



The Northern Sea Route: Russia's Strategic Advantage

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ABSTRACT

Due to the escalation of contradictions and conflicts between the major economic centers of the global economy and the mounting geopolitical risks faced by Russia and its partners, the expansion of trade routes linking key transportation and logistics hubs in Europe and Asia has become particularly significant. The development of the Northern Sea Route, which involves the allocation of federal budget funds, has been planned by the President and Government of Russia to promote its growth. The development of this route is crucial for the autonomous development of the Russian Federation and its strategic allies. Establishing a dependable and secure transport corridor that guarantees the transport integrity of the Russian Arctic zone and facilitates trade logistics with vital partners in Asia is a key priority of Russia's state policy in the forthcoming decades. The formation of public-private partnerships, requiring active cooperation between business and government, is essential for realizing this development. At the same time, the present geopolitical situation not prompts certain investors to leave the market, it unambiguously creates the preconditions for the emergence of new participants in the investment process. The study aims to evaluate the feasibility and attainability of Russian plans for the development of the Northern Sea Route in the current geopolitical environment. The author undertook an analysis of the adopted documents, identifying the risks and outcomes of their implementation.

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1. Introduction.

In view of the growing contradictions and conflicts among the key economic centers of the global economy, as well as the mounting geopolitical risks in the Asia-Pacific macro-region (Belyi, Skorokhodov & Starichenkov 2011; Bhagwat, 2022 and others), the diversification and expansion of trade routes linking vital transport and logistics hubs in Europe and Asia have assumed significant importance. Among the most promising alternatives to the present transport infrastructure connecting developed countries in the Old World with emerging Asian economies is the Northern Sea Route (NSR), which traverses the Arctic zone in the territorial waters and exclusive economic zone of the Russian Federation. With a milder climate and the prospect

of extending the navigation period in the Arctic zone to nine months, the NSR has become the primary substitute for the southern trade route via the Suez Canal. The distance between Shanghai and Rotterdam along the NSR is approximately 8,000 nautical miles, compared to 10,500 miles via the Suez Canal. On average, the time saved in cargo transportation through the NSR is 10 days (Gizatullina & Soloveychik, 2020; Dmitrieva & Bury, 2019; Zhuravel & Nazarov, 2020; Zelenkov, 2019; Kuvatov, Kozmovsky & Shatalova, 2014; Rodichkin, Ishmuratova & Buranbaeva, 2020; Chizhkov, 2021; Mingaleva, 2017 and others).

It is also worth noting the rapidly increasing trade flows between the Asia-Pacific region and the European Union over the past decade, as well as the high levels of congestion on existing trade routes.

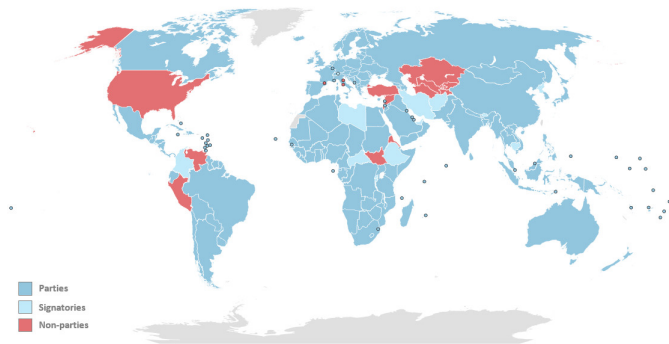
The principal global agreement that establishes the legal framework for the use and status of marine territories and resources is the 1982 UN Convention on the Law of the Sea (United Nations, 2023). This convention has been endorsed and ratified by 168 countries, among which are the European

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Union, China, India, and Japan (except for the USA).

Figure 1: Parties to the UN Convention on the Law of the Sea.



Source: Author.

The transportation routes within the NSR traverse the maritime space of the Russian Federation, encompassing the internal maritime waters, the territorial sea, the contiguous zone, and the exclusive economic zone. Accordingly, the provisions of the 1982 United Nations Convention on the Law of the Sea (UNCLOS) are applicable to the NSR, including Articles 2-33 and 55-75 (United Nations, 2023).

For instance, Article 33 of the UNCLOS grants the Russian Federation the power to exercise control within its contiguous zone to prevent violations of customs, fiscal, immigration, or sanitary laws and regulations within its territory or territorial sea, and to impose penalties for any violations thereof.

