

# The Copenhagen Consensus

## Reading Adam Smith in Denmark

*Robert Kuttner*

ADAM SMITH observed in 1776 that economies work best when governments keep their clumsy thumbs off the free market's "invisible hand." Two generations later, in 1817, the British economist David Ricardo extended Smith's insights to global trade. Just as market forces lead to the right price and quantity of products domestically, Ricardo argued, free foreign trade optimizes economic outcomes internationally.

Reading Adam Smith in Copenhagen—the center of the small, open, and highly successful Danish economy—is a kind of out-of-body experience. On the one hand, the Danes are passionate free traders. They score well in the ratings constructed by pro-market organizations. The World Economic Forum's Global Competitiveness Index ranks Denmark third, just behind the United States and Switzerland. Denmark's financial markets are clean and transparent, its barriers to imports minimal, its labor markets the most flexible in Europe, its multinational corporations dynamic and largely unmolested by industrial policies, and its unemployment rate of 2.8 percent the second lowest in the OECD (the Organization for Economic Cooperation and Development).

On the other hand, Denmark spends about 50 percent of its GDP on public outlays and has the world's second-highest tax rate, after Sweden; strong trade unions; and one of the world's most equal

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Ottawa now work collaboratively on other sea and land borders and together built the impressive North American Aerospace Defense Command, or NORAD, system. They are perfectly capable of doing the same on the Arctic frontier, and it is in both countries' national interests to do so.

There is no reason that economic development and environmental stewardship cannot go hand in hand. To this end, Canada could take the lead in establishing an analogous public-private Arctic seaway management corporation with a mandate to provide for the safe and secure transit of vessels in North American Arctic waters while protecting the area's sensitive environment. Shipping tolls levied by this bilateral management regime could pay for desperately needed charts (much of the existing survey information about the Northwest Passage dates to nineteenth-century British exploration), as well as for search-and-rescue capabilities, traffic-management operations, vessel tracking, and similar services that would guard life and property. Such a jointly managed Arctic seaway system could establish facilities for the disposal of solid and liquid waste, identify harbors of refuge for ships in danger, and enforce a more rigorous code for ship design in order to ensure that vessels traveling through the Northwest Passage have thicker hulls, more powerful engines, and special navigation equipment. The captains and crews of these vessels could also be required to have additional training and, if the conditions warrant, to take aboard an agency-approved "ice pilot" to help them navigate safely.

This bilateral arrangement could eventually be expanded to include other Arctic countries, especially Russia. The United States and Russia, as an extension of the proposed Arctic seaway management corporation, could develop traffic-separation schemes through the Bering Strait and further invest in the responsible development of safe shipping along the Northern Sea Route. Eventually, a pan-Arctic corporation could coordinate the safe, secure, and efficient movement of vessels across the Arctic. Japan, which is vitally dependent on the Strait of Malacca for the overwhelming majority of its energy supplies, would be a natural investor in such a project since it has an interest in limiting the risk of a disruption in its oil supply.

over opening sea-lanes wherever they can. In this legal no man's land, Arctic states are pursuing their narrowly defined national interests by laying down sonar nets and arming icebreakers to guard their claims.

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Washington must get over its isolationist instincts and lead the way toward a multilateral Arctic treaty.

Russia has led the charge with its flag-planting antics this past summer. Moscow has been arguing that a submarine elevation called the Lomonosov Ridge is a natural extension of the Eurasian landmass and that therefore approximately half of the Arctic Ocean is its rightful inheritance. The UN commission that is reviewing the claim sent Russia back to gather additional geological proof, leading

Artur Chilingarov, a celebrated Soviet-era explorer and now a close confidant of Russian President Vladimir Putin, to declare, "The Arctic is ours and we should manifest our presence" while leading a mission to the North Pole last summer.

Naturally, other Arctic states are responding. Norway submitted its claim for additional Arctic resources to the commission in 2006, Canada and Denmark are now doing their homework in order to present their own claims. Ottawa and Copenhagen are currently at odds over the possession of Hans Island, an outcropping of desolate rocks surrounded by resource-rich waters in the Nares Strait, between Canada's Ellesmere Island and Greenland. Even the United States, despite its refusal to ratify UNCLOS, has for the past few summers dispatched its sole icebreaker to the Arctic to collect evidence for a possible territorial claim in the event the Senate eventually ratifies the treaty.

There are also battles over sea-lanes. Canada has just launched a satellite surveillance system designed to search for ships trespassing in its waters. Even though the Northern Sea Route will likely open before the Northwest Passage, the desire to stop ships from passing through the Canadian archipelago—especially those from the U.S. Coast Guard and the U.S. Navy—is the cause of much saber rattling north of the border. "Use it or lose it," Canadian Prime Minister Harper frequently declares in reference to Canada's Arctic sovereignty—an argument that plays well with Canadians, who are increasingly critical of their southern neighbor. So far, the delicate 1988 "agreement to disagree" between the United States and Canada over the final disposition

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Diplomatic gridlock could lead the Arctic to erupt in an armed mad dash for its resources.

