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THE NORTHERN SEA ROUTE AS A KEY FACTOR IN THE ECONOMIC
DEVELOPMENT OF THE NORTHERN REGIONS.

SESSION II: STRATEGIES FOR RESOURCE EXPLOITATION - A
REGIONAL CONCEPT OF THE NORTH

Monday 27 September 1800-2100

1800 Trade and Cooperation in the Barents Euro-Arctic Region
(Presentation by Odd Gunnar Skagestad, Norwegian
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I. INTRODUCTION

The Barents Region may be defined as the northernmost cap of continental Europe, or the lands bordering on the Barents Sea. When we introduce the term Barents Euro-Arctic Region, it is not an attempt at re-inventing geography, and it is not a purely geographical concept. The Barents Euro-Arctic Region is a recent creation which reflects the challenges of today's world as they present themselves in this geographical context, and it reflects the strategies that are being adopted in

meeting these challenges. This includes - as suggested in the topic for this session - strategies for resource exploitation. But the concept of the Barents Euro-Arctic Region has a much broader scope than that.

In the past few years we have seen dramatic changes in the European foreign-policy situation. The Cold War has come to an end, and we now see new opportunities for cooperation, but also the potential for conflict and unrest.

The new Europe will emerge from the interplay between nation-building in the East, integration in the West, and regional cooperation across national borders and dividing lines. In this process of shaping a new Europe, regional cooperation will be the cement which keeps the European House together.

Thus, the Barents Euro-Arctic Region reflects our efforts to cope with these challenges in this particular geographical area.

II. THE BARENTS EURO-ARCTIC REGION - STRUCTURES AND OBJECTIVES

The initiative to establish the Barents Euro-Arctic Region was conceived by the then Norwegian Foreign Minister Thorvald Stoltenberg, who launched the plan in a speech here in Tromsø in April 1992. After a nine-month pregnancy, the initiative gave birth to the Kirkenes Declaration on Cooperation in the Barents Euro-Arctic Region, which was adopted at the Conference of Foreign Ministers in Kirkenes 11 January 1993.

The Parties who signed the Declaration were the 5 Nordic countries (Norway, Sweden, Finland, Denmark and Iceland), Russia and the Commission of the European Communities.

In the Declaration the participants agreed to establish a Council (The Barents Euro-Arctic Council), to provide impetus to existing cooperation and consider new initiatives and

proposals. The Council will meet at Foreign Minister level (normally once a year) or at other relevant ministerial level. It may also meet at senior official level. The Council includes the participants at the Kirkenes meeting and other states wishing to take an active part. The United States, Japan, Canada, United Kingdom, France, Germany and Poland have participated from the beginning as observers, with the Netherlands joining in June 1993. Decisions of the Council and its subsidiary bodies will be taken by consensus. The chairmanship will rotate between Norway, Finland, Sweden and Russia for one-year terms. Finland is to assume chairmanship after Norway in the spring of 1994.

The objective of the work of the Barents Council is to promote sustainable development in the Region. The Council will serve as a forum for considering bilateral and multilateral cooperation in the fields of

- economy
- trade
- science and technology
- tourism
- the environment
- infrastructure
- educational and cultural exchange,

as well as projects aimed at improving the situation of indigenous peoples in the North.

The geographical area of the Barents Euro-Arctic Region includes the county of Lapland in Finland, the counties of Finnmark, Troms and Nordland in Norway, the counties of Murmansk and Archangel in Russia, and the county of Norrbotten in Sweden.

In conjunction with the Foreign Ministers Conference in Kirkenes in January this year there was also a separate inaugural meeting for the Regional Council of the Barents Euro-Arctic Region. The Regional Council includes county officials (leaders of provincial governments) as well as representatives of the indigenous peoples of the Region (in

addition to the aforementioned counties, the Regional Council now also includes the Karel Republic in Russia).

The Regional Council has established a number of working groups in various fields of mutual interest.

Thus, the Barents Euro-Arctic Region operates on two equally important levels, - the state-to-state level (through **The Barents Council**) and the inter-regional level (through **The Regional Council**).

The Barents regional cooperation has a multilateral as well as a bilateral scope. In a bilateral context it will provide an important framework for the development of the Norwegian-Russian neighbourly relations. A main goal will be to facilitate regional cooperation between local authorities and institutions, business and industry. We want to promote a normalization of transboundary relations in the north and economic development on a sustainable and environmentally sound basis.

