this is to establish new international growth arenas. The many companies coming to the High North require good facilities. Growth centers will reduce costs, and manage development in a direction that creates new regional jobs.**

**The investments to be made in the Barents Region over the next few years are so large that more international companies should settle down in the region.** Today it is mostly companies from European countries that show interest in recovering the vast natural resources that exist in the Barents Region.

## Lack of railway links

A new railway connection from Rovaniemi in Finland, to Kirkenes in Norway, with a rail link to Pechenga in Russia, is currently under discussion/planning. The rail link is an investment in the development of the very large unexploited mineral resources in northern Finland.

Most of Lapland in Finland and the northern part of Norway do not have railway networks or links. The existing transport needs of the timber industry are already significant in northern Finnish Lapland. A nickel and copper mine will be constructed in Kevitsa on the northern side of Sodankylä; this mine will have significant transport needs. There are several other significant mining projects pending in Lapland, which will require an efficient transport system in just a few years' time. ([See online video here.](#))

The construction of a railway to a deep-water harbor located on the Barents Sea would provide a new, competitive and reliable transport route for industry. New Arctic corridors are predicted to become a major new transports route for the global economy. ([See online video here.](#)) Download Arctic Railway brochure [here.](#) Also in Chinese [here.](#)

## "Pechenga Energy Bridge"

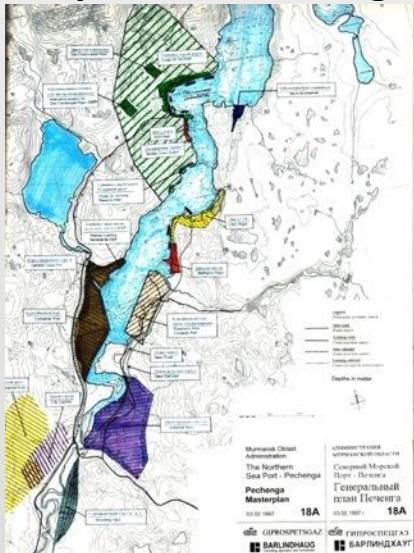
A new gas plant in the Pechenga Fjord is also discussed/planned, and if successful, other projects will follow. The gas plant will provide vital electric power for economic development in the Barents Region.

Russia's Federal Grid Company, operator and manager of Russia's unified electricity transmission grid system, plans to build a 9 billion rouble energy bridge between Russia and Norway. The "Pechenga energy bridge" will connect the power systems of Russia and Norway and includes construction of a new 132 kV double circuit transmission between the Russian town of Nikel and Skogfoss on the Norwegian side of the border. In addition, several lines and substations on the Russian side will be upgraded and modernised. [READ MORE](#)

*Unlike the Baltic Cooperation or Arctic Council, the Barents Cooperation developed as a bottom-up driven process. The result of that can be illustrated by the strong role of regional stakeholders in the cooperation.*

*Thousands of multilateral and bilateral co-operation projects have been developed between Russia, Norway, Finland and Sweden. The majority of these projects are in the so called «people-to-people» segment. With these projects, a significant «cooperation capital» has been accumulated, and that can today serve as a resource bank for the growing business cooperation.* [READ MORE](#)

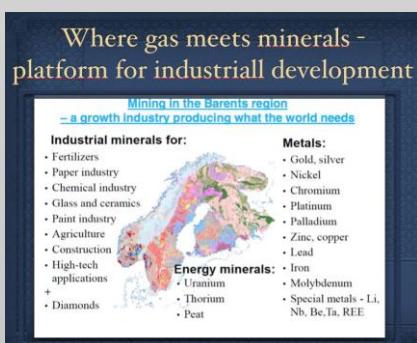
## The Northern seaport of Pechenga



### Master Plan

**The Pechenga Fjord** is in an Ideal area for a new economic trade zone serving three countries: Russia, Finland and Norway. This zone can subsequently be expanded to include Kirkenes, on the Norwegian side of the border.

An advance feasibility study show that the Pechenga Fjord fully satisfies requirements, with excellent maritime conditions and huge land areas available along its shores. The Pechenga master plan shows where the various industrial activities will be located.

