

Brief to the Standing Committee on Foreign Affairs and International Development

Canada's Sovereignty in the Arctic

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The Emerging Economy of the North American Arctic

'We need roads, rail and pipelines to continue to harness our natural resources, which pay for much of what we take for granted and connect our country together.'

Dave McKay, President and CEO of RBC quoted in reference to the April 2017 US tax legislation and Canada's ability to remain competitive in the global economy

Executive Summary

This brief makes the argument that the most effective way for Canada to protect and strengthen its Arctic sovereignty is to turn attention to the critical need for infrastructure investment in the Canadian North.¹ Rather than having a conversation about whether or not Russian battleships and submarines are making their way to Canada's North, the geopolitical conversation about Canada's Arctic sovereignty should be about building a strategy that lays out a long term vision not only for the North in and of itself – but as part of a grander vision of the future role of Canada in global politics and economics and what the North has to offer in that respect.

This brief presents the argument as following: It begins by laying out the current state and consequences of the Infrastructure Gap in Northern Canada. It then turns to investments and developments being made by other Arctic countries with respect to their own Northern regions. The following section looks specifically at the state of private investment in the Canadian North, which is then compared to several non-Arctic countries' existing and planned investments in the region. Taking these factors together, this brief then makes the case that a comprehensive Infrastructure Investment

¹ The North here is defined as: The Three Northern Territories (Yukon, NW Territories and Nunavut) as well as Northern Quebec and Labrador as both of those regions have Inuit land claims agreements. Further, the Canadian North is understood as part of the emerging economy of the North American Arctic which includes Alaska, the Canadian North as defined here as well as Greenland.

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Analysis for the North American Arctic is imperative. Such an Analysis would actively encourage Canadian investors to find ways to put their capital in the Canadian North. At the same time, it would set out the terms for foreign direct investment in the Canadian North and by doing so would reaffirm to the global community that Canada is a Northern nation and takes its North seriously. Lastly, this brief looks at the current focus of the Canadian Federal Government on the Northern Infrastructure gap in a global context to point to the existing foundations for the Federal Government to build this discussion upon.

I. Introduction: The North American Arctic Infrastructure Gap

'When the satellite went down in October, 2011, the whole northern part of Canada literally went black. What I mean by that is that there was no telecommunications in and out of the region. Flights were grounded. No one was able to do any communications internally or with the outside world. We were completely and utterly cut off. If an emergency happens when there's a total blackout, you're talking about lives are at risk...[Fiber-optic internet is] an essential service and it's a fundamental piece of infrastructure that is absolutely required to govern, manage and administer, but it's also essential in the sense of being able to respond to emergencies. It's essential for the transportation and aviation sector. It's essential for the shipping companies. It's essential for the military. It's essential for Arctic research. It's an essential part of doing business.'

Mayor of Iqaluit, Nunavut, Madeleine Redfern on the need for Arctic Fibre Optic Internet²

It is difficult to argue the contrary; the Arctic has become a region of global interest. Climate change has led to an emerging new blue ocean at the top of the world. That factor coupled with the region's well-established mineral potential, prospective gas resources, the increasing capacity to transform global maritime trade, and its physical geography as the epicentre for climate science, is remaking the Arctic from a frozen periphery into a region of immense global geostrategic and economic significance.

Unlike the well-developed Nordic Arctic, the increasingly re-developed Russian Arctic, and despite being part of the OECD, historical legacies (from the perilous effects of colonisation to the Cold War) and the lack of a persistent development strategy has left the North American Arctic (Alaska, Northern Canada and Greenland) far behind its Arctic neighbours as well as the region's own southern capitals. This collision of two forces – stagnant and undeveloped economies and increasing global interests in the region has, subsequently, turned the North American Arctic into an emerging economy more akin to emerging economies elsewhere in the world than to the economies of the countries of which they are a part.

² <https://www.newsdeeply.com/arctic/community/2017/05/23/iqaluit-mayor-slow-internet-holds-back-canadas-eastern-arctic>

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In the North American Arctic, infrastructure including roads, housing, ports, SAR, fibre optic cable, and other necessary components of a basic economy (much less a prosperous economy) have been unevenly developed at best and in some instances are lacking altogether. When it comes to Canada in particular, the Canadian national discourse about its own North and the significant infrastructure deficit that persists is rarely, if ever, discussed in the context of the human and economic value that the North has to offer. The economic potential of the North and how it can fit into Canada's role in the world is woefully disregarded. Instead, the Canadian Arctic is most often viewed solely as an aspect of the Federal Government's social obligations, rather than a significant economic opportunity.

