

Statement of  
Scott Borgerson  
Senior Fellow at the Institute for Global Maritime Studies<sup>1</sup>  
Before the Committee on Commerce, Science, and Transportation  
Subcommittee on Oceans, Atmosphere, Fisheries, and Coast Guard  
U.S. Senate  
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Mr. Chairman:

Thank you for the opportunity to participate in today's hearing "Defending U.S. Economic Interests in the Changing Arctic: Is There a Strategy?" My short answer is NO. While I have seen some interesting proposed legislation in Juneau and Washington, from my perspective I have not yet heard a strategic vision articulated for America's future in the new Arctic.

The radical climate change underway in the high latitudes is well chronicled and an accepted fact among the scientific community. It is happening and undeniable no matter what one's political stripes. My testimony, however, is not concerned with the causes of the warming or potential mitigation remedies that are indeed important, but rather with what practical steps should be taken because of this new reality.

Creative local, state and federal initiatives can ensure that we seize this historic economic opportunity presented by the Arctic's radical transformation and do so in a way that is sustainable both for the environment and for local populations as well as being in the country's clear-eyed national security interests.

I am advocating that the U.S. embrace, and embrace in a big way, what might be the world's last and potentially most attractive emerging market as opposed to leaving Alaska in the proverbial icebox.

Long literally and figuratively frozen to outside investors, the Arctic now has melting sea ice and thawing tundra that are yielding huge resource opportunities. According to the U.S. Geological Survey and Alaskan state studies, 22% of the world's undiscovered oil and gas reserves are to be found in the Arctic. On the North Slope alone, there are an estimated 40 billion barrels of oil and 236 trillion cubic feet of gas.

The Arctic is also home to some of the world's largest precious metals deposits, as well as fresh

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<sup>1</sup> The Institute for Global Maritime Studies is a publicly supported, non-profit educational organization, dedicated to exploring a wide range of policy issues relating to the sea. The Institute's purpose is to foster greater public awareness of the importance to humankind of the oceanic world, and it is committed to advancing the national welfare and the public good.

water, which is increasingly important in a warming world. Another resource is the Arctic's sea routes, which, if realized, would be many thousands of miles shorter than traditional seaways around the two capes or through the two canals. With massive tidal, wind and geothermal capacity, the Arctic also has renewable energy potential.

While the U.S. sits on the sidelines, other Arctic nations are moving forward with ambitious development programs. Russia is actively working to open the Barents region. Canada is doing the same in the Yukon. Norway and Iceland each have multibillion-dollar energy projects underway. And Greenland, for now still under Danish rule, is exploring 31 billion barrels of oil estimated to be off its coast.

Before detailing what kinds of strategic investments should be given priority in the American Arctic, let me say generally first that I think the overall U.S. approach needs to be balanced. In my view, neither extreme of the “drill baby drill” crowd and the idea that Alaska can somehow build a bright future on oil and gas extraction alone, versus the equally unrealistic position that the entire state is to be set aside as a nature preserve with zero development is acceptable.

Rather, I believe a comprehensive approach should be undertaken that is predicated upon environmental best practices to ensure we meet our responsibilities as stewards of this pristine frontier, is sensitive to the human and economic rights of indigenous communities, is supportive of increasing domestic oil and gas production while simultaneously and aggressively accelerating renewable energy projects, is appreciative of the central importance of resource owners, and is forward looking in positioning the state one day to transform from primarily an exporter of natural resources into a vibrant, innovative and dynamic economy farther up the value chain.

For example, why aren't Anchorage, Fairbanks and other Alaskan cities already mostly powered from green sources and world leaders in the development of alternative energy technologies? Why isn't Alaska more centrally part of the explosive growth in Asian economies that are in relative close geographic proximity? Why isn't Alaska aggressively pursuing a host of exciting investment opportunities including infrastructure expansion and rare earth mineral projects? Why isn't Alaska with its vast Arctic resources at the forefront of leading the nation out of its current economic funk? Why shouldn't the American Arctic be the future financial, intellectual, and logistics epicenter for this increasingly important region?

Here are some policy proposals for your Committee's consideration that might better position Alaska and the United States to mitigate the risks and embrace the opportunities of the new Arctic:

1. Formally accede to the UN Convention on the Law of the Sea (UNCLOS). There are numerous global strategic imperatives for why this is long overdue and urgently needed. In the Arctic, more specifically, the convention includes provisions for extending U.S. sovereignty over its extended continental shelf; allows for stricter environmental standards over Arctic shipping; establishes protocols for managing the Bering Strait which will become a key maritime choke

point; and protects the mobility of U.S. flagged vessels and those of our allies in new Arctic transit routes, to name but a few.<sup>2</sup>

2. Consider enabling Alaska's \$13 billion constitutional budget reserve and its \$40 billion Triple-A rated permanent fund to function like an Alaskan Sovereign Wealth Fund. Deploying this capital reserve smartly alongside private monies would allow Alaska to accelerate Arctic development projects that are shovel-ready. If the money were steered toward increasing oil production and financing renewable energy projects—both administration priorities—it would have the added benefit of helping the country reduce its dependence on Middle East oil. The Alaska Industrial Development and Export Authority and an envisioned State Infrastructure Bank might be useful vehicles for promoting these investments.

