

The Growing Importance of the Arctic Region

Mr. Gunnar Bragi Sveinsson
Minister for Foreign Affairs and External Trade of Iceland
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Ladies and gentlemen

I want to thank The Economist Group for inviting me to speak at this event on developments in the Arctic.

The Arctic has long been a source of fascination and fable - with its vast wilderness and remoteness - accessible for only the few determined explorers.

When discussing economic opportunities in the Arctic the interests of the four million people who live in the region must be respected. To us the Arctic is no frontier territory, it is home.

I therefore welcome the opportunity to join the discussion here today. It is essential that the business community and policy makers, together with other stakeholders, debate the challenges and opportunities of economic development in the Arctic.

The Arctic is indeed opening up with significant potential for economic activities. Companies and investors show increased interest in projects in the region. At the same time we must recognize that questions remain to be addressed about the impact of our activities on the delicate environmental and social realities in the North.

My remarks are made from the perspective of a nation that is privileged to have a front row seat to changes in the region. These changes are happening at a fast pace and they affect our societies, the environment, our security and our economies in various ways.

That means we are facing challenges but I will primarily focus on the opportunities here today.

Iceland is preparing. The Government has identified developments in the Arctic as a key policy priority. We have adopted a whole of government approach to ensure better cohesion and Arctic affairs are a central theme in our foreign relations.

And the Icelandic business community has responded fast to the changing realities and organized its work by establishing an Arctic Chamber of Commerce, the first of its kind in any of the Arctic States.

Ladies and gentlemen

Sometimes we read catchy headlines such as the one on the Economist website announcing this conference: “the Arctic race is heating up”.

It may be disappointing but the reality is far less exciting than often described by the media.

The Arctic is a well governed region with legal and institutional arrangements firmly in place. Most importantly the United Nations Convention on the Law of the Sea provides a sound legal framework and the Arctic Council is a robust circumpolar cooperation comprising the eight Arctic states.

Originally created in 1996 as a forum largely focused on science and research cooperation, the Arctic Council has proved a valuable source of knowledge for both governments and the business community about the Arctic.

Today, increased economic activity, shipping, tourism and resource development has called for the Council to take on expanded roles and responsibilities, such as business cooperation and environmental security and protection.

The Council has moved from being a policy-shaping to a policy-making body, with two legally binding agreements – on oil spill response and search and rescue – signed in the last three years.

Although the Arctic states may not see eye to eye on all international issues this regional partnership is a demonstration of a successful cooperation guided by the collective interests of the region with constructive participation of all the Arctic Council members.

The growing international significance of the Council is also underlined by the fact that it now includes ten out of the eleven largest economies as members or as observers, six out of the fifteen largest oil producers and nine out of the twenty largest fishing nations in the world.

It is furthermore worth mentioning that the Council is set up in a unique way. With close to half a million indigenous peoples living in the Arctic their organizations are actively involved in the work of the Council as permanent participants.

Ladies and gentlemen

The Arctic has great economic prospects.

While numbers and figures about the growth potential should be taken with caution there is little doubt that major untapped possibilities can be found, for example in oil, gas and minerals.

Moreover, transportation routes are opening up, thus bringing major markets in Asia, Europe and North-America closer together, as well as creating additional opportunities in tourism.

The possibilities unlocked by this new reality bring with them the obligation to act in a responsible manner.

A precondition for development in the Arctic is the protection of the environment, based on the principles of responsible resource management and sustainability.

Regional stakeholders must as well give due attention to the security challenges, including improved situational awareness and strengthening search and rescue capabilities. This is a policy priority for Iceland and we are studying the feasibility of establishing an international rescue and response hub in Iceland.

We also recognize that in some parts of the Arctic the cost of doing business is high - conditions are harsh, logistics are difficult and infrastructure is lacking.

However, these constraints can be overcome and the Arctic offers many advantages that cannot be found in other parts of the world. The region is stable, peaceful and governed by solid regional cooperation as I have already described. Furthermore, the advancement of technology makes new projects safer and more economically viable.

Ladies and gentlemen

Iceland is well placed to take part in the continuing development of the Arctic region.

