



HOUSE OF LORDS

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The Select Committee on the Arctic

Inquiry on

THE ARCTIC

Evidence Session No. 6

Heard in Public

Questions 63 - 80

TUESDAY 29 JULY 2014

10.40 am

Witnesses: Dr Martin Stopford, Colin Manson and Kiran Khosla

Members present

Lord Teverson (Chairman)
 Lord Addington
 Baroness Browning
 Lord Hannay of Chiswick
 Viscount Hanworth
 Lord Hunt of Chesterton
 Lord Moynihan
 Lord Oxburgh
 Lord Soley
 Lord Tugendhat

Examination of Witnesses

Kiran Khosla, International Chamber of Shipping, **Colin Manson**, Manson Oceanographic Consultancy, and **Dr Martin Stopford**, Clarksons Research Services

Q63 The Chairman: Welcome to the Lords Arctic Committee and our first session on shipping. I think you have some idea of the sort of questions that we will be asking. I remind you again that you do not all necessarily need to answer all the questions, but if something is very pertinent to you, please contribute. We are being recorded and a transcript will be taken. Perhaps I could ask you to introduce yourselves briefly.

Kiran Khosla: I am Kiran Khosla. I am the legal director of the International Chamber of Shipping. Our organisation represents national shipowner associations. We are their international body, so we represent shipowners at the IMO and at other regulatory fora, and we deal with: the safety of ships; maritime security; seafarers and employment issues, and legal liability and insurance issues for ships at the international level. ¹

¹ Note by the witness: The national shipowner associations are the official voice of the shipping industry in their respective countries. The members of these national associations are the individual shipping companies that are registered in that country and/or their ships fly its flag. They include operators of all types of ship (for example, container ships, bulk carriers, oil/chemical/product carriers, passenger vessels), and cover all types of trade. The national shipowner associations are members of ICS. ICS represents the national associations

Lord Hannay of Chiswick: Could you just say what is meant by a British shipowner? You say that you represent them, which is absolutely splendid, but I just want to be clear about how a British shipowner is defined.

Kiran Khosla: We do not actually represent British shipowners.

Lord Hannay of Chiswick: I am sorry. I thought you said you did.

Kiran Khosla: Our membership includes the UK Chamber of Shipping, and this represents a individual shipowners registered in the UK and/or flying a UK flag. We represent national shipowner associations. We are an “association of associations”; I think that is the way to put it. So for example we have the UK chamber, the Japanese chamber, the French shipowners’ association; they are our members.

Lord Hannay of Chiswick: Thank you very much.

Colin Manson: I am Colin Manson from the Manson Oceanographic Consultancy. I am an independent consultant. About three and a half years ago I retired from the Royal Navy, where I had been an environmental impact adviser: that is to say, I advised on the impact of the environment on us, rather than the other way round. I worked in particular for the strategic defence and security review in 2010, when I first became particularly interested in the Arctic, although I have had an interest in it for a long time. I have also dealt with a lot of the issues involving the Arctic: ice melt, climate change and sustainability. I also represented the Institute of Marine Engineering, Science and Technology on the IMO Polar Code working group for about three years, and I have continued to provide advice along those lines.

Dr Martin Stopford: I am Martin Stopford. I am the president of Clarkson Research. I have spent all my life as a shipping analyst and maritime economist. I have written a book that is at the international level, speaking on their behalf in international fora such as the UN and its agencies, most particularly, the International Maritime Organization (IMO) in London but also UNCTAD, UNCITRAL, WTO, OECD. ICS has currently 34 national shipowner associations, representing shipowners from all parts of the globe.

quite widely used around the world for analysing shipping. I retired from the Clarkson PLC board two years ago and am currently non-executive president of the research operation.

Q64 The Chairman: Thank you very much. Perhaps I can start the questions. How realistic, in your view, is the prospect for a significant increase in trans-Arctic shipping, how might the prospect for transit shipping differ from the potential for an increase in destination-based shipping, and how are these currently split in terms of proportion? There is a lot of talk about the great opportunities for shipping, but is it overblown? We are thinking very much in terms of transit shipping, but are destination shipping, tourism shipping and assistance for mineral extraction vessels much more important? How does this situation look, and how will it move in the future? Who wishes to start?

Dr Martin Stopford: Perhaps, as the economic generalist, I could start. If you step back and look at the world that we live in today, opening up the Arctic sea routes would be extremely useful; it would fill a yawning gap in the transport system. Today, most of the heavyweight economic activity is in the north Atlantic, and clustered round the South China Sea. The big trades are east-west trades, making use of the Suez Canal and the Panama Canal, which give us a link between the oceans. There is a second access route around Cape Horn and the Cape of Good Hope, but at the moment any economic activity north of the critical mass of activity in Europe and North America is a long way from the international markets. Ships have to do a sort of dog leg to get round, and if this direct Arctic route could be opened up it would be extremely useful for northern economic activities and would balance the transport world.

Colin Manson: The Northern Sea Route is the one that is most likely to become active and open, as opposed to the other two routes through the Arctic: the North-West Passage, which goes across the top of America; and the great circumpolar route itself, which would

pass more or less over the Pole. The latter is many, many years away from being even vaguely useful. The Northern Sea Route needs a season of a reasonable length—at least 60 days—before it becomes a viable transit corridor. A hundred days would be better. Some of the analysis that I have undertaken indicates that the ice is melting faster than the IPCC would perhaps lead us to believe, and by 2020 we may well have a 60-day window, or season, through the Northern Sea Route with no ice in it whatsoever. At that point—by 2020—the route will become particularly viable. The 100-day window will probably be in 2025, so it is a little further afield. That Northern Sea Route will represent a huge saving in time and emissions—the carbon footprint per tonne, if you like—but by 2020 there will be a good case for a significant increase in the traffic that goes along that route: the intra-polar transport that services fixed installations, mineral extraction, oil and gas extraction—those kinds of activities. I do not think it will be particularly affected by the opening up of the sea routes. The vessels will have to operate all year round anyway, so in the winter when the ice returns they will still need to have icebreaker capability. So I am not so sure that the internal Arctic transport system is really going to be affected that badly by the melting of the ice.

The Chairman: But is there not a synergy, if you like, in that the more accessible the Arctic is to vessels, the more can be done economically to establish mineral extraction or other economic activities? One perhaps causes the other.

Colin Manson: There will be an element of synergy between the two aspects in that you are likely to have local transport—i.e. spoke transport from the extraction capability to a port somewhere: a hub distribution system—but the volume of those minerals in the short to medium term, the next 10 years or so, will be fairly low. It is going to be the increase in bulk transport between the Far East and the EU in particular, and potentially east-coast America as well, that will really open up the sea route.

