SIPRI
Policy Paper
46
June 2017

EMERGING CHINESE–RUSSIAN COOPERATION IN THE ARCTIC

Possibilities and constraints

CAMILLA T. N. SØRENSEN AND EKATERINA KLIMENKO

STOCKHOLM INTERNATIONAL PEACE RESEARCH INSTITUTE

SIPRI is an independent international institute dedicated to research into conflict, armaments, arms control and disarmament. Established in 1966, SIPRI provides data, analysis and recommendations, based on open sources, to policymakers, researchers, media and the interested public.

The Governing Board is not responsible for the views expressed in the publications of the Institute.

STOCKHOLM INTERNATIONAL PEACE RESEARCH INSTITUTE

Signalistgatan 9
SE-169 72 Solna, Sweden
Telephone: + 46 8 655 9700
Email: sipri@sipri.org
Internet: www.sipri.org

Emerging Chinese–Russian cooperation in the Arctic

Possibilities and constraints

SIPRI Policy Paper No. 46

CAMILLA T. N. SØRENSEN AND
EKATERINA KLIMENKO

STOCKHOLM INTERNATIONAL
PEACE RESEARCH INSTITUTE

June 2017

ISBN 978–91–85114–92–4

Contents

Preface

The material interests of China and Russia suggest a relatively straightforward basis for cooperation between them in the Arctic, with Russia's natural resources in the region becoming exploitable thanks to Chinese capital investment. This report asks: is it that simple?

Russia has identified the Arctic as a future source of strategic resources. The sanctions imposed on Russia by Western states following the annexation of Crimea have, however, significantly restricted Russia's ability to access the capital and technology necessary to develop its far northern territories. Determined to push ahead with the development of the Arctic, Russia has looked elsewhere for investment, notably to China.

Although China does not have an official Arctic policy, during the past five years China has significantly increased its presence in the Arctic region. China's new level of engagement has involved cooperation with several Arctic states, in particular Russia, in resource development, shipping and governance.

Increased Arctic cooperation has evolved as an important element in the wider rapprochement that has developed between China and Russia. Since 2014 Russia has sought to accelerate its 'pivot to Asia', which has primarily focused on China. China too has sought to strengthen its engagement with Russia, including through its One Road, One Belt policy.

Despite the shared ambition to build closer ties, the Chinese–Russian relationship is complex. While both countries have, on numerous occasions, declared their friendship and underlined the importance of their strategic partnership, a significant degree of mutual mistrust exists. Developing relations in the Arctic is one of the areas where cooperation could expand, under the right conditions. With this SIPRI Policy Paper, Camilla T. N. Sørensen and Ekaterina Klimenko have produced a timely analysis of the key opportunities for and limitations on Chinese–Russian cooperation in the Arctic region.

The important findings presented in this paper build on extensive research already carried out within SIPRI's Arctic Futures project over recent years. Taken together, this work highlights the complex dynamics emerging in the Arctic as climate change and shifting international political and security relations are reshaping the region.

On behalf of SIPRI, I would like to thank the Swedish Foundation for Strategic Environmental Research (MISTRA) for its generous funding of the project, without which the work would not have been possible. Naturally, MISTRA is not responsible for the content or conclusions of the report. Thanks are also due to SIPRI colleague Dr Neil Melvin and to the external referees for their comments on earlier drafts of this report.

Dan Smith
Director, SIPRI
June 2017

Summary

Russia is increasingly focused on developing the Russian Arctic as a way to strengthen its economic base. However, long-term trends in energy markets and the recent conflict in Ukraine—with the United States and European Union (EU) sanctions that followed—have placed restrictions on the involvement of Western companies in energy projects in the Russian Arctic. This has motivated Russia to look even more to Asia for potential investors and technology partners, and as a key consumer market; engaging China in Arctic development has become increasingly appealing.

China is keen on further strengthening its engagement and role in the Arctic. Specifically, China is seeking to consolidate its position as a legitimate Arctic stakeholder by diversifying and strengthening its bilateral relations with all the Arctic states through economic deals, scientific cooperation and stronger diplomatic ties. Thus, at first glance, Chinese–Russian cooperation on developing energy resources and sea routes in the Russian Arctic looks like an objective where Russia and China could work closely together and have complementary interests. Russia is one of the world's largest energy exporters and China is one of the largest energy importers. The Russian Arctic is rich in energy resources yet lacks infrastructure, capital and technology—where China can contribute.

However, despite this match and the stream of positive adjectives flowing from both Russia and China about partnership and friendship, Chinese–Russian cooperation in the Arctic has not progressed much in recent years and, except for cooperation on a liquefied natural gas (LNG) project on the Yamal Peninsula, there are still not many concrete results to show.

A number of factors determine the slow pace. At an overall level, a high degree of strategic mistrust still works against exploiting mutual commercial opportunities and cooperation, especially if, as is the case with energy projects in the Russian Arctic, the cooperation locks the two sides into a long-term relationship and dependency. Furthermore, Russia and China have differing priorities in relation to the Arctic. For Russia, the region is vital to questions of sovereignty and economic development; hence it is taking all necessary steps to develop the Russian Arctic. Although China has been increasingly active in promoting its interests and role in the region, the Arctic is still not a top priority in Chinese foreign policy or efforts to secure and diversify its energy supply—where regions such as Africa, the Middle East and Central Asia are more in focus. For these reasons, China is not willing to risk more vital interests and relationships, for example with the USA, in order to pursue closer cooperation with Russia in the Arctic. In addition, Russia continues to be reluctant to allow non-Arctic states, especially a great power such as China, to play a strong role in Arctic governance, primarily out of a fear that this would upset the regional power balance and the established Arctic legal and political institutions, which ensure the rights and privileges of Arctic states. Therefore, even though Russia is now open to China's involvement in economic projects in the Arctic, the extent to which it would welcome greater Chinese

participation in—and influence on—Arctic governance continues to be limited. China, on its side, wants a greater role in Arctic governance and is promoting the perception of the Arctic as more of an international space as opposed to strictly a regional one. China fears potential exclusion from the Arctic and therefore is seeking to engage all the Arctic states and institutions in bilateral and multilateral partnerships. Moreover, China's intensified efforts to participate in scientific and economic projects in the Arctic, including in the Russian Arctic, support its overall aim of ensuring its inclusion. Russia is not overly positive about these efforts to 'lock China in' and, consequently, further development of the Arctic governance regime is a critical issue, with Chinese and Russian visions and interests potentially being in conflict.

This paper examines the evolving roles, interests and activities of China and Russia in the Arctic, using these analyses as a departure point for detailed discussions of the possibilities for and constraints on stronger cooperation between the two countries in the region. In particular, it looks at developments, and the potential for further developments, in Chinese–Russian cooperation on oil and gas exploration, shipping and Northern Sea Route (NSR) infrastructure construction, military and search and rescue challenges, and Arctic governance.

Abbreviations

APEC	Asia-Pacific Economic Cooperation
AZRF	Arctic Zone of the Russian Federation
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COSCO	China Ocean Shipping
EEU	Eurasia Economic Union
EEZs	Exclusive economic zones
EU	European Union
LNG	Liquefied natural gas
NEP	Northeast Passage
NSR	Northern Sea Route
OBOR	One Belt, One Road
PLA	People's Liberation Army
PLAN	People's Liberation Army Navy
PRIC	Polar Research Institute China
SIIS	Shanghai Institute of International Studies
SOEs	State-owned enterprises
UNCLOS	United Nations Convention on the Law of the Sea

1. Introduction

Cooperation on developing energy resources and sea routes in the Russian Arctic at first glance looks like an objective where Russia and China could work closely together and have complementary interests. Russia is one of the world's largest energy exporters and China is one of the largest energy importers. The Russian Far East and the Russian Arctic are rich in energy resources and minerals yet lack infrastructure, capital and technology, which are all areas where China has something to contribute.

China has increased its focus on and engagement in the Arctic over the past decade. There are four overall drivers: (*a*) to build a solid Chinese polar research capacity, which primarily relates to how ongoing changes in the Arctic climate have direct implications for China; (*b*) to gain access to the energy resources and minerals that the Arctic holds, thereby helping to secure and diversify China's supply; (*c*) to develop the Arctic sea routes, which could provide China with alternatives to the longer and strategically vulnerable routes currently in use; and (*d*) to secure China a say in the evolving Arctic governance regime, which potentially will have implications for wider global and regional governance.

Russia increasingly focuses on developing the Russian Arctic as a way to strengthen its economic base. Russia has been primarily working with European countries to develop its energy resources, including in the Arctic. However, long-term trends in energy markets, stagnation in the European market and the recent conflict in Ukraine—and the United States and European Union (EU) sanctions that followed—have placed restrictions on Western companies' involvement in energy projects in the Russian Arctic. This has motivated Russia to look even more to Asia for potential investors and technology partners, and as a key consumer market.

Looking at the overall picture and especially at the joint statements and rhetoric coming out of Russia and China in recent years, it can be said that relations between the two countries are at an all-time high. In May 2015, during Chinese President Xi Jinping's state visit to Russia, he and Russian President Vladimir Putin signed the Joint Statement between the People's Republic of China and the Russian Federation on Deepening Comprehensive Strategic Partnership of Coordination and Advocating Win–Win Cooperation. This was followed in June 2016 by the China–Russia Joint Statement on Strengthening Global Strategic Stability.[1] These two statements reflect how, at the highest political level, China and Russia increasingly share similar analyses of developments in the international system and especially in relation to a US policy that both regard as increasingly threatening and as aimed at squeezing their influence in their respective neighbourhoods.

[1] For more on the May 2015 Joint Statement between the People's Republic of China and the Russian Federation on Deepening Comprehensive Strategic Partnership of Coordination and Advocating Win–Win Cooperation see e.g. <http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpcxelsjnwgzzsl70znqdbfelshskstbels/t1263258.shtml>; and on the June 2016 China–Russia Joint Statement on Strengthening Global Strategic Stability see e.g. <http://news.xinhuanet.com/english/2016-06/26/c_135466187.htm>.

However, China and Russia do not agree on how to deal with this growing US pressure, and there is still a high degree of strategic mistrust as well as clear tensions and differences between them in terms of specific core interest areas.[2]

Despite many high-level meetings, joint statements and ambitious plans between China and Russia, there are still not many concrete results, either in general terms or in relation to the Russian Arctic. Mutual trade has significantly slowed since 2014, when it peaked at almost $100 billion. In 2015 it was just over $50 billion.[3] Although it slightly recovered in 2016 to $69 billion, the increase was solely driven by Chinese exports to Russia.[4]

A number of factors determine the slow pace. At an overall level, a high degree of strategic mistrust still works against exploiting mutual commercial opportunities and cooperation, especially if, as is the case with energy projects in the Russian Arctic, the cooperation locks the two sides into a long-term relationship and dependency. Furthermore, Russia and China have differing priorities in relation to the Arctic. For Russian leaders, the region is vital to questions of sovereignty and economic development; hence Russia is taking all necessary steps to develop the Russian Arctic. Although China has been increasingly active in promoting its interests and role in the region, the Arctic is still not a top priority in Chinese foreign policy or in Chinese efforts to secure its energy supply, where regions such as Africa, the Middle East and Central Asia are more in focus. For these reasons China will not be willing to risk more vital interests and relationships, for example with the USA, in order to pursue closer cooperation with Russia in the Arctic.

Traditionally, Russia has been reluctant to allow non-Arctic states to play a strong role in Arctic governance, primarily out of a fear that this would upset the regional power balance and the established Arctic legal and political institutions, which ensure the rights and privileges of Arctic states. Even though Russia is now open to China's involvement in economic projects in the Arctic, the extent to which Russia would be favourable to greater Chinese participation in—and influence on—Arctic governance continues to be limited.

China, on its side, seeks a greater role in Arctic governance and is promoting the perception of the Arctic as more of an international space as opposed to strictly a regional one, thereby opening the way for non-Arctic states such as itself to be respected and involved as Arctic actors. Most of China's diplomatic efforts in the Arctic in recent years have been aimed at gaining respect and acceptance for China as a legitimate Arctic stakeholder. China fears a potential exclusion from the Arctic and therefore is seeking to engage all the Arctic states and institutions in bilateral and multilateral partnerships. Moreover, China's intensified efforts to participate in scientific and economic projects in the Arctic, including in the

[2] For a detailed analysis of the complex dynamics of rivalry and cooperation between China and Russia see e.g. Lo, B., *Axis of Convenience: Moscow, Beijing and the New Geopolitics* (Brookings Institution Press: Baltimore, MD, 2008).

[3] Putz, C., 'China and Russia aim to increase trade turnover to $200 billion by 2020', *The Diplomat*, 8 Nov. 2016, <http://thediplomat.com/2016/11/china-and-russia-aim-to-increase-trade-turnover-to-200-billion-by-2020/>.

[4] 'Chinese–Russian trade grows 2.2% in 2016 – Customs Data', Sputnik News, 13 Jan. 2017, <https://sputniknews.com/business/201701131049547358-China-Russia-trade/>.

Russian Arctic, support its overall aim of ensuring inclusion. Russia is not overly positive about these efforts to 'lock China in' and, consequently, further development of the Arctic governance regime is a critical issue, with Chinese and Russian visions and interests potentially being in conflict.

This report examines the evolving roles, interests and activities of China and Russia in the Arctic, using these analyses as a departure point for detailed discussions of the possibilities for and constraints on stronger cooperation between the two countries in the region. It will look specifically at China as a partner for Russia in developing the Russian Arctic. Section II analyses the evolution of China's Arctic policy, and section III investigates Russia's strategic interests in the Arctic and the drivers for cooperation with China. Section IV provides a broader context—namely recent developments in Chinese–Russian strategic relations and energy cooperation—for the ongoing developments in Chinese–Russian cooperation in the Arctic. Section V takes the focus back to the Arctic and provides details of energy development, shipping, governance and security issues. The conclusions are provided in the final section.

2. The evolution of China's Arctic policy since 2010

Even though Arctic issues are not at the top of the Chinese foreign policy agenda, China has in recent years diversified its interest and increased its diplomatic and economic activities in the region, and it has clearly expressed a desire to be involved in the development of Arctic affairs and to be acknowledged and included as an 'Arctic stakeholder' (北极利益相关者).[5] In a video message to the Third Arctic Circle meeting held in Reykjavik, Iceland, in October 2015, the Chinese Foreign Minister, Wang Yi, further described China as a 'near Arctic state' (近北极国家) and referred to China's long history of Arctic interests stretching as far back as China's signing of the Spitsbergen (Svalbard) Treaty in 1925.[6] His aim in doing so was to highlight as well as legitimize the growing role of China and its interests in the region.

China is well aware of Russian reluctance to include non-Arctic states, specifically a great power such as China, in Arctic governance affairs, and therefore is seeking to take advantage both of current Russian geostrategic and geoeconomic vulnerabilities and of the Russian need for China as a partner to develop the Russian Arctic. Chinese Arctic scholars are under no illusions when it comes to developing a stronger and enduring Chinese–Russian partnership. Rather, the dominant expectation is that Russia will again turn towards Europe as soon as sanctions are lifted. As one scholar well expresses it: 'China understands that Russia plays a game. Now China is the only horse Russia can find. Russia will ride the China horse to find a better one.'[7]

The rest of this section examines China's growing focus and interests in the Arctic in general and specifically with regard to its relations with Russia in the Arctic.