The Icelandic business community has taken promising steps to seek growth opportunities in the Arctic. This includes initiatives such as the previously mentioned establishment of the Icelandic Arctic Chamber of Commerce.

So, what makes Iceland an attractive partner for investments and business in the Arctic?

First. Icelanders know and understand the difficult conditions in the north. The extreme environment is natural to us. Icelandic sailors know how to navigate the most difficult seas. Our engineers know how to design and build structures that can withstand the most fearsome winter storms.

Second. Our companies have decades long experience working in Arctic conditions in sectors such as construction, hydro and geothermal power generation, logistics and engineering services.

Third. Iceland offers excellent infrastructure – ice free harbors, roads, airports and high tech telecommunication - that can service the northwestern Atlantic region.

Fourth. Our transportation sector continues to grow. Our shipping companies offer extensive route networks across the Atlantic. Airline connections link Iceland directly to more than a dozen destinations in North America and an impressive number of destinations in Europe. In fact, Iceland provides some of the best connections to Greenland, both in the air and on sea.

Fifth. We have a labor market that is characterized by a high participation rate and well educated workforce. Gender equality is a cornerstone of our policies and nowhere in the OECD countries is women's participation in the labor market higher than in Iceland. We also have a vibrant higher education sector which is increasingly focusing on studies that are relevant for developments in the Arctic.

Last but not least. We are improving the business environment in Iceland, reforming corporate taxes and cutting red tape to facilitate investments.

Ladies and gentlemen

Increasing evidence points to considerable oil and gas reserves in the Dreki Area northeast of Iceland. Recently, the Government granted the third license for prospecting, exploration and production of hydrocarbons in the area.

We are in a good position to pursue these possibilities that may be found beneath the seabed within our exclusive economic zone. We can adapt best practice from the industry, draw on quality expertise and learn lessons from other countries that are familiar with similar conditions.

We are cautiously optimistic about the prospects of this undertaking and realize that it does not come without risks.

It is in the mutual interest of governments and the business community to demonstrate responsible resource utilization and share the risks and rewards of such projects.

Our common goal must be to take all possible measures to protect and safeguard the fragile Arctic and to that end apply highest environmental standards.

In tandem with responsible utilization of oil and gas resources it remains important to continue developing renewable energy, which can be used to a much greater extent for local communities in the Arctic climate.

Here, Iceland is in a good position to lead by example. With renewable energy as our principal source of power our expertise has for example been put to use in hydropower projects in Greenland and our geothermal experience is shared all over the world.

Ladies and gentlemen

I am very optimistic about the future prospects of the Arctic. Most importantly, the steps that we take must benefit the people and the communities. Some countries and regions will benefit more than others but I think we can safely say that all of them will take advantage of the changes, in some way, shape or form.

Over the course of the next years Iceland will continue to seek new opportunities. Economic diversification should be one priority. Many regions are too dependent on few industries and local economies need to be more resilient.

In Iceland we are currently strong in sectors, such as fisheries, tourism, transportation, industry and geothermal knowhow. We welcome more diverse opportunities and welcome those that want to build on our current expertise.

To name one example, the service sector has significant growth potential.

In a regional context it seems sensible that activities in the Dreki area and other potential oil and gas fields off the east coast of Northern Greenland and in Jan Mayen waters be regarded as interlinked entities. This creates new opportunities for services.

Furthermore, the opening up of transportation routes and the proximity to Greenland put us in a favorable geostrategic position for developing our service industries.

Local authorities and businesses are already taking concrete steps to plan and prepare for this. Studies are already underway regarding a possible construction of a multi-purpose harbor in northeast Iceland that could service trans-shipping. Plans for the development of an industrial harbor and service facilities that would be focused on mining, oil and gas have also advanced.

An interesting event to learn more about these issues will take place in Reykjavík in September when the Arctic Circle Assembly meets for the second time. The first one drawing close to 1,000 stakeholders from 40 nations - the largest and most diverse gathering of its kind.

Dear friends

The commitment of the Arctic nations to work for the common good of the region is the fundamental principle of our cooperation. The same must apply for the business community. It is our joint responsibility to ensure that the precious Arctic – remote to some, but home to others – is managed in a responsible manner.

Thank you for your attention