The Chairman: If you will excuse what probably seems to you a naive and simple question, when we talk about those 60 or 100 days, does that mean that ordinary vessels that would normally go through the Panama or Suez Canals could, without any modification, go straight through there, or not?

Colin Manson: The Polar Code and the regulations therein deal with non ice-strengthened vessels using that route.

Q65 The Chairman: Okay. We will come on to the Polar Code later on. Kiran Khosla, are your members excited about this opportunity?

Kiran Khosla: They are very excited. They have been encouraging their member states to be very active in all the discussion about the Polar Code. For shipowners it represents a great opportunity because the routes are shorter, so it represents a saving for them in fuel costs. Fuel costs are the largest operational costs for a shipowner, so that would be of huge benefit, but it will also be of huge benefit for the international community. Shipping is the most ecological form of transport in terms of CO₂ emissions for example. Shipowners are trying to understand how the trade routes would operate and what the opportunities would be, but they are certainly very positive.

Coming back to your question about trans-Arctic shipping and destination shipping, trans-Arctic shipping is notionally very attractive, but we need better, or fuller, analysis of future trade projections for the Far East to Europe and the west coast of America, which I am not sure we have seen; ICS does not really get involved in that sort of activity. That remains to be seen, and presently there are more attractive routes at the moment for certain trades, such as through the Suez Canal, because you can get larger container ships through there now. Most commodities are carried on container ships now, and we are not really sure what the capacities would be for container ships going through the Northern Sea Route. We are just

trying to assess what the situation would be, but in principle we are very enthusiastic and very excited about this.

We think though that destination shipping is going to be the area that will develop the quickest— and of course there is eco-tourism, which is also something to be aware of.

Q66 Lord Hannay of Chiswick: You have spoken about the technical aspects. Could each of you just say a word about political risk? I imagine that if we were sitting here talking about the huge advantage that would accrue from the opening of a Suez Canal, none of us would have any difficulty in talking about political risk. I wonder whether you could do the same about the Arctic.

Dr Martin Stopford: There is always an element of self-interest in these things. We have seen the type of risk that you mentioned—for example closure of the Suez Canal—over many years. That did not damage the canal's role in the long term as a key route; it was an essential part of the world economy. I would like to think that there is enough self-interest to counter some of the political risk, and I can imagine, if you take the view of the broadening global economy, which I think we are seeing today, that it would be very much in Russia's interest to have a thriving maritime traffic along their coast. It would be good for transit, although there is quite a lot of local trade anyway: there has been up to 7 million million tonnes a year of local cargo moving there². But you should set against the obvious political risk, the benefit that it might very well bring.

Q67 Lord Moynihan: Can I press you on the economic case? You say that a lot of your members are very excited about the prospect of this opening up, but in reality is not the economic case unanswered yet? In other words, while there is a clear reduction in mileage

² This 7 Mt figure relates to the peak reached in the late 1980s. By 2008 the volume had fallen to 1-2 Mt a year, ore, oil and gas exports and food imports ref: Ragner, Claes Lykke, 'Den norra sjövägen'. In Hallberg, Torsten (ed), Barents – ett gränsland i Norden. Stockholm, Arena Norden, 2008, pp. 114-127.

to be covered, there are significant additional costs from reinforcement for ice, the use of icebreakers, the potential for Russian costs and charges in transiting their waters, and—further to what Dr Stopford has just said—the economic costs associated with insurance for political risk, which are likely to be high, particularly in the current climate. Have any of you done detailed analysis on what this looks like?

Dr Martin Stopford: Some analysis has been done. The Norwegians are particularly good at this. They have done a number of quite detailed studies. In one I happened to look at yesterday, the Suez transit costs for the ship were \$135,000, so you have something to put towards your icebreakers. If you look at anywhere that is north of, say, Korea or Japan, you are saving 30% to 40% in sea days. Fuel today is at \$600 a tonne, and we are moving towards a position where low-sulphur fuel on the high seas may cost up to \$1,000 a tonne. As my colleague mentioned, this has changed the whole order of magnitude in shipping. Six or seven years ago the cost of the ship was much more than the fuel that it burnt on a voyage. Today, the fuel costs two or three times as much as the ship, so the ability to save, say, a third of the voyage is very helpful.

One extra point is that the IMO has committed the industry to cutting its carbon footprint by 50% by 2050, if I remember rightly. Here you have one very tangible way of reducing the distance and the steaming days, so it is a quantifiable reduction. Every ship that goes round the northern passage is quantifiably reducing the industry's carbon footprint.

Lord Moynihan: You have not taken into account the fact that the largest and most powerful icebreakers cost up to \$1 billion and can take eight to 10 years to build. Each of these voyages has to have expensive icebreaker support, which needs to be factored into any economic analysis.

Dr Martin Stopford: We are hoping that the weather is going to sort that one out for us.

Colin Manson: Very briefly, the big issue at the moment is that the Northern Sea Route takes you inside a great deal of Russian territorial waters, but as the ice retreats further and further the route can stay outside them, at which point the Russians can no longer insist on icebreaker assistance when there is no ice. Therefore, as that ice moves north and the route becomes open in the 60 days that I was talking about, when there will be no ice, that is when the real economic costs will fall, because you do not need that escort.

Kiran Khosla: Very briefly, we absolutely agree with that point. It also worth mentioning that when the Polar Code comes into effect it will involve an examination as to whether icebreaker assistance is required. There will be vessels that can sail through the region without icebreaker assistance if they are properly classed, and we are already seeing more flexibility on the part of the Governments and the authorities in that region with regard to the costs of icebreaker assistance. Given the political system there, negotiations are much more difficult, but that is now changing and the companies operating icebreakers are beginning to have the authority to be a little more flexible in their negotiations on costs, and we hope this will continue to improve.

The Chairman: Lord Moynihan will ask more about barriers later on, and Lord Oxburgh will ask about critical infrastructure. Lord Oxburgh and Viscount Hanworth also have supplementary questions.

Q68 Lord Oxburgh: I should declare an interest as the director of two small renewable energy companies. None of you has mentioned the weather, but the Arctic has a pretty fearsome reputation in that respect. Are you implying that modern shipping does not care about the weather and will not affect the use of these routes?

Colin Manson: No. I am actually a qualified meteorologist and weather forecaster, so the weather is dear to my heart, even though some people find my conversation boring because

of it. The issue is that the regulations, the mandatory elements of the Polar Code, which I know we will come to later, look at how a ship needs to be prepared for adverse weather conditions and the way in which the weather will affect it, as well as the way that climate will actually open up the Northern Sea Routes. There are already elements in place to provide for the weather aspects, but it remains true now, and as far I can tell for the foreseeable future, that the weather forecasting and ice forecasting systems are not yet in place to support large volumes of ships going through that area. We need to take those aspects into account. I refer again to hydrographic charts, but that is a separate issue.

