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Global Warming Melts New Sea Lanes for Norilsk, ConocoPhillips

By Hugo Miller

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Feb. 26 (Bloomberg) -- Norilsk, the world's biggest producer of nickel, is building its own shipping fleet to capitalize on the melting of the polar ice caps.

The company ordered five reinforced cargo vessels that can plow through the waters north of Siberia as new sea routes open. Norilsk is spending at least 320 million euros (\$467 million) to buy reinforced vessels rather than rent both freighters and

icebreaker escorts.

The thawing sea "has enormous economic implications, and commerce is going to push this ecological zone to the limit," says Rear Admiral Timothy McGee, head of the U.S. Navy's Meteorology and Oceanography Command.

Global warming, while threatening environmental disasters, is creating economic opportunity for shippers, makers of ocean cargo vessels and tour operators. New routes may expand access to the world's second-biggest oil supply, deliver U.S. wheat to Asia 30 percent faster and increase Arctic tourism as much as 50 percent in a decade.

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Ice shrinkage may enable ships to sail straight over the top of the world, cutting an 11,000-mile (17,699-kilometer) trip to 7,000 miles and saving as much as 11 days and \$800,000 in fuel and labor. Investment in reinforced vessels jumped fivefold to \$2.5 billion in 2006 from \$500 million in 1999 and may climb 10 percent a year through 2010, London-based shipping broker Clarkson Plc estimates.

Norway's Aker Yards AS and South Korea's Samsung Heavy Industries Co. are producing ships for Arctic investors including oil refiner ConocoPhillips

and metals producer OAO GMK Norilsk Nickel.

“We decided we'd be better off with our own” equipment, says Victor Borodin, a spokesman for Moscow-based Norilsk.

Pollution Risks

Temperatures above the Arctic Circle have risen at about twice the rate of the global average in the past three decades, United Nations data show. Arctic sea ice shrank to the smallest area on record last summer, covering 22 percent less than the previous low in September 2005, says the U.S. National Snow and Ice Data Center in Boulder, Colorado.

Pollution risks are greater in a region isolated from cleanup resources, says David Jackson, the Ottawa-based manager of the Canadian Coast Guard's icebreaking service. The grounding in 1989 of the Exxon Valdez oil tanker in Alaska's Prince William Sound, an accident that was accessible only by helicopter and boat, cost \$2 billion to clean up.

Ships unfamiliar with operating in Arctic waters may add to pollution if they pump bilges overboard or dump other waste in the sea, Jackson says.

Bulldozed North Pole

Norilsk is shipping nickel, copper and palladium north of Siberia to Europe from the Taimyr Peninsula in Northern Russia. One reinforced ship is already in service and four are being built by Aker Yards for delivery by mid-2009, all using new hull designs that allow for bow- or stern-first sailing, depending on the thickness of the ocean surface.

While Norilsk and others may benefit from the melting, Borodin says the ship orders were driven by cost calculations rather than global warming.

Most of the Siberia route is navigable from June through September, and it may become the first trans-Arctic channel open to reinforced vessels, say scientists including Douglas Bancroft, director of Environment Canada's Ice Service, a government agency.

“The price of oil and gas will drive Arctic shipping growth,” Bancroft says.

The next most likely route to open is a straight line across the magnetic North Pole, bulldozed by a new generation of ships. That course would save 4,000 miles and 11 days compared with an 11,000-mile, one-month trip between Hamburg and Yokohama, Japan, via the Suez Canal.

'Whole New World'

The shorter route would also shave \$800,000 from the cost of sailing a Panamax class, 75,000-deadweight ton freighter, London-based broker Howe Robinson & Co. says.

The number of voyages in the Canadian Arctic jumped to 132 in 2007 from 78 in 2005, according to the Canadian Coast Guard.

"If the Northern Sea route or Northwest passage opens up, it truly does open a whole new world of commerce in terms of our ability to move around the globe," says Senator Lisa Murkowski, a Republican from Alaska.

Investment is under way. The portion of the world's commercial tankers that can ply frozen waters will rise to as much as 10 percent in 2008 from 3 percent in 1992, Clarkson estimates. As of December, the order backlog for reinforced ships stood at 152, almost half the size of the current worldwide fleet of 352 such vessels, Clarkson says.

The Bloomberg World Shipbuilding stock index, which includes Samsung Heavy Industries, climbed 252 percent in the three years through Feb. 1, stoked by demand for all classes. Aker Yards gained 41 percent in Oslo in that time, while Samsung climbed 251 percent.