The lack of infrastructure in the Canadian North, consequently, contributes directly to astronomical food prices for those items able to reach Northern supermarkets. Many Arctic Canadian families cannot even meet their basic food needs. Seven out of 10 Nunavut Inuit preschool children are food insecure and have limited access to fresh foods. Likewise, many Northerners are reliant on substandard K-12 education, have insufficient access health care, suffer from severe housing shortages, are denied access (due to the lack thereof) to the Internet, rely on rationed diesel for their energy needs, and lack potable water.

Likewise, the severe shortage of roads means that air travel is often the only mode of transportation in and out of many rural communities. Unfortunately many of the airports that do exist only have gravel runways. Canada's North, much like the entire North American Arctic, is also critically deficient of major deep-water ports, and particularly year-round deep-sea ports.

The Canadian North is also home to a wealth of natural resources from expected gas reserves, its rich fisheries, and mineral resources such as cobalt, nickel, copper and others that are increasingly accessible and critical to the transition to a global renewable resource economy. However, the combination of lack of infrastructure, reliance on diesel, and limited internet connectivity increases the costs of the North's mineral production by 30 percent, rendering much of this potential uncompetitive in global markets and unavailable to help foster prosperous and self-sufficient Northern economies.

There is nothing fundamental that prohibits the development of Canada's North. Rather, the greatest obstacle to the economic development of the Canadian North and its prosperity is the limited vision that Canadians have about the value of its North. Those limits have played themselves out in numerous ways from affecting the health, well-being, human rights, and economic opportunities of those that live there to undervaluing the contributions that the North can make towards Canada's economic prosperity and global geopolitical significance.

Though visions of the prospects for the Canadian North - from former Prime Minister Lester B. Pearson's 1946 vision of the North as 'a land of the future'³ to former Minister of Northern Affairs and National

³ Pearson, L. B. 1946. 'Canada Looks "Down North".' *Foreign Affairs* 24(4): 638-47: 638

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Resources, Arthur Laing's 1966 'Road to Resources' concept - are sprinkled throughout the 20th century, those visions never equated into a long term strategy or accompanying financing to see through the necessary infrastructure development required to realise those visions. In his 2016 report, David Emerson, Former Minister of International Trade, wrote that throughout Canada's history 'northern infrastructure projects have been built on an ad hoc basis *without a long-term cohesive plan or links to trade and travel corridors*'.⁴

II. Canada's Arctic Neighbours: Comparing Northern Investments Around the Circumpolar Region

Canada, in fact, lags behind many of its Arctic neighbours in harnessing the global potential of the North. Over the past ten years, Norway has increasingly turned its attention North by expanding its Arctic fisheries and offshore oil and gas development. Snøhvit, the first Arctic offshore project, uses carbon capture and storage to re-inject its Co2. Norway and Russia also resolved their border dispute in the Barents Sea so the two countries could take advantage of the expected hydrocarbon deposits in their region.

In 2009, Russia released its own Arctic Strategy which makes the case that the Arctic is critical to the future of the Russian economy. In part this is due to the abundance of natural resources that exist there, particularly oil and gas. Today roughly 20 percent of Russia's GDP comes from its Arctic.⁵ To help further exploit the resources and profit from them, Russia is also turning its Northern Seaway into a new maritime corridor, the Northern Sea Route (NSR). This will allow its resources to reach global markets, for global markets (e.g. shipping) to pass through the NSR between Europe and Asia, and for foreign ships to access Russia's resources. The NSR has also become a significant means for generating additional revenue through user fees paid by those that pass through the route. The user fees are for icebreaker escorts, which are almost always needed and thus a fee is almost always paid.

Iceland, likewise, is now 100 percent powered by renewable energy.⁶ Greenland has substituted reliance on diesel fuel with emission-free hydropower, which constitutes 70 percent of its total electricity.⁷ Alaska leads the world in renewable microgrids⁸, making wind the base load for village power and diesel is used as a backup. Given the close proximity to one another in the North American Arctic there is ample opportunity for Canada and Northern Canadians to learn from its neighbours as well as deepen its collaborations.