Lord Oxburgh: The implication of that is that if the weather is severe, the transit times are going to be longer, or is that not the case?

Colin Manson: Inevitably that would be the case, but when you are considering a difference in transit speeds of perhaps eight knots down to six knots, that does not make a huge difference. Where you can get up to, say, 18 knots and you then have to come back to six knots, that is a problem. Within those transit routes, the likely transit speed is going to be fairly reduced anyway, so it is not going to make too much of a difference.

Viscount Hanworth: In reference to something Dr Stopford said, what is the motive for the adoption of low-sulphur fuel?

Dr Martin Stopford: It is really to clean up the pollution and the wish to remove sulphur from ships' fuel so that it does not—excuse me, I have lost the right word.

The Chairman: Is it set out in the Polar Code?

Dr Martin Stopford: That is part of the issue. The industry has been going down a line for some considerable time now towards dealing with all the emissions from ships, of which sulphur is one of the most toxic.

Lord Hunt of Chesterton: Sulphur produces acid rain.

Dr Martin Stopford: Thank you so much. That was the phrase I was searching for.

Viscount Hanworth: Who are the protagonists of this pollution?

Dr Martin Stopford: The protagonists are many. It is interesting that the container shipping fleet has the same installed capacity as the German power generation industry. It comprises a big chunk of engine power and thus has very high emissions. On the whole, the fuel being used by shipping is the bit left over. The old bunker C is the bit of the barrel of oil that cannot be distilled any further. All the distillates have been taken off and you are left with the residues. Traditionally, those residues have been sold to shipowners cheaply. The shipowners have burnt them and thus have produced a lot of emissions. The aim is to get rid of the nitrous oxide and sulphur, and in due course the carbon monoxide that is being emitted: in other words, to clean up the whole act. To do that, it may be necessary to burn a distillate fuel or special extraction equipment will have to be fitted to the ship. That is very much an ongoing issue at the moment.

The Chairman: Perhaps we can come back to supplementary issues on the environment when we reach the questions on the Polar Code, even if they have not been listed, particularly if they make up part of the point.

Q69 Lord Soley: By implication, Dr Stopford, you and your colleagues have implied that the bulk of the shipping transport is going to be cargo from the eastern seaboard of North America and Europe to the Far East, and presumably Greenland as well, I would think. Can you tell us from your research what other shipping options there are? One of you has mentioned tourism. Is there very much after cargo on the list or is it essentially cargo?

Dr Martin Stopford: I did look through some statistics for the transits that were made last year. Some 71 transits were made, of which 14 were ships ballasting, so these were ships that were returning quickly to their loading zones because they did not have any cargo on

board. Another six that were non-cargo ships repositioning, so quite a few non-cargo ships are going through the Northern Sea Route—I should stress that these are figures just for the Northern Sea Route. A lot of the balance was made up of various oil products in the form of gas oil, diesel oil and a very big cargo of LNG. Some 68,000 tonnes of LNG went through for the first time. A couple of big tankers of 70,000 or 80,000 tonnes carried condensates through. A positive feature of this route is that it can take big ships, which has been a great problem with the Panama Canal and was for many years a problem with the Suez Canal. Perhaps my colleague knows how big a ship could get through.

Colin Manson: I, too, have looked at the ships that transited last year. The largest ship that went through was a 112,000-tonne iron ore carrier, so quite large cargoes can get through. However, it is all cargo that is going through. A lot of shipping might go into the Arctic, stay around for a while for tourism reasons and then come back out, but very few passenger-type ships are likely to go all the way through from east to west or the reverse. They will tend to go in for reasons of eco-tourism and then come back out again in the same direction.

Q70 Lord Soley: Can you tell me a little about the predictability of this? If I was a shipowner, I would be asking how confident I could be that my ship would get through and deliver the goods on time, given that there is uncertainty about the extent of the ice at certain times of the year.

Dr Martin Stopford: Using the same statistics, I looked at the number of transits made during each month of last year. The first transits started in June, when there were two. They were followed by 12 in July, 15 in August, 21 in September, 14 in October and four in November. So the season ran effectively from the end of June to the beginning of November.

Lord Soley: An operator must decide whether or not to put one its ships through the Arctic route on the basis of using only a certain timeframe in the window. I can see that it is an opportunity within the limited timeframe, but given that operators can use other routes during the rest of the year, why will they use Arctic routes?

Dr Martin Stopford: They are cheaper.

Lord Soley: Is it literally about saving money? It is the predictability that interests me. The sea ice might not retreat as fast as you think at a particular time of the year. How can you be sure that you are going to be in the right window to deliver your goods?

Dr Martin Stopford: A lot of the cargo is made up of oil products, which tends to be a very opportunistic cargo. The traders who deal with it are quite likely to look at what works. The refiners sometimes produce a lot of one product, which means that sometimes you can sell a product very well in, say, Asia because the price is high or vice versa. The traders work out the price they can buy and sell for and the transit follows if the transaction is profitable.

Colin Manson: I want to consider the window of opportunity. To start off with, there would be a little bit of ice that is still there or is starting to form again at either end of the window. Those conditions are for ships that have been ice-strengthened or that have some kind of capability in ice. But there will be an increasing window when there is no ice at all. I know you cannot say that weather is climate, because it is not, but climatologically speaking you will be able to look at the historical data and predict that next year there is likely to be a window that can be used. In that way, you can plan for the longer term. If it transpires that you cannot get through without meeting some ice, that is the risk which the owner has to factor in: suddenly he is going to need an icebreaker escort.

Lord Soley: I have a final question on this, and again it is on the unpredictability of the weather. I am fascinated to find out why an operator would use these routes because my

memory is so conditioned by visions of the Arctic convoys of the 1940s. We saw ships toppling over because the ice snarled them up so much. Presumably modern ships can deal with that without incurring massive additional cost. Either they must be designed for the conditions or there must be a way of removing the ice quickly. I should imagine that de-icing is not a cheap option.

Colin Manson: I am going to have to refer back to the Polar Code, because there are elements in it that deal with the granting of a certificate to a ship to enable it to travel into the polar area. That certificate is dependent on a ship's preparedness for travelling in hazardous conditions, so when they are required, ice clearance systems must be in place.

Lord Soley: What does ice clearance mean? Is it an additional cost?

Colin Manson: There are elements in the Polar Code to deal with how much ice can be expected and how much can be allowed for before it has to be cleared away using mechanical means, pneumatic means, heating systems or whatever it might be. There are aspects of the Polar Code that will cover those issues. Without that being defined in the polar water operational manual for each ship, it will not be given a certificate. Without the polar certificate, the ship is not going to go into the Arctic anyway.