In summing up the main goals for the Barents regional cooperation, I would like to stress the following elements:

1. Normalization. We want to normalize our relations with Russia and develop a cooperative relationship similar to our relations with other neighbouring countries.
2. Stabilization. To achieve a stable and positive development requires measures which counteract military tension, which reduce threats to the environment, and which may reduce the inequalities in living standards within the region.
3. Europeanization. We want the Barents regional cooperation to develop as a European region, and the participation of the EC Commission in the Barents Council is an important element in this strategy.
4. Multilateralization. We aim at a broad international

involvement in matters concerning our northernmost areas. Therefore we attach great importance to the participation of observers in the Barents Council, including i.a. the United States, Canada and Japan as active participants.

III. TRADE AND COOPERATION

General remarks

The Barents Euro-Arctic Region may be seen as an "umbrella" covering a wide variety of interactions between communities on various levels and within various fields, with a main emphasis on cooperation in a very broad sense.

In this overall picture, trade is an important element. It is difficult to draw a clear-cut line between trade and cooperation, and it would also be somewhat artificial. To stimulate and promote trade is in itself an important objective of the cooperation that takes place within other fields of activities. Conversely, cooperation is a prerequisite for much of the trade activities in the region.

Norwegian-Russian bilateral trade

In the 18th and 19th centuries trade with Russia played an important role in the economy of Northern Norway. The extensive contacts between Norwegian and Russian traders and businessmen came to an end with the Russian revolution in 1917. In the subsequent 7 decades the contacts between Northern Norway and Northern Russia were very limited. Soviet policies, including a command economy with central steering of foreign trade through a virtually closed border, made an effective obstacle to economic and commercial links.

The reform process in the new Russia has opened up for direct commercial relations and a renewal of the ties that were cut off in 1917. The business community and local authorities in Northern Norway were quick to realize the competitive

advantages of their region with regard to geographical proximity to the potential markets in North-West Russia, and with experience and technology suited to the special conditions in the North. In the course of the past 3 or 4 years, we have witnessed a rapid development in cross-border economic relations - primarily extensive trade activities but also an increasing number of Norwegian industrial enterprises operating in the Kola peninsula and the Archangel area. Out of a total of 31 Norwegian-Russian joint ventures which were started in 1992, 21 were established in the Murmansk area. There has been an increase in such activities as ship repairs and outfitting of Russian fishing vessels at shipyards in Northern Norway, as well as in the sales of Russian fish to the Norwegian fish-processing industry. In 1992 the fish processing industry purchased approximately 800 mill. NOK (i.e. approx. 110 mill. US dollars) worth of Russian cod. These fish imports made up approx. one-third of our total imports from Russia.

Cross-border travel and tourism have also mushroomed and created positive side-effects for the local economy. These are activities which contribute to job-creation and inject a new dynamism in a district previously suffering heavy unemployment.

Several other sectors hold interesting future potentials for Norwegian export of goods and services. Among these are environment technology, mining technology, forestry, construction and the oil and gas sector. It would also seem that the (hopefully) up-coming transition in Russia from high-technological military production to production for civilian purposes may entail further possibilities for Norwegian business.

There are also some obvious obstacles to overcome for conducting trade with and making investments in Russia. Key words here are shortage of hard currency, uncertainties concerning property rights, incomplete legislation and changing rules, a weak infrastructure, and political and economic risks. The business community in Northern Norway have, however, gained considerable experience and knowledge that may enable them to come to grips with such problems.

Land-based industrial cooperation

The institutionalized Barents regional cooperation is confined to the land areas and does not include off-shore activities like exploration and exploitation of petroleum resources on the Northern continental shelves of Norway and Russia. A future exploitation of the petroleum resources in the North would, however, give a strong impetus to economic developments and further inter-regional cooperation.

Unlike the off-shore sector, the land-based industrial cooperation has been part of the Barents regional cooperation from its beginning. Norwegian-Russian joint ventures and other cooperative enterprises in connection with the mining industry on the Kola peninsula are already in business. Further cooperation with the heavy industries on the Kola peninsula would be desirable, especially with regard to the cleaning-up project concerning the nickel works close to the border. Norwegian companies are now involved in North-West Russia in the wood processing industry, ship repairs, construction, food processing, the fishing industry and tourism.

The Barents Regional Council has established a working group consisting of industrial managers to consider projects within business and industry, and will also propose measures to remove obstacles to a more extensive cooperation in business and commerce.

The Barents regional cooperation helps to create a sense within the region of being in the centre of important commercial developments rather than in the periphery.