The NW Passage, for instance, is already experiencing increased ship traffic and its numbers are only expected to grow. Creating a 'League of Ports' for the North American Arctic from Alaska through

⁴ Italics my emphasis. Emerson, David. 2016. 'Pathways: Connecting Canada's Transportation System to the World', page 54: https://www.tc.gc.ca/eng/ctareview2014/CTAR_Vol1_EN.pdf

⁵ <https://www.thearcticinstitute.org/russias-arctic-strategy-aimed-conflict-cooperation-part-one/>.

⁶ <https://unchronicle.un.org/article/iceland-s-sustainable-energy-story-model-world>

⁷ <https://globalrenewablenews.com/article/education/547425/Green-Island-Living.html>

⁸ <https://publishing.aip.org/publishing/journal-highlights/alaskan-microgrids-offer-energy-resilience-and-independence>

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Greenland would help accommodate an active Arctic Seaway system that could facilitate revenue production, ensure sound environmental standards, support free trade, and meet the existing and growing need for robust search and rescue and emergency preparedness and response capabilities.⁹ Port development would further provide the opportunity to connect Canada's Northern minerals to global markets in addition to the significant reality that more ports will provide direct benefits for communities in achieving lower food prices, more sustainable energy, better housing and increased access to basic services. Altogether, it is fair to say that the North American Arctic remains a significant yet exceptionally undervalued global economic region and its potential for Canada has barely begun to be recognised.¹⁰

III. Non-Arctic Global Powers Investing in the Arctic

'China is an important stakeholder in Arctic affairs....China is also closely involved in the trans-regional and global issues in the Arctic, especially in such areas as climate change, environment, scientific research, utilization of shipping routes, resource exploration and exploitation, security, and global governance. ...The utilization of sea routes and exploration and development of the resources in the Arctic may have a huge impact on the energy strategy and economic development of China, which is a major trading nation and energy consumer in the world. China's capital, technology, market, knowledge and experience is expected to play a major role in expanding the network of shipping routes in the Arctic and facilitating the economic and social progress of the coastal States along the routes. China has shared interests with Arctic States and a shared future with the rest of the world in the Arctic.'

China's Arctic Policy: The State Council Information Office of the People's Republic of China January 2018¹¹

In November 2018, Samir Saran, President of Observer Research Foundation published an article for the World Economic Forum which argues that the liberal world order model of governance, with the West at its centre, is being remade by peripheries of the system who are becoming their own centres within the global system.¹² According to Saran, it is the coming intersection of the rise of Indo-Pacific, Eurasia, and the Arctic that will reconfigure how nations will view global politics going into the future.¹³

⁹ <https://vimeo.com/190361437>

¹⁰ <https://www.theglobeandmail.com/report-on-business/rob-commentary/north-america-must-seize-its-arctic-opportunity-or-risk-sbeing-left-out-in-the-cold/article38271383/>

¹¹ http://english.gov.cn/archive/white_paper/2018/01/26/content_281476026660336.htm

¹² 01 Nov 2018.'The collision of these 3 geographies is creating a new world order, World Economic Forum:

<https://www.weforum.org/agenda/2018/11/eurasia-indo-pacific-arctic-new-world-order/>

Saran, Samir. 1 November, 2018.

¹³ Ibid.

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As part of that intersection, China, alongside a growing number of non-Arctic states, are not only recognising the growing strategic relevance of the Arctic as Saran points to but have already invested in and/or are in negotiations to invest further in the Arctic, including the North American Arctic. China thus far, has become the most engaged non-Arctic state (though China refers to itself as a near Arctic state). In 2013, China announced its new Belt and Road initiative, a long term strategy for constructing a global infrastructure system where essentially all roads lead to Beijing. Sherri Goodman from the Council on Foreign Relations stated it well when she said that China is like a spider and its Road and Belt Initiative is its web.¹⁴ Recognising the geopolitical changes that climate change is already creating in the North, including enabling greater access to mineral and other natural resources, compounded by interest in Arctic research to better understand the long term impacts of climate change, in January 2018, China released its Arctic Strategy. The strategy included its 'Polar Silk Route' which became China's vision to bring the Arctic into its Belt and Road Initiative based on what it expects the Arctic will look like in the next 20, 30, and even 50 years.