Lord Soley: It must be a disincentive to using that route.

Colin Manson: It is a disincentive, but the savings in time, costs, fuel and emissions will offset those additional costs.

Q71 Lord Addington: We are concentrating on this one area. I wonder whether there any other major shipping routes with variables of this kind built into them that must be considered. Can we see any compatibility with the polar route anywhere else, or it a totally one-off, new place?

Dr Martin Stopford: The shipping industry is quite used to working in ice. There are currently over 10,000 ships with some sort of ice classification, 2,500 of which are class 1A. On the more sophisticated vessels, that will include features like covers for the decks when there is a lot of ice. Also, the deck is designed so that the ice falls off, a point that was made earlier. About five to 10 years ago the Gulf of Finland was a big issue. People could see that the Russians were developing offshore oil in the White Sea and the Kara Sea. There was a big move on the part of the shipping industry to order ice-class ships, which would be class 1A vessels. The owners paid extra for them and were happy to do so, but it did not work out that well because there was not as much oil as they expected. However, they are still around and I think that is what the shipping industry is there to do. The industry looks very hard at these things.

Lord Addington: That was not really the question I was asking. I wonder whether there is anywhere else in the world that has any experience that we could draw upon so as to make a comparison of the different variables. It does not have to be ice; it could be variability in the weather creating the problems that we all agree are going to be experienced for the foreseeable future, even if they do disappear after a period of time. Is there a major shipping route anywhere else that merits this sort of consideration?

The Chairman: Kiran, I believe that you would like to come in on this point.

Kiran Khosla: I will try. The Arctic is a unique area and the only other comparable area would be the Antarctic. There is an agreement in place that formed a model, as I understand it—I was not involved in the detail—for the Polar Code. The Polar Code has drawn heavily upon it, but the Antarctic does not have the same degree of trade and shipping patterns. I think the Polar Code³ is unique in that sense.

³ Correction by the witness: I said “Polar Code” when I meant to say “Arctic Area”

Lord Hunt of Chesterton: The insurance industry is familiar with extremely high risks. Another point to make vis-à-vis Arctic surveys is that all these ships are fitted with satellites and forecasting equipment so they can move around. You seem to imply that the level of technology is not that high, or that we are not using what we know effectively enough.

Colin Manson: Perhaps I may answer that question.

The Chairman: We shall move on to some of this later, but please do make a brief response at this point. I am sure that Lord Hunt will want to follow it up later as well.

Colin Manson: My brief response is that I think we are going to cover many of these issues anyway, but satellite coverage in the polar areas is very poor. It is not like it is in the lower latitudes. By the time you are above 75 degrees north, you are starting to lose accuracy on GPS signals quite significantly, and radio communication in those areas is poor. Lastly, the amount of forecasting of the weather runs at a fairly low level.

The Chairman: We are coming on to critical infrastructure right now.

Q72 Lord Oxburgh: You have been telling us about the amount of traffic using the Northern Sea Route in recent years, but the ICS position paper makes the general point that a good deal enhanced infrastructure is necessary. What do we need beyond what people seem to be managing perfectly well with at present?

Kiran Khosla: Perhaps I can come in on that. What we are referring to when we talk of critical infrastructure is the need to ensure that there are systems in place to allow shipping to operate safely and that they are sufficient and can respond to preserve the marine environment. Provision must also be made for safety of life, especially with the eco-tourism industry taking off in the region.

We have identified a number of aspects that really need to be addressed before we can conclude that the Arctic is a safe area. There is a problem, for example, which has already

been touched upon, about the lack of up-to-date hydrographic charts. The region has not been mapped for many years. We need better and more accurate mapping of ice movements, which we do not have at present, and satellite communications systems need to be put in place. These are all aspects that are either identified or dealt with in the Polar Code. Looking at the documents, I see that this also refers to extended periods of darkness, which can affect navigation and human performance; there are seafarer training issues with ice handling and so on; systems must be put in place to provide for adequate crew training. Lastly, and what is probably most important, is the need to put emergency response provisions and measures in place. If there is a pollution incident or a collision, especially one involving a vessel with passengers on board, we need to be able to get a swift and sufficient emergency response out there. Those are all aspects that are the responsibility of the coastal states in that region, as they are in other regions. I have cited just a handful of the issues that need to be addressed.

Lord Oxburgh: Thank you. The coastal states are going to have to pay for all this and it will be quite expensive. Clearly training and so on is not the responsibility of the coastal states, but search and rescue, hydrographic mapping and things of that kind will be. How is this going to be co-ordinated and who is going to pay for it?

Kiran Khosla: The coastal states have obligations under international conventions such as SOLAS to make sure that these provisions are in place, and they really do have to comply with their obligations. But what we do see as an industry, and especially in the discussions on the Polar Code, is that there are proposals for the industry to upgrade ships in order to address these issues and to put on board better or enhanced equipment, such as lifeboats, and to make sure that there are charts on board. We are trying to make sure that the coastal

states recognise that they have obligations under international conventions. There is in place a clear set of obligations which they have to comply with.

Lord Oxburgh: Who does anything about it if they do not?

Colin Manson: The Arctic Council already has systems in place for co-ordinating search and rescue elements. The different nations within the Arctic Council, the full members of the council as it were, have already made bilateral and multilateral agreements to ensure that search and rescue and oil spill response assets will be available. At the moment they are available for the current level of shipping, of course, but they would not necessarily be available for the full use of the Northern Sea Route when it comes into its own. It is those who have influence within the Arctic Council who will be able to push this forward as the Northern Sea Route develops. But inevitably there will be additional costs to transport. Any flag state will have to bear the cost of the improvements. As my colleague has said, shipowners are going to have to alter their ships. Mentioning the Polar Code once again, it contains mandatory regulations along with guidelines for improving those systems.

Lord Oxburgh: So the attractiveness or otherwise of transit through the north sea route is going to depend partly on extra costs for shipowners to fit their ships as well as on the rents extracted by the states through whose waters they pass.

Colin Manson: Through the waters and through the harbours that they use. Those costs will have to be recovered. That brings me to another bit of the critical infrastructure. Part of the Polar Code is going to restrict—in fact it is going to ban—the discharging of oily wastes in the polar area, even within the current limits of MARPOL. Vessels will need to have additional discharge facilities in harbours, which in turn will have to be constructed. That is also where additional costs will come in.

Q73 Lord Hannay of Chiswick: I think I am deducing from your answers that you are saying that the critical infrastructure issue cannot best be handled solely by the coastal states. You need some international dimension, and indeed you have talked about the Arctic Council and so on. Presumably the balance between the coastal states and international infrastructure provision will tend to shift a bit as more of the sea becomes open. Can you comment on how the balance is going to be achieved other than by a sort of hit-and-miss approach: that is, you find that something is not in place when you need it, there is a great flap about it and it is then provided. That is not very satisfactory, particularly in the case of an accident.