The drivers of China's growing interests in the Arctic

China first expressed an interest in attaining observer status in the Arctic Council in 2007, but it was only in 2013 that it succeeded—together with five other countries.[8] Until now, China's focus and activities in the region have concentrated on scientific interests, especially in relation to the continuing effects on China

[5] See e.g. Zhang X., 中国北极权益与政策研究 [China's Arctic interests and policy], 上海: 时事出版社 (Current Affairs Publishing House: Shanghai, 2015).

[6] The shortest distance between China's northernmost point in Mohe county, Heilongjiang province, and the Arctic Circle is more than 1400 km. For the video message by Foreign Minister Wang Yi see <http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1306857.shtml>.

[7] Chinese Arctic scholars, Interviews conducted by Camilla T. N. Sørensen, Shanghai Institute of International Studies (SIIS), Shanghai, 17 Jan. 2017. See also Deng, B., 'Arctic geopolitics: the impact of US–Russian relations on Chinese–Russian cooperation in the Arctic', *Russia in Global Affairs*, vol. 14, no. 2 (2016), pp. 206–20.

[8] The other Asian countries to gain observer status in 2013 were Japan, South Korea and Singapore. The Arctic Council is a high-level intergovernmental forum that addresses issues faced by the Arctic governments and the indigenous people of the Arctic.

of melting ice and changing climate in the Arctic—including studies in geography, climatology, geology, glaciology and oceanography.[9] Since 2004 China has had its own research station in the Arctic, the 'Yellow River Station' (黄河站) on Svalbard, which is operated by the Chinese Arctic and Antarctic Administration. In 1993 China bought the icebreaker *Snow Dragon* (雪龙) from Ukraine, and the ship has since been on several Arctic and Antarctic expeditions and has become a symbol for China's scientific interests in the polar regions.[10] Chinese research activities in the Arctic—and the Antarctic—have been further strengthened in recent years with the launch of more expeditions and an intensification of efforts to build networks and cooperation with Arctic states. Most recently added is the Aurora Observatory in the sparsely populated Icelandic region of Kárhóll, which aims to further scientific understanding of solar–terrestrial interaction and space weather. The observatory, which is funded by the Polar Research Institute China (PRIC), is scheduled to open in October 2017.[11] Earlier, in May 2016, during a visit to Greenland by a Chinese delegation from the PRIC and the Chinese State Oceanic Administration, a memorandum of understanding was signed that aims to establish closer scientific cooperation between Greenland and China; the document specifically mentions the establishment of a Chinese research station in Greenland.[12] The Chinese side are also aiming to establish closer scientific partnerships with Russia specifically in order to conduct joint exploration and research missions in the Arctic, which would be the first such endeavour between the two countries.[13] In September 2016 the establishment of the Russian–Chinese Polar Engineering and Research Centre—a cooperation between the Russian Far Eastern Federal University and the Chinese Harbin Polytechnic University—was announced. The centre will create a joint research team that will conduct projects intended to promote industrial development of the Arctic, including the development of ice-resistant platforms and frost-resistant concrete for use in polar regions, as well as study the effects of ice loads on ships and the reliability of various engineering structures on ice.[14]

China, like other non-Arctic states, is taking an active part in the general science diplomacy in the region, with states using research activities to both legitimize and strengthen their growing overall presence and influence. For China,

[9] Zhang (note 5), pp. 235–42; and Lanteigne, M., 'The role of China in emerging Arctic security discourses', *Sicherheit und Frieden*, vol. 33, no. 3 (2015), p. 150.

[10] Lanteigne, M., *China's Emerging Arctic Strategies: Economics and Institutions* (Center for Arctic Policy Studies: Reykjavik, 2014), p. 13.

[11] See Raspotnik, A., 'Solar-terrestrial interaction between Iceland and China', *High North News*, 4 Apr. 2016, <http://www.highnorthnews.com/solar-terrestrial-interaction-between-iceland-and-china/>.

[12] See 'Tættere forbindelser indenfor arktisk forskning med Kina' [Closer links within Arctic research with China], *Sermitsiaq*, 19 May 2016, <http://sermitsiaq.ag/taettere-forbindelser-indenfor-arktisk-forskning-kina>.

[13] Chinese Arctic scholars, Interviews conducted by Camilla T. N. Sørensen, Polar Research Institute China (PRIC), Shanghai, 16 Jan. 2017.

[14] See Voice of America (Chinese), '俄转变立场吸引中国开发北极' [Russia to change its position to attract China to develop the Arctic], 2 Oct. 2016, <http://www.voachinese.com/a/news-russia-and-china-estavlished-a-center-to-study-arctic-20161002/3533636.html>; and *The Arctic*, 'Far Eastern Federal University, Harbin Polytechnic University establish a Russian–Chinese polar engineering center', 29 Sep. 2016, <http://arctic.ru/international/20160929/446559.html>.

scientific cooperation facilitates its Arctic diplomacy and accordingly contributes to strengthening the image of China in the region and Chinese relations with the Arctic states, thereby gradually building trust and integrating China into Arctic governance structures.

The second driver behind China's growing activities in the Arctic region relates to economic interests and concerns about securing and diversifying its energy supply. China continuously seeks to build strong economic partnerships in the region and has especially prioritized Iceland, as indicated by the number of high-level Chinese delegations visiting the country in recent years. The conclusion of a free trade agreement with Iceland in 2013, the first Chinese free trade agreement with a European state, was possible because Iceland is not a member of the EU.[15] Iceland is attractive to China in particular in terms of what the country has to offer with regard to exports of fish and the sharing of technological know-how, especially relating to the fishing industry, aquaculture development and renewable energy (for example, geothermal energy). What increases the strategic importance for China of strong relations with Iceland is the fact that Iceland has taken a proactive role in institutional developments in Arctic politics and economics. Especially Iceland's positive stand on the role of non-Arctic states has helped facilitate China's access to and influence on Arctic institutional developments, with the Arctic Circle meetings set up and run by Iceland as the strongest example. In addition, Iceland's ambition to serve as a logistical hub on the Northern Sea Route between Asia and Europe further increases the strategic importance for China of strong relations with Iceland.[16]

Chinese Arctic scholars also point to Norway as an important state for China in the Arctic. Norway has a big Arctic territory, including Svalbard, with the Chinese research station mentioned above, energy resources and minerals, a proven ability to use the Arctic sea routes with direct access to the Northeast Passage (NEP) and a high level of relevant technological know-how.[17] When China and Norway resumed normal diplomatic relations in December 2016 following six years without (as a result of the awarding of the 2010 Nobel Peace Prize to imprisoned Chinese political activist Liu Xiaobo), the strong potential for cooperation on polar issues was mentioned in a four-point joint statement.[18] Generally, China takes a long-term perspective when building partnerships in the Arctic. This implies, among other things, that, despite low world market prices and declining growth rates in the Chinese economy, China is still closely following developing economic opportunities in the region. The Chinese approach is fairly straightforward: if the

[15] With a growing number of Chinese tourists going to Iceland there are talks about opening direct flights. The ambition is that Iceland could over time develop into a regional trading hub for goods exported to China; see Lanteigne (note 10), p. 16.

[16] Guschin, A., 'China, Iceland and the Arctic', *The Diplomat*, 20 May 2015.

[17] Chinese Arctic scholars (note 7).

[18] For the Statement of the Government of the People's Republic of China and the Government of the Kingdom of Norway on Normalization of Bilateral Relations see <https://www.regjeringen.no/globalassets/departementene/ud/vedlegg/statement_kina.pdf>.

Arctic becomes more open for business and shipping, then China wants to have its partnerships and its capacity in the region in place.[19]

Overall, the international scrutiny and anxiety directed towards China's economic and resource diplomacy in the Arctic region have made the Chinese careful, and there are concerns about a diplomatic backlash if China is perceived as taking too assertive an approach. Nevertheless, there are growing Chinese activities in the Arctic. Chinese state-owned enterprises (SOEs) within the energy resource and mineral sector, especially the China National Offshore Oil Corporation (CNOOC) and the China National Petroleum Corporation (CNPC), are active in northern Canada and the Dreki region between Iceland and Norway. In Greenland, several Chinese companies are engaged in prospecting and conducting surveys in relation to the mining of metals and minerals. Some of these companies have initiated cooperation with other companies, for example Greenland Minerals and Energy Limited, focusing on the Kvanefjeld project, which could develop into one of the world's largest rare earth and uranium projects.[20] In addition, there are the Chinese activities and investments in the Russian Arctic, as elaborated further below.

Sea routes make up the third important Chinese interest in the Arctic region. With the melting and receding ice, new sea routes linking Asia and Europe are becoming navigable, and Chinese commercial vessels have already tested the NEP several times along Russia's northern coastline using a modified cargo ship. In August–September 2013 *Eternal Life* (永生) was the first vessel of its kind to travel from the Chinese port of Dalian to Rotterdam in the Netherlands, taking 33 days and saving approximately two weeks' transit time.[21] For China, the route is approximately 30 per cent shorter than through the Strait of Malacca and the Suez Canal, although it is not necessarily quicker or cheaper—but, again, the Chinese take the long-term view and want to be ready to exploit new opportunities if and when they arrive. Arctic sea routes could give China alternatives to the longer and strategically vulnerable routes currently in use, especially addressing its reliance on the Malacca Strait. China is therefore testing these routes and is busy designing and building new ships that are better suited to the task.[22] In 2016 the state-owned shipping company China Ocean Shipping (COSCO) said it planned to launch regular services through the Arctic to Europe by way of the NEP.[23] Furthermore, China's Maritime Safety Administration has recently released guidelines in order to promote and help Chinese ships navigate the Arctic waters. In April 2016, on the release of the most recent guidelines for the Northwest Passage, Wu

[19] See e.g. Zhang (note 5), pp. 16–22; and Zhang, X. and Tu, J., '北冰洋油气资源潜力的全球战略意义' [The global strategic significance of potential oil and gas resources in the Arctic Ocean], 中国海洋大学学报, 社会科学版 [Journal of Ocean University of China (Social Sciences Edition)], vol. 5 (2010), pp. 8–10.

[20] See Greenland Minerals and Energy Limited (GME), 'GME indgår partnerskab med kinesiske NFC' [GME in partnership with Chinese NFC], Press release, 4 Sep. 2016, <http://gme.gl/gme-indgaar-partnerskab-med-kinesiske-nfc>.

[21] MacDonald-Gibson, C., 'From China to Rotterdam, and into the record books', *The Independent*, 12 Sep. 2013.

[22] Chen, G., 'China's emerging Arctic strategy', *Polar Journal*, vol. 2, no. 2 (2012), p. 361.

[23] 'China sets its sights on the Northwest Passage as a potential trade boon', *The Guardian*, 20 Apr. 2016, <https://www.theguardian.com/world/2016/apr/20/china-northwest-passage-trade-route-shipping-guide>.

Yuxiao, a senior official in the Maritime Safety Administration who was involved in drafting the guidelines, stated: 'Many countries have noticed the financial and strategic value of Arctic Ocean passages. China has also paid much attention.'[24]

Fourthly, China is interested in the Arctic region owing to its importance in relation to global and regional governance and institution building.[25] Generally speaking, China increasingly wants to be at the table when international rules and norms are negotiated and settled. The legal and political setting in the Arctic region is still not well established, and China wants to be included in the process and hence to contribute to shaping the further development of Arctic governance.

China has always stressed its respect for the inherent rights of the Arctic states and the indigenous peoples, including the sovereignty of territorial seas and exclusive economic zones (EEZs).[26] China further supports and adheres to the United Nations Convention on the Law of the Sea (UNCLOS) as the most important legal framework for Arctic governance, and to the more specific rules and regulations of the Arctic, which are also based on UNCLOS—for example, the 2008 Ilulissat Declaration by the five coastal states of the Arctic Ocean and the recently launched International Code for Ships Operating in Polar Waters (Polar Code).[27] On the other hand, China has also continuously called for respect for non-Arctic states and the 'overall interests of the international community', arguing that states outside the Arctic region have the right to engage in scientific research, transit and exploration activities under international law.[28]

Whereas China earlier sought to put forward a definition of Arctic development and governance as largely an international issue, it has become more hesitant and vague about what aspects of the Arctic should be considered 'common heritage'. Judging from recent Chinese practices in Arctic-related negotiations and decision-making processes—such as those related to the Polar Code within the International Maritime Organization and current negotiations on the regulation of fisheries in high sea areas of the central Arctic Ocean—China does not want to present a confrontational position. Rather, it generally takes a quiet and constructive stance, seeking to present itself as a collaborative and attractive partner in the Arctic.

Besides Chinese concerns about not being 'left behind in the changing governance of the resource-rich Arctic region', the Arctic is particularly interesting for China with regard to the development of approaches and solutions to territorial

[24] 'China charting a new course for maritime transportation', *China Daily*, 20 Apr. 2016, <http://english.gov.cn/news/top_news/2016/04/20/content_281475331301933.htm>.

[25] Guo, P. and Lu, Y., '北极治理模式的国际探讨及北极治理实践的新发展' [International discussion on the Arctic governance model and the new development of the Arctic governance practice], 区域与全球治理国际观察 [Regional and Global Governance International Survey], vol. 5 (2015), pp. 56–70.

[26] See e.g. Zhang Ming, Chinese Vice Foreign Minister, 'China in the Arctic: practices and policies', Keynote speech at the Third Arctic Circle meeting in Reykjavik, 17 Oct. 2015, <http://www.fmprc.gov.cn/mfa_eng/wjbxw/t1306858.shtml>.

[27] See e.g. Peng, J. and Wegge, N., 'China and the Law of the Sea: implications for Arctic governance', *Polar Journal*, vol. 4, no. 2 (2014), pp. 287–305; Liu, N., 'China's emerging Arctic policy', *The Diplomat*, 14 Dec. 2016, <http://thediplomat.com/2016/12/chinas-emerging-arctic-policy/>; and Chinese Arctic scholars (note 13).

[28] See e.g. Zhang Ming (note 26).

and maritime disputes and their potential implications or lessons for East Asia, where China is still involved in several unresolved territorial and maritime disputes with its neighbours.[29] In particular, the issue of national versus international waters plays a significant role from China's perspective. The expectation is that regulations concerning this issue will be further discussed and developed as the Arctic becomes more accessible and the new sea routes increase the importance for states of being able to influence the rules for access to and transportation in the Arctic region as well as intensifying the interests and stakes involved in the still unsolved territorial and maritime disputes in the region.[30]

Another Arctic governance aspect that Chinese Arctic scholars follow closely is the issue of who is and what constitutes an Arctic stakeholder. At the moment, China seems to be satisfied with its observer status and there is still only limited Chinese involvement in the Arctic Council's working groups—China is still 'keeping a low profile' (韬光养晦) and 'learning'.[31] It is likely, however, that Chinese delegations in the coming years will be more actively engaged and will seek to play a bigger role.[32] Consequently, China would eventually also like to 'rise' in the hierarchy of categories of states involved in Arctic affairs or in a multi-tier network of cooperation, if that possibility opens up. It is in this context that China is developing and presenting its own categories, such as the above-mentioned 'Arctic stakeholder' and 'near Arctic state'. Also related is the way in which China has been proactive—together with Iceland—in setting up and further developing the Arctic Circle meetings. The Arctic Circle is given high priority in China's Arctic diplomacy as it is seen as providing an important platform for China to promote its views on the further development of Arctic governance. China is also increasingly seeking bilateral consultations on Arctic issues with other Arctic Council observer states, such as South Korea and Japan.

