



## **Michael Kingston, DWF Fishburns LLP, Report of Arctic Panel Discussion, UK TI Nordic Baltic Seminar, Mansion House. London, 09.05.2013**

### **Arctic Panel Participants**

Dr Dougal Goodman – CEO Foundation for Science & Technology

Johanna Salvolainen – Head of UK TI, Finland

Christopher Welch, Chairman of Association of Mining Analysts

Dr Stuart McCracken, Anglo American

### **Arctic Panel Moderator**

Michael Kingston, Marine Trade & Energy Group, DWF LLP

Also in Attendance:

British Ambassador Paul Johnston (Sweden),

British Ambassador Matthew Lodge (Finland); and

British Ambassador Vivien Life (Denmark).

Cristiana Liaos, Nordic- Baltic Director, UK Trade & Investment

### **Points arising from the Arctic Discussion**

- The growing importance of the Arctic was highlighted. Dr Goodman and Michael Kingston explained the Lloyd's of London report; *An Arctic Opening; Opportunity and Risk in the High North*, on which they both worked. Activity in the Arctic is not new, but the focus is now more high profile than ever due to the need to prepare for future operations, much of which will depend on world supply & demand trends. Dr Goodman pointed out that the Lloyd's report is a very helpful insight into the Arctic and what is going on at present, and that it highlights the fact that in the Arctic there are a series of technological issues and social issues that need to be addressed and that it is hard to separate the two. Inevitably natural resources in the Arctic will be exploited with Oil & Gas companies involved in activity and a number of licensing rounds taking place, Johanna Salvolainen highlighting activity at present in Greenland in research and exploration, where UK TI in Denmark is involved in assisting British interests. Dr Goodman pointed out that if a giant field is present off North East Greenland, even though the environment is difficult, it will be developed. Much infrastructure will be required in Greenland according to Johanna Salvolainen. Dr Goodman pointed out that industry has tested its ability to operate near the Sakhalin Peninsula in the sub-Arctic and that if the expected finds off Greenland materialise much of the technology developed at Sakhalin can be transferred to Greenland. However, although seismic research off Greenland looks very promising, recent political developments in Greenland and the election of the Home Rule Government create doubt as to whether the 2013 licensing round will go ahead. Johanna Salvolainen explained that at present UK TI in Norway are working closely with business in relation to several large projects either in operation or going on stream in the near future. Dr Goodman also explained the impact of the shale gas finds in North American, which has a direct impact on Arctic development in oil & Gas, which have resulted in projects which were previously designed to export LNG to North America, like the Shlokman field which Statoil is involved in, will not go ahead because the gas price in N America has collapsed, with energy terminals in N America that were built to import gas are now being converted to export gas. Additionally Offshore Africa has seen substantial finds which is changing the whole nature of the gas market.