Kiran Khosla: I will try to answer that if I can. Perhaps I can cite one example that we have for the international community in relation to places of refuge. Places of refuge is an issue that is very much on the agenda for shipowners, because if there is an incident it is most likely that disaster can be avoided if a ship is able to go into a place of refuge, unload her cargo and make herself safe rather than remain afloat on the high seas and be subject to the perils of the weather. There is also the increased danger of a major pollution incident if the condition of the ship deteriorates. The IMO has developed guidelines that require coastal states to put certain mechanisms in place in order to assess, when a ship asks for a place of refuge, whether that request can be accommodated. The guidelines set out certain criteria that must be looked at. Within Europe, those guidelines have been actively incorporated into the Vessel Traffic Monitoring Directive, which recognises that that sort of issue is of interest not just to the coastal state that receives the request but to neighbouring coastal states as well. If there is a ship-source pollution incident, it could affect the coastal environment of several states. Member states are required to co-ordinate and to have systems in place whereby they talk to each other, and I think they are working quite hard to

improve their communications and co-ordination systems. It is a very good system. The model was in fact the UK SOSREP system, which has been seen to work very efficiently and would be a great model for the Arctic states. Taking on something like that would actually enhance their emergency response systems. It is a model that is well known and has been seen to work well. I can respond to the question by referring to that example. We would like to see the Arctic Council States, and the other interested states and the shipping industry consider communication and co-ordination at that sort of level.

Lord Soley: Perhaps I may press you a little further. You indicated earlier that some of the shipping increase might well be for tourism. I do not whether ships as large as the “Costa Concordia” would go up there, but if you had an emergency of that type, that would mean a massive rescue operation. How would it be mounted? It could be an incredible risk, could it not? When we look around the world we can see that there have been a number of big disasters and even countries that are quite well equipped to deal with them have encountered problems.

Colin Manson: That is going to come down to the individual national application of the regulations and to the training regimes that are put in place and enforced. The ships that go up into the Arctic area, and indeed to the Antarctic although that is outside this subject, will have to have certification to enable them to go into the polar areas. Moreover, that certification will be dependent on the level of training of the crew and the additional life-preserving systems that are put in place for such an event. If there is a loss, a grounding, the vessel getting stuck in the ice or whatever it might be, there are going to need to be enforcements by the various national state flag authorities around the world. That can come about only through agreement in places like the IMO, but also in conjunction with the Arctic Council, to which the UK is a visiting member, putting pressure on the local area—the

coastal states of the Arctic—to ensure that sufficient assets have been put in place to deal with the increasing traffic.

Q74 Baroness Browning: Regarding the need for investment in infrastructure, not ships but in port facilities and so on, is there any indication that there is a great deal of interest by the Chinese in that area?

The Chairman: We shall be glad to hear from whoever wants to take the question.

Dr Martin Stopford: Most of it would be—

Baroness Browning: Surely the Chinese are not investing in Russian territory.

Dr Martin Stopford: I should have thought not, no.

Kiran Khosla: I think that China has established some sort of think-tank, if I can call it that, to look into the viability of the Northern Sea Route as a trade route, but whether that is buying into it in the same way as China has been seen to be buying into other regions, I am not so sure. It goes back to the points I raised in relation to trans-Arctic trade. I am not sure how attractive this actually is for China, because its future projections for development seem to be focused on the southern hemisphere. The point is a very interesting one and I think that China's role in trans-Arctic trade will be crucial. But what level of interest the Chinese have in it at the moment is, I think, open to question⁴.

Baroness Browning: I was thinking more of the geopolitical incentive.

The Chairman: We are particularly interested in regulation and governance in this area. Is one of the approaches that agreements such as SOLAS and MARPOL need to be modified to have specific Arctic clauses in them rather than inventing something completely new?

⁴ Comment by the witness: Current information suggests that China's interest at the present time is in "destination" shipping to the region, for example, to facilitate the servicing of extraction of important energy resources from the area and transportation of those resources from the area.

Colin Manson: Perhaps I can address that question. The Polar Code regulations are in fact an adjunct to SOLAS, MARPOL and other current international instruments. The regulations have been developed in conjunction with all the different regulations overseen by the IMO. The Polar Code itself is not really a standalone, or separate, document; it will be an adjunct to the existing instruments and will be applied through them.

The Chairman: That is very useful, thank you.

Q75 Lord Moynihan: You have touched on a number of issues, which I would like to ask you about in a moment, but can I press you on the last question as well? I was under the impression that China, strategically and commercially, took a very high level of interest in what is happening. The very fact that it has 20% of the Yamal LNG project, that CNPC has recently signed a contract for 3 million tonnes of LNG from Siberia, and that it is in a joint venture with Mitsui to build three LNG carriers equipped with icebreakers seems to me evidence that it has this potential market very high on its strategic and commercial radar screens. Maybe you would like to comment on that.

Let me come on to the substantive issue that I wanted to question you about. Are there any additional environmental factors that you believe limit the potential growth in Arctic shipping? Allied to that, will further issues such as insurance, licensing and permit requirements limit the competitiveness of Arctic routes? You have already commented on many of the issues relating to that, such as the winterisation process, the ice navigation radar systems, arrangements for pipes to be heated et cetera. All those are additional costs, and there are key environmental issues that drive those costs. A lot of what you have said on this subject is that work is being done, that there is important further work to be done and that we are not there yet. Does that mean that you are not satisfied at the moment with the certification process for the current trade, which is principally destination shipping? It seems

to me that we have talked a lot about transit shipping, but destination shipping, today and in the immediate future, is what it is all about. Are you completely comfortable that all the ships that are certified at present for work in those Arctic conditions meet the necessary certification requirements to avoid any serious disaster or incident, or do you believe that in this unique environment there are real concerns that we should share about the level of preparedness for Arctic conditions, particularly in the context of the environment, under the current certification process?

Colin Manson: I shall address that. It has been recognised that the current regulations laid down in SOLAS, MARPOL and all those other instruments are not sufficient, but while there was very little traffic and very few ships in the Arctic it was seen as the elephant in the room. We now know it is no longer viable to keep going down that route and that we need to introduce additional stringent measures. Again, the Polar Code addresses a lot of those environmental issues. The Polar Code is divided into two parts, the safety part and the environmental protection part, and the IMO working group believes very strongly that we need to get these additional measures into place. Modifications to the hull, modifications to life-saving equipment, the restriction on what you can and cannot discharge overboard and where you can and cannot discharge it overboard are all addressed in the Polar Code. One reason why it is taking so long to bring the Polar Code into being is that we are trying to get those elements pinned down sufficiently to deal with environmental concerns but loosely enough so that shipowners are not going to incur huge costs, when then reduce the viability of the sea route in the first place. That balance is being struck in developing the Polar Code. It addresses all those environmental issues, and a large number of vessels will never be allowed into the Arctic because they are not going to be able to meet those regulations. The IMO is addressing those issues.