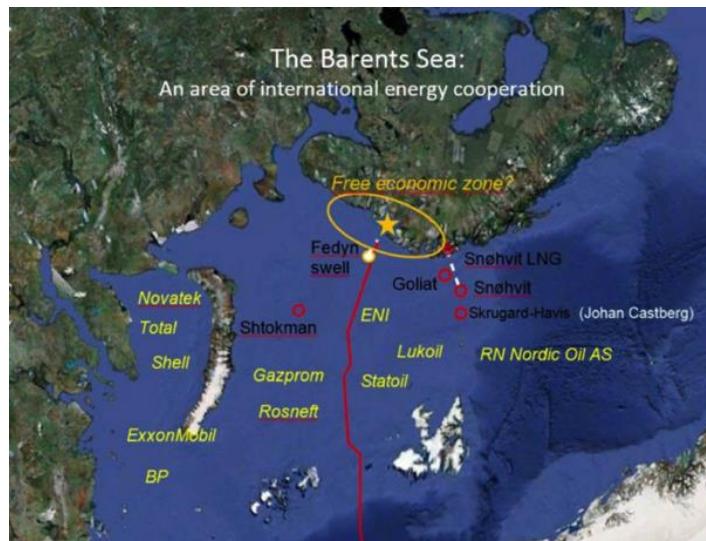


*Increasing mining activity in the Barents Region with good harbor conditions and railway connections for direct export of raw materials in bulk or for processing is a productive industrial platform.*

*All of the minerals used in industrial production are present in the Barents region.*

## Establish a new economic zone

One way to achieve sustainable development of Barents region is to establish a new economic zone. Efforts are been made to establish an economic industrial zone along the border between Norway and Russia, thus creating a new international meeting place for the exploitation of Arctic resources. The economic zone can be an engine for economic development in the Barents region, and is an important step in the right direction. Plans have also been made to establish an International Trade and Logistics Park, with new industrial activities to further increase economic development. This can be done by creating national economic zones on both sides of the border – two zones that gradually can be coordinated.



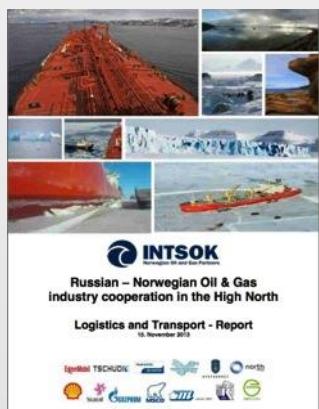
## Economic zone serving three countries

A master plan for the industrial development of Pechenga Fjord (which is right on the border with Norway) has been prepared. Several studies show the excellent marine conditions for various types of vessels. There are also large areas that are suitable for industrialization. Close by (in Russia) is an airport that can accommodate the largest transport aircraft.

**The Pechenga Fjord is an ideal area for a new economic trade zone serving three countries: Russia, Finland and Norway. Pechenga can also become “the most effective place” to declare goods entering Russia.**

Commercial cooperation on the Norwegian-Russian border is becoming increasingly important for sustainable development in the Barents Region. The short distance between Kirkenes (in Norway) and Pechenga (in Russia), with its protected fjords, provides opportunities for expanding industrial activity that is already taking place. Shared solutions are providing better resource utilization and lower costs. Cross-border logistics chains and infrastructure are essential for effective resource management. A new economic zone on the border between Norway and Russia is an important step.

Cross-border cooperation is a cornerstone in European East-West relations with Russia. That could benefit the Barents Cooperation, which for many years has been based on practically oriented border-crossing projects in the High North. Norway is among the countries, which remains highly committed to project cooperation with Russia. In the country's High North Policy, cross-border projects in the Barents Region continue to be a top priority. The long-term goal is to make relations with the Russians «as good as between the Nordic countries» [READ MORE](#)



## Recommendation from the Russian/Norwegian Barents Project:

"In the North West Russia the most adequate port for industrial activities related to oil and gas terminals are Liinkhamari in the Pechenga Fjord. Both in the government, among the investors and within Russian shipping companies, evaluations and processes are in progress in order to decide the future use of this port. The final decision on the use of Pechenga will have great impact on the development strategy for the port of Kirkenes, which also is a possible oil terminal for Russian crude oil. According to the Russian strategy, Russia is also considering an oil refinery with a capacity of 6 million tonnes." RU-NO