Though China's main focus is currently on the Northern Sea Route, that is not to say that the Chinese are not interested in the Canadian and broader North American Arctic. Though the NW Passage is not close to becoming a reliable alternative maritime route, it is nevertheless becoming increasingly navigable, navigated and is already experiencing an increase in cruise tourism and destination shipping. In line with those changes, in 2016, the Chinese government published a NW Passage shipping guidebook. The 365 page book includes charts and detailed information on sea ice and weather as a means to aid Chinese vessels travelling between Asia and the Atlantic through the North American Arctic.¹⁵ This was followed up, in August 2017, by the passage of the Xue Long (Snow Dragon), China's first vessel to transit the Northwest Passage, travelling from the Pacific Ocean to the Atlantic through the Arctic Ocean archipelago. China has also invested and is planning for further investment in resources and infrastructure in the North American Arctic. China understands the Arctic holds vast quantities of the resources it needs to sustain and grow its economy and that making investments a new global trade infrastructure system will be central to that success.

¹⁴ <https://sea-technology.com/chinas-arctic-ambitions-qa-with-sherri-goodman>

¹⁵ <https://www.theglobeandmail.com/news/world/china-reveals-plans-to-ship-cargo-across-canadas-northwest-passage/article29691054/#comments>

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IV. Canadian Private Capital Investment in its North

[T]he manner in which components of a northern corridor would be financed would depend on the type of infrastructure...pipelines and railways would generate revenue streams that would make them profitable, but that roads – which may generate revenue only if tolls are in place – are more like public goods; public goods typically require government financing...in certain cases, public-private partnerships are a potential approach, [but more] research is needed regarding this and other financing-related issues.

‘National Corridor Enhancing And Facilitating Commerce and Internal Trade’ The Standing Senate Committee on Banking, Trade and Commerce, June 2017

Canada, up to now, has not created a specifically economic focused strategy for its North - a concerted strategic infrastructure investment analysis that is guided by the growing role of the strategic importance of the Arctic in the world and likewise that would guide the economic development of the Canadian North. According to the U.S. investment firm Guggenheim Partners, the Arctic will require close to US\$1-trillion of infrastructure investment over the next decade, including transportation, telecommunications and social services to support a new era of economic opportunity from energy, fishing and mining, to defence and tourism.¹⁶ Those estimates on the surface appear below the possible total in that they do not fully account for Canada or Greenland’s infrastructure needs.¹⁷ Regardless of the final figure, the investments necessary go beyond what public governments in Canada can afford and Canadian (e.g. pension funds) and global capital will be critical for realising the strategic and economic opportunities of the Canadian North.

From an economic standpoint, most of Canada’s major banks and pension funds have not been provided an opportunity see the North American Arctic as an emerging economy much less learn of its strategic value as a place for investment. Consequently, not a single major bank or pension fund at the present time has an internal infrastructure investment strategy for the Canadian North or the North American Arctic. Likewise, there has not been one Canadian pension fund, to date, that has invested any of its capital in the Canadian North. Recognising the critical importance of indigenous reconciliation, finding ways to encourage the Canadian financial sector to invest in the North would go a very long way in contributing to the Federal Government’s aims of economic reconciliation and towards offering concrete solutions that can lead to prosperous and sustainable Northern communities.¹⁸

V. Towards a Long Term Investment Strategy

As global alignments are being reshaped and Canada’s North shifts from a frozen periphery into a centrepiece of global interest, Canada’s Arctic sovereignty is not under threat but in fact a source of

¹⁶ https://www.guggenheimpartners.com/GP/media/pdf/Bloomberg_The-World-Has-Discovered-a-1-Trillion-Ocean.pdf

¹⁷ <https://www.outsiderclub.com/the-1-trillion-map/2760>

¹⁸ It should be noted that contrary to the argument that there must be substantial profit before the benefits would trickle down to communities, if they ever do, infrastructure has direct and immediate benefits. Building new ports, for example, would provide immediate opportunities for increased food shipments, thus lower food costs, greater access to fresh foods, and subsequently the social and health benefits that accompany that.