Lord Moynihan: But at the moment are there many ships currently operating within the Arctic that will not meet those regulations and that therefore provide an unacceptable risk?

Colin Manson: They meet the current regulations.

Lord Moynihan: Which you are arguing are insufficient.

Colin Manson: I am saying that they are insufficient.

Lord Moynihan: And a serious risk as a result of being insufficient?

Colin Manson: There is a risk, which I am sure is being dealt with by the various owners, the insurance companies and others, but I think the ICS will be able to answer that much more clearly.

Kiran Khosla: I am not sure that there is research showing that they are operating in a risky manner. What we are trying to achieve with the Polar Code is to ensure that the standards that ships operate according to are global or at least accepted by the community and are based on risk that is actually there. At the moment, some of the Arctic states are attempting to impose their own national standards for ship operation and ship safety, such as the requirements to sail in convoy with icebreaker assistance, when these might not always be required. We are trying to achieve a genuinely risk-based assessment and to ensure that the ships, having gone through that assessment, actually comply and can deal with the hazards that are recognised for the particular type of ship, particular type of trade and particular area in which they are trading.

Lord Moynihan: But you are worried that many of those ships do not do so today.

Kiran Khosla: I could not say that they do not do so today, because the number of ships that are trading there is quite limited.

Lord Moynihan: But not destination shipping. A lot of shipping that companies use is destination shipping.

Kiran Khosla: I think there is a lot of uncertainty about what the standards should be. The Polar Code would reassure us a little more that we have gone through an assessment process and that there is a recognised organisation that will certify that a ship is safe. All I can say is that there is uncertainty about what the standards should be for the region, and that is being addressed in the Polar Code.

The Chairman: Three Members wish to ask supplementary questions. I am aware of the time and our progress. Perhaps we could go through those questions quickly.

Lord Hannay of Chiswick: In an earlier answer it was said that a substantial increase in the use of the polar route would help the IMO to meet its 2050 emissions target. Does that mean that a rise in the use of the polar route might be so attractive in that respect as to exempt the vessels using from applying sufficiently strict standards themselves?

Kiran Khosla: I think I understand from your question that using Arctic shipping routes would enable ships to have lesser standards.

Lord Hannay of Chiswick: I think you said that the ships using the Arctic should consider limitations on all sorts of emissions from them, the use of different fuels and so on. I am asking whether, if an increase in shipping is going to be so beneficial to the IMO collectively, it will turn a blind eye to that sort of thing.

Dr Martin Stopford: I cannot speak for the IMO, but I think that the point being made is an economic one. At the moment, we are using a pool of ships that have been built for the Gulf of Finland and other ice areas and have ice-class standards that were set for those areas. I think my colleague might be saying that the Northern Sea Route could be a bit more hazardous in some circumstances, although there is no obvious evidence that that is the case. The new regulations are designed to dot the "i"s and to look for areas where supplementary standards are needed, but for many years the industry has had ice-class

standards. The St Lawrence seaway and the Great Lakes, for example, ice up over the winter and have been a standard trading area for 100 years. So I do not think that the issue is the IMO turning a blind eye to the standards, because that is a matter for the regulators, for those who inspect the vessels and for those who build them. The issue is whether we can get an economic impetus that will make this route successful.

The Chairman: We will come on to enforcement later.

Lord Addington: I have a general comment. We seem to be jumping around and talking about international agreements, individual waters and everything else, but basically most of the time we are talking about Russia. Is there any consensus that Russia is prepared to take on, for instance, safety work or making standards? I would just like to clear that up, and you seem to be the right people to say how much they are playing the game. Are we expecting them to back up what has gone on?

Dr Martin Stopford: In these cases mention was made, I think very vitally, of China's interest in LNG. These are very big infrastructure projects that we are talking about here, and when you look at the map there is not an awful lot along the route. The towns along the Northern Sea Route are tiny, so I would have thought that the most likely way to get the infrastructure for the sorts of things that we are talking about is in a project run by large organisations, which might very well be Chinese oil companies, which will undertake the whole funding of the project, including building terminals.

Lord Hunt of Chesterton: I am getting more and more steamed on this question of the current codes at IMO and ACAPs. You go to Singapore and the non-agreement on shipping is appalling. You go to the United States and it is much more restrictive on shipping pollution, as in China. One of the things I want your opinion about is whether, given the considerable disagreements at the moment between the different countries on the existing MARPOL

regulations, there will be some qualitatively different attitude on the part of the countries in developing the Polar Code, because at the moment IMO is deeply split on many of these environmental issues.

Colin Manson: The companies using the Northern Sea Route in particular as well as the countries whose vessels are going through that area will have a large reputational issue to deal with, should there be a problem or a disaster of some sort. That, in my view, is likely to be the point at which something major happens. It is unlikely that these regulations will be enforced really strictly until something happens.

Lord Hunt of Chesterton: Exactly.

Colin Manson: This is one of those unfortunate areas where it is going to take a “Torrey Canyon”, for those of us who old enough to remember, before the regulations are in force with any real stringency. That, of course, is just my opinion, not a fact.

Lord Hunt of Chesterton: That is why you are here.

The Chairman: We will come on to enforcement in a minute. I would like to change the order of questions slightly. Because we are talking about the Polar Code in this area, perhaps I could bring in Baroness Browning and then come back to Viscount Hanworth when we get on to legal certainty.

Q76 Baroness Browning: Can you tell us when we might expect the Polar Code? Has an optimum date been mentioned? What difference do you expect it to make? Lastly, please could you explain how it is going to be enforced, and by whom.

Colin Manson: Having worked on the Polar Code inside the IMO for around three years, I can say that it is incredibly frustrating to see the slow progress that is being made. Originally, it was due to be completed around three years ago. The next deadline is in fact this summer, but on going through the regulation as it is written in the last iteration back in May, which

was the last time the working group actually met, it is clear that there are still a number of optional clauses that need to be clarified. I therefore cannot see it coming out this year. However, there is a lot of pressure on the working group to find an agreement that will be acceptable to all the delegates by the end of this year, with the intention that it is put in place by the end of 2015, but that is only putting it out there. It then needs to be ratified by all the members. I am not sure how long that will take, but it will probably be two to three years, if not slightly longer—and I am being optimistic. The regulations should be put in place by the middle of 2015. A lot of work needs to be done by a number of the delegates within the working group to push for the date and get the regulations in place. They want them to be in place, and it is merely a question of trying to find expressions for the clauses that contain no ambiguity so that they can go into the rules. It is a matter of driving that process forward. A number of the national delegates, along with some of the NGOs and IGOs, are pushing for the regulations to come into force as soon as possible, and it is not that other delegates are trying deliberately to slow or delay the process because they do not want it; it is just that we need to have clarity in the clauses that make up the document so that it cannot be interpreted in too many different ways.