A special working group has been created under the Barents Council to consider the development of the Northern Sea Route between the Atlantic and Pacific Oceans. (We are having a working group meeting in Oslo to-morrow, which is why I unfortunately can't join you during the part of this Symposium which will address that issue more specifically).

Petroleum-related activities

Norway is a major producer and exporter of crude oil and gas. One-half of the remaining oil and gas reserves of Western Europe are on the Norwegian continental shelf. Norway has the necessary resources to make a politically and economically significant contribution to providing stable energy supplies for Western Europe for years to come. Four-fifths of our continental shelf - still largely unexplored but showing interesting potentials - is situated off Northern Norway.

Russia is the world's largest petroleum producer. Their exports of oil and gas are their most important source of foreign exchange incomes. Making the Russian energy sector more efficient is a precondition for an eventually successful economic reform policy, and that would furthermore be a prerequisite for a political development in a democratic direction and for the integration of Russia in a broader international cooperation.

For Norway, this entails important and interesting perspectives. In April this year the Norwegian and Russian Foreign Ministers Holst and Kozyrev signed a joint protocol which underlined the considerable potential for cooperation in the energy sector. It was emphasized that Norway's experience would be useful in connection with the radical re-structuring of the oil and gas sector and the introduction of a modern management system in Russia.

Unresolved issues of jurisdiction, especially the absence of a Norwegian-Russian agreement on a delimitation between their respective continental shelf areas in the Barents Sea, have so far been an obstacle to a possible extension of the Barents regional cooperation to include offshore petroleum activities. It is, however, Norwegian policy to encourage Norwegian companies which provide, on a commercial basis, equipment and services to petroleum activities on what is undisputed Russian continental shelf.

It might be added that our bilateral energy cooperation has

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recently assumed a new dimension with the opening in Murmansk of Statoil's first gas station in Russia.

Environmental challenges in the North

The interrelationship between energy, environment and economic development poses a challenge for international cooperation, also in the regional context. Environmental problems do not respect national borders, and the new openness of Russia has also disclosed the enormous dimensions of the environmental problems in the north.

The emissions of sulphuric acid from the Pechenga nickel works on the Kola peninsula are 5 times larger than the total Norwegian emissions, and they cause pollution also on the Norwegian side of the border. Norway has offered to provide 300 mill. NOK worth of environment protection and clean-up assistance on the Kola, provided the Russian nickel works company would go for an environmentally acceptable solution.

The potential risks for radioactive pollution are, naturally, a cause of some concern. Last year Norway and Russia signed a bilateral environment protection agreement, which i.a. includes the mapping of dumping sites of radioactive waste in the Barents and the Kara Seas. It should, however, be noted that nuclear radiation levels in the Barents Sea are extremely low. The Barents Sea is actually among the cleanest waters in the world, and the fish caught in these waters have a correspondingly clean quality.

The Action Programme for Eastern Europe

The Norwegian Government's so-called Action Programme for Eastern Europe is an important instrument for the implementation of our policies in the combined fields of trade and cooperation in the Barents Euro-Arctic Region. Although the programme has a broader geographical scope, North-West Russia is given priority, which means that there is also a partial focus on the Barents Region.

For 1993, the Norwegian Parliament (Storting) has allocated a

total of 461 mill. NOK (i.e. more than 60 mill. US dollars) for this Programme. In the first 6 months of this year, the Action Programme provided financial support for 110 Norwegian-Russian projects in the Barents Region, in the total amount of 80 mill. NOK (i.e. some 11 mill. US dollars).

The allocations under the Action Programme include support for projects aimed at developing cooperation in fields where Norway can muster special know-how, such as food production and distribution, housing construction, material and equipment, telecommunications, shipbuilding and shipping equipment and the development of natural resources.

V. SUMMING-UP

To sum up, it is the hope of the Norwegian Government that the Barents cooperation will serve primarily as a meeting place. The Barents Council is the only permanent forum in which all the Nordic countries meet Russia at full political level. The participation of the EC Commission makes the cooperation more interesting to Russia and the Nordic countries alike. The Barents cooperation is, and must continue to be, open to new participants. As part of the new European architecture it can be incorporated into future cooperation arrangements between the Arctic states, involving countries like Canada and the USA.

The Barents Euro-Arctic Region has historical dimensions. When we are now linking the northern parts of the Nordic countries to North-West Russia in a balanced and mutually profitable cooperation, North Norway - which is known as the "land of the midnight sun" - may also become the "land of the new opportunities".