Furthermore, the UNCLOS Article 234 on "Ice-covered areas" grants coastal states the right to adopt and enforce non-discriminatory laws and regulations to prevent, reduce, and control pollution from ships in ice-covered areas within the exclusive economic zone. In light of the harsh climatic conditions and increased risks to navigation, marine pollution can have detrimental effects on the ecological balance in these areas. Therefore, Russia has implemented special regulations for navigation on the NSR (United Nations, 2023).

In addition, the International Code for Ships Operating in Polar Waters (Polar Code) is designed to enhance safety measures and minimize the impact of ship operations on people and the environment in remote, vulnerable, and harsh polar waters (Electronic Facility for Legal and Regulatory Information, 2023).

The Polar Code does not affect the primary provisions of the existing legal framework governing ship navigation in the waters of the NSR.

Russia enacted national legislation to regulate the development and use of the NSR in 2012, which takes into account international norms while maintaining specific characteristics (Bekyashev & Bekyashev, 2021; Bobrova, 2016; Gudeev, 2020; Shitikov, Huseynov, & Chirkov, 2019). The Federal Law of 28 July 2012 No. 132-FZ, commonly referred to as the "Law of the Russian Federation on the Northern Sea Route," is the primary legal act that regulates the NSR. The law defines the NSR water area as a water space adjacent to the northern coast of the Russian Federation, comprising inland sea waters, territorial sea,

and the exclusive economic zone, with boundaries established from the east by the line of maritime boundaries with the USA and the parallel of Cape Dezhnev in the Bering Strait, from the west by the meridian of Cape Zhelania to the Novaya Zemlya archipelago, and the eastern coastline of Novaya Zemlya and the western boundaries of Matochkin Strait, Kara Gates, and Yugorskiy Shar.

Navigation in the NSR is subject to a permitting procedure, which includes the issuance of permits. The Government of the Russian Federation established a specialized organization, the NSR Administration, as a federal public institution to oversee navigation, including the issuance of permits (Decree of the Government of the Russian Federation, 2013, 2020).

The Northern Sea Route Administration serves several functions, including accepting applications for navigation permits in the waters of the NSR, reviewing such applications, and issuing permits. Additionally, the administration issues certificates to individuals providing ice pilotage services in NSR waters, monitors hydrometeorological, ice, and navigational conditions in the area, and coordinates the installation of navigational equipment and hydrographic work in designated areas. The administration also assists in search and rescue and clean-up operations, provides information services related to ship navigation organization, and develops recommendations for vessel routes and the use of icebreaking vessels in the NSR.

The Federal State Budgetary Institution "Main Directorate of the Northern Sea Route", operating under the State Corporation Rosatom, was established by an order of the Government of the Russian Federation (2022-1). The institution's scope of activity encompasses ensuring the organization of icebreaker escorting and piloting of vessels along vessel routes in the waters of the Northern Sea Route (hereinafter referred to as the waters), as well as the development of vessel routes and the deployment of icebreaker fleet vessels in the waters, taking into account the hydrometeorological, ice, and navigational conditions in the waters. Additionally, it issues, suspends, renews, terminates waterway permits, and amends such permits.

The Northern Sea Route and Russia's Arctic policy are defined in several documents, including "The Fundamentals of Russia's State Policy in the Arctic until 2035" (Decree of the President of the Russian Federation (2020-1)). This document highlights the development of the NSR infrastructure as one of Russia's primary objectives in the Arctic. Furthermore, this document serves to summarize the implementation of the "Principles of State Policy of the Russian Federation in the Arctic for the period to 2020 and beyond," which were approved on 18 September 2008 (Order of the President of the Russian Federation (2008)). These principles serve as the basis for the current state policy for the development of the Russian Arctic.

All the researchers known to the author have examined the problems and prospects of the development of the NSR with respect to the inter-state relations that existed during their research period, including Russia's chairmanship in the Arctic Council in 2022. Therefore, it is crucial for Russia to prioritize the development of the NSR as an international transportation and logistics corridor. The author aims to uncover the NSR's potential, while considering contemporary geopolitical realities

since 2022.