So far there is no designated Chinese Arctic strategy. The general view within China has been that the country's visibility in the Arctic region, unlike in other parts of the world, has not developed to the point where a White Paper is necessary for either domestic or international consumption.[33] However, there seems to be an emerging consensus among Chinese Arctic scholars that China increasingly needs an Arctic strategy in order to assuage international concerns and also to help focus Chinese activities and coordination among the different Chinese

[29] Liu (note 27).

[30] Chinese Arctic scholars (note 13). See also Zhang (note 5), pp. 245–54, 258–60.

[31] The phrase 'keeping a low profile' refers to the foreign policy guidelines that Deng Xiaoping put in place in the early 1990s emphasizing how China should avoid openly demonstrating its capabilities and instead keep a low profile. At present there is intense debate among researchers both in and outside of China over whether Chinese foreign policy under Xi Jinping is still following these guidelines. See e.g. Sørensen, C. T. N., 'The significance of Xi Jinping's "Chinese dream" for Chinese foreign policy: from "Tao Guang Yang Hui" to "Fen Fa You Wei"', *Journal of China and International Relations*, vol. 3, no. 1 (2015), pp. 53–73.

[32] Chinese Arctic scholars (note 7). See also Lanteigne (note 10), p. 9.

[33] Hough, P., *International Politics of the Arctic: Coming in from the Cold* (Routledge: London, 2012), p. 31; and Lanteigne (note 9), pp. 150, 153.

players in the region. Several scholars argue that an Arctic strategy is well under way and will be published within the next year.[34]

Summing up, China's role, interests and activities in the Arctic are growing, although overall China is still careful and hesitant. Stronger Chinese focus, commitment and investment in the Arctic are to be expected as the Arctic—with its energy resources and sea routes—becomes more accessible. This is especially the case if Chinese investment and generally a stronger Chinese role in the Arctic can evolve in a way that does not damage but rather supports China's efforts to build an image of itself as a responsible and constructive great power. At the Third Arctic Circle meeting in 2015 the Chinese delegation hence described China's Arctic interests and its contribution to the region as being defined by 'respect, cooperation and win–win'.[35] It is critical that Chinese activities and investments in the Arctic do not strengthen the perception of a 'China threat' and international concerns about a more assertive and aggressive China. China, therefore, is very careful to legitimize its presence in the Arctic, often referring to its scientific interests and interest in the new sea routes. This approach could prove difficult to maintain for China if economic and strategic cooperation and coordination with Russia inside and outside of the Arctic region continue to grow. Russia does not have the same image concerns and, in contrast to China, seems to have no reservations about directly challenging and confronting the USA.

China's views on and relations with Russia in the Arctic

Seen from China, Russia, as the biggest Arctic state, stands as an important gatekeeper for non-Arctic states. China knows that in many ways it is dependent on Russia—for example, for Russian goodwill and support—if it is to increase its activities and consolidate its role as a legitimate stakeholder in the region. Consequently, in a Chinese analysis there is no way to avoid dealing and getting along with Russia in the Arctic.[36] China acknowledges that the support of Russia is needed especially in relation to its broader ambitions to ensure a seat for itself at the table when future Arctic governance and institutional arrangements are debated and developed, for example in the Arctic Council. China is well aware of Russian hesitation about including non-Arctic states in Arctic governance affairs, and therefore, since assuming its observer status in the Arctic Council in 2013, China has generally sought to downplay its political and strategic ambitions in the Arctic and has stressed scientific interests and scientific and economic partnerships. However, China also seeks to take advantage of current Russian geostrategic and geoeconomic vulnerabilities and of Russia's need for China as a partner to develop the Russian Arctic to gradually strengthen its presence and relationships in the Arctic.[37]

[34] Chinese Arctic scholars, Interviews conducted by Camilla T. N. Sørensen, PRIC, SIIS and Tongji University, Shanghai, 16–26 Jan. 2017.

[35] See e.g. Zhang Ming (note 26).

[36] See e.g. Zhang (note 5), pp. 120–55.

[37] Chinese Arctic scholars (note 7). See also Deng (note 7).

In relation to more concrete Chinese interests in ensuring access to energy resources and sea routes in the Arctic, Russia also stands as the 'unavoidable' partner.[38] As previously mentioned, there are no illusions among Chinese Arctic scholars about a stronger and enduring Chinese–Russian partnership developing. Rather, they see a 'window of opportunity' as Western sanctions further encourage Russia to pay more attention to China and to offer better political and economic conditions and deals. Despite the lower growth rate of the Chinese economy, China's demand for energy resources and minerals continues to grow, and Chinese SOEs are constantly encouraged to identify and establish new areas for exploration and extraction. As a result, several Chinese players see the Russian Far East, Siberia and the Russian Arctic as holding great potential, not only as sources of energy resources, minerals and new shipping and trading routes, but also as export markets and recipients of—and partners in—infrastructure and other economic development projects.[39] Both Chinese SOEs and Chinese companies in general approach and negotiate cooperation with Russian counter-partners in the Arctic seeking the best possible business deals. An example is the Chinese involvement in the Yamal liquefied natural gas (LNG) project, which, as several Chinese Arctic scholars emphasize, should not really be seen as part of China's Arctic policy since it has been negotiated by 'people with an energy background and interests' (see section IV).[40]

While seeing such a 'window of opportunity', Chinese Arctic scholars also emphasize the importance of avoiding an intensification of US–Russian tensions, which could start to seriously affect the Arctic. In particular, they fear a return of what they call 'cold war mentality' and the 'melon effect', whereby sovereignty issues due to intensified US–Russian tensions start playing a stronger role in dividing the Arctic between the Arctic states, isolating non-Arctic states and also creating a more negative atmosphere in the region, which in turn will make Chinese activities more difficult.[41]

[38] Zhang (note 5), pp. 120–56.
[39] Zhang (note 5), pp. 120–56.
[40] Chinese Arctic scholars (note 7).
[41] Chinese Arctic scholars (note 7). See also Deng (note 7).

3. Russia's Arctic aspirations

In contrast to China, for Russia the Arctic has traditionally been a zone of special interest. According to President Vladimir Putin, the 'Arctic is a concentration of practically all aspects of national security—military, political, economic, technological, environmental and that of resources'.[42] Indeed, military infrastructure in the Arctic built during the cold war by the Soviet Union continues to play a crucial role in Russia's national security. The Arctic has been a resource-rich area for modern Russia during the eras of both the Soviet Union and the Russian Empire, providing significant shares of the national income. In addition, the region has an important symbolic meaning for Russia's great power image and national identity, the vastness of the territory traditionally serving as one of the key markers of Russian statehood.[43]

Recent Russian official strategy papers such as 'Foundations of the Russian Federation's state policy in the Arctic until 2020 and beyond' (adopted in 2009) and 'The strategy for the development of the Arctic Zone of the Russian Federation and national security' (adopted in 2013) identify the development of energy resources and shipping routes as being the country's main policy interests in the region. In particular, the following national interests of the Russian Federation in the Arctic are mentioned: usage of the Arctic Zone of the Russian Federation (AZRF) as a strategic resource base; safeguarding the Arctic as a zone of peace and cooperation; using the Northern Sea Route as a national integrated transport and communication system for the AZRF.

Despite the fact that Russia has tried to diversify its energy partnerships, Western markets and technologies continue to represent the bases for Russia's energy development. Most of Russia's oil has been going to the West, primarily Europe, and Russian gas is sold almost entirely in European markets. Russia's energy resource development in the Arctic is no exception. All of the Russian energy partnerships in the Arctic have been built with European and US companies. A number of international economic and geopolitical challenges have, however, called into question the continuation of these partnerships and underlined Russia's need to diversify. These challenges include fluctuation on world energy markets, geopolitical confrontation with the West and the increasingly difficult economic situation in Russia in general in the face of these challenges.

The Russian Arctic as a resource base for the 21st century

The Russian economy is largely dependent on revenues from oil and gas: at least 50 per cent of federal budget revenues are generated through exports of energy

[42] Vladimir Putin, Speech at the meeting of the Security Council, the Kremlin, Moscow, on state policy in the Arctic, 22 Apr. 2014.

[43] Medvedev, S., 'The Kremlin's Arctic plans: more gutted than grand', PONARS Eurasia Policy Memo no. 430, June 2016, <http://www.ponarseurasia.org/sites/default/files/policy-memos-pdf/Pepm430_Medvedev_June2016.pdf>.

resources. Russia is one of the world's biggest oil producers and the second-largest dry natural gas producer. Although most of Russia's oil and gas production is still located in the traditional areas of western Siberia, the depletion of these resources over the past 10 years means that the geography of production has been shifting to new regions, including the Arctic.[44]

Development of the offshore and onshore resources of the Russian Arctic differs significantly. Whereas Russia has a considerable history of developing oil and gas in the northern regions onshore, the offshore projects are a new area of exploration where Russian companies lack experience. The number of players in offshore development is also limited compared with traditional onshore development. When it comes to the availability of infrastructure, some of the new onshore and offshore deposits have similar development difficulties, because both require the construction of infrastructure from scratch.

Russia has been developing onshore oil and gas resources in the Arctic since the 1980s and 1960s respectively. Parts of its traditionally richest oil and gas provinces are within the AZRF, and in total the AZRF accounts for 14.1 per cent of Russia's oil production and 80.6 per cent of its natural gas production.[45] Significant onshore oil deposits in the AZRF include Vankor (Krasnoyarsk Krai), Rosneft's largest oil field, launched in 2009. Since 2012 Gazprom Neft has been working on Novy Port, one of the largest oil and gas fields being developed on the Yamal Peninsula, with a potential capacity of 250 million tonnes of oil.[46]

Important new gas provinces are concentrated on the Yamal Peninsula (also within the Yamal-Nenets Autonomous District). In 2012 Gazprom started production at the Bovanenkovo gas field.[47] The private Russian company Novatek is building up the Yamal LNG project towards a total capacity of 16.5 million tonnes of LNG per year. Yamal LNG will be partially operational by the end of 2017 and full capacity will be achieved by 2021. This gas is to be mostly exported to the Asian market.

The Russian Arctic shelf is seen as the most important growth area for Arctic hydrocarbon production in the distant future. More than 90 per cent of circumpolar offshore gas and more than 45 per cent of circumpolar oil is concentrated in the Russian sector of the Arctic shelf.[48]

[44] Analytical Center, Russian Government [Development of oil transportation], Energy Bulletin, May 2016, <http://ac.gov.ru/files/publication/a/9072.pdf>, p. 10 (in Russian).

[45] According to the law, the land territories of the AZRF comprise the whole of the Murmansk region and the Nenets, Chukotka and Yamal-Nenets Autonomous Districts, the territory of the municipality of the city Vorkuta (Komi Republic), some areas of the Republic of Sakha (Yakutia), Krasnoyarsk region and Arkhangelsk region, and the lands and islands of the Arctic Ocean mentioned in the USSR decree of 1928. Laverov, N., Bogoyavlensky, V. and Bogoyavlensky, I., 'Hydrocarbons of the Arctic Zone of the Russian Federation', *Arctic Herald*, vol. 3, no. 14 (2015), p. 46.

[46] Laverov, Bogoyavlensky and Bogoyavlensky (note 45), p. 46.

[47] Khodyakova, E., [Gazprom decreases level of extraction on Bovanenkovo], *Vedomosti*, 17 Oct. 2013, <http://www.vedomosti.ru/newsline/news/17596761/gazpromu-nevygodno-mnogo-dobyvat> (in Russian).

[48] Kontorovich, A. E., 'Oil and gas of the Russian Arctic: history of development in the 20th century, resources, and strategy for the 21st century', *SCIENCE First Hand*, vol. 41, no. 2, 30 Aug. 2015, <https://scfh.ru/en/papers/oil-and-gas-of-the-russian-arctic-history-of-development/?sphrase_id=998814>.

The only project under way on the Russian Arctic shelf (and developed offshore) at present is Gazprom Neft's Prirazlomnoe oil field in the Pechora Sea (60 km off the coast), which became operational in December 2013. In 2016, 2154 million metric tonnes of crude oil were produced at the Prirazlomnaya platform.[49] Despite the successful launch of this project, it took 24 years to complete it and the final costs significantly exceeded planned ones.

In 2008, amendments to the 1992 Law on Subsoil Resources limited access to offshore development in the Arctic to just two Russian companies, Gazprom and Rosneft, and in subsequent years most of the licences for the Arctic shelf have been divided between these two companies.[50] However, exploration of the Arctic shelf presents a significant challenge even for such giants of the Russian oil and gas industry as Rosneft and Gazprom.

The Arctic shelf is largely unexplored: only 20 per cent of the Barents Sea and 15 per cent of the Kara Sea have been explored, and the East Siberian, Laptev and Chukchi seas have not been explored at all.[51] According to their licensing conditions, Gazprom and Rosneft are obliged to undertake a significant amount of exploration on the Arctic shelf. Their capacity to fulfil this obligation is, however, rather limited.[52] Geological prospecting requires significant investment, with every attempt to drill a well costing a company around 500 million roubles ($7.8 million).

Owing to the lack of internal capacity for exploration, the high costs of investment in the region and no immediate returns, Russian state companies Rosneft and Gazprom sought the involvement of foreign investors. In 2008 Gazprom, Statoil and Total signed an agreement to develop the Shtokman field in the Barents Sea. In 2011 Rosneft signed a strategic cooperation agreement with ExxonMobil to explore its licences in the Kara Sea. In 2012 Rosneft signed a number of agreements establishing joint ventures for the development of the Arctic shelf with Statoil (Barents and Okhotsk seas) and Eni (Barents Sea). In addition, in order to fulfil its existing licence obligations, Rosneft signed long-term agreements with a number of service companies for offshore drilling.[53]

[49] 'Gazprom Neft ups Arctic offshore oil production 150 percent in 2016', *The Arctic*, 2 Feb. 2017, <http://arctic.ru/resources/20170202/540735.html>.

[50] According to the company's website, Rosneft owns 6 licensed areas in the Barents Sea, 8 in the Pechora Sea, 4 in the Kara Sea, 4 in the Laptev Sea, 1 in the East Siberian Sea and 3 in the Chukchi Sea. Gazprom has 27 licences on the Arctic shelf: 20 in the Kara Sea and 7 in the Barents Sea. See Gazprom, *Gazprom Magazine*, no. 5 (2016), <http://www.gazprom.ru/f/posts/59/537921/gazprom-magazine-5-2016.pdf>, p. 8 (in Russian).

[51] Panichkin, I., 'Developing offshore oil and gas resources in the Russian Arctic shelf: now and tomorrow', Russian Council on International Affairs, 24 Nov. 2015, <http://russiancouncil.ru/en/analytics-and-comments/analytics/razvedat-i-osvoit/>.