- Christopher Welch and Dr Stuart McCracken spoke in relation to mining, and indicated that there is much work going into planning for mining activities at present. Dr McCracken explained Anglo American's exploration and mining activity in Finland (Copper), Greenland (Copper exploration), and Canada (Diamonds). Johanna Salvolainen, head of the UK TI team in Finland said that mining is already a significant industry in the region, and told the Seminar that there are 52 mines in Finland, 12 being metal minerals, the rest mainly limestone. Investment in the mining sector in Finland over the next 5 years is expected to be 3-4 billion Euros, with the sector employing about 30,000 people, which is expected to rise by 5 -6 thousand over the next few years. Michael Kingston pointed out that the Arctic Council Summit was taking place at the Kiruna mine in Northern Sweden on 15<sup>th</sup> May, for which he would be present. He explained that it is the largest underground iron ore mine in the world and the town of Kiruna is being moved to facilitate the mine's expansion (also emphasised by Johanna Salvolainen). He said that is was an example of careful sustainable development in the Arctic by the Swedish LKAB Company that owns and runs the mine. Michael Kingston also pointed out that LKAB had participated in the recent Arctic Council Sustainable Development Working Group Discussions in April, and that lessons could be learnt from this engagement and approach.
- Dr Goodman also pointed out the importance of fishing and fish processing in the Arctic and tourism to UK interests.
- Dr Goodman and Michael Kingston pointed out that shipping activities had increased in recent years; Dr Goodman explained activities, both historical, and recent in the North-West Passage, Michael Kingston giving figures for increased activity in the Northern Sea Route. He explained that never before have so many vessels used the Northern Sea Route for cargo transport between Europe and Asia, and that there has been a tenfold increase in the number of vessel transits in the last two years until the season closed at the end of 2012. He pointed out that in 2012, 46 vessels sailed the route, compared to 34 in 2011 and only four in 2010. The total cargo transported in 2012 was 1 260,000.00 tons – a 53 percent increase from 2011, when 821, 000.00 tons was shipped. Dr Goodman and Michael Kingston pointed out that climate change played a large factor in this development, with record ice melt, even more rapid that predicted in the Lloyd's report of April 2012. Michael Kingston indicted that Norwegian researchers said in November that the sea ice is becoming significantly thinner and more vulnerable. The annual thaw of the region's floating ice reached the lowest level since satellite monitoring began, more than 30 years ago. The Norwegian Polar Institute (NPI) is at the forefront of Arctic research and its international director, Kim Holmen, said that the speed of the melting was faster than expected. "It is a greater change than we could even imagine 20 years ago, even 10 years ago," Dr Holmen said. "And it has taken us by surprise and we must adjust our understanding of the system and we must adjust our science and we must adjust our feelings for the nature around us." All this can only lead to one result: increased activity in the Arctic, both in terms of Shipping, Drilling for natural resources and Production. Johanna Salvolainen pointed out that the second largest industry in Finland was the shipbuilding industry, with 60-70% of all icebreakers in the world being built in Finland. At the moment the shipping industry is focusing heavily of vessels suitable for Arctic environments. Dr Goodman emphasised the record shrinking in sea ice during the summer, but pointed out that oil exploration and production needs to concentrate on the maximum thickness of ice that will impact on a structure when calculating design load, not the minimum position.
- The Seminar discussed the increased interest from other countries, particularly China, who were applying for Observer Status of the Arctic Council. Michael Kingston explained that the decision about Observer Status would be made in Kiruna, and also explained the importance of the Northern Sea Route to China, but also China's manufacturing industry which was making bespoke Oil rigs and vessels for Arctic operations. The Panel discussed the importance of the sea routes, and the pressure on industry to save carbon emissions by using the shorter route. Much would depend on the development of the route and whether and when it would become viable for bulk cargo to use the route.
- There is a great deal of activity going on in relation to research in the Arctic region. There is a lack of knowledge, and this needs to be addressed, with business and Governments sharing knowledge to help with the sustainable development of the Arctic. This should involve committees set up to share that knowledge for everyone's benefit. Michael Kingston pointed out that this should probably be overseen by the Arctic Council and he explained that the possible establishment of a circumpolar business forum by the Arctic Council could be the stepping stone to achieving this. At the same time filling this knowledge gap creates opportunities for business and on this point it was helpfully pointed out by Johanna Salvolainen that UK TI were actively helping business to link into this activity.

- The seminar highlighted that there is a fundamental requirement to work closely with the Indigenous Community in partnership. This was ably demonstrated by Dr Stuart McCracken of Anglo American. He said that engagement with the indigenous Community was fundamentally important and in addition to developing projects in partnership in a sustainable way long term land returns / reinstatement was key to sustainable development of the Arctic in mining. Michael Kingston pointed out that this was top of the agenda for the Arctic Council and that it would form part of the 'Vision for the future' to be announced at the Kiruna Summit on 15<sup>th</sup> May. He also pointed out that the indigenous community, of which there are many, welcome development, if it is done in the right way, citing the comment of Stephen Hendrie, spokesman for the Inuit people at the discussion organised at the Royal Society in December 2011 by The British Antarctic Survey, the Foundation for Science and Technology, and the Canadian High Commission. (see [http://www.foundation.org.uk/events/pdf/20111214\\_Summary.pdf](http://www.foundation.org.uk/events/pdf/20111214_Summary.pdf))
- Michael Kingston pointed out the fundamental importance for business to take the lead and get involved in setting their own standards, and to involve themselves in the work of the Arctic Council. It is very important to work together to create standards to protect investment. Dr Dougal Goodman pointed out the lack of knowledge but also the understanding by Oil Companies that they have to do this in view of the huge investments they are making and which they need to protect. Michael Kingston and Dr Goodman highlighted the Macondo Oil spill and the reputational value involved in operations. That reputation needs to be protected. Dr Goodman said that the risks had to be acceptable for companies wanting to operate. There was a lot to lose if something went wrong. A licence he said can arguably be very easy to obtain but very easy to lose. Michael Kingston said that standards need to be created by business to protect those investments. He said that he had been involved in reviewing regulation following the Macondo oil spill and sad loss of life, and that it is not good enough that oil spill conventions have been lying on Government shelves for 39 years. (The Convention on Civil Liability for Oil Pollution Damage Resulting from Exploration for and Exploitation of Seabed Mineral Resources). He explained that the US report into the Macondo Disaster confirmed that '*this disaster was almost the inevitable result of years of industry and government complacency and lack of attention to safety*'. He emphasised the responsible approach of the UK Government in this regard, praising Lord Cullen for his report and the implementation of his recommendations after the Piper Alpha Disaster, and also the Norwegian Government for their changes after the Alexander Kielland disaster, but he emphasised that it always takes a disaster to get things right, and that the Arctic could not afford a disaster, a point also emphasised by Dr Goodman. Michael Kingston explained that The Arctic Marine Best Practice Declaration aims to protect industry by setting standards that will work to prevent incidents, such as adhering to the draft Polar Code as it currently stands. He advised business that it must show leadership for its own sake and to get involved and assist in that effort and referred to the work of the Nordic Association of Marine Insurers ([www.cefor.no](http://www.cefor.no)) and the International Union of Marine Insurers ([www.iumi.com](http://www.iumi.com)) in this effort, and that, because of this, the insurance industry was playing a leading role in the Arctic, the Arctic Marine Best Practice Declaration being 'declared' at the IUMI world Conference in London in September 2013 with the anticipated support of the Arctic Council, following discussions at Kiruna. Dr Goodman pointed out that the Oil companies are spending 20 million in analysing the reaction of an oil spill under ice. Michael Kingston explained the importance of monitoring what mechanism the Arctic Council puts in place for these business discussions in Kiruna and told business that he was assisting in that process and would be happy to help in that process in conjunction with UK TI. He said that a cross jurisdictional business forum would be put in place that he would be working closely with and that it would adopt a business sector approach. He emphasised the progress that the Arctic Marine Best Practice Declaration has made on behalf of British interests, increasing influence in Arctic discussions, emphasising the bottom-up approach, in this case working with a very experienced Arctic sea Captain, Anders Backman, and ice management expert, Åke Rohlén of Arctic Marine Solutions ([www.arcticmarinesolutions.se](http://www.arcticmarinesolutions.se)), who hold the respect of the Marine industry on a cross-jurisdictional basis. More can be achieved that way than a top-down political approach, ideally both arms working together in unison, a point well-made from the floor by British Ambassador to Finland, Ambassador Matthew Lodge. Politics is important and politicians need to show leadership also.
- Christopher Welch of the Association of Mining Analysts explained the importance of the UK as a business market for activity in the Arctic with its trading, and also service industry. The Association of Mining Analysts represents all the financial aspects of the mining industry. Michael Kingston explained his work in International trade disputes many of which are subject to English Jurisdiction because of certainty of outcome, and particularly Arbitration under the rules of the London Metal Exchange. Dr Goodman pointed out that London's insurance and financial markets play a large part in Arctic activity providing much Marine & Energy insurance, and project finance for Arctic projects. Dr Goodman pointed out a number of companies that are in the Oil & Gas supply chain, and that Defence is also an important sector for UK Business. He also said there is a large consulting sector in Britain which analyses/ tracks arctic activities/ oil/ gas prices, and research consultants in areas such as