2. Materials and Methods.

The author analyzed government documents that were issued after the implementation of economic and political sanctions against Russia by Western countries. The focus of this analysis is to assess the validity of public and private investments as well as identifying realistic solutions to address the challenge of investment return.

The author employed methods of fact-finding, analysis, and synthesis to ensure a systematic and comprehensive approach to develop recommendations and conclusions. The aim of the study was to ascertain the suitability and soundness of goal-setting in the NSR Development Plan, the feasibility of attaining the objectives, and the economic viability of the expenditures. It is noteworthy that the project’s short timeframe, absence of a national methodology for assessing intermediate results, and lack of leverage effect pose a particular challenge.

3. Results.

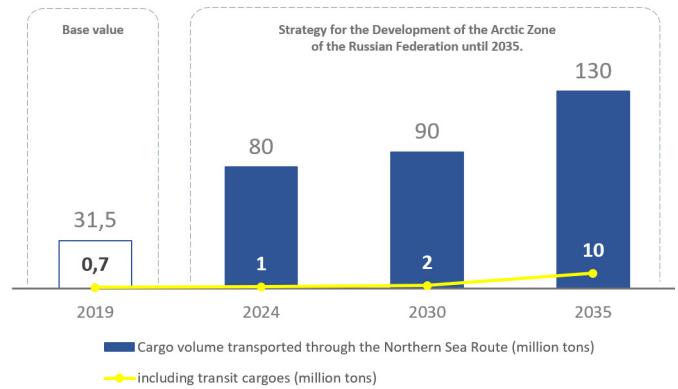
In 2017, the Russian Ministry for the Development of the Russian Far East commissioned a Concept for the Development of the NSR to make it a central part of the state programme for the development of the Arctic. The latest version of the state programme was approved by a decree of the Government of the Russian Federation in 2021.

The Foundations of Russia’s State Policy in the Arctic until 2035 highlight the development of the NSR infrastructure as one of Russia’s main tasks in the Arctic (Presidential Decree (2020-1)).

The Strategy for the Development of the Arctic Zone of the Russian Federation and National Security for the Period up to 2035, outlined in Presidential Decree (2020-2), predicts a rise in the significance of the NSR as a global transport corridor for domestic and international cargo. To achieve this, the Strategy incorporates target values for traffic volume in the NSR waters until 2035, based on the Presidential Decree (2018) on the national goals and strategic objectives of the development of the Russian Federation up to 2024. Additionally, the Strategy recognizes the potential risks posed by current foreign policy relations and sanctions, as well as the possibility of secondary sanctions on third countries utilizing the Russian Federation’s services for transit through the NSR. The majority of transportation volume is aimed at meeting Russia’s domestic needs, with a particular focus on the ”northern delivery.”

The key document developed as per the President’s request is the NSR Development Plan for the period up to 2035, which was approved by the Government of the Russian Federation in 2022. Trilateral agreements were signed between the Russian Ministry of Economic Development, Rosatom State Corporation, and major shippers to achieve the planned cargo traffic and create the necessary infrastructure for the NSR. The plan includes target indicators for cargo traffic, volume, and funding sources.

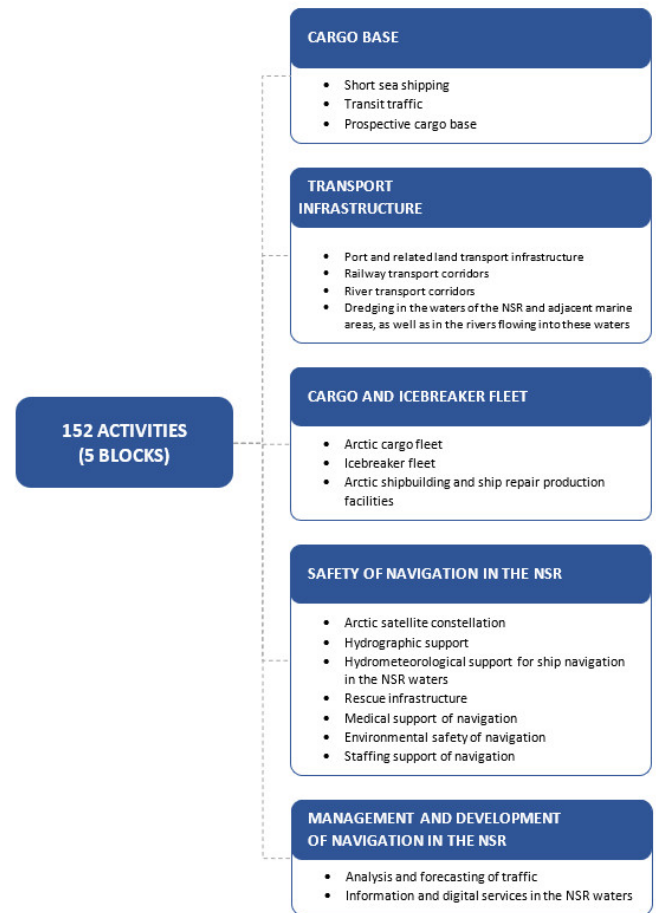
Figure 2: Target values of cargo volumes in the NSR until 2035.