[52] Although the Russian geophysical fleet, necessary for exploration of the shelf, consists of 13 vessels capable of conducting seismic prospecting (about 8 per cent of the global total), these ships are inferior in performance to contemporary foreign vessels, which is especially important in Arctic conditions with a short operating season (2–5 months). The drilling fleet, built in the Soviet era, is almost completely lost due to ageing or has been sold. See Bogoyavlensky, V. and Bogoyavlensky, I., [On the threshold of the Arctic epic], *Neft Rossii*, Apr. 2015, <http://www.neftrossii.ru/docs/magazines/NR/2015/NR-2015-4.pdf> (in Russian).

[53] In 2014 Rosneft signed an agreement with the Norwegian company North Atlantic Drilling Limited for the use of 6 offshore drilling rigs in its shelf projects, including its Arctic shelf projects, until 2022. Rosneft, [Rosneft and North Atlantic Drilling expand cooperation on the shelf], Press release, 30 Jul. 2016,

Table 3.1. Northern Sea Route statistics, 2011–16

	2011	2012	2013[a]	2014	2015	2016
Number of transits	41	46	71 (46)	31	18	19
Total transit cargo tonnage in thousand metric tonnes	820 189	1 261 545	1 397 (1 176)	274 000	39 586	214 513
Total cargo (including transit) in thousand metric tonnes	3 111	3 876	3 914	3 982	54 317	6 900

[a] In 2013 the Russian Government claimed 71 transits along the Northern Sea Route but most experts agree that the figure was only 46; hence the difference in total transit cargo tonnage.

Sources: Russian Federal State Statistics Service, [The volume of cargo transportation in the water area of the Northern Sea Route], <https://www.fedstat.ru/indicator/51479> (in Russian); and Olshevski, A., [Rules of navigation of vessels in the water area, the Northern Sea Route: experience of application], PowerPoint presentation, <http://offshoremarintec-russia.ru/netcat_files/userfiles/Olshevskiy_Alexandr_Nikolaevich_Administratsiya_Sevmorputi.pdf> (in Russian).

In short, Rosneft and Gazprom focused their efforts on finding partners among Western investors. However, most of these partnerships fell apart owing to the changing situation in the world's energy markets and the sanctions imposed on Russia in the aftermath of its annexation of Crimea. This has forced Russia to seek investments elsewhere.

The Northern Sea Route

The second goal of Russia's Arctic strategy is to develop the Northern Sea Route (NSR). Statistics show that over the past five years national and international shipping companies have become increasingly interested in the NSR. However, most of the voyages have been experimental trials of the new shipping lane. As a result, transit shipping along the NSR significantly decreased in 2014 and 2015. Only 39 586 tonnes of cargo was transited across the NSR in 2015, which is 6.9 times less than in 2014, when transit was 274 000 tonnes.[54] In 2016 transit shipping recovered somewhat at 214 513 tonnes.[55]

<https://www.rosneft.ru/press/releases/item/153551/> (in Russian). To increase access to its drilling fleet, Rosneft also signed a framework agreement in 2014 with Seadrill Limited and North Atlantic Drilling Limited on the exchange of assets and investments. Rosneft, [Rosneft and North Atlantic Drilling signed an agreement on the exchange of assets], Press release, 22 Aug. 2014, <https://www.rosneft.ru/press/releases/item/153574/> (in Russian).

[54] Doyle, Q. and Scrutton, A., 'Sanctions sap allure of Russia's Arctic shipping route', *Reuters*, 22 Jan. 2015, <http://www.reuters.com/article/2015/01/22/us-sanctions-russia-arctic-shipping-idUSKBN0KV17520150122>.

[55] Northern Sea Route Information Office, 'Vessels transited NSR in Y2016', <http://www.arctic-lio.com/docs/nsr/transits/Transits_2016.pdf>.

Overall, shipping along the NSR has been steadily increasing, however, and turnover in 2016 was 6.9 million tonnes.[56] The increase is closely linked to domestic shipping and, in particular, shipping related to the development of hydrocarbon resources in the AZRF and on the Arctic shelf. At present the traffic mostly comprises the transportation of equipment and materials for the construction of the fields; later, increased traffic will be related to the export of resources. In the coming five to ten years the main project that will contribute to the increase of shipping along the NSR will be development of Novatek's Yamal LNG and Gazprom Neft's Novy Port deposits.[57]

One of the first goals of the Russian Government has been clarification of the legal status of the NSR. The Federal Law of 28 July 2012, 'On Amendments to Certain Legislative Acts of the Russian Federation Concerning State Regulation of Merchant Shipping on the Water Area of the Northern Sea Route', defines the limits of the NSR.[58] It also establishes a permissive regime of navigation along the NSR, where foreign ships are subject to compliance with specific rules of navigation, and includes procedures for the issuing of permissions, icebreaker assistance and pilotage and other requirements.[59] Thus, although Russia has not extended full sovereignty over the NSR, it uses Article 234 of UNCLOS on ice-covered areas to establish its own rules of navigation along the NSR.

The law also established the Administration of the Northern Sea Route, a federal public agency responsible for administration of NSR shipping.[60] In 2013 Russia introduced a list of navigation rules in the area of the NSR.[61] Among other things, the rules set the requirement of icebreaker escort that can be performed only by icebreakers under the Russian flag, depending on the ice class of the ship and navigation conditions.[62]

It is widely agreed that one of the main current obstacles to the full-fledged functioning of the NSR is the absence of necessary infrastructure. At present the Russian Government has adopted a number of programmes concerning the development of infrastructure along the NSR, including 'The Transport Strategy 2030', the federal programme 'Transport System Development, 2010–2020' and 'The

[56] Lenta.ru [The cargo turnover of the Northern Sea Route reached a record level], 13 Feb. 2017, <https://lenta.ru/news/2017/02/13/cardgoflow/> (in Russian).

[57] Kogtev, Y., [Icebreaker alternative], *Kommersant*, 16 Jun. 2016, <http://www.kommersant.ru/doc/2744706> (in Russian).

[58] Northern Sea Route Administration, Russian Federal State Institution, Federal Law of Shipping on the Water Area of the Northern Sea Route, 28 July 2012, N 132-FZ, 'Unofficial translation', <http://www.nsra.ru/en/zakon_o_smp/>. The law defines the limits of the NSR as: '[A] water area adjoining the northern coast of the Russian Federation, including internal sea waters, territorial sea, contiguous zone and exclusive economic zone of the Russian Federation, and limited in the East by the line delimitating the sea areas with the United States of America and by the parallel of the Dezhnev Cape in the Bering Strait; in the West, by the meridian of the Cape Zhelanie to the Novaya Zemlya archipelago, by the east coastal line of the Novaya Zemlya archipelago and the western limits of the Matochkin Shar, Kara Gates, Yugorski Shar Straits.'

[59] Gavrilov, V. V., 'Legal status of the Northern Sea Route and legislation of the Russian Federation: a note', *Ocean Development and International Law*, vol. 46, no. 3 (2015), pp. 256–63.

[60] Northern Sea Route Administration (note 58).

[61] Northern Sea Route Administration, 'Rules of navigation in the water area of the Northern Sea Route', Approved by the order of the Ministry of Transport of Russia, 17 Jan. 2013, <http://www.nsra.ru/files/fileslist/20150513153104en-Rules_Perevod_CNIIMF-13%2005%202015.pdf>.

[62] Northern Sea Route Administration (note 61).

Russian Arctic Socio-Economic Development Strategy' of 2014. However, despite the abundance of federal programmes and projects aimed at developing the NSR and infrastructure around it, with few exceptions most of the plans determined by the strategic documents remain on paper and have not become reality. At the moment, the State Commission for Arctic Development under the government of the Russian Federation is making an effort to develop a strategy with prioritized projects. In June 2015 the Commission declared the adoption of the Integrated Development Plan for the Northern Sea Route. The plan included measures to provide navigation hydrographics and hydro-meteorological support for navigation in the waters of the NSR, such as search and rescue assistance, development of seaports and ensuring defence in the waters of the NSR.[63] At a meeting on 24 May 2016 the head of the Commission, Dmitry Rogozin, declared that the integrated plan required further development and clarification.[64] Thus, neither the budget nor the terms of implementation have been made public.

To date, perhaps the only viable and relatively advanced (in terms of completion) project is construction of the seaport of Sabetta on the Yamal Peninsula, which is being carried out in order to ensure the transportation of hydrocarbons from Yamal LNG by sea to Western Europe and the Asia-Pacific region. Sabetta must provide for the year-round navigation of ships and gas carriers and their passage through the NSR. Construction began in 2012 and is due to be completed in 2017 by the time the Yamal LNG plant is launched. Another example is construction of the Arctic Gate offshore oil terminal at Kotelny Cape in Ob Bay (also on the Yamal Peninsula) by Gazprom Neft to provide year-round sea transportation for the Novy Port field; construction of the Gate was completed in 2016.[65]

Taking into account the fact that 60 per cent of transit shipping along the NSR is bound to and from Asia, the Russian Government has been increasingly looking to Asian countries both as consumers of the NSR and also as potential investors.

Is Russia 'turning East' in the Arctic?

The pivot to Asia did not originally include the Russian Arctic, but was rather seen as a potential boost for development of the Russian Far East and Urals region. In general, there has been much scepticism about the extent to which Russia welcomes the non-Arctic states, and China in particular, in the Arctic region, especially when it comes to Arctic governance.

Major shifts in the world energy markets have had a significant impact on development of the Russian Arctic, especially when it comes to resources on the Arctic shelf and the expansion of current onshore resources on the Yamal Peninsula. One of the major factors in play is the US shale gas revolution, which has put on

[63] Russian Government, 'Meeting with vice ministers', 8 Jun. 2015, <http://government.ru/news/18407/> (in Russian).

[64] [A comprehensive project for the development of the Northern Sea Route needs to be finalized], 24 May 2016, <http://www.arctic.gov.ru/News/efb1de1a-7f21-e611-80cc-e672fe4e8e4e?nodeId=d227de92-dc4c-e511-825f-10604b797c23&page=1&pageSize=10> (in Russian).

[65] Gazprom, 'First cargo of Yamal oil shipped from Arctic Gate offshore terminal', Press release, 25 May 2016, <http://www.gazprom.com/press/news/2016/may/article274906/>.

hold Gazprom's project of developing the Shtokman gas field—Gazprom saw the USA as its market for the Shtokman gas.

The slower pace of increasing demand for natural gas in the EU has undermined the EU's confidence in Russia as a reliable supplier since the Ukraine gas crises in 2006 and 2009.[66] Further, the EU's plans to prioritize the diversification of gas suppliers to the European market have resulted in Russia's production potential of natural gas exceeding its current sales.[67] This has especially affected production at the Yamal gas fields.

The fall in oil prices, according to expert estimates, has made development of Arctic shelf oil fields unprofitable, and this will continue to be the case while the price of oil stays below $100 per barrel. In January 2016 oil prices sank to a record low of $27.67—the lowest since 2003.[68] Although the prices of crude oil have to some extent recovered and currently fluctuate above $50 per barrel, unless oil prices rise to $100 per barrel it is expected that Arctic shelf oil resources will remain undeveloped.[69] These factors have put pressure on the Russian economy in general, and have made it more difficult for Russian energy firms to finance new projects, especially higher-cost projects such as deep-water, Arctic offshore and shale projects.[70] This has also forced energy firms to look at other markets for potential consumers of Arctic resources, primarily in Asia.

The main decisive factor behind Russian companies' need to diversify their partnerships has been geopolitical tensions between Russia and the West in the wake of the Ukraine crisis. In July 2014, following Russian annexation of Crimea, the USA and EU introduced sanctions against Russia that had significant implications for the transfer of technologies. The US sanctions included a ban on the supply of equipment for deep drilling (over 152 metres), the development of the Arctic shelf and shale oil and gas reserves. US sanctions are stricter than those of the EU, which forbid the transfer of technologies for deep oil production (150 metres), exploration and development of the Arctic shelf shale oil reserves.[71] The sanctions also introduced financial restrictions on loan funds for more than 30 days (90 days initially, but since then conditions have been tightened). The largest Russian banks and corporations are subject to sanctions, including Rosneft, Transneft, Gazprom Neft, Gazprom, Novatek, Lukoil and Surgutneftegaz.[72]

66 Krutikhin, M., 'Gazprom's battle for Europe', Carnegie Moscow Center, 18 Oct. 2016, <http://carnegie.ru/commentary/?fa=64881>.

67 Henderson, J. and Mitrova, T., *The Political and Commercial Dynamics of Russia's Gas Export Strategy*, Oxford Institute for Energy Studies (OIES) Paper NG 102 (OIES: Oxford, Sept. 2015), <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/09/NG-102.pdf>; and Krutikhin (note 66).

68 West, M., 'Just how low can oil prices go and who is hardest hit?', BBC News, 18 Jan. 2016, <http://www.bbc.com/news/business-35245133>.

69 Kashin, M., [The Arctic is certainly our future], *Kommersant*, 25 Feb. 2015, <http://www.kommersant.ru/doc/2675105> (in Russian).

70 US Energy Information Administration, 'Country analysis brief: Russia', 25 Oct. 2016, <https://www.eia.gov/beta/international/analysis_includes/countries_long/Russia/russia.pdf>.

71 European Union Newsroom, 'EU sanctions against Russia over Ukraine crisis', 16 Mar. 2017, <https://europa.eu/newsroom/highlights/special-coverage/eu_sanctions-against-russia-over-ukraine-crisis_en>.

72 Bogomolov, P., [Arctic both beckons and warns], *Neft Rossii*, May–Jun. 2016, <http://www.neftrossii.ru/sites/default/files/nr-2016-5-6.pdf>, p. 40 (in Russian).

Table 3.2. International partnerships in the Russian Arctic

Company	International partner	Areas on the Arctic shelf	Share in the project (%)	Status
Rosneft	ExxonMobil	3 licences in South Kara Sea, 1 block in Kara Sea, 3 blocks in Laptev Sea, 3 blocks in Chukchi Sea	*33.33*	Suspended due to sanctions
	Eni	2 licences in Barents Sea	*33.33*	Status unspecified[a]
	Statoil	1 licence in Barents Sea	*33.33*	Suspended due to sanctions
Gazprom	Total, Statoil	Shtokman field in Barents Sea	Total: *25* Statoil: *24*	Cancelled in 2012 due to loss of market and disagreement with partners
	Shell	1 licence in Chukchi Sea, 1 licence in Pechora Sea	*33.3*	Suspended due to sanctions

[a] According to statements by the companies, the implementation of joint projects between Rosneft and Eni (Fedynsky and central Barents regions in the Barents Sea) is continuing with the observance of the sanctions regime. Kazancheev, P. and Bazaleva, R., [Comparison of the role of private and state oil companies in the development of deposits on the Arctic shelf], RANHiGS, Apr. 2015, <http://cre.ranepa.ru/wp-content/uploads/2015/04/policy-paper-arctic-2.pdf> (in Russian).

One of the immediate effects was the suspension of cooperation between Russian companies and their international partners in the Arctic. Rosneft had to stop geological exploration of the Arctic shelf and declared that it would not be able to resume drilling in the Kara Sea, which had been planned in 2015, because its partners, ExxonMobil and North Atlantic Drilling, were obliged to comply with the sanctions imposed on Russia.[73] Meanwhile, Novatek faced significant problems finding money for its Yamal LNG project owing to the financial sanctions.[74]

Both Gazprom and Rosneft have reconsidered their plans for Arctic shelf development.[75] The two companies have requested a review of the terms of licences in the Arctic by the Ministry of Natural Resources. In 2016 the Ministry of Natural Resources changed the terms of eight of Rosneft's Arctic licences and five of Gazprom's licences and admitted that the timing of the licences had to be postponed by 15 to 20 years.