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immense strategic and economic opportunity. To realise those opportunities a long-term strategy is necessary which must include active mechanisms to attract Canadian and global capital as well as demonstrate the Federal Government's long term commitment. Long Term Investors (LTI) for developing the Arctic will be critical and as Guggenheim argues, in order to 'ensure the long-term license to operate for these private and public investments, national and regional development plans with strong social license are needed'.¹⁹ While the Canadian Federal Government's past and forthcoming Arctic Strategies all lay out the Federal Government's recognition of and commitment to its North, the intentions of those Strategies are not to provide a comprehensive investment strategy that includes feasibility studies, priorities for development, economic climate models, risk analyses, models for public private partnerships, etc., the role of AI and smart infrastructure, not mention a detailed roadmap with the measures the Government will take to realise the investment needs and potentials.

If Canada fails to seize its opportunity to make the necessary strategic plans and long-term commitments necessary to develop its North and instead infrastructure projects continue to be funded on an 'ad-hoc' basis then the possibility for Canada's vulnerability in the Arctic to increase is a real one. While Canada continues to debate the value of its own North, non-Arctic countries around the world and particularly Asia already understand the value and potentials of the North American Arctic. They have not only put forward their own national Arctic strategies with financial, maritime, and economic policies to help engage in the region and benefit from an emerging Arctic economy but further they are taking concrete steps now to begin capitalising on those potentials. China, taking the long-view (decades and centuries), is already well underway in making political and financial investments that are not only influencing what the future of the Arctic will look like tomorrow but they are physically building on that vision today.

VI. Already Completed Arctic Economic Strategies – Russia and the Nordic Arctic

Russia: In 2016 Russia's Ministry for Development of Russian Far East along with McKinsey & Company completed its own economic feasibility study for the Northern Sea Route. The objectives of the Russian analysis includes developing short and long term organizational, financial, economic and competitive models of development and operations for the Northern Sea Route in short and long-term perspective as well as creating a financial and economic model for developing the Northern Sea Route as a "competitive transport corridor of global importance, including for container transport."²⁰

Nordic Council: In 2018, the Nordic Council of Ministers released a Business Analysis for the Nordic Arctic. The Nordic Arctic Business Analysis focuses on: entrepreneurship and innovation, public/private partnerships and business cooperation, the bio-economy, and creative industries.²¹ The Nordic Business Analysis has also been endorsed by Arctic Economic Council.

¹⁹ <http://arctic.blogs.panda.org/the-circle/development-in-the-arctic/>

²⁰ http://www.chnl.no/publish_files/WP4_Balmasov_S_Russia_latest_efforts_regarding_NSR.pdf

²¹ <https://arcticeconomiccouncil.com/aec-cooperates-breakout-nordic-council-ministers-arctic-circle-conference/>

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VII. Canadian Federal Government Attention to the Northern Infrastructure Gap

In January 2016 the National Aboriginal Economic Development Board whose mandate is to provide 'advice and guidance to the federal government', published the Report: 'Recommendations on Northern Infrastructure to Support Economic Development'. Among its recommendations are 1) The Canadian Government should fund a system to identify priority investment areas and coordinate investment 2) Infrastructure development needs to be seen as an investment opportunity for Indigenous Governments and 3) A North-specific private investment model should be examined. In December 2016, Prime Minister Trudeau committed the Liberal Government to co-developing a new Arctic Policy Framework dedicated to creating new, earnest partnerships with the region's Indigenous communities in Canada. Of the six core themes, two of those include comprehensive Arctic infrastructure and viewing the Arctic in a global context. This was followed by a March 2017 Indigenous and Northern Affairs Report entitled: 'A new Shared Arctic Leadership Model'.²² Minister Bennett's Special Representative, Mary Simon, who authored the Report, concluded that there was a need to close the infrastructure gap. According to Simon, in partnership with Arctic governments and Indigenous leaders, the Government of Canada must 'develop criteria for Arctic infrastructure projects that reflect the singularly unique context for infrastructure spending, the 'catching up' nature of the infrastructure gap in the Arctic, and that corrects for the punitive nature of per capita allocations without base funding.' Simon further made the point that 'basic infrastructure gaps must be addressed to position the Canadian Arctic as an integral part of the global community.'

At the current moment the Federal Government is expected to release its final Arctic Policy Framework and transportation Canada is working on a policy report on Arctic Infrastructure. As these commitments point out, the Federal Government has an existing solid foundation for these discussions to build upon.

²² Simon, Mary: <https://www.aadnc-aandc.gc.ca/eng/1469120834151/1469120901542>

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