Source: Author.

The structure of the NSR Development Plan proposes the implementation of 152 activities in 5 main areas (blocks):

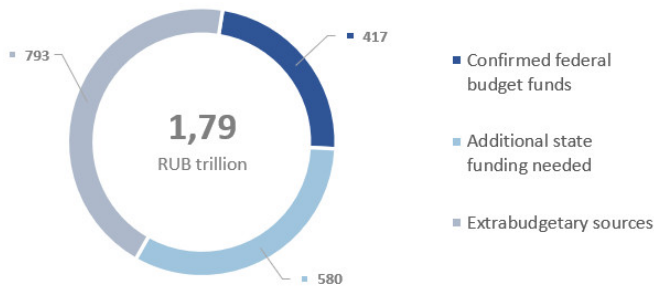
Figure 3: Structure of the NSR Development Plan by block.



Source: Author.

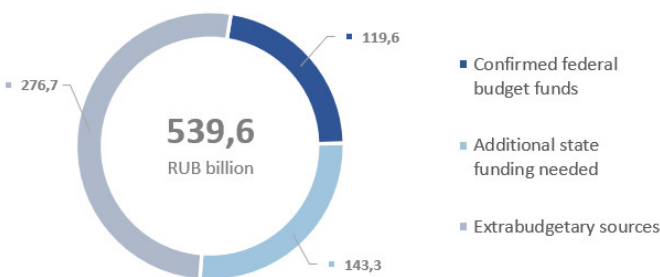
The implementation of activities under the NSR Development Plan until 2035 is planned to be funded at 1.79 trillion rubles.

Figure 4: Financial structure for the implementation of the NSR Development Plan.



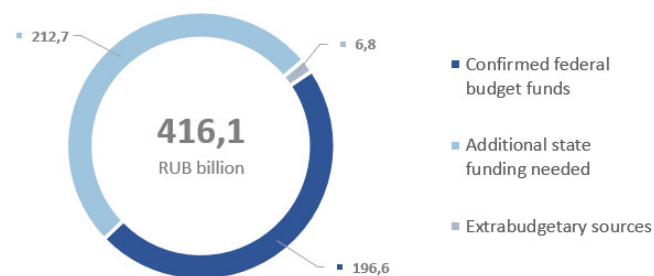
Source: Author.

Figure 5: Financial structure for shipbuilding, cargo and ice-breaker fleet until 2035.



Source: Author.

Figure 6: Financial structure for navigation safety in the NSR until 2035.

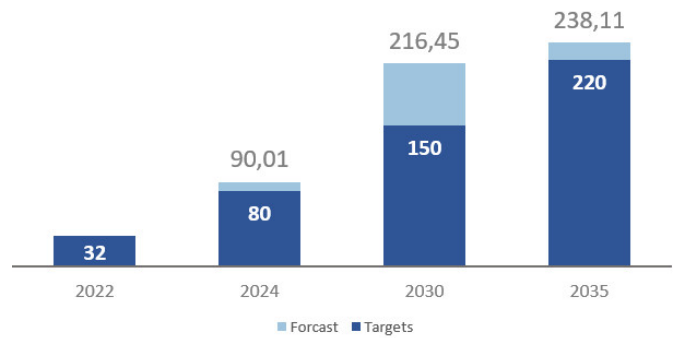


Source: Author.