In the light of these developments, the Kremlin's openness to foreign, and primarily non-Western, participation in Russian energy projects (including Arctic projects) has significantly increased.[76] Declarations of possibilities and openness towards Asian countries in energy projects, including those in the Arctic, have

[73] Delovoy Peterburg, [Rosneft has asked to extend the deadline of the Arctic shelf development], 28 Oct. 2014, <http://www.dp.ru/a/2014/10/28/Rosneft_poprosila_prod/> (in Russian).

[74] *Moscow Times*, 'Chinese banks ready to invest $10 billion in Yamal LNG', 7 Nov. 2014, <http://www.themoscowtimes.com/business/article/chinese-banks-may-invest-10-billion-in-russia-s-sanctions-hit-yamal-lng/510801.html>.

[75] Gazprom, [Three directions], *Gazprom Magazine*, no. 5 (2016), <http://www.gazprom.ru/f/posts/59/537921/gazprom-magazine-5-2016.pdf>, p. 8 (in Russian).

[76] Domanska, M. and Kardas, S., 'The consequences of the Western financial sanctions on the Russian economy', Ośrodek Studiów Wschodnich (OSW) Commentary, 24 Mar. 2016, <https://www.osw.waw.pl/en/publikacje/osw-commentary/2016-03-24/consequences-western-financial-sanctions-russian-economy>.

followed in succession from a number of Russian officials, diplomats and representatives of Russian companies. For example, in 2015 the Minister of Natural Resources, Sergey Donskoy, declared his support for a Chinese partnership in Arctic energy resource development if it would bring technology and investments.[77] In July 2016 the Minister of Foreign Affairs, Sergey Lavrov, also mentioned that Chinese investors were welcome in the Arctic.[78] In September 2016 Dmitry Rogozin declared that India was welcome to participate in Russia's Arctic offshore projects.[79]

Asian countries have always been seen by Russia as potential destinations and consumers of the NSR. For the past five years most transit shipments along the NSR have been bound for Asia (64 per cent), including China (16 per cent), South Korea (14 per cent) and Japan (5 per cent).[80] However, Russian officials are now talking about attracting Asia not just as a user of the NSR but also as its co-developer together with Russia.

For instance, during the Asia-Pacific Economic Cooperation (APEC) summit in Indonesia in October 2013, Putin suggested to his Asian counterparts that they jointly develop the NSR infrastructure: 'We invite business partners from the Asia-Pacific region to join in these projects and take part for example in the large-scale modernisation of the Trans-Siberian and Baikal-Amur railways, and developing the Northern Sea Route. I know that many Asian countries are very interested in developing this transport corridor.'[81]

In February 2016 Dmitry Rogozin announced that China was seen as being among the top potential partners for developing the infrastructure of the NSR, and stated that one of the meetings with Vice Premier Wang Yang would take place in the Arctic in the near future, as 'they looked and discovered the security and reliability of the way'.[82] Rogozin further mentioned the NSR as being part of the Chinese 'One Belt, One Road' (OBOR) initiative, calling the NSR the 'Cold Silk Road'.[83]

The shift in Russian perceptions of Asian countries (China in particular) as potential partners in the development of the NSR is explained by a number of factors. Although Western sanctions have not affected development of the NSR directly, they have, as mentioned above, caused a general fall in both the Russian

[77] Lenta.ru, [Ministry of Natural Resources supported the participation of the Chinese in the development of the Arctic], 19 Nov. 2015, <https://lenta.ru/news/2015/11/19/chinanorth/> (in Russian).

[78] *Vzgluad*, [Lavrov announced an invitation to China to implement Arctic projects], 22 Jul. 2016, <http://vz.ru/news/2016/7/22/823007.html> (in Russian).

[79] RIA Novosti, [Russia intends to attract India to the joint development of the shelf in the Arctic], 13 Sep. 2016, <https://ria.ru/world/20160913/1476853998.html> (in Russian).

[80] Protection of the Arctic Marine Environment (PAME), 'Northern Sea Route shipping statistics', <http://www.pame.is/index.php/projects/arctic-marine-shipping/northern-sea-route-shipping-statistics>.

[81] Russian President, 'Vladimir Putin took part in the APEC CEO summit', 7 Oct. 2013, Bali, Indonesia, <http://eng.kremlin.ru/news/6086>.

[82] RIA Novosti, [Rogozin invited China to develop the Northern Sea Route], 26 Feb. 2016, <http://ria.ru/east/20160226/1380762355.html#ixzz42Q5ywZ1y> (in Russian).

[83] Lenta.ru, [Rogozin suggested creating a 'Cold Silk Road' through the Arctic], 7 Dec. 2015, <https://lenta.ru/news/2015/12/07/rogozin/> (in Russian).

economy and oil prices, which has negatively affected the ability of Russia's state budget to finance big infrastructure projects, the NSR included.

The annexation of Crimea in 2014 has also significantly shifted the priorities of Russian infrastructure projects funded from the state budget. Soon after Crimea became a part of Russia, financing of the development of the Murmansk transport hub was cut to free up resources for the development of Crimea.

As stated earlier, the development of energy resources directly determines the success of the NSR development. Without progress in the development of oil and gas projects in the Arctic, there will be less incentive to invest into infrastructure development. Therefore, Russia would require substantial external (non-state and also non-domestic) investment to develop the infrastructure along the NSR. Against a background of strained relations with the West, Asian countries—and China in particular—remain Russia's primary source for capital to develop the Arctic .

4. Recent developments in overall Chinese–Russian cooperation

Drivers behind and limits to Chinese–Russian strategic rapprochement

As Russia's relations with the USA and the EU have further deteriorated, especially following the 2014 Ukraine crisis, and Russia has emphasized its 'pivoting to Asia' foreign policy initiative announced in 2013, the prospects of a Chinese–Russian strategic alliance have come under intensified international scrutiny.[84] Although there is Chinese–Russian strategic rapprochement, with China and Russia increasingly coordinating their positions and policies and strengthening cooperation on several international political and security issues, a strategic alliance—that is, an explicit agreement in the realm of national security between the two countries that includes mutual military assistance and collective defence commitments—is, for a number of reasons, still not expected. However, the deepening and broadening of the Chinese–Russian comprehensive strategic partnership in recent years reflect more than a tactical reaction or a temporary meeting of minds and interests.[85]

Besides a strong interest on both sides in strengthening Chinese–Russian cooperation over energy resources and minerals and more broadly over trade and investments flows, Chinese and Russian leaders increasingly have similar analyses of developments and threats in the international system and especially of US intentions and behaviour regarding its frequent use of force and sanctions on other countries.[86] In particular there is growing shared Chinese–Russian frustration with the USA, which is perceived as acting in too arrogant and bullying a manner. Hence, the shared Chinese–Russian perception is that the USA does not respect the legitimate rights and concerns of both China and Russia, especially regarding their domestic affairs and respective regional neighbourhoods, namely the US pivot in East Asia for China and expansion by the North Atlantic Treaty Organization into the post-Soviet space for Russia. On the other hand, however, China does not share the Russian impulse to challenge and confront the USA directly, nor does it wish to risk jeopardizing its relationship with the USA in catering to a Russian agenda. As put by Aglaya Snetkov and Marc Lanteigne, whereas Russia has assumed the role of 'loud dissenter', China has opted for the position of 'cautious partner'.[87]

[84] See e.g. Yu, B., 'H-bomb plus THAAD equals Sino-Russian alliance?', *Comparative Connections*, vol. 18, no. 1 (2016), pp. 181–201.

[85] See e.g. Yu, B., 'China–Russia relations: Politics of "reluctant allies"', *Comparative Connections*, vol. 18, no. 2 (2016), pp. 129–44, <https://csis-prod.s3.amazonaws.com/s3fs-public/publication/1602q_0.pdf>.

[86] See e.g. Duchâtel, M. and Godement, F., 'China and Russia: gaming the West', European Council on Foreign Relations, China Analysis, 2 Nov. 2016, <http://www.ecfr.eu/publications/summary/china_and_russia_gaming_the_west7166>.

[87] See Snetkov, A. and Lanteigne, M., 'The loud dissenter and its cautious partner—Russia, China, global governance and humanitarian intervention', *International Relations of the Asia-Pacific*, vol. 15, no. 1 (2015), pp. 113–46.

An important reason is that the Chinese economy—and hence the Chinese priority of ensuring its own modernization and economic growth—is linked with the US economy. Chinese leaders also prioritize coordination and cooperation with the USA and the maintenance of a stable and peaceful regional and international system in order to handle and solve a lot of the domestic challenges they face.[88] As top Chinese diplomat Fu Ying has stressed, 'China has no interest in a formal alliance with Russia, nor in forming an anti-US or anti-Western bloc of any kind'.[89]

For China, Russia is first and foremost its biggest neighbour. The two countries share a long border and have common interests in stability and economic development. It is therefore a requirement that the two countries get along and manage their differences. Russia and China also share a complex history, and Chinese scholars often emphasize historical lessons, pointing to how Russians are guided by their own national interests and how Chinese–Russian relations, especially since 1949, have been characterized by rivalry and mistrust.[90] For the Russians to adjust to the shift in relative power is seen as being especially difficult and, in the light of this, Chinese scholars emphasize how Russians are concerned about the expansion of Chinese influence, interests and capabilities, especially economic ones, in Siberia, the Russian Far East and the post-Soviet states of central Asia.[91]

As a way of trying to address Russian concerns and reassure Russia about China's so-called win–win approach, during the APEC Summit in Lima, Peru, in November 2016, President Xi Jinping again suggested integrating China's high-profile 'One Belt, One Road' (OBOR) initiative—where the landlocked part of the OBOR initiative aims to connect China with vital European markets via train routes and highways through, for example, central Asia and Russia—with Russia's Eurasia Economic Union (EEU) initiative. This would create a Eurasian economic network within the framework of the Shanghai Cooperation Organization.[92] It is still too early to say whether this is possible, but there seems to be growing Russian interest in and willingness to participate in China's OBOR initiative, and already there is Chinese involvement in the development and building of Russian infrastructure, for example the Moscow–Kazan high-speed railway, which is presented as being the first part of a projected Moscow–Beijing high-speed railway.

Although China has sought to strengthen bilateral economic, energy resource and military ties with Russia and to coordinate and cooperate more with Russia in Asia, in particular central Asia, it has generally been cautious and sought to stay out of ongoing international security crises and conflicts where Russia is involved,

[88] Fu, Y., 'How China sees Russia', *Foreign Affairs*, Jan./Feb. 2016, <https://www.foreignaffairs.com/articles/china/2015-12-14/how-china-sees-russia>.

[89] Fu (note 88).

[90] See e.g. Duchâtel and Godement (note 86); Yu (note 85); and Fu (note 88).

[91] Chinese Arctic scholars, Interviews and meetings conducted by Camilla T. N. Sørensen, SIIS, 17 Jan. 2017, and Copenhagen University, 13 Feb. 2017. See also Korolev, A., 'Russia's reorientation to Asia: causes and strategic implications', *Pacific Affairs*, vol. 89, no. 1 (2016), pp. 53–73.

[92] See Xinhua News Agency, 'Highlights of President Xi's attendance at the Lima APEC meeting', 21 Nov. 2016, <http://news.xinhuanet.com/english/2016-11/21/c_135847088.htm>; and Yu (note 85), p. 132. Already in May 2015, there was a Chinese–Russian joint statement linking OBOR and EEU.

for example Ukraine and Syria.[93] China has been unwilling to support or participate in Western sanctions against Russia, but has stopped short of siding with Russia, seeking to present itself as more of a neutral outsider.

In foreign policy terms China is increasingly being drawn out, in particular because of its expanding economic presence and interests. This makes it more and more difficult for China to adhere to its 'keep a low profile' foreign policy guideline. However, its foreign policy—as regards its core national interests—is still primarily directed towards and bound to Asia. Russia, on the other hand, has a broader foreign policy outlook and agenda as well as considerable experience of conducting military operations and interventions beyond its own region. China has started to get more involved in international security crises and conflicts, increasingly presenting its own initiatives, for example so-called road maps on how to stop violence and get back to a diplomatic process. However, beyond Chinese participation in UN peacekeeping missions and other international operations, for example anti-piracy operations, the Chinese military is not actively used to promoting Chinese interests in other countries and regions. Generally speaking, military adventurism is not a strong element of the Chinese military or strategic tradition, as is the case with Russia.

To sum up, there are limits to the Chinese–Russian strategic rapprochement witnessed in recent years. Especially pervasive are the mistrust rooted in historical grievances and strategic cultural differences and the growing concerns particularly on the Russian side about the long-term implications of the ongoing shift in relative power. Add to this China's priority of continued domestic economic growth and stability, for which Chinese leaders need to get along with the USA—China's most important trading partner. Further, in order to handle and solve a lot of the current huge domestic challenges, for example climate change, China also needs to coordinate and cooperate closely with the USA.[94] The question therefore is how robust and lasting is the Chinese–Russian strategic convergence of recent years? As stated by Bobo Lo, China and Russia 'share neither a long-term vision of the world nor a common understanding of their respective places in it'.[95] From a Chinese point of view, it makes sense to characterize Chinese–Russian strategic relations not as an alliance but as a flexible strategic partnership in which the two partners pragmatically seek to tactically identify mutual strategic interests and ways to coordinate and cooperate on them on an issue-by-issue basis, which means they are not committed to assisting and defending each other on a fixed or long-term basis.[96]

[93] See Snetkov and Lanteigne (note 87).

[94] Fu (note 88).

[95] Cited in Kotkin, S., 'The unbalanced triangle', *Foreign Affairs* (Sep./Oct. 2009), <https://www.foreignaffairs.com/reviews/review-essay/unbalanced-triangle>.

[96] Chinese Arctic scholars (note 7).

Russian oil and gas cooperation with China

Although Russia's policy of pivoting to Asia emerged before the crisis in Ukraine, conflict with the West over Ukraine and the introduction of sanctions against Russia have fostered the emphasis on its strategic relations with the East, and with China in particular.[97] Since 2014 the Kremlin has been eager to show that it has viable economic and political alternatives to the West, including in energy cooperation. Cooperation with China in the oil and gas sector has always been seen as an important component of pivoting to Asia.[98] It has, however, progressed very slowly and has experienced a number or twists and turns.[99] Generally speaking, Russia's turning East has proven to be a much more difficult task than anticipated, and so far has brought only limited results.

Oil cooperation

Russian–Chinese oil cooperation started slowly in the 1990s and 2000s. However, once the head of Rosneft, Igor Sechin, had consolidated Rosneft's position in Russia, cooperation picked up. In 2009 Rosneft concluded a deal with the CNPC, whereby China provided long-term loans totalling $25 billion that Rosneft agreed to repay with 300 million tonnes of oil.[100] Four years later, in October 2013, Rosneft and Sinopec signed a memorandum concluding an agreement to export 100 million tonnes of oil over 10 years starting in 2014, thus doubling Rosneft's exports to China.[101] Rosneft's rapid expansion was a key factor in the successful and relatively smooth and streamlined process (compared with the gas sector) of getting agreements with the Chinese and pushing the Russia–China projects through Russian bureaucracy.[102] On the Chinese side, in addition to securing a long-term pipeline alternative for oil delivery, cooperation with Rosneft also opened up Russia's upstream projects. Several attempts by Chinese companies to buy Russian upstream in the 1990s and early 2000s failed owing to an unofficial ban on China's participation in large energy projects.[103] However, since 2005 China has managed to secure a stake in a number of such projects, and in 2013, as a part of this process, Rosneft and China established a joint venture for the development of resources in East Siberia—Srednebotuobinsk field.[104]

[97] Lo (note 2).