Barents Project, Logistics and Transport-Report, 15. November 2013, p.45

## China to boost trade and cooperation

Since gaining Arctic Council observer status, China has been quick to move. Yu Zhengsheng, chairman of China's Political Consultative Conference, visited Finland, Sweden and Denmark to boost trade and cooperation in the Arctic. After announcing an expansion of research and development cooperation with the Polar Institute to study climate change, Beijing made it clear they will not be a passive member of the council. China's National Offshore Oil Corporation signed a deal with Icelandic firm, Eykon Energy, to further explore the coastal waters southeast of Iceland. Mining companies, such as Sichuan Xinye Mining, agreed to finance an international mining project in Greenland's Isua iron-ore field. [READ MORE](#)

## A common labour market in the High North

In the future, the current Norwegian/Russian visa-free zone will encompass the whole of Finnmark on the Norwegian side and the Murmansk region of Russia. In the future we will also have a common labour market in the High North, as we already have between Finland, Sweden and Norway.

Kirkenes and Pechenga are already TWIN CITIES. The extension of this partnership into TWIN PORT cooperation between Kirkenes and Pechenga is being discussed. A TWIN PORT will develop local trade and increase business contacts between Norway, Russia and Finland. Collaboration on a potential supply base for oil and gas located in both Kirkenes and Pechenga is also being discussed. This will provide cost savings for oil and gas recovery in the Norwegian and Russian sectors.

## The most innovative and knowledge-based region

**"Our aim must be to ensure that the Arctic becomes one of the most innovative and knowledge-based regions of growth in the world"**, said State Secretary Bård Glad Pedersen in his address at the Russian–Norwegian Oil and Gas Conference in Tromsø, 21 January 2014. ([See address her.](#))

To meet this goal, we have to create communities in the Barents region where people want to live, with new jobs, new infrastructure, and the necessary transport corridors. It must be adopted national policies that enable the Barents region being an attractive area for new investment. Conditions must be facilitated so that more international companies find the region attractive. Arctic Development has already made proposals to the Norwegian government to make the Norwegian part of the Barents region more attractive for local and international investments. Arctic Development AS has also studied the possibility of involving Chinese companies and investors. Chinese companies have great expertise in several areas, particularly in mining, infrastructure and the construction of new urban areas and cities.

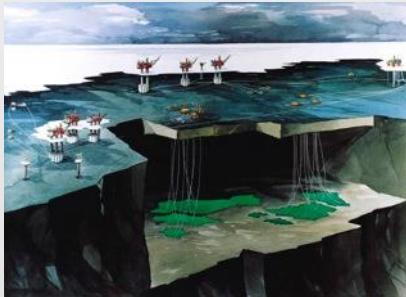
Our recommendation is that Finland should invite Chinese companies to build the new Grand Arctic Railway link from Rovaniemi to the Barents Sea. Our recommendation is also that Russia and Norway should consider inviting China to participate in the development of new economic zones on the border.

## Russian clarifications are necessary

On the Norwegian side, Kirkenes is ready to go ahead with TWIN PORT cooperation on the border. The Norwegian government would like greater cooperation at the border. On the Russian side, Pechenga District Municipality is awaiting approval from the authorities in Moscow. BarentsObserver writes on May 13, 2014 that it has been signed an agreement on establishment of a factory for production of salmon smolt and fish fodder in the Liinakhamari. [READ MORE](#)

A Russian government decision on the industrial development of Pechenga Fjord dated November 22, 1996 (N 1383) states: **"There shall be provision for the planning and construction of an oil terminal for receiving and processing hydrocarbons in Pechenga Bay, Kola"**. It is also pointed out that: **"The project will be carried out on a commercial basis."** Just three years ago, a Russian investor explored whether Pechenga Fjord was suitable for oil transshipment. The conclusion of their comprehensive report was that this was an ideal area for oil transshipment and other industrial purposes. Russian [Marine Board](#) has also recommended an industrial development of Pechenga Fjord. In May 2013 Liinakhamari port management authorities informed about [negotiations with potential investors](#) on construction of a port for reloading of 15 million tons of oil and 4 million tons of fertilizers. Since then, there has been [no news in Russia](#) about these industrial plans. **Approval from Russia for the creation of a new economic zone is also needed.**