The rapidly increasing trade flows between the Asia-Pacific region and the European Union over the past decade and the high levels of congestion on existing trade routes should also be noted.

According to the targets of the NSR Development Plan, the volume of cargo traffic in the NSR is to increase from 32 million tons in 2022 to 220 million tons in 2035 (the forecast is 238.11 million tons).

Figure 7: Dynamics of cargo traffic in the NSR until 2035 in million tons.



Source: Author.

However, the most significant factor in favour of developing new trade routes is the trade logistics security between Asian and EU countries (Belyi, Skorokhodov & Starichenkov, 2011; Bhagwat, 2022), etc.). The established paradigm of international trade relations that has been in place for decades is threatened by destructive factors, such as unfair competition between global economic players, trade wars, sanctions, destruction of transport infrastructure (including submarine pipelines), and others. Additionally, the growing militarisation of the Asia-Pacific macro-region by the Western bloc of countries (AUKUS) in the context of the Taiwan conflict, poses a serious threat to trade relations and communications in the South China Sea and the region as a whole. These negative trends require special attention and consideration.

The ongoing sanctions battle between Russia and the West has resulted in significant changes in international energy logistics, forcing Russia to redirect a large portion of its energy exports to Asia and seek new partners for existing oil and gas projects.

As a result, the development of the NSR has become crucial for both Russia’s independent development and its strategic partners. Creating a reliable and secure transport corridor that ensures the transport integrity of the Russian Arctic zone and trade logistics with key Asian partners is among the key priorities of the Russian government’s policy for the coming decades.

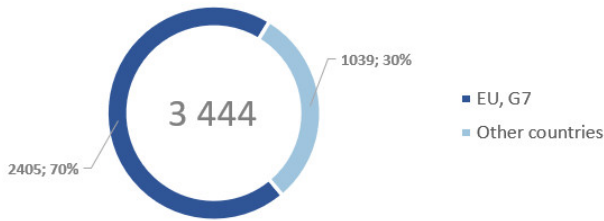
The current phase of the geopolitical struggle between the Russian Federation and Western countries, which began in February 2022, is characterised by massive economic restrictions on the Russian economy.

Western countries prioritize their long-term geopolitical aims over economic expediency when imposing sanctions on Russia.

One of the main impacts on various sectors of the Russian economy has been termination of operational and investment activities by major Western companies in Russia, followed by the sale of assets. This demarche aims to negatively affect the established consumer model of ordinary Russians and limit their access to advanced technologies and management practices.

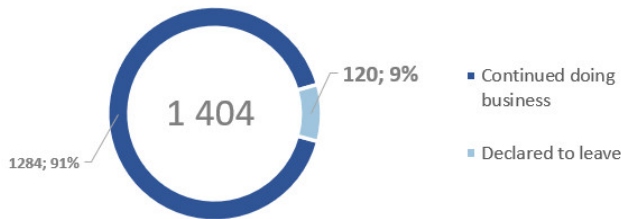
Despite these challenges, as of the end of 2022, only 9% of Western companies with operations in Russia had left the Russian market (Evenett & Pisani, 2022).

Figure 8: Number of foreign companies in Russia (2022).



Source: Author.

Figure 9: Number of operating and divested Western companies in Russia after the imposition of sanctions.

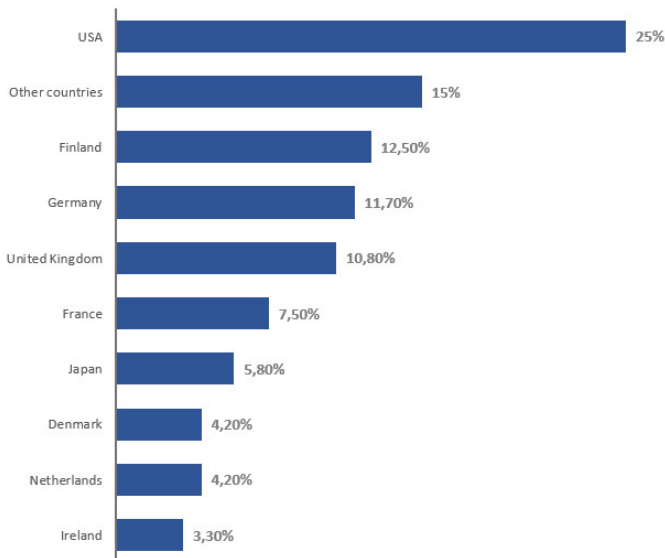


Source: Author.