Baroness Browning: You have said that globally this is a unique concept. How is it going to be monitored and enforced? Who will be responsible for doing that?

Colin Manson: It will be for the individual authorities that grant the certificates to allow vessels to go into the area. If you are in the national waters of any of the Arctic states, they will have the right to inspect.

Baroness Browning: Perhaps I may put one more point to you. Given the concept of the freedom of the seas, which is well known and you will know as a former mariner in naval and

military circles, do you expect to get some push-back once this is in force from nations that would regard it as a real push against the concept of the freedom of the seas?

Colin Manson: National rules always apply inside territorial waters. It is only once the Northern Sea Route becomes clear of national waters—although defining what national waters in that area are is another moot point—and vessels are outside of territorial waters, then the port of departure and the port of arrival will know where the ship has gone. If it travels through the polar area, those two ports should ensure that the certification is in place for that ship to do so. They are the bodies that will carry out any inspection.

The Chairman: I think Ms Khosla wants to come in at this point.

Kiran Khosla: Yes. I am trying to remember what I was going to say.

Dr Martin Stopford: On a point of clarification, the legal responsibilities lie with the flag state. Today, some 70% of ships are flagged out to Liberia, Panama, the Marshall Islands and so on. They are the ones that sit in the IMO and have the legal responsibility for implementing the IMO conventions for the ship. Then, as the ship sails into territorial waters, the port state that it has sailed into also has certain rather different legal responsibilities. The authorities can inspect the ship under the system set up by the industry, the port state control system, which really has been pushing back against the offshore flags. The port state authority representatives can inspect the ship for defects under, for example, SOLAS. However, I am not so sure that the things they would inspect a ship for are necessarily the ones that would affect the transit element. Indeed, the big question in my mind is whether Russia will sign up to this. Technically, you could ratify the convention without Russia signing up to it.

Lord Hannay of Chiswick: I should like to follow that up. I am sorry to be so ignorant about this, but is the Polar Code one of those international conventions that will come into force

when a particular number of countries have ratified it, irrespective of whether other countries have done so? This is the Russian question. Could the code become customary international law when, say, 60 countries or whatever the minimum is have signed, or is it a code that everyone has to ratify, and anyone who does not do so is not covered by it at all?

Dr Martin Stopford: I am not sure that there is a difference. Generally the draft convention will include a timetable and a percentage of states that need to ratify it before it passes into law.

Lord Hannay of Chiswick: So it is one that falls into that category.

Dr Martin Stopford: They nearly all do. ⁵

Lord Hannay of Chiswick: If the Russians did not ratify, it would still be in effect.

Dr Martin Stopford: Yes, but of course it would not be in effect in Russia.

Kiran Khosla: The Polar Code is an adjunct to existing conventions. As I understand it, although I have to make a disclaimer because I am not involved in the detail, once the Polar Code is approved by the IMO it will come into force six months afterwards⁶. It sits on top of existing conventions that are already in force. I think it would be fairly straightforward because it is largely applicable to shipping. Ships are governed by their flag states in terms of how they comply with the Polar Code and operations within the code.

Perhaps I may come back to an earlier question. ICS is a little more optimistic about when the code will come into force because there seems to be a real push not only by the Arctic states but by other states that are interested in trading in the area. They want it to come into force because that will allow ships to sail there, with certain assurances. There will be an

⁵ Correction by Dr Martin Stopford: The Polar Code is one of the exceptions. It does not fall into this category because it is not a convention; it is a code of practice brought into force by an amendment to the existing SOLAS convention (a new chapter XIV), which was agreed in principle in May 2014.

⁶ Comment by the witness: The time in which the Polar Code will come into force after adoption at the IMO has still to be agreed. It may be 6, 12, or, 18 months from the date of adoption at the IMO.

intersessional group meeting at the same time as the next technical meeting of the IMO where this will be discussed in order to make progress on the outstanding issues. That is being done in the hope that it will be approved either by the end of this year or by the beginning of the next year, and it will then come into force six months later. My marine department has told me that the end date is 2016, but whether it will be at the beginning of that year or at the end depends on how much agreement can be reached at the October meeting, which of course is coming up quite soon. I shall have to come back on what it was that I forgot to respond to.

Q77 Viscount Hanworth: I think my question has in part been pre-empted and it may be for Kiran Khosla. As a precursor to the question, I should say that Colin Moynihan and I have heard it said authoritatively by a Russian that Russia does have clear territorial ambitions in the Arctic that extend all the way to the North Pole. This tends to be in contradiction to some of the assertions that we have heard to the effect that in general the Arctic nations do not have such strong ambitions. From what I understand, current shipping routes through the Northern Sea Route pass through Russian territorial waters and Russia is inclined to exercise strict control over the vessels passing through its waters. As the ice melts, there will be an opportunity for ships to pass at a greater distance from the Russian coastline, but they would still pass through the exclusive economic zone, if not through the regions that Russia claims as part of its continental shelf. Do you believe that in such circumstances Russia would still wish to exercise close control over the shipping? One might observe that the recent ICS position paper on Arctic shipping calls for greater legal clarity regarding the status of the Arctic waters. Can you characterise some of the current lack of legal clarity?

Kiran Khosla: There are issues not just with Russia but with Canada relating to the extent over which those states want to exercise control beyond their internal waters and territorial

seas. The jurisdictional framework for international shipping for the international community is set out in the Convention on the Law of the Sea 1982. It seeks to balance the interests of coastal states, flag states and port states, and it does that by dividing up the oceans into zones. The starting point for a zone is the baseline, which is, as I understand it, at the point where the water shelves. The waters landward of that are the internal waters of the state over which the state has absolute jurisdiction. That is why when a ship calls into a port, it is actually within the internal waters of that state and therefore is subject to its national laws. Some 12 miles beyond that on the seaward side is the Coastal state's territorial sea, over which it has sovereignty, but it has to exercise that sovereignty in accordance with international law and internationally accepted rules and standards. So, as far as shipping is concerned, especially in relation to pollution from a ship, any standards which the ship has to comply with are usually set by its flag state, and which should be in accordance with international law and standards. A coastal state seeking to exercise control in that area will be required to do that in accordance with international standards.