## Moscow prepares for Arctic drilling



In May 2014 leading marine engineering and design companies got major state contracts on Arctic shelf development projects. In a series of tenders, the Russian government placed almost 900 million roubles in Arctic offshore development projects. The contracts are concluded as Russia's two leading state-controlled energy companies Rosneft and Gazprom step up their efforts in Arctic waters. Rosneft alone controls a total of 44 offshore licenses with a resource estimate of 42 billion tons of oil equivalents, the lion's share of it located in the Arctic. As previously reported, the company will together with ExxonMobil this summer drill its [first ever well in the Kara Sea](#), at the perspective Akademichsky structure. [READ MORE](#)

## Statement from President Vladimir Putin

*"Oil and gas revenues are a big contribution to the Russian budget, a big part for us when we decide on our government programs, and of course, meeting our social obligations," President Vladimir Putin said, 17th April 2014.* [READ MORE](#)



## The goals of economic policy in the Barents region

**Russia, Finland, Sweden and Norway have the same goals for their economic policy in the High North:**

- Safeguard national interests, creating regional development and environmentally sound activity.
- In the spirit of the [Kirkennes II declaration](#), a larger part of the value chain must remain in the Barents region (i.e. not just exporting "raw materials" to Europe or world-wide). This requires increased local processing and production.
- More has to be done to involve local businesses, creating new local jobs – and achieving regional cross-border cooperation between Russia, Norway, Finland and Sweden – with shared resource utilisation (in areas which will save costs for all four countries).

See [the Statement](#) by Mr. Børge Brende, Norwegian Minister of Foreign Affairs, Chair of Barents Euro-Arctic Council to the 14th Session in Tromsø, 29 October 2013

## Important roles and goals of public policy versus markets in both national and international affairs in the Barents Region:

- Long term concerns and a more comprehensive view on economic activity that each company is too small and / or unwilling to internalize in their decisions.
- Policy makers are regulators, law- and policy makers.  
"There is no such thing as a free market" (Adam Smith).
- A nation state can engage itself in a business directly, similar to a private entrepreneur (as a production entrepreneur), especially in strategic important economic sectors (as we have in the Barents Region).
- There is a need for a better international cooperation – business mix to make it all work in the Barents Region!

## More Russian Gas may be devoted to Asian Markets



For more information about Asian/European markets and the development of Russian/Norwegian oil/gas see the website of Professor Ole Gunnar Austvik: <http://www.oga.no/> Dean for the Executive Energy Programs at BI.

## Already great activity in the Barents Sea

On the Russian side, we have seen increased activity in the Barents Sea. The development of Yamal LNG has started. This project includes more than 200 wells. The capacity is 16.5 million tons per year. Transportation will be carried out by 16 new purpose-built icebreaker ship tankers. The purpose-built ships can carry 170,000 m<sup>3</sup>. China's CNPC controls 20 per cent of the operating company Yamal LNG. Some of the liquified gas is exported to China.

The oil company Lukoil intends to increase production in *Timan-Pechora province* by 30 percent over the next two years. Lukoil is a key company in this area, which includes the oil resources of the Komi Republic and the Nenets Autonomous Okrug. In 2008, the company opened its unique Varandey terminal on the Nenets coast. This is a strategically vital part of the company's expansion plans in the area.

The oil company Rosneft intends to turn a local shipyard outside Murmansk into its centre for Arctic shipbuilding. The motivation for engagement in shipbuilding is the company's major ambitions in Arctic waters. In recent years, Rosneft has acquired a significant number of offshore licences and signed comprehensive Arctic cooperation agreements with foreign companies like ExxonMobil, Eni and Statoil.