However, it is important to acknowledge that foreign companies are encountering limitations on divesting from their businesses in Russia due to the Russian government’s anti-sanctions measures.

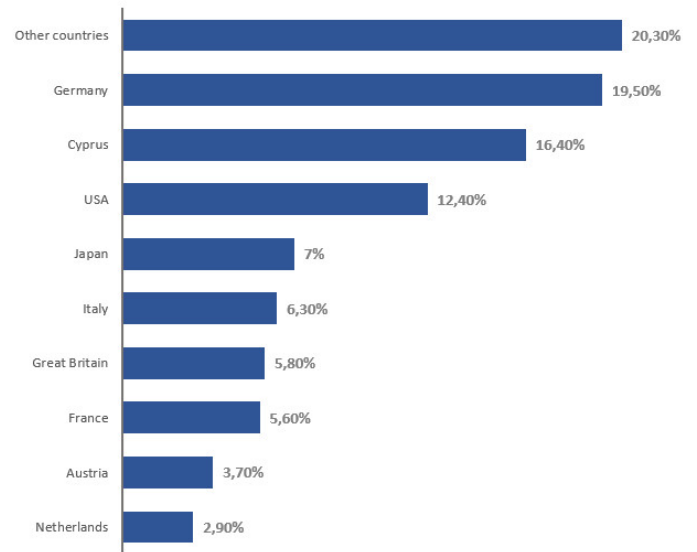
Many Western firms are selling their assets to Russian counterparts with a buy-back condition within a specified time frame (such as Nissan with a 6-year term and McDonald’s with a 15-year term). This approach is aimed at enabling Western partners to wait out the geopolitical tensions in the medium term and eventually return to the Russian markets.

Figure 10: Western companies divested from Russia. 120 companies by country.



Source: Author.

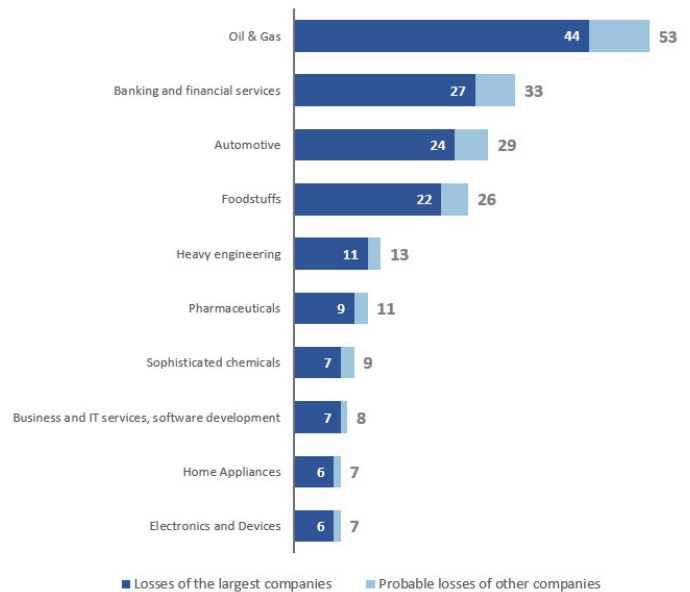
Figure 11: Western companies keeping on doing business in Russia. 1284 companies by country.



Source: Author.

According to estimates, the withdrawal of foreign businesses from Russian markets has resulted in cumulative losses of \$200-\$240bn.

Figure 12: Business withdrawal losses by sectors, USD billion.



Source: Author.

It is necessary to note the negative consequences of the Western businesses’ withdrawal for the Russian economy. But these negative consequences may be short-lived.

The NSR Development Plan for the period up to 2035 (Russian Federation Government Order (2022-2)) envisages significant involvement of extrabudgetary (private) funds, including:

Table 1: Attraction of extrabudgetary funds in the NSR Development Plan.