3. Craft ambitious federal and state strategies for attracting foreign capital. This would be consistent with the President's formal commitment last month to an open national investment policy. As our recent deficit challenges underscore, welcoming any investor interested in the American Arctic would create meaningful new jobs and contribute to economic recovery. Of course, any foreign investment will need to navigate the interagency Committee on Foreign Investment in the United States designed to safeguard national security interests.

4. Unshackle local commerce. This might be aided by a congressional "Arctic Preservation and Development Act" that could lay out the rules of the game, balancing environmental protection and the state's economic interests. This legislation should be pursued irrespective of ANWR, and focus more on creative ideas of how environmentalists and industrialists can sit around the same table working in common cause to open Alaska up to development while doing so with the highest conservation standards.

5. Resolve our differences with Canada over our Beaufort Sea maritime boundary line and the Northwest Passage. The U.S. and Canada enjoy a special relationship and I believe conditions in Ottawa are ripe to strike a deal. We should come to agreement on a compromise maritime boundary line in the Beaufort Sea so that offshore energy production can proceed there. We should also deepen and widen our collaboration over the Northwest Passage, creating a joint-Arctic Navigation Commission to promote and safeguard commerce through both nations' waters using the St. Lawrence Seaway as a model. In general, the U.S. should approach the Arctic in a spirit of enthusiastic diplomacy and champion other collaborative diplomatic initiatives such as strengthening the Arctic Council, formalizing an Arctic Ambassadorship, and establishing a North Pole marine preserve.

6. Recapitalize the nation's icebreaker fleet. The country finds itself in a dire predicament of being an Arctic nation with one dying heaving icebreaker. Icebreakers are needed for the same

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<sup>2</sup> For a summary of the arguments for and against acceding to the Convention see "The National Interest and the Law of the Sea," Council on Foreign Relations Special Report by Dr. Scott Borgerson, May 2009.

Coast Guard missions that exist on America's other four coasts such as supporting commercial shipping, research and science, search and rescue, oil spill response, and projecting sovereignty. Given the precipitous decline in this nation's shipbuilding capacity, even *if* Congress appropriates monies for new ships today, given the long lead time to build these complex vessels they likely wouldn't be operational until *after* the Arctic is already seasonally ice free. An interim fix might be to lease foreign icebreakers until new ships can be built, but by doing this we are in effect outsourcing our sovereignty, which is unthinkable for the world's greatest naval power but probably necessary as an interim fix.

7. Amend the U.S. "build" provision of the Jones Act. The Jones Act – a protectionist policy that requires all domestic maritime cargo be carried on vessels that are owned, flagged, crewed, and built in America – has killed the U.S. merchant marine and hurts Alaska and other noncontiguous states and territories more than it does the rest of the country. Because of the market distortions created by the U.S. build provision, constructing a commercial tanker in the U.S. costs 2-3 times more than building the equivalent ship abroad, even in countries with higher labor and environmental costs. Relaxing this restriction to allow foreign built vessels into domestic trade routes would decrease the cost of Alaska's seaborne imports and make its exports more competitive. Commercial shipping is also a less carbon intensive form of transportation for freight intensive cargo. Waving the domestic build requirement would have the added benefit of helping rejuvenate America's shipyards with the likely effect of reducing the cost of building new icebreakers.

8. Develop a deep-water port for both private shipping and as a regional Coast Guard base. This port should be built with the vision of one day becoming a high latitude equivalent of Singapore which profits handsomely from its geostrategic location on the Malacca Straits. Careful study should be given to the optimal port among existing candidates, and then a public-private partnership pursued to build out new Coast Guard facilities alongside commercial piers. In addition to Coast Guard and other military traffic, this port should be designed to support fishing boats, dry bulk tankers, offshore support vessels and cruise ships.

9. Study other emerging markets. What are the best practices to emulate and pitfalls to avoid from previous emerging market examples that are more or less analogous to Alaska's position today such as Mongolia, Peru and Brazil? What are optimal investment models in the American Arctic? How can creative public policies in the form of tax incentives jumpstart innovation and entrepreneurship?

10. Support science. Looking to the Arctic Research Commission for direction, how can strategic investments in scientific research help jump-start economic development? Some examples include bathymetric surveys, climate studies, fish stock accounting, and seismic research. Sound science leads to better public policy and therefore solid foundations for spurring economic growth.

America and Alaskans have a rare multigenerational opportunity of facing a relative blank canvas for greenfield investments. It would be a mistake to press ahead hastily and exploit the American Arctic with reckless abandon. At the same time, it's neither fair to Alaskans nor good for the country to use litigation and legislation to stonewall progress. No other state would settle for being made into a theme park. The uncertainty created by the absence of a comprehensive U.S. Arctic development strategy is an investment killer.

If the U.S. can wake up to the Arctic potential it possesses, Secretary of State William Seward's 1867 purchase of Alaska for \$7.2 million could turn out to be the single greatest investment in American history.

Thank you and I look forward to answering your questions and expanding on any of these points during the follow on question and answer period.

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