

# Russia's geopolitical focus has moved to the North – the development of Murmansk region in the light of three scenarios

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The starting point of the article is the idea that the dissolution of the Soviet Union resulted in a shift of the geopolitical and geoeconomic focus in Russia to the north. As the main oil-producing regions of the Soviet Union, such as Kazakhstan and Turkmenistan, became independent, the relative importance of north-western Russia and Siberia increased in Russia's oil and gas production. The high prices of crude oil and natural gas products in the global market have led to the emergence of wealthy, rapidly developing pockets in remote regional economies. Oil and natural gas are Russia's main exports, brought to Europe primarily by oil and gas pipelines, an infrastructure built several decades ago. Now, however, the situation is changing.

Economic interest in northern regions has increased as the growing world economy demands more energy and the resources in existing oil and gas fields are being depleted. The Arctic region is rich in oil and natural gas. The rising prices of raw materials are making the exploitation of Arctic natural resources more profitable than before. These regions are located northeast of Finland. What role will Murmansk's northern location have in the new, rapidly developing transport system? What impact will the fact that the Murmansk Region is located relatively close to key market areas – the European Union and the increasingly important eastern coast of the United States – have on the development options for the region? How will other geographical factors, such as an ocean port that is ice-free the year round, affect the development options available to the Murmansk Region? What effect will the change have on the development of industry and logistics in the Murmansk Region and how will it affect social trends there?

The business structure of the Murmansk Region consists not only of activities related to national defence but economic activities typical to high-resource regions in general: extraction and pre-processing of natural resources, particularly mining and the related ore processing, apatite mining and the fishing industry. The mining and metal-processing industry, which is very important to the region, has found its way to a new global market, but tough competition is forcing production plants to reduce their workforces as well as modernize their technologies. The rationalization of industry has resulted in outmigration, particularly from communities relying on a single industrial

The major projects in energy production, for example, and their time schedules will impact on the development of the Murmansk Region. For example, the schedule for the opening of the Shtokman gas field and the Murmansk or Indiga oil pipeline project can be linked to the driving forces. The author has examined the development of the Murmansk region in the light of three scenarios until 2025. The scenarios are based on the Delphi method and the three Delphi panels which were Murmansk Panel, Moscow Panel and the International Panel. Scenarios 1 and 2 represent the extremes in or the limits of the most probable scenario for the development of the Murmansk Region not leading to an actual economic disaster. Shtokman gas field is in operation in Scenario 1. Scenario 3 represents an unlikely but still possible deep regression in the world economy and a slump in the oil price.

## Scenario 1 – 'Market forces and democracy are strengthening and values developing'

Scenario 1 is summed up in the comment of one of the international participants in the panel, which presents the following main vision and key actions: The Barents region will be as active as the Persian Gulf, exporting oil and gas. The region will become a base for offshore operations, with global importance over the next 200 years. There will be a large amount of spin-off activity. All this, however, will require changes in Russian legislation. Exclusion of foreign actors from investments, which is currently the greatest obstacle, must be eliminated to allow free movement of capital.

## Scenario 2 – 'Authoritarianism is increasing and a regulated economy prevails'

Here, the development will be slower than in the previous scenario. Taking advantage of favourable trends in the world economy, Russia will attempt to launch the Shtokman operations and other large energy

projects on its own. The projects will start slowly and have less impact on the development of the region than in Scenario 1.

## Scenario 3 – 'Problems are accumulating and the oil price is sinking'

In this scenario, all or some of the wild card events considered possible but unlikely by the participants in the panel will occur. The scenario is largely built on the assumption that the price of oil will fall; this will be preceded by an increasingly authoritarian trend in society. The price of oil may plummet because of a slump in the world economy, a crisis or sudden peace in the Middle East or a pandemic disease. Other wild cards may also emerge, such as an environmental disaster or youth riots, but these will be limited and can even provide an exit from a crisis.

In the vision for the most likely future operations the Shtokman field would be started up in 2020-2025 provided that international capital and technology from international enterprises, for example, would be available for the region. It is very likely that the population will be smaller than today. Materialization of investments in Shtokman will change the course of the population trend, at least locally. In a probable scenario, communities relying on large-scale mining or metal-processing industries alone will not be able to maintain their population bases at the current level, even if the volume and value of their production is higher than today.

*Findings and recommended political actions - A need for innovative activities:* Profitable exploitation of the natural resources in and around the Murmansk Region will require development of infrastructure and the systems for producing the resources. This highlights a need for a consensus and partnership between local and federal actors governing the infrastructure with regard to sharing the benefit from investments in the region. Finding economically lucrative solutions plays a key role in investments that will bring cost savings in transport technology, for example. Finding new, lucrative transport and production solutions for the high-cost Arctic region stresses the importance of innovation activities, particularly the creation of a network of research institutes and enterprises in the fields of transport and logistics, energy production and the mining and metal-processing clusters. Thus far, local enterprises have sought innovative solutions for transport technology and logistics in a centralized manner from abroad, e.g. from Finland.

Murmansk will form an important logistic gateway from north-western Russia to the world, enabling transport of natural resources and processed goods to the world market. The development of the logistic gateway will mostly depend on trends in the world economy as well as the prices of raw materials, such as oil and minerals.

The structure of business life in the Murmansk Region in the future can be markedly different from the present situation, even if the current structures of industries, particularly the metal-processing and mining industries, retain their central role in the region's economy. Future business will require a workforce and an infrastructure adapted to Arctic conditions and communities.

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