Object	Implementation period	Total cost (RUB billion)	Amount and share of private investments (RUB billion)
Construction of an offshore liquefied natural gas transshipment complex in Kamchatka Krai	2022-2024	32,02	20,05 (62,6%)
Construction of an offshore liquefied natural gas transshipment facility in the Murmansk region	2022-2023	20,09	20,09 (100%)
Construction of a specialized bulk terminal at the seaport of Murmansk (Tuloma terminal – “Axioma IK” LLC)	2024-2025	22,95	22,95 (100%)
Construction of an offshore terminal to ship lead-zinc concentrate on the Novaya Zemlya archipelago	2025-2026	3,8	1,8 (47,4%) ¹
Implementation of investment projects at PJSC “Murmansk Commercial Seaport”	2022-2024	3,88	3,88 (100%)
Reconstruction of facilities at the third cargo area of the seaport of Murmansk	2022-2024	6,38	6,38 (100%)
Construction of the Lavna coal transshipment complex as part of the development of the Murmansk transport hub	2022-2024	46,45	46,45 (100%)
Construction of 30 salvage vessels for the NSR until 2030.	2025-2030	98,17	6,77 (6,9%)

¹ It should be noted that there is no budgetary provision for this facility, so it is possible for private investors to spend 100%

Source: Authors.

Furthermore, it is worth noting that certain initiatives outlined in the development plan lack specific funding targets, despite having designated timelines for implementation. As a result, the state is presently without a particular investor who can commence providing funds and is thus actively seeking a suitable investor.

Table 2: NSR Plan activities that do not have investors (private or public).

Object	Implementation period	Total cost (RUB billion)	Amount and share of private investments (RUB bn)
Preparation of proposals for the construction of the hydrographic fleet (2 vessels)	2022-2024		
Construction of container ships for the pilot phase of the NSR transit container operator (9 ships)	?		
Construction of supply vessels to support “northern delivery”	?		
Fleet construction for liquefied natural gas projects	?		
Fleet construction for the North Star coal project	?		
Fleet construction for “Baimskaya Mining Company” LLC’s mining project	?		
Preparation of proposals for the development of river transport infrastructure (linked to the NSR)	?		

Source: Authors.

These areas of expenditure can become both investment opportunities for partners and revenues from contracted work.

3.1. Discussion.

The emerging architecture of international relations in the Arctic and the world at large presents a new and complex set of challenges that previous studies have not adequately addressed.

While some authors (Belyi et al., 2011; Bhagwat, 2022; Gizatullina & Soloveychik, 2020; Dmitrieva & Bury, 2019; Zhuravel & Nazarov, 2020; Zelenkov, 2019; Kuvatov et al., 2014; Rodichkin et al., 2020; Chizhkov, 2021; Mingaleva, 2017 and others) have highlighted the strategic advantages of the NSR in terms of security (absence of conflict hotspots on the route) and shorter transportation time between major suppliers (China) and buyers (EU), they did not take into account the impact of the sanctions battle that started in 2022 and the possibility of secondary sanctions. In the new historical context of strategic investment planning, and taking into account the need of the NSR for global investments, it is imperative to undertake a comprehensive assessment of the anticipated demand for such investments in the foreseeable future. The author conducted an analysis pertaining to the evaluation of the demand for the development of the Northern Sea Route for the Russian economy, while considering state programs for the development of the Arctic and Far East regions. Furthermore, the author identified the specific investment projects that require private investment, and the associated risks and needs.

Conclusions.

The sanctions dispute between Russia and the West has resulted in a significant transformation in international energy logistics. Russia has had to redirect a significant portion of its energy exports to Asian countries while searching for new partners for existing oil and gas projects, including the development of newly explored offshore fields.

In light of the above, the development of the (NSR) is of considerable significance to both the independent development of the Russian Federation and its strategic partners. The establishment of a reliable and secure transport corridor that guarantees the transport integrity of Russia’s Arctic zone and trade logistics with crucial partners in Asia will be one of Russia’s primary state policy priorities in the forthcoming decades. Despite taking into account the risks associated with the current architecture of foreign policy relations and imposed sanctions, including possible secondary sanctions imposed on third countries that use the Russian Federation’s services for transit through the NSR water area, the author argues that currently, no competitive alternative to the NSR exists.

Furthermore, the author believes that an investor who takes the risk of investing in NSR infrastructure may enjoy strategic benefits from such investments in the foreseeable future.

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