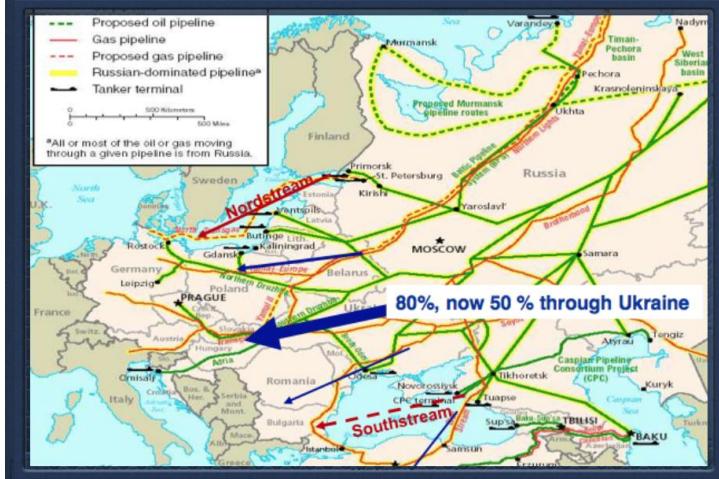
The Murmansk Transport Hub project has since its launch in 2007 topped the agenda of the regional government. The initiative, which includes the construction of a new coal terminal and an oil terminal, as well as possibly container and fertiliser terminals, is to boost regional port capacity by 70 million tonnes.

**Lukoil invest €1,4 billion in the Nenets Autonomous Okrug.** [READ MORE](#)

## Gazprom takes on Kara Sea

Gazprom is heavily engaged in the development of land-based fields in Yamal. Soon they will start the development of offshore assets in the nearby Kara Sea. [READ MORE](#)

## Russian oil and gas for Europe

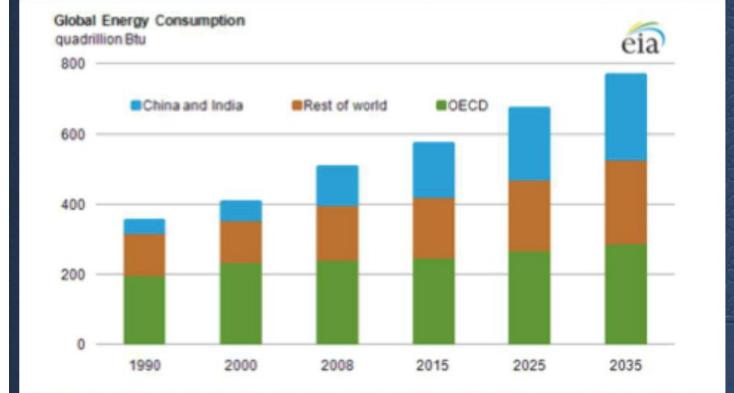


### *Russia's economy largely relies on energy.*

In 2013 gas and oil revenues funded more than 50% of the national budget. The main revenue comes from oil, as last year, oil revenues reached \$191 billion, and gas \$28 billion. Russia supplies about a third of Europe's energy needs. Finland, for example, is close to Russia economically, as it receives 70 % of its gas from Russia. [READ MORE](#)

## China and India

- will account for half of global energy demand in 2035



**Strong economic growth leads China and India** to more than double their combined energy demand by 2035, accounting for one-half of the world's energy growth according to EIA's recently released International Energy Outlook 2011 (IEO2011). The IEO2011 projects that China and India together will consume 31% of the world's energy in 2035, up from 21% in 2008. China surpassed the United States as the world's largest energy consumer in 2009 and is the predominant driver of growing energy demand. By 2035, China's projected energy consumption is 68% higher than U.S. energy consumption. Global energy consumption grows 53% between 2008 and 2035, representing an average annual growth rate of 1.6%. (Ref.: Professor [Ole Gunnar Austvik](#))

## Increased activity on the Norwegian side in the Barents Region

As many as 40 oil companies are preparing for activity in 100 blocks on the Norwegian side of the border between Norway and Russia in the Barents Sea and Arctic Ocean. The Norwegian Ministry of Petroleum and Energy announced in February 2014 its proposals for blocks to be offered in the country's upcoming 23rd License Round. Included in the list are 61 blocks, of which 34 will be in waters bordering on Russia and 20 in other parts of the Barents Sea.