[98] Lo, B., 'Russia's Eastern direction: distinguishing the real from the virtual', Russie.Nei.Reports no. 17 (Institut français des relations internationales: Paris, Jan. 2014), <https://www.ifri.org/sites/default/files/atoms/files/ifrirnr17boboloeasterndirectionjan2014.pdf>.

[99] Jakobson, L. et al., *China's Energy and Security Relations with Russia*, SIPRI Policy Paper no. 29 (SIPRI: Stockholm, 2011).

[100] *Rossiyskaya Gazeta*, [Vladimir Putin commissioned the Eastern Siberia–Pacific Ocean oil pipeline], 28 Dec. 2009, <http://www.rg.ru/2009/12/28/vsto-anons.html> (in Russian).

[101] Rosneft, 'Rosneft and Sinopec agree memorandum on prepaid export contract', Press release, 22 Oct. 2013, <https://www.rosneft.com/press/releases/item/24362/>.

[102] Blank, S., 'Russia's energy deals with East Asia: who wins?', *The Diplomat*, 3 July 2013, <http://thediplomat.com/2013/07/03/russias-energy-deals-with->.

[103] Itoh, S., *Russia Looks East: Energy Markets and Geopolitics in Northeast Asia* (Center for Strategic and International Studies: Washington, DC, 2011), <https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/110721_Itoh_RussiaLooksEast_Web.pdf>, p. 37.

[104] News.Ru, [Vostok Energy is officially registered in China and has access to Russian oil], 27 Sep.

Since 2014, however, cooperation has slowed down. Despite the fact that on several occasions Russian officials invited Chinese companies to invest in Russian upstream, Rosneft failed to sell a share of the Vankor deposit to Chinese companies.[105] Instead, in June 2016 a consortium of Indian companies—Oil Indi—bought 23.9 per cent in Vankorneft and in late October 2016 Indian ONGC Videsh acquired 11 per cent of Vankorneft for $930 million.[106] Expectations of Chinese participation in the privatization of Rosneft have also proved wrong: Rosneft sold a 19.5 per cent stake to commodity trader Glencore Plc and Qatar's sovereign wealth fund.[107] In general, since 2014 has been observed that Chinese companies have proceeded with caution; they do not simply jump into any suggested deal, because they have a very strong bargaining position at the present time.[108]

Gas cooperation

Although Russia and China have been negotiating gas contracts since the 1990s and some progress was made over the course of the 2000s, gas delivery remained on paper owing to disagreements over price.[109] During this time, Gazprom and the CNPC also could not agree on the route of the pipeline; under consideration were an eastern route via the Sila Sibiri ('Power of Siberia') pipeline connecting the deposits of East Siberia and Vladivostok with a spur to China, and a western route via the Altai pipeline connecting deposits in West Siberia with China's Xinjiang province.[110]

Failure to achieve any progress with the gas deal can be explained by a number of factors. On the Russian side, Gazprom had no urgency to develop its cooperation with China because it had secured the European market with long-term contracts and relatively high prices. Gazprom was more interested in using the China card as leverage in its dealings with its European partners to increase prices and extend long-term contracts.[111] On the Chinese side, Gazprom was late

2007, <http://www.newsru.com/finance/25sep2007/china.html>; Poussenkova, N., 'Russia's eastern energy policy: a Chinese puzzle for Rosneft', Russie.Nei.Visions no. 70 (Institut français des relations internationales: Paris, 2013), p. 11; and Rosneft, 'Rosneft and CNPC sign memorandum to expand cooperation in upstream projects in East Siberia', Press release, 18 Oct. 2013, <https://www.rosneft.com/press/releases/item/24361/>.

105 Kozlov, D., [Rosneft looked away from China], *Kommersant*, 17 Mar. 2016, <http://kommersant.ru/doc/2939345> (in Russian).

106 Peschinsky, I., [Rosneft sold Chinese Beijing Gas stake in a large field for $1.1 billion], *Vedomosti*, 8 Nov. 2016, <http://www.vedomosti.ru/business/articles/2016/11/08/663903-rosneft-beijing-gas> (in Russian).

107 Mazneva, E. and Arkhipov, I., 'Russia sells $11 billion stake in Rosneft to Glencore, Qatar', *Bloomberg*, 7 Dec. 2016, <https://www.bloomberg.com/news/articles/2016-12-07/glencore-qatar-fund-buy-russia-s-rosneft-stake-for-11-billion>.

108 Kogtev, Y., [Chinese oil bubble], *Kommersant*, 18 Nov. 2015, <http://kommersant.ru/doc/2849786> (in Russian).

109 Henderson, J., *The Pricing Debate over Russian Gas Exports to China* (Oxford Institute for Energy Studies: Oxford, Sep. 2011), <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2011/10/NG-561.pdf>, p. 8.

110 Hodyakova, E. and Serov, M., [Gazprom postponed the construction of a gas pipeline to China], *Vedomosti*, 17 Dec. 2013, <http://www.vedomosti.ru/companies/news/20287511/gazprom-otlozhil-trubu-v-kitaj> (in Russian).

111 Itoh (note 103).

to the Chinese gas market so did not really have a good bargaining position. China had already secured pipeline supplies from central Asia and LNG deliveries from a number of countries, and was expanding its portfolio of gas deliveries along with increasing domestic production. Additionally, China's demand for gas was relatively low overall. Despite Chinese commitments to cleaner energy sources, natural gas accounted for a relatively low share of its energy consumption.

Facing sanctions and increasing international isolation, Russia has needed to prove that it had technological and investment alternatives for Russian oil and gas companies. One of the immediate results of this has been the final conclusion of the gas deal. In May 2014 Gazprom and the CNPC signed a 30-year contract for the supply of natural gas on the eastern route through the Power of Siberia pipeline. As reported by Gazprom, delivery can begin in 2018 at an amount of 5 billion cubic metres per year, and will later be brought up to 38 billion cubic metres per year. The contract is estimated to be worth $400 billion. The Power of Siberia pipeline is planned to be built within four to six years. In November 2014 Gazprom and the CNPC signed a framework agreement on delivery through the western route via the Altai pipeline of 30 billion cubic metres of gas per year, with a potential increase up to 100 billion cubic metres.[112]

However, this relatively optimistic breakthrough soon revealed significant challenges ahead. Despite the flamboyant signing of the second gas deal, there is still no progress on finalizing it, and the project will very likely remain on paper for another 10 to 15 years. In addition, there are reported construction delays on the Power of Siberia pipeline, the launch of which has been postponed by at least two years.[113] The question remains to what extent the gas deal is even profitable to either side in the aftermath of the fall in energy prices.[114] It has also been observed that Chinese companies have not invested in Russian upstream gas projects.[115]

Furthermore it is proving to be difficult to attract loans from Chinese financial institutions. Gazprom and China could not agree on a loan for the construction of the Power of Siberia pipeline.[116] Although Gazprom did eventually receive financial support, the overall level of financing remains low and does not replace credit flows from Western financial institutions.[117] Chinese commercial banks are very cautions about opening credit lines for Russian companies, especially

[112] RIA Novosti, [Gazprom continues talks with CNPC on gas supplies to China], 28 Apr. 2015, <http://ria.ru/east_economy/20150428/1061483829.html#ixzz42IccNOZL> (in Russian).

[113] Koroleva, A., [The Power of Siberia stands the schedule], Expert.ru, 28 Aug. 2016, <http://expert.ru/2016/08/26/sila/> (in Russian).

[114] BMI Research, 'Power of Siberia delay benefits all', 26 Apr. 2016, <http://www.bmiresearch.com/articles/power-of-siberia-delay-benefits-all>.

[115] Henderson, J. and Mitrova, T., *Energy Relations between Russia and China: Playing Chess with the Dragon*, Oxford Institute for Energy Studies (OIES) Paper (OIES: Oxford, Aug. 2016), <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/08/Energy-Relations-between-Russia-and-China-Playing-Chess-with-the-Dragon-WPM-67.pdf>.

[116] RBC, [Gazprom has changed the plans for building a gas pipeline to China], 19 May 2016, <http://www.rbc.ru/business/19/05/2016/573d779f9a79474b61282000> (in Russian).

[117] Stravinskaya, G., [Gazprom will receive a 2 billion euro loan from Bank of China], *Vedomosti*, 3 Mar. 2016, <http://www.vedomosti.ru/business/articles/2016/03/04/632474-gazprom-kredita-china> (in Russian); and Baev, P. K., 'Russia's pivot to China goes astray: the impact on the Asia-Pacific security architecture', *Contemporary Security Policy*, vol. 37, no. 1 (2016), pp. 89–110.

those affected by sanctions, in order to avoid repercussions from their partners in the USA and EU. The two Chinese institutions that are continuing to work with Russian oil and gas companies are the China Development Bank and the Export–Import Bank of China (China Exim Bank), which in many ways represent political institutions that are less connected to the international financial institutions and can take greater risks.[118]

For a long time China has been regarded by the Russian elite as an instrument—or card—to get something out of its other partners, for example the USA, EU or Japan.[119] There has been a fear that Russia will become a resource appendage of China. Despite the fact that since 2014 the Kremlin has turned to China and opened the door wide for Chinese investors, it has found that moving beyond political declarations is very difficult. Rather than jumping to help its strategic partner, China is exploiting its competitive advantage and Russia's strategic weakness.

118 Gabuev, A., *Friends with Benefits? Russian–Chinese Relations after the Ukraine Crisis*, Carnegie Endowment for International Peace paper (Carnegie Endowment: Washington, DC, June 2016), <http://carnegieendowment.org/files/CEIP_CP278_Gabuev_revised_FINAL.pdf>.

119 Lo, B., 'A Turn to the East', *Russia and the New World Disorder* (Brookings Institution Press: Washington, DC, 2015).

5. Recent developments in Chinese–Russian cooperation in the Arctic

Oil and gas cooperation in the Arctic

Over the past decade most Russia–China oil and gas cooperation has focused on the Russian Far East and East Siberia. However, the potential for cooperation in the Arctic has gradually become part of the negotiations.

In February and March 2013, during a round of oil delivery negotiations, Rosneft and the CNPC also discussed the possibilities for cooperation on Arctic shelf projects in the Barents and Pechora seas, in particular the Zapadno-Prinovozemelsky, Yuzhno-Russky, Medyskoe Sea and Varandeyskoe Sea deposits.[120] It is important to mention that Medyskoe Sea and Varandeyskoe Sea deposits are among the most promising of the oil deposits discovered: it is estimated they will produce up to 3.9 million tonnes and 5.5 million tonnes of oil per year, respectively.[121] In early 2014 the head of Rosneft, Igor Sechin, confirmed the commitment to working with China on the Arctic shelf projects.[122] No official confirmation or any details have been shared publicly, however. In November 2015 it was reconfirmed that Rosneft was still in discussions with China regarding participation in Arctic shelf projects. According to the Russian Deputy Energy Minister: 'The topic is in discussion at the company level. As far as I know, Rosneft is negotiating, discussing.'[123]

This lack of progress in negotiations with Rosneft could indicate that China is reluctant to invest or, at least, is trying to get better deals. The fact that China did not invest in the Vankor deposit and did not buy Rosneft's shares may show that it is no longer interested in Russian upstream or at least not on the conditions Rosneft is suggesting. This indicates how China does not simply want to be part of the project, but wants to have a stake that will allow it to secure a role in the management.[124]

The question is also to what extent Chinese companies can replace Russia's Western partners to work on the Arctic shelf, especially in terms of replacing the necessary technological assistance. In general, it is observed that Russian–Chinese technological cooperation in the oil and gas sectors has increased since the imposition of sanctions.[125] For instance, in early September 2015 China Oilfield

[120] Zagorodnov, A., 'Rosneft to attract Chinese, Korean investment to Arctic shelf', *Russia Beyond the Headlines*, 19 Feb. 2013, <http://rbth.ru/news/2013/02/19/rosneft_inks_memorandum_with_sinopec_on_possible_oil_delivery_increase_23037.html>; and Topalov, A., [Shelf for China: Rosneft agrees with Chinese corporations to participate in the development of the Russian Arctic shelf], Gazeta.ru, 18 Feb. 2012, <http://www.gazeta.ru/business/2013/02/18/4972145.shtml> (in Russian).

[121] Bogoyavlensky, V., Bogoyavlensky, I. and Budagova, T., [Environmental safety and environmental management in the Arctic and world oceans], *Burenie i Neft*, no. 12 (2013), p. 16 (in Russian).

[122] *Arctic Info*, [Rosneft is waiting for the Chinese on the Arctic shelf], 7 Feb. 2014, <http://www.arctic-info.ru/news/07-02-2014/-rosneft_--jdet-kitaicev-na-sel_fe-arktiki/> (in Russian).

[123] Sputnik, 'Rosneft, Beijing in talks on China Arctic energy participation', 16 Nov. 2015, <https://sputniknews.com/business/201511161030170034-rosneft-china-arctic/>.

[124] Henderson and Mitrova (note 115).

[125] Henderson and Mitrova (note 115).

Services Limited signed deals with Rosneft and Statoil to drill two exploration wells in the Sea of Okhotsk, which has conditions similar to the Arctic. The agreements, according to Igor Sechin, unlocked the potential for new cooperation over oil and gas resources, including in the Arctic.[126] To what extent this first step will bring further cooperation remains to be seen.

Whereas offshore projects remain doubtful for the future, onshore gas cooperation in the Arctic is advancing. In February 2013 the head of Novatek visited China as part of an official Russian delegation to discuss the possibilities of cooperation on Yamal LNG, Novatek's main Arctic project. As a result of this visit and several consequent rounds of negotiations, Novatek and the CNPC signed a contract on 5 September 2013 for the sale of a 20 per cent stake in Yamal LNG. The agreement includes a long-term contract for the supply of LNG to China in an amount of not less than 3 million tonnes per year (18 per cent of the total capacity).[127] The deal was approved by the Russian Government in November 2013 and closed in January 2014.[128]

Following the onset of the Ukraine crisis, Novatek has been subject to sanctions and Yamal LNG has faced further financial difficulties. In order to boost the project, Novatek has sought further engagement from foreign partners.[129] China was among the few remaining alternatives. In September 2015 Novatek sold 9.9 per cent of Yamal LNG to the Silk Road Fund. The deal amounted to €1089 billion. In December 2015, as part of deal, Novatek received a small loan from the Silk Road Fund of around €730 million for a period of 15 years for the purpose of financing the project.[130]

Then on 29 April 2016 Yamal LNG announced the signing of agreements with the China Exim Bank and the China Development Bank on two 15-year credit line facilities for the total amount of €9.3 billion and ¥9.8 billion to finance the project.[131] Thus, China has provided up to 60 per cent of the capital to implement this project.