Arctic Danger

Samsung, the world's third-biggest shipbuilder, is making three reinforced oil tankers for Russia's OAO Sovcomflot and ConocoPhillips for \$450 million. Sovcomflot will operate them for ConocoPhillips, the second-largest U.S. refiner, to carry crude south for processing, says ConocoPhillips's chief naval architect, Peter Noble. More mobile floes are a reason Conoco is embarking on the project, he says.

In the rush to explore waterways, bigger ships are making mistakes. Seventeen British tourists were injured last August when chunks of glacier fell onto the deck of the Russian cruise ship Aleksey Maryshev near the Norwegian Island of Spitsbergen.

On Canada's Frobisher Bay 1,240 miles north of Montreal, Andrey Rudenko edges the Lyubov Orlova through the Arctic night. The captain of the 122-passenger polar expedition ship, refitted in 2006 for Arctic tourism cruises, studies his charts for shoals by the glow of instruments.

'Always Changing'

Global warming means rocks can pose as big a threat as ice.

"I don't know what to expect any more," says Rudenko, 45, who went to sea at 15 from his Russian hometown of Novorossiysk on the Black Sea. "Conditions are always changing."

Dugald Wells, president of Cruise North Expeditions Inc., which offers eco-tours aboard the Lyubov Orlova, agrees.

"A lot of damage is caused by shipping that doesn't know the waters in and around the Arctic," Wells says.

One area of interest for oil companies is the Alberta tar sands, a region of boreal forest the size of Florida in northern Alberta 455 miles north of Calgary. Geologists estimate it may contain the world's largest oil reserves outside Saudi Arabia.

Getting heavy equipment to the oil poses a challenge because drilling machinery must be flown or driven to the site, forcing up costs. The tar sands are accessible via the Mackenzie River, a 1,080-mile long waterway that links the Beaufort Sea north of Alaska and Great Slave Lake just north of the sands.

Longer Sailing Season

An open Mackenzie River for at least nine months a year would provide a conduit from the Beaufort Sea to the tar sands region.

"By 2012, we're going to see a lot more barge traffic down the Mackenzie," the Canadian Coast Guard's Jackson says.

Northern Transportation Co., a Hay River, Northwest Territories-based operator of tugs and barges, says freight increased 59 percent last summer as it shipped supplies to a Royal Dutch Shell Plc project on the Beaufort Sea and a gold mine operated by Miramar Mining Corp.

Churchill on the western shore of Hudson Bay is best known as a magnet for polar bears and as a sleepy, underused port. That may change: Ice cover in the bay during the warmest months has dropped about 50 percent since 1970, says John Falkingham, chief forecaster at Environment Canada.

More Tourists

Omnitrax Inc., based in Denver, bought the port operations at Churchill in 1997. The sailing season has since lengthened by at least two weeks a year, managing director Mike Ogborn says.

The port of Churchill has been used almost exclusively for exports, with just one single inbound shipment of copper concentrate in the past six years, says Ogborn. Last summer there was one delivery of 12,000 metric tons. In 2008 that may increase to as much as 100,000 tons, he says.

"The buzz this shipment has created is tremendous," says Ogborn, who has heard from businesses in Canada and Russia interested in importing goods into North America via the port.

Omnitrax is spending at least \$20 million to upgrade the rail line that links Churchill in northeast Manitoba to tracks that run south into the U.S., 750 miles away, and Canadian Prairies. Sailing time from Murmansk, Russia, to Churchill is about 10 days, four days faster than via the Great Lakes ports which serve as hubs for railroads into the Prairies, he says.

Cargo vessels are increasingly joined by Arctic tourist ships in plying northern

waters. The number of travelers visiting the Arctic has risen to more than 1.5 million from about 1 million in the early 1990s, a rate that will accelerate in coming years, a June 2007 study by the United Nations found.

Vacation in Nunavut

Cruise ships accounted for 2,096 visitors to the Canadian Arctic in the summer of 2007. The number of cruise voyages in the region climbed to nine in 2006 from seven in 2005.

Tourism in Nunavut, an area the size of Western Europe with just 31,000 residents, is increasing as well. Total visitor spending in Nunavut, whose capital Iqaluit is 1,280 miles north of Montreal, reached \$3.5 million in the summer of 2007 with 18,000 tourists, according to the first study of its kind in the territory, commissioned by the local government.

The increase is significant to a small population, says John Snyder, editor of the 2007 book, "Prospects for Polar Tourism."

"Ecotourism is quite clearly a vital part of the economic base," he says.

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