fishing, research, and seismic analysis. Other service companies such as accountants are also important players in Arctic support activity.

- Both Michael Kingston and Dr Goodman explained the importance of science and research where the Arctic is concerned for UK business highlighting the need to work closely with the insurance industry who invest heavily in scientific research to understand risk, citing the Lloyd's Science of Risk Awards and the Lighthill Risk Network, highlighting that this would help fill knowledge gaps to enable the sustainable development of the Arctic. Dr Goodman also pointed out that the UK was a leader in research services where the UK has real strength through its university services system and organisations like the British Antarctic Survey (<http://www.antarctica.ac.uk/>) and the Centre for Polar Observation and Modelling at UCL (<http://www.cpom.org/>), which provide support to companies funded by the UK Government. He said that the UK Government is keen to see much more interaction between business and the University sector. Johanna Salvolainen refereed to UK TI's work in facilitating this, particularly with companies aiming to achieve leadership in environmental concerns. She also highlighted Finland's aim to be the world's leader in sustainable development in mining, which was started in 2011, and which is an example of how the UK's approach to research could help British business link into the region with the help of UK TI. This responsible approach of Finland was pointed out in Dr McCracken's comments that Anglo American found Finland's structure for mining activity to be clear, that the mining code enabled industry to work with the authorities in a clear and understandable systematic way which left very little doubt about permitting for extraction or exploration, unlike other parts of the world.
- Michael Kingston finished by sincerely thanking Ambassadors Lodge & Johnston for their presence at the Arctic Seminar, and Johanna Johnston and all the UK TI team for the great work they have done. He also thanked the attendees on behalf of UK TI for their presence and said that it had been an honour to moderate for UK TI. He re-emphasized the need for business to work with the Arctic Council going forward and the importance of engaging on a cross jurisdictional basis through the Arctic Council, with the help of UK TI. He highlighted the fantastic leadership and responsible approach that had been shown by Lloyd's of London, particularly Performance Management Energy Executive, Judy Knights, who was present, and Erik Börjesson, Lloyd's Nordic Representative, for their leadership which had enabled British business to work at the heart of the Arctic Council going forward. He said that 'great credit was due to Lloyds and to UK TI for supporting them'. He also praised the Swedish Government for their work in their Chairmanship of the Arctic Council, in particular, Chairman of the Arctic Council, Ambassador Gustaf Lind, and Chairman of the Arctic Council Sustainable Development Working Group, Mikael Anzén, and recent and proactive work by the Canadian Government who would take over the Chairmanship next week.

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