There are few legal frameworks that offer guidance. The Arctic Council does exist to address environmental issues, but it has remained silent on the most pressing challenges facing the region because the United States purposefully emasculated it at birth, in 1996, by prohibiting it from addressing security concerns. Many observers argue that UNCLOS is the correct tool to manage the thawing Arctic. The convention provides mechanisms for states to settle boundary disputes and submit claims for additional resources beyond their exclusive

economic zones. Furthermore, UNCLOS sets aside the resources in the high seas as the common heritage of humankind, it allows states bordering ice-covered waters to enforce more stringent environmental regulations, and it defines which seaways are the sovereign possessions of states and which international passages are open to unfettered navigation.

However, UNCLOS cannot be seamlessly applied to the Arctic. The region's unique geographic circumstances do not allow for a neat application of this legal framework. The Arctic is home to a number of vexing problems that, taken in their entirety, make it a special case. These unresolved challenges include carving up the world's longest uncharted and most geologically complex continental shelf among five states with competing claims, resolving differences between Canada and the rest of the world over how to legally define the Northwest Passage, demarcating maritime borders between the United States and Canada in the Beaufort Sea and between Norway and Russia in the Barents Sea, and regulating vessels shielded behind flags of convenience (which obscure the true origin and ownership of the vessels) as they travel across numerous national jurisdictions. Finally, increased oil and gas exploration and the trans-Arctic shipping that comes with it will pose serious environmental risks. Oil tankers present a particularly grave environmental threat, as illustrated by three recent oil spills in the much safer waters of the San Francisco Bay, the Black Sea, and the Yellow Sea.

There are also a handful of unresolved issues at play in the Arctic that are not covered under UNCLOS. Between 1958 and 1992, Russia dumped 18 nuclear reactors into the Arctic Ocean, several of them still

20 percent—from approximately \$17.5 million to \$14 million—saving the shipping industry billions of dollars a year. The savings would be even greater for the megaships that are unable to fit through the Panama and Suez Canals and so currently sail around the Cape of Good Hope and Cape Horn. Moreover, these Arctic routes would also allow commercial and military vessels to avoid sailing through politically unstable Middle Eastern waters and the pirate-infested South China Sea. An Iranian provocation in the Strait of Hormuz, such as the one that occurred in January, would be considered far less of a threat in an age of trans-Arctic shipping.

Arctic shipping could also dramatically affect global trade patterns. In 1969, oil companies sent the *S.S. Manhattan* through the Northwest Passage to test whether it was a viable route for moving Arctic oil to the Eastern Seaboard. The *Manhattan* completed the voyage with the help of accompanying icebreakers, but oil companies soon deemed the route impractical and prohibitively expensive and opted instead for an Alaskan pipeline. But today such voyages are fast becoming economically feasible. As soon as marine insurers recalculate the risks involved in these voyages, trans-Arctic shipping will become commercially viable and begin on a large scale. In an age of just-in-time delivery, and with increasing fuel costs eating into the profits of shipping companies, reducing long-haul sailing distances by as much as 40 percent could usher in a new phase of globalization. Arctic routes would force further competition between the Panama and Suez Canals, thereby reducing current canal tolls; shipping chokepoints such as the Strait of Malacca would no longer dictate global shipping patterns; and Arctic seaways would allow for greater international economic integration. When the ice recedes enough, likely within this decade, a marine highway directly over the North Pole will materialize. Such a route, which would most likely run between Iceland and Alaska's Dutch Harbor, would connect shipping megaports in the North Atlantic with those in the North Pacific and radiate outward to other ports in a hub-and-spoke system. A fast lane is now under development between the Arctic port of Murmansk, in Russia, and the Hudson Bay port of Churchill, in Canada, which is connected to the North American rail network.

Resources calculates that the territory claimed by Moscow could contain as much as 586 billion barrels of oil—although these deposits are unproven. By comparison, all of Saudi Arabia's current proven oil reserves—which admittedly exclude unexplored and speculative resources—amount to only 260 billion barrels. The U.S. Geological Survey is just now launching the first comprehensive study of the Arctic's resources. The first areas to be studied are the 193,000-square-mile East Greenland Rift Basins. According to initial seismic readings, they could contain 9 billion barrels of oil and 86 trillion cubic feet of gas. Altogether, the Alaskan Arctic coast appears to hold at least 27 billion barrels of oil.

Although onshore resources, such as the oil in Alaska's Arctic National Wildlife Refuge, have dominated debates about Arctic development in Washington, the real action will take place offshore, as the polar ice continues to retreat. An early indication of the financial stakes and political controversies involved is a lawsuit that was filed against Royal Dutch/Shell in the U.S. Ninth Circuit Court. Filed jointly by an unusual alliance of environmental groups and indigenous whalers, the case has held up the development of Shell's \$80 million leases in the newly accessible Beaufort Sea, off Alaska's northern coast. By 2015, such offshore oil production will account for roughly 40 percent of the world's total. The Alaskan coast might one day look like the shores of Louisiana, in the Gulf of Mexico, lit up at night by the millions of sparkling lights from offshore oil platforms.