The list of new blocks comes after 40 energy companies earlier this year [nominated a total of 160 desired blocks](#) in northern Norwegian waters. The ministry's list of 61 blocks is likely to be the final number, which will be announced in the 23rd License Round, which is to take place in the first half of 2014. [READ MORE](#)

**"The Russian oil industry is eager to send its Arctic oil to Norwegian reloading facilities,"**  
[READ MORE](#) ...and 'New Arctic oil terminal in Finnmark' [READ MORE](#)

### Statoil steps up drilling around Arctic field

Working on a development model for the prospective Johan Castberg field, the Norwegian energy company announces two more drilling operations in adjacent waters. [READ MORE](#) The hydrocarbon discovery at the Skavl prospect could increase the chances for a new field centre development in the Arctic. [READ MORE](#)

**Russia and China** are poised to ink a deal (May, 14, 2014) that could see up to 60 billion cubic metres of gas flowing east from Siberia to Beijing every year for nearly 30 years. [READ MORE](#)

Follow news about the Barents Region on the website of the Barents

## The future scenario 2030: *The Barents Sea covered with subsea installations*



**Strategic located Pechenga and Kirkenes can be an important industrial hub for the further industrial development of the Barents Region. Pechenga will also be an important new transport corridor for the Barents Region and the central parts of Russia. Several studies show the excellent marine conditions for various types of vessels in Pechenga. There are also large areas that are suitable for industrialization. The Pechenga Fjord is an ideal area for a new economic trade zone serving four countries: Russia, Finland, Norway and Sweden. Pechenga can also become "the most effective place" to declare goods entering Russia.**



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## Where Gas Meets Ore: Industrial Growth in the High North

The Barents Region is a booming industrial growth area, and large portions of the world's remaining petroleum reserves are located in the High North. This provides new opportunities in an area where gas meets ore. The Northern Sea Route reduces transportation time between China and West-Europe by up to 40 per cent compared to via the Suez channel. Together with increased mining activity, the development of new ports and rail links brings new industrial platforms.

Projections show the landing of gas will bring extensive regional industrial development. In addition, new opportunities arise for mineral processing. Efforts have been made to establish an economic industrial zone at the border between Norway and Russia, thus creating a new international meeting place for the exploitation of Arctic resources. As China looks forward to invest in natural resources, Chinese companies and investors should play a key role in the new economic industrial zone. Plans have been made to establish an International Trade and Logistics Park, with new industrial activities to further increase technological development. Over 40 oil companies are established in the Norwegian sector of the Barents Sea and activity on the Russian side is increasing.

**Chinese businesses must participate**

Since gaining Arctic Council observer status, China has been quick to move. Yu Zhengsheng, Chairman of China's Political Consultative Conference, visited Finland, Sweden and Denmark to boost trade and cooperation in the Arctic. After an announced expansion of research and development with the Polar Institute to study

climate change, Beijing made it clear they will not be a passive member of the council. China's National Offshore Oil Corporation signed a deal with Icelandic firm, Eykon Energy, to further explore the coastal southeast of Iceland. Mining companies, such as Sichuan Xinye Mining, agreed to finance an international mining project in Greenland's Isua iron-ore field.

New projects have already been planned in the High North. A new railway connection from Rovaniemi in Finland, to Norway's Kirkenes and Russia's Pechanga, is currently under planning. The rail link is an investment for development of large unexploited mineral resources in northern Finland. A new gas plant in the Pechanga Fjord is also planned, and if successful, other projects will follow. The gas plant will provide electric power vital for the economic development in the Barents Region.

It is natural for Chinese businesses to become involved in the economic and financial development, especially in mineral extraction, infrastructure and transportation. It is important China participates in the new economic industrial zone's development at the border, and considers building the necessary rail links in the Barents Region. A large amount of Arctic exports goes through China, thus an increased Arctic presence will be required in the years to come. □

**Arild Volland,**  
Managing Partner,  
Arctic Development AS

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This article was published in the Beijing-based magazine Norwegian Links, April 2014. The magazine focuses on a pillar of Chinese and Norwegian industry: ***The oil and gas industry***. [Read more](#).