Despite this impressive track record of cooperation on Yamal LNG, two things need to be mentioned. First, Novatek had serious difficulties in securing Chinese finance for the project. The deal was concluded only after numerous delays and negotiations.[132] Second, China secured a good overall deal: for example, up to

[126] Sputnik (note 123).

[127] Vedomosti, [Novatek and CNPC agreed on the terms of the gas purchase for the Yamal LNG project], 22 Oct. 2013, <http://www.vedomosti.ru/business/news/2013/10/22/novatek-i-cnpc-dogovorilis-ob-usloviyah-pokupki-gaza-s> (in Russian).

[128] Khodyakova, E., [Novatek closed the deal to sell 20% of Yamal LNG to Chinese CNPC], *Vedomosti*, 15 Jan. 2014, <http://www.vedomosti.ru/companies/news/21288661/novatek-prodal-20-yamal-spg-kitajskoj-cnpc> (in Russian).

[129] Mordyushenko, O., [Oil and gas go to the east], *Kommersant*, 3 Sep. 2015, <http://www.kommersant.ru/Doc/2802052> (in Russian).

[130] *Arctic Info*, [Yamal LNG embarked on the Silk Road], 16 Mar. 2016, <http://www.arctic-info.ru/news/16-03-2016/-amal-spg--vstal-na-selkovii-pyt_/> (in Russian).

[131] Yamal LNG, 'Yamal LNG signed loan agreements with the Export-Import Bank of China and the China Development Bank', Press release, 29 Apr. 2016, <http://www.novatek.ru/common/upload/doc/2016_04_29_press_release_Chinese_banks_FA_(ENG).pdf>.

[132] Gabuev (note 118).

80 per cent of the equipment for Yamal LNG will be produced in Chinese shipyards.[133]

This shows that, despite the fact that China is interested in energy projects in the Arctic and Russia is eager to obtain Chinese partnerships, there are a lot of difficulties ahead. Chinese companies will work on projects that they are interested in only under conditions that they find acceptable.[134] Thus, Russia is no longer a gatekeeper for the Chinese; it has to offer good conditions to actually attract the Chinese and develop Russian–Chinese energy cooperation.

Several Chinese Arctic scholars have also mentioned how Western sanctions have had a negative impact on Chinese keenness to enter into investment and energy cooperation projects with Russia. The current unstable political and economic situation has made the Russian market less appealing to Chinese companies, which are also under growing pressure to obtain profitable and secure deals.[135]

Shipping and NSR infrastructure cooperation

As mentioned above, China has made a number of experimental voyages along the NSR. In 2012 the icebreaker *Snow Dragon* was the first Chinese vessel to successfully navigate the NSR to the Barents Sea, returning to the Bering Strait via the North Pole, and in 2013 the first commercial shipping under the Chinese flag, the 19 000 tonne cargo vessel *Eternal Life*, owned and operated by COSCO, sailed from Dalian to Rotterdam—the 15 000 km journey took 33 days, one and a half times faster than through the Suez Canal.[136] According to COSCO shipping chairman Ma Zehua: 'This sea route will offer our clients more convenience and choice, while allowing us to save time, lower costs and reduce emissions.'[137]

In 2015 *Eternal Life* conducted another experimental voyage, departing from Dalian on 8 July and arriving in Sweden on 17 August. Data from the Russian Northern Sea Route Administration show that the ship had passed the Kara Strait and entered the Barents Sea at noon on 12 August.[138] In 2015 a COSCO representative in an interview with the *Wall Street Journal* announced: 'The group is actively studying the feasibility of operating regular services on the northern route. We are considering to buy second-hand ships or build new ships for the potential routine services.'[139]

[133] Lenta.ru, [Plant for Yamal LNG to be built from Chinese parts], 5 May 2016, <https://lenta.ru/news/2016/05/05/yamallng/> (in Russian).

[134] Maxie, J. and Slayton, D., 'Russia's Arctic dreams have Chinese characteristics', Pacific Energy Summit, 18 Oct. 2016, <http://pacificenergysummit.org/2016/10/18/russias-artic-dreams-have-chinese-characteristics/>.

[135] Henderson and Mitrova (note 115).

[136] RBC, [Dry cargo ship from China went on the first voyage along the Northern Sea Route], 12 Aug. 2013, <http://top.rbc.ru/economics/12/08/2013/869860.shtml> (in Russian).

[137] Mitchel, T. and Milne, R., 'First Chinese cargo ship nears end of Northeast Passage transit', *Financial Times*, 6 Sep. 2013, <https://www.ft.com/content/010fa1bc-16cd-11e3-9ec2-00144feabdc0>.

[138] Staalesen, A., 'Chinese giant mulls more Northern Sea Route shipping', *Barents Observer*, 18 Aug. 2015, <http://barentsobserver.com/en/arctic/2015/08/chinese-giant-mulls-more-northern-sea-route-shipping-18-08>.

[139] Paris, C. and Chiu, J., 'Chinese shipping group Cosco planning regular trans-Arctic sailings', *Wall*

Speaking at the October 2016 Fourth Arctic Circle meeting in Reykjavik, COSCO Executive Vice President Ding Nong confirmed that his company's operations along the Russian Arctic coast had reached a record high. According to Ding Nong, 'COSCO Shipping is optimistic about the future of the NSR and Arctic shipping'.[140] A total of five COSCO vessels passed along the NSR in 2016, among them *Eternal Life* on its third transit passage, this time in July delivering freight, including wind power equipment, to the United Kingdom.[141] Other Chinese vessels transported pulp from Finland to China and made voyages delivering equipment to the Yamal LNG plant.[142]

Despite the increase in shipping under the Chinese flag in 2016 there is no official agreement between COSCO and any of the Russian companies (primarily Atomflot) to make the voyages a permanent or at least regular occurrence. Thus, there is no guarantee that China's shipping frequency along the NSR will remain at the same level in 2017.

In a Joint Statement signed by Chinese Premier Li Keqiang and Russian Prime Minister Medvedev in December 2015, it was highlighted for the first time that the two sides would cooperate in developing the NSR into a competitive commercial sea route in the future.[143] On several occasions the head of Russia's State Commission for Arctic Development, Dmitry Rogozin, has mentioned that Russia and China are discussing cooperation on the NSR. Possibilities for investing in projects have been discussed.[144] Seen from China, the exploitation of oil and gas resources in the Arctic Ocean has to be accompanied by construction of the NSR; for example, LNG from Yamal will be exported to Asian and European markets via the NSR. Hence China tends to put developing Arctic oil and gas resources and the NSR together: they both need capital and technology investments and political commitment from both Russia and China.

At present, only a few NSR infrastructure projects have Chinese participation. Examples are the construction of the Belkomur railway and the deep-water harbour in Arkhangelsk. In 2015 Chinese Poly Technologies Incorporated agreed to invest in the development of the Belkomur railway and to be responsible for its operation in the future.[145] Under the terms of the concession agreement, Russia

Street Journal, 29 Oct. 2015, <http://www.wsj.com/articles/chinese-shipper-cosco-to-schedule-regular-trans-arctic-sailings-1446133485>.

140 Staalesen, A., 'COSCO sends five vessels through Northern Sea Route', *Independent Barents Observer*, 10 Oct. 2016, <https://thebarentsobserver.com/en/arctic-industry-and-energy/2016/10/cosco-sends-five-vessels-through-northern-sea-route>.

141 Humpert, M., 'China's COSCO shipping company expands activities on Northern Sea Route', *High North News*, 30 Sep. 2016, <http://www.highnorthnews.com/chinas-cosco-shipping-company-expands-activities-on-northern-sea-route/>; and Lanteigne, M., 'China and the Northern Sea Route: placing their bets', *Arctic Journal*, 16 Aug. 2016, <http://arcticjournal.com/business/2519/placing-their-bets>.

142 IHS Markit, 'China dispatches its second Northeast Passage vessel of the year', 28 Jul. 2016, <http://fairplay.ihs.com/commerce/article/4272466/china-dispatches-its-second-northeast-passage-vessel-of-the-year>.

143 Chinese Arctic scholars (note 7).

144 RIA Novosti, [Rogozin: The Northern Sea Route is a promising project for working with the CPR], 12 Oct. 2015, <https://ria.ru/east_economy/20151012/1300440612.html> (in Russian).

145 Government of the Arkhangelsk Oblast, [Belkomur: Project committee continues work], 20 May 2016, <http://dvinanews.ru/-ppj6xhs5> (in Russian); Government of the Arkhangelsk Oblast, [An agreement on

will pay off the costs of construction to Poly Technologies within 25 years of the railway's completion. After that, the railway will become the property of Russia. The project involves the construction of 1161 km of railroad (712 km of new railroad and the modernization of 449 km of existing railroad) from the western Siberian town of Solikamsk, through Syktyvkar to Arkhangelsk. The project is believed to have a cost frame of more than 200 billion roubles (€2.67 billion).[146] Poly Technologies has reportedly also expressed an interest in participating in construction of the new deep-water harbour in Arkhangelsk.[147]

Among the challenges involved in such infrastructure projects is the fact that the Russian Government has still not defined the future. It is therefore unclear whether any of the projects will actually be implemented. Thus, despite the evident enthusiasm of Russian officials for fostering Chinese participation in infrastructure projects, this type of cooperation remains in the future.

Some Russian experts have expressed concerns that further involvement of China in Russian infrastructure projects along the NSR might later provoke arguments regarding China's role in the regulation of the NSR.[148] It is already being noticed in Russia that some Chinese Arctic scholars are promoting the idea of the NSR as an international sea route. Stronger Chinese involvement in NSR infrastructure construction might spur further debate over the extent to which this route remains under Russian jurisdiction and the extent to which Russia has the right to establish its own rules of navigation. For example, China is currently building its second icebreaker and it is reasonable to expect that, once it has increased its ice-breaking fleet, it might start questioning Russia's requirement of Russian ice-breaking support. As of now, China's official position is supportive of UNCLOS, in particular Article 234, and China accepts Russia's right to establish the rules of navigation in the ice-covered waters and is ready to comply with them, as has been demonstrated over the past five years.

Military developments and search and rescue capabilities

As mentioned above, the NSR is seen as an important project for the socioeconomic development of the Russian Arctic. Commercialization of the route and the attraction of foreign investments into the construction of its infrastructure are hence seen as important. However, in Russia the Russian Arctic is also regarded as a zone of important military and security interests. Over the past five years Russia has significantly increased its security presence in the Arctic, restored a

the construction of Belkomur was signed in Beijing], 3 Sep. 2015, <http://dvinanews.ru/-ozg3jb6y> (in Russian); and RIA Novosti, [Russia and China agreed on the joint construction of the Belkomur railway line], 4 Sep. 2015, <http://ru.arctic.ru/international/20150904/157863.html> (in Russian).

146 RZD, [The Belkomur project undergoes a final evaluation of its effectiveness], 14 Dec. 2016, <http://www.rzd-partner.ru/zhd-transport/news/proekt-belkomura-prokhodit-okonchatelnuyu-otsenku-effektivnosti/> (in Russian).

147 Staalesen, A., 'Russian, Chinese officials hold talks on Arctic railway project', *Eye on the Arctic*, 24 May 2016, <http://www.rcinet.ca/eye-on-the-arctic/2016/05/24/railway-russian-chinese-arctic-railway-project-beijing-belkomur/>.

148 Polubota, A., [Officials will be sent to 'freeze' on the ice floes], SvobodnayaPressa, 14 Dec. 2016 <http://svpressa.ru/economy/article/162628/> (in Russian).

number of military bases and established new ones along the NSR, and deployed additional Russian military forces in the Arctic, setting up a new central unified Arctic strategic command. Russia has stated on a number of occasions that the military forces stationed in the Arctic are there to defend Russian interests in the Arctic and the NSR.

China is generally concerned about any military build-up in the Arctic and, as highlighted above, is worried that tensions between the USA and Russia will further intensify and start seriously affecting the Arctic; in particular China fears the return of a cold war mentality. However, China also understands that Russia needs to be able to defend its territory and national interests in the area. In contrast to Western reactions, there is no Chinese questioning—at least not openly—of Russian military deployment in Russia's sovereign Arctic territory and of Russia's legitimate right to do so. In fact, several Chinese and Russian Arctic scholars have highlighted how, from an Arctic governance perspective, a stronger and upgraded Russian military presence might actually provide enhanced Arctic governance ability, especially if it enhances the search and rescue capabilities of the Russian coastguard in the Arctic.[149] Likewise, growing Russian investment in infrastructure in the Russian Arctic, even if it has a military dimension, is regarded as potentially playing a positive role in Arctic economic development and common security efforts. For example, the build-up of Russian rapid reaction abilities and surveillance capabilities is useful for dealing with emergencies.

There are also indications of how the Arctic region, owing to its geostrategic location, is becoming of more interest to China and specifically to the Chinese military—the People's Liberation Army (PLA). In September 2015 ships from the People's Liberation Army Navy (PLAN) were for the first time spotted passing through the Bering Sea after finishing joint military exercises with Russia in the North Pacific, at one point reportedly coming within 12 nautical miles of the US coast. The Chinese naval ships included three combat ships, one amphibious landing vessel and one replenishment ship.[150] Although the passage was legal under UNCLOS rules of innocent passage, it served as a reminder of China's increased naval capabilities as well as of its growing Arctic focus and interests.

In October 2015 PLAN vessels—a missile destroyer, a missile frigate and a replenishment ship—paid a first-ever visit to Denmark as part of a broader tour that also included visits to Finland and Sweden. It is difficult to identify China's specific motives behind this action, but it again shows the current expansion of the PLAN's maritime interests and naval capabilities and underlines how the PLAN increasingly regards the Arctic region as a strategic focus area. A recently released Chinese military White Paper also mentions 'polar regions' as an area of concern.[151] An alternative way of assessing these events is that the PLAN is

[149] Chinese Arctic scholars (note 13) and Chinese Arctic scholars (note 7).

[150] Chen, A., 'Chinese navy sends Washington a message by patrolling near largest US state Alaska', *South China Morning Post*, 4 Sep. 2015, <http://www.scmp.com/news/china/diplomacy-defence/article/1855448/chinese-navy-sends-america-message-patrolling-near?page=all>; Tiezzi, S., 'China's Navy makes first ever tour to Europe's Arctic states', *The Diplomat*, 2 Oct. 2015, <http://thediplomat.com/2015/10/chinas-navy-makes-first-ever-tour-of-europes-arctic-states/>; and Deng (note 7).

[151] See Ministry of National Defense, 'China's Military Strategy', Information Office of the State Council,

simply interested in testing and developing its capacity to operate in Arctic waters in order to be able to participate in search and rescue operations and other international naval operations in the Arctic region in the future—a capacity that will be needed if ships with Chinese commodities and tourists are present.

The Chinese ambition to be able to participate in international naval operations is not new. The PLAN has for several years participated in international anti-piracy efforts off the coast of West Africa. Furthermore, it recently participated in the international operation to transport chemical weapons out of Syria.