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AN EVEN GREATER prize will be the new sea-lanes created by the great melt. In the nineteenth century, an Arctic seaway represented the Holy Grail of Victorian exploration, and the seafaring British Empire spared no expense in pursuing a shortcut to rich Asian markets. Once it became clear that the Northwest Passage was ice clogged and impassable, the Arctic faded from power brokers' consciousness. Strategic interest in the Arctic was revived during World War II and the Cold War, when nuclear submarines and intercontinental missiles turned the Arctic into the world's most militarized maritime space, but it is only now that the Arctic sea routes so coveted by nineteenth-

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## Arctic Energy Resources

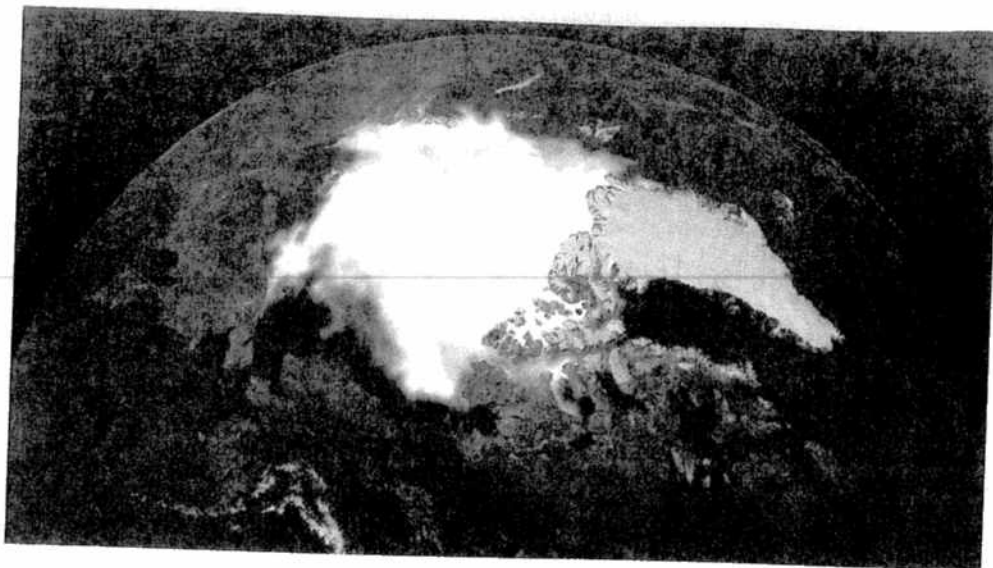
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SOURCE: UN Environment Program/GRID-Arendal.

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Each new summer breaks the previous year's record. Between 2004 and 2005, the Arctic lost 14 percent of its perennial ice—the dense, thick ice that is the main obstacle to shipping. In the last 23 years, 41 percent of this hard, multiyear ice has vanished. The decomposition of this ice means that the Arctic will become like the Baltic Sea, covered by only a thin layer of seasonal ice in the winter and therefore fully navigable year-round. A few years ago, leading supercomputer climate models predicted that there would be an ice-free Arctic during the summer by the end of the century. But given the current pace of retreat, trans-Arctic voyages could conceivably be possible within the next five to ten years. The most advanced models presented at the



NASA

*The Arctic icecap, September 2001*

funding for new Arctic naval patrol vessels, a new deep-water port, and a cold-weather training center along the Northwest Passage. Denmark and Norway, which control Greenland and the Svalbard Islands, respectively, are also anxious to establish their claims.

While the other Arctic powers are racing to carve up the region, the United States has remained largely on the sidelines. The U.S. Senate has not ratified the UN Convention on the Law of the Sea (UNCLOS), the leading international treaty on maritime rights, even though President George W. Bush, environmental nongovernmental organizations, the U.S. Navy and U.S. Coast Guard service chiefs, and leading voices in the private sector support the convention. As a result, the United States cannot formally assert any rights to the untold resources off Alaska's northern coast beyond its exclusive economic zone—such zones extend for only 200 nautical miles from each Arctic state's shore—nor can it join the UN commission that adjudicates such claims. Worse, Washington has forfeited its ability to assert sovereignty in the Arctic by allowing its icebreaker fleet to atrophy. The United States today funds a navy as large as the next 17 in the world combined, yet it has just one seaworthy oceangoing icebreaker—a vessel that was built more than a decade ago and that is not optimally configured for Arctic missions. Russia, by comparison, has a fleet of 18 icebreakers. And even China operates one icebreaker, despite its lack of Arctic waters. Through its own neglect, the world's