



POTEN TANKER OPINION



Taking A Dangerous Shortcut?

Russia is boosting oil flows through the Arctic

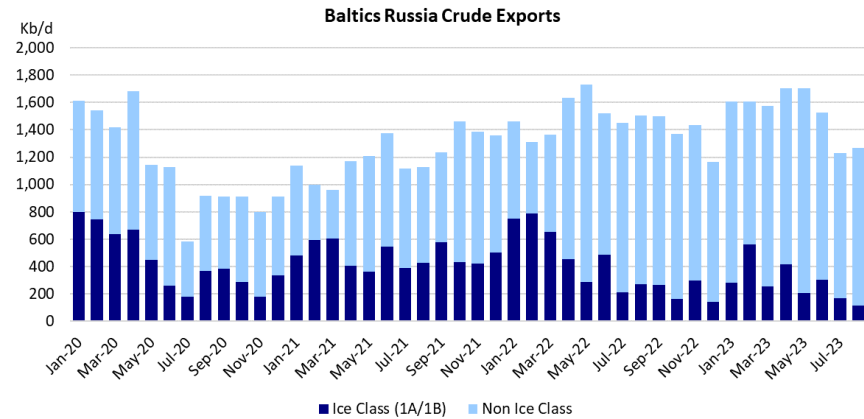
Since the Russian invasion of Ukraine and the EU sanctions that followed, Russia has been trying to explore alternative customers and shipping routes to maintain its crude oil and refined product exports. It has grown a fleet of “dark vessels” that are willing to move Russian crude despite the risk of sanctions from the group of G7 countries. Russia also discounted the price of its crude oil and products to boost demand in regions that were traditionally not large customers, like India. One of the latest developments in Russia’s campaign to boost exports is an increase in flows from the Baltic and the Barents Sea to China via the Northern Sea Route. Is this a realistic alternative to the more traditional routes via the Suez Canal or is it a risky and dangerous shortcut that would not be considered under normal circumstances?

The Northern Sea Route (NSR) is a shipping route about 3,500 miles long, defined by Russia as running from the entrance to the Novaya Zemlya straits in the west, along the Russian Arctic coast above Siberia to Cape Zhelaniya on the Bering Strait. The entire route lies in Arctic waters and within Russia’s exclusive economic zone and is included in what has been called the Northeast Passage, analogous to Canada’s Northwest Passage.

Traditionally, the NRS has been used to move fuel, equipment, and food to the Arctic ports of Siberia and export timber and minerals. Some parts of the route are only ice-free for two months out of the year and ships need to be escorted by icebreakers when ice conditions are not favourable. However, because the Arctic ice caps are melting, traffic and the commercial viability of the NSR are likely increasing.

Because of the sanctions it is facing and the resulting shift in export destinations, Russia has accelerated this development and boosted the shipment of oil to China via the NRS this year (Figure 1). A journey from the Barents Sea to the port of Rizhao (China) via the NRS takes 35 days, which is 10 days less than the alternative (Southern) route from the Baltic through the Suez Canal. The potential for time and fuel savings is significant. However, as previously indicated, there are limitations and risks. The weather situation can change quickly, and this could cause problems. For example, in November 2021, more than 20 ships got stuck in the remote area following a quick and early freeze of the waters. Such delays wipe out any cost and time savings.

The chart shows that shipments mostly take place in the summer, from July – October. Even during that period, having an icebreaker escort is probably preferred since sea ice is unpredictable. If something goes wrong during the passage, it will be very difficult to respond to an oil spill. In addition to an icebreaker escort, the vessels that make the journey are usually



Source: Vortexa

ice-class tankers, strengthened to withstand the icy conditions during the NRS passage. Ice class vessels are a small subsector of the tanker fleet, and they are typically in high demand during the winter period in the northern hemisphere.

Crude oil exports from the Baltic also use ice class vessels as can be seen in the second chart. It appears that the share of ice class vessels utilized in Russia’s Baltic Exports has been reduced in the 2022/2023 winter. This could be related to the fact that many modern ice class tankers are controlled by western owners, some of whom are reluctant to participate in Russian crude oil exports.

Russian owners do own a fair number of ice class tankers, but nowhere near enough to facilitate both Baltic and NSR voyages. Choices have to be made. It appears that the Russian authorities are willing to compromise safety by allowing non-ice-class vessels to be utilized in the trip across the Arctic Ocean. Rosatom, the agency that manages Russia’s fleet of nuclear icebreakers and also regulates the NSR, told the Financial Times that “the improved navigation conditions in the summer and autumn months allow non-ice-class ships to operate safely.” However, oil tankers are inherently riskier and the decision to allow non-ice-class vessels has triggered warnings from environmental groups.

Russia already utilizes a growing “dark fleet” for regular oil shipments to counter sanctions and ensure the continuation of oil revenues. Now, it seems to be willing to take even more risks by expanding NRS shipments on non-ice-class tankers.