The Chinese military presence in the Arctic is likely to grow as the Arctic opens up, as Chinese naval capabilities grow and as Chinese interests in the Arctic region further strengthen. There are indications of how this might raise concerns in Russia and hence present potential frictions in the Chinese–Russian strategic partnership. A number of Russian military exercises in the Far East, some with Arctic components, have already been assuming China is the enemy in their scenarios—for example, Vostok 2012 and Vostok 2014.[152] That the militaries on both sides continue to plan for how to deal with a conflict with the other and are constantly on the lookout for each other, including in the Arctic, underlines the deep strategic mistrust and hence constraints on further development and deepening of the Chinese–Russian strategic partnership.[153]

Russian and Chinese views on and interests in Arctic governance

Arctic governance is an area of potential friction between China and Russia. Although China respects the inherent rights of Arctic states, including the sovereignty of territorial seas and EEZs, and stresses UNCLOS as the most important legal framework for Arctic governance, it has also always called for respect for the legitimate interests and rights of non-Arctic states (see section II). Consequently, in order not to provoke concerns among the Arctic states about overly assertive Chinese behaviour and a lack of respect for their privileges, China seeks to enhance its presence and influence in Arctic governance carefully and gradually by applying an increasing number of instruments, for example a more sophisticated and proactive scientific and economic engagement that seeks to ensure that China has strong bilateral relations with all the Arctic states. Russia, for its part, insists on Arctic states' privileges in setting the rules of the game in the Arctic, and prefers to strengthen the established Arctic legal and political institutions, which ensure the rights of the Arctic states.[154] It is also worth noting how Russia supports not only the development of the Arctic Council but also the

Beijing, May 2015, <http://eng.mod.gov.cn/Database/WhitePapers/index.htm>. Chen argues that one needs to see China's emerging Arctic strategy as a component of its maritime strategy; see Chen (note 22).

[152] Lo (note 98); and McDermott, R., 'Vostok 2014 and Russia's hypothetical enemies (part one)', *Eurasia Daily Monitor*, vol. 11, no. 167 (23 Sep. 2014), <https://jamestown.org/program/vostok-2014-and-russias-hypothetical-enemies-part-one/>.

[153] Blank, S., 'The Arctic: China's third Silk Road', *China Policy Institute Analysis*, 11 Mar. 2015, <https://cpianalysis.org/2015/03/11/the-arctic-chinas-third-silk-road/>.

[154] Vasiliev, A., 'Russia's approaches to international cooperation in the Arctic', *Arctic Herald*, no. 1 (2012), p. 22.

continuation of cooperation within the narrower format of the five Arctic coastal states (the Arctic Five). Russia's 2016 Foreign Policy Concept has again underlined this preference.[155] Consequently, Russia has sought to avoid the development of alternative and potentially competitive Arctic governance forums that would be more inclusive and allow room for more influence by non-Arctic states.[156] China has been cautiously pushing for such a development in recent years, for example with its strong support for and active role in the Arctic Circle meetings and other Arctic-related institutional frameworks, where Chinese diplomats and scholars increasingly and more proactively present Chinese positions, analyses and norms.[157] The Arctic Circle meetings in particular play an important role in China's urge to influence discussions and decisions on how the Arctic should be governed.[158] These Chinese efforts are met with resistance in Russia. In February 2015 the Russian Defence Minister, Sergey Shoigu, made clear his irritation at how some non-Arctic states 'obstinately strive for the Arctic'.[159] Moreover, Russia does not prioritize participating with high-level delegations in the Arctic Circle meetings.

As highlighted previously, the Arctic has special ideological significance for Russia. Russian leaders see it as a unifying national theme, a resource-rich basin and a source of geopolitical leverage. Therefore, it is not difficult to understand why Russia is unenthusiastic to see a rising power—and a potential rival—such as China becoming more interested in the region. Currently, China, like all the other Arctic Council observer states, has no vote and its formal participation in Arctic governance is mostly limited to non-voting roles in Arctic Council working groups.

Going forward, it is likely China will not remain content to play such a tangential role in Arctic decision making. Some Chinese Arctic scholars hence express concern that Arctic Council member states are the sole decision makers for the region, arguing that the Arctic Council is an inadequate governance structure given the global consequences of melting ice. Their view is that China has a legitimate right to participate in Arctic governance because climate changes in the Arctic are also having a major impact in China.[160] China is, however, in no way challenging the Arctic Council. Rather, it is trying to strengthen its role within the Council as well as in other Arctic-related institutional frameworks. It also plays an active part in the general science and economic diplomacy playing out in the Arctic, as do other

[155] Russian Ministry of Foreign Affairs, 'Foreign Policy Concept of the Russian Federation (approved by President of the Russian Federation Vladimir Putin on November 30, 2016)', <http://www.mid.ru/foreign_policy/official_documents/-/asset_publisher/CptICkB6BZ29/content/id/2542248>.

[156] Vasiliev, A., 'Security and cooperation in the Arctic: new factors, challenges, and prerequisites', *Arctic Herald*, no. 2 (2012), p. 21.

[157] See e.g. Liu (note 27); and Lanteigne, M., '"Have you entered the storehouses of the snow?" China as a norm entrepreneur in the Arctic', *Polar Record*, vol. 53, no. 2 (Mar. 2017), pp. 117–30, <https://www.cambridge.org/core/journals/polar-record/article/div-classtitlehave-you-entered-the-storehouses-of-the-snow-china-as-a-norm-entrepreneur-in-the-arcticdiv/400E24FB4EB6B68ADC5D72032AD65AFA>.

[158] Jakobson, L. and Peng, J., *China's Arctic Aspirations*, SIPRI Policy Paper no. 34 (SIPRI: Stockholm, Nov. 2012), pp. 11–16.

[159] Cited in Pezard, S. and Smith, T., 'Friends if we must: Russia and China in the Arctic', *War on the Rocks*, 6 May 2016, <http://warontherocks.com/2016/05/friends-if-we-must-russia-and-chinas-relations-in-the-arctic/>.

[160] See Jakobson and Peng (note 158), pp. 12–13.

non-Arctic states. Chinese scientific engagement with all the Arctic states helps legitimize and facilitate its growing Arctic presence and interests and accordingly contributes to strengthening its positive image in the region, thereby gradually building trust and integrating China into Arctic governance.

As mentioned earlier, UNCLOS stands as the most important legal framework for Arctic governance. It is supplemented by Arctic-specific rules and regulations based on UNCLOS. In 2008 the five Arctic coastal states proclaimed in the Ilulissat Declaration: 'the law of the sea provides for important rights and obligations . . . We remain committed to this legal framework and to the orderly settlement of any possible overlapping claims . . . We therefore see no need to develop a new comprehensive international legal regime to govern the Arctic Ocean.'[161]

Russia is fully supportive of UNCLOS as the governing legal regime for the Arctic and did not veto the applications by China or other non-Arctic states for Arctic Council observer status, with the one condition that they had to recognize UNCLOS as well as the sovereign rights of Arctic states. As stressed earlier, China has always underlined its respect for the sovereign rights of Arctic states and its support for UNCLOS, which makes sense given the protection afforded by UNCLOS to navigational freedom and China's interests in Arctic sea routes.[162] However, there are indications of potential disagreements over Chinese and Russian interpretations of UNCLOS in this regard. China claims the right to explore the area of the Arctic Ocean that is within international waters and it has previously suggested that (part of) the NSR is in international waters, which potentially conflicts with Russia's policy that the route is in its internal waters. China is now generally in support of the Russian line on the NSR, but this could change as China builds up its Arctic capacity and presence.

Moreover, in addition to potential disagreements over Chinese and Russian interpretations of UNCLOS, it is possible that UNCLOS' ocean floor provisions might not find the same level of support in the longer run in China because they privilege the rights of Arctic states and their favoured access to Arctic resource exploration. UNCLOS grants Arctic states the possibility of expanding their territory by claiming a continental shelf extending 200 nautical miles (370 km) from a state's coastal baseline, which would diminish the high sea area or international waters in the Arctic and leave less 'common heritage' for non-Arctic states to explore. It should be emphasized that China so far has not contested these provisions—China's long record of insisting on sovereign state rights as a paramount principle of international relations makes it difficult for it openly to do so—but it is an issue being debated among Chinese Arctic scholars.[163]

[161] The Ilulissat Declaration, Arctic Ocean Conference, Ilulissat, Greenland, 27–29 May 2008, <http://www.oceanlaw.org/downloads/arctic/Ilulissat_Declaration.pdf>.

[162] See also Jakobson and Peng (note 158), p. 17.

[163] Wright, D. C., *The Dragon Eyes the Top of the World: Arctic Policy Debate and Discussion in China*, China Maritime Study no. 8 (US Naval War College: Newport, RI, Aug. 2011), <https://www.usnwc.edu/Research---Gaming/China-Maritime-Studies-Institute/Publications/documents/China-Maritime-Study-8_The-Dragon-Eyes-the-Top-of-.pdf>, pp. 1–2.

6. Conclusions

Despite the stream of positive adjectives flowing from both Russia and China in recent months about partnership and friendship, cooperation in the Arctic has not progressed much. Except for cooperation on the Yamal Peninsula, Russian and Chinese companies have not yet found further mutual ground for energy cooperation in the Arctic. On the one hand Russian companies need and welcome Chinese investments and loans; on the other hand they are not entirely comfortable allowing Chinese companies to play too big a role in Russian energy projects, including those in the Arctic. Chinese companies, in contrast, are in a very strong position at the moment and would not agree to anything less than a significant control and management role.

As a result, there is degree of disappointment in Russia that energy cooperation with China has not developed as anticipated and thus has not mitigated the crisis with the West to the desired degree. Seen from Russia, China has taken advantage of the situation, for example to extract especially favourable terms on energy deals and to insist on high interest rates on major Chinese loans. That is, China has not shown the expected goodwill, which is why using the Chinese–Russian partnership as leverage against the West has not worked.

The difference between anticipation and reality can be explained by looking at differences in the main Chinese and Russian concerns behind efforts to improve their overall strategic relationship. Whereas China is primarily seeking to pursue economic goals, especially access to Russian energy resources in order to secure and diversify its energy supply, Russia is looking to strengthen its strategic relationship with China in a geopolitical and security-driven context. For instance, Russia's EEU plan has more to do with geopolitics and security, especially securing Russia as the dominant great power in the former Soviet space, than with economics. In contrast, China's thinking behind the OBOR initiative is primarily concerned with economics and with long-term economic exchanges and influence over (especially) neighbouring regions.

This state of affairs is also reflected in the reasons given by the Russian side for why economic cooperation between Russia and China is not advancing as fast as expected, especially Chinese investments in the Russian energy sector in general and in the Russian Arctic in particular. They point out that Chinese companies impose tough conditions that Russian companies have difficulties accepting. In placing their investments, the Chinese are thus acting primarily from a profit motive and are not giving their Russian counterparts any easier terms. [164]

In the Arctic, China seeks to consolidate its position as a legitimate Arctic stakeholder by diversifying and strengthening its bilateral relations with all the Arctic states through economic deals, scientific cooperation and stronger diplomatic ties. By establishing strong and comprehensive bilateral relationships with all the Arctic states and being actively involved in multilateral institutions and in

[164] Fedorovsky, A. N. et al., *Asian Players in the Arctic*, Russian International Affairs Council, Report no. 26 (2016), pp. 17–29.

developments of these in the region, China seeks a lock-in so that it will not, as an non-Arctic state, risk being excluded and kept from influencing Arctic affairs and developments. Such a scenario could play out both in the case of heightened tensions between the West and Russia, namely the Chinese fear of a melon effect mentioned above, and in the case of improved relations between the West and Russia.

There are no illusions among Chinese Arctic scholars regarding the development of a strong and enduring Chinese–Russian partnership. Rather, their expectation is that Russia will turn towards Europe again as soon as sanctions are lifted. Indeed, the Russian policy of pivoting to Asia has never been seen as an alternative to the development of relations with the West and with Europe in particular, but rather is viewed as a counterbalance and diversification to avoid dependence on Europe.[165] The policy has also never been only about China—it focuses on the development of relations with a number of Asian countries including Japan, South Korea, India and Viet Nam.[166] This has also partially affected the Arctic, where Russia looks not only to China but to other states as well, in particularly India. This shows how Russia is trying to diversify its partnerships with Asian states in the Arctic, in order to lessen the risks of locking itself completely to China and ending up as a resource appendage supporting China's great power position and status.

The future development of Chinese–Russian cooperation on the NSR as well as cooperation and dialogue on the questions of evolving Arctic governance will especially depend on how China approaches the different legal regimes in UNCLOS concerning territorial and maritime disputes and rights—including territorial waters, EEZs and the continental shelf—as China's territorial and maritime disputes in East Asia further develop. It is highly unlikely that Russia would welcome any developments that risk pushing the Arctic's political and legal regimes away from a de facto condominium of coastal states under the umbrella of UNCLOS, towards a looser Arctic governance with non-Arctic states including China playing a stronger role. Although Russia has accepted China's observer status in the Arctic Council and emphasizes stronger dialogue with China on Arctic issues, including in the Arctic Council, it continues to insist that it is the Arctic states that set the rules and conditions for the role and activities that non-Arctic states such as China can play in the Arctic. In the event that non-Arctic states cease to follow the rules, Russia has also underlined that observer status can be reconsidered and even revoked.

There is a significant degree of uncertainty about how the development of Chinese–Russian cooperation in the Arctic will develop. Recently, this is not least owing to the high degree of uncertainty about how Russian–US relations will develop under the new Trump Administration. There are indications that the Trump Administration is considering lifting sanctions, which would allow Russia to cooperate again with Western companies in developing the Russian Arctic.

[165] Russian scholar, Speech at the SIPRI workshop 'Russia–China rapprochement and its impact on Asia and Europe', Solna, Sweden, 17–18 Jan. 2017.

[166] Russian scholar (note 165).

Such a development would slow down the efforts of recent years to strengthen Chinese–Russian cooperation, including in the Arctic. On the other hand, China would prefer such a scenario compared with one of increasing tension between Russia and the USA spreading to the Arctic and thus leaving much less room for manoeuvre for non-Arctic states such as China.

Emerging Chinese–Russian Cooperation in the Arctic: Possibilities and Constraints

Russia increasingly focuses on developing the Russian Arctic as a way to strengthen its economic base. However, long-term trends in energy markets and the recent conflict in Ukraine (and the sanctions from the United States and the European Union that followed it) have placed restrictions on Western companies' involvement in energy projects in the region. This has motivated Russia to look more closely at Asia—as a source of potential investors and technology partners as well as a key consumer market. In this context, engaging China with regard to Arctic development has become more and more appealing for Russia.

China is keen to further strengthen its engagement and role in the Arctic. In recent years China has been consolidating its position as a legitimate Arctic stakeholder by diversifying and strengthening its bilateral relations with all the Arctic states through economic deals, scientific cooperation and stronger diplomatic ties. At first glance, Chinese–Russian cooperation on developing energy resources and sea routes in the Russian Arctic looks like an objective that China and Russia could work on closely together and have complementary interests. This report asks: is it that simple?

Camilla T. N. Sørensen (Denmark) is an Assistant Professor at the Department of Political Science at the University of Copenhagen. Her research interests include Chinese foreign and security policy, East Asian security and Arctic politics and security. She holds a PhD in political science (international relations) from the University of Copenhagen.

Ekaterina Klimenko (Kyrgyzstan) is a SIPRI Researcher and Programme Coordinator currently conducting research on the Arctic as part of the SIPRI Russia and Eurasia Programme. She holds a masters of advanced studies degree in international and European security from the University of Geneva.

ISBN 9789185114924

9 789185 114924