Beyond that, you have the exclusive economic zone, which is 200 miles beyond the baseline, over which the coastal state can extract or use the sea bed mineral deposits and fossil deposits for its own benefit. It has limited jurisdiction in those areas. Beyond that you have the high seas. So for ships that are sailing within a state's territorial seas—this has reminded me of where I wanted to come in earlier—there is the concept of innocent navigation. As long as a ship is sailing through territorial seas, it is allowed to do so without fear of being stopped and without fear of having imposed on it any additional interruption. As long as it is engaged in innocent navigation, which is what ships are generally doing if they are trading normally, they are allowed to pass through these territorial seas. It is only when they call into port in internal waters that a coastal state will be able to board the ship and ensure that

it complies with the national laws relating to pollution measures, ship criteria or whatever. But, again, they should recognise internationally agreed rules and standards because they are controlled by the flag state. That is the mechanism which the law of the sea has established to enable ships to trade through these territorial seas.

Where we have seen problems in relation to Russia and Canada is with the limited exemptions within the UN Convention on the Law of the Sea. States can exercise or impose standards greater than the international standards. One of those is in relation to ice-covered areas. Russia and Canada are saying that they are allowed to impose stricter standards than those set out in MARPOL or the other international conventions under the provisions set out in Article 234 of the Law of the Sea Convention. There are uncertainties, to which our position paper alludes. We need clarity on what is meant by “ice-covered areas” and the extent of the ice so that a state can impose standards that are different from the international standard. Does the exemption allow a state to impose its own standards up to the economic zone or only within the economic zone? That is another question and we are not sure about it. Can it also be within a territorial sea or is it just within the exclusive economic zone? I have heard it mentioned that Russia is trying to take this even beyond the exclusive economic zone. Those are all issues that need to be clarified in order to know whether the standards by which we as an industry are operating will be sufficient. The flag states need to know too. We need to know whether what Russia is doing is lawful. There is a counter-argument from the United States to what is being attempted here using another provision of the Law of the Sea, which states that if you have international straits you have the right of innocent passage. The US is saying that that right of innocent passage trumps any rights that a state might have under Article 234 of the Law of the Sea Convention. These

are things that we as an industry would like the international community to resolve, and thus provide us with clarity.

Lord Hannay of Chiswick: But who has the right?

Kiran Khosla: The US is not a party to the Law of the Sea Convention, although it has accepted it as part of customary international law. Norway or any other state that is interested in this can raise it, under enforcement measures in the Law of the Sea Convention, to the International Court of Justice, I think it is, where there is a dispute. I think there is also a commission that deals with boundary lines.

Lord Hannay of Chiswick: It is a tribunal in Hamburg.

Kiran Khosla: Yes, the International Tribunal for the Law of the Sea. When you ratify the convention you sign up to all the other provisions as well as to enforcement. It would be another state that raised an argument against the rights that are being exercised in these areas.

The Chairman: So rather than the signatories coming together and saying, "This is what this means", it has to be done in an individual context.

Kiran Khosla: They could do it that way as long as there was a clear understanding. It really depends on whether there can be agreement within those states. If not, it might be ratcheted up to the next level.

Viscount Hanworth: So there is plenty of contention then, but perhaps you can comment on whether Russia might be becoming less amenable to negotiation in view of current conflicts elsewhere.

Kiran Khosla: I do not think I am qualified to comment on that. It is difficult for me to do so because we just deal with the ship operation aspects, not the political situation. All I would say, though, is that Russia has been very well engaged in the development of the Polar Code

and is very much engaged in the Arctic Circle community of states. It has very clear economic interests that it would like to develop, and there must be a recognition that it has to do that through co-operation and through the recognition of international communities' rights.

Viscount Hanworth: So it is not going to cut off its nose to spite its face, you would say.

Kiran Khosla: I would be surprised if economic interests were not very, very prominent.

Q78 The Chairman: As you said, one of the areas of greatest uncertainty seems to be the Canadian North-West Passage and what are internal waters and what are not. Is there a practical outcome from that, or is it at the end of the day just a great thing for lawyers to earn lots of money out of but actually makes no difference. Will it make a difference in the next few years to getting on practically with shipping business?

Kiran Khosla: The issue with Canada is the way in which it has drawn its baselines. It has drawn straight baselines.

The Chairman: We went through some of that in a previous session. What are the practical effects?

Kiran Khosla: The practical effect is that it is claiming its right of jurisdiction over a greater ocean space, which has an impact on other states that require their ships to be allowed innocent passage. If that is through internal waters, they would have to seek permission.

The Chairman: I am trying to get at whether non-Canadian-flagged vessels have to avoid those waters because of that.

Kiran Khosla: Not at the moment, because the standards which Canada is imposing in those regions are no stricter than the international standards. But there is an issue as to what might happen in the future. That is where the concern is.

Q79 Lord Tugendhat: My question breaks new ground, I have to say. I wonder whether you could comment on how you think an increase in Arctic shipping might benefit the United

Kingdom, whether you think there are differences between the degree to which the United Kingdom might benefit or not benefit and the degree to which other European states might benefit, and what the implications of all this are for UK national and commercial interests. I do not know which of you would like to kick off.

Colin Manson: I will address this first. I first addressed this issue in 2010 during the SDSR, mainly because I was looking at trade and how that would change, not just at military stuff. One of the issues for the UK is that the Northern Sea Route means that ships come down from north Cape round the top of Norway and down into the EU. It is then a matter of what their point of entry into the EU is. There are a number of places it could be. It could be Norway, Denmark, Rotterdam.

Lord Tugendhat: It could hardly be Norway.

Colin Manson: It could if they have reasonable links for the trade to move onwards from that point. But then there is also the UK. No one is going to come down the North Sea and go into London rather than Rotterdam, so from the UK point of view, if we wish to take advantage of vessels coming through the Northern Sea Route or the polar route in decades to come we need to ensure that we have an attractive point of entry to the EU for vessels to stop at rather than going all the way into some of the more congested areas: Hamburg, Rotterdam, places like that. Of course, they have a natural benefit in that they are already on the mainland of Europe. The UK is not, and we would need to move that cargo onwards. It would make sense for the UK to take advantage of that additional inbound, or even outbound, traffic around the Northern Sea Route by having an attractive port that large vessels would come into and that would act as a hub for the European distribution of cargo. How that would be done and where it would be I do not know, but places such as the north-east of England save large vessels a day's sailing rather than going into places such as

Rotterdam and will make an attractive proposition. At least, the analysis that I have gone through so far indicates that; perhaps my colleagues will be able to answer that question in more detail. From a UK point of view, to get that trade we need to have a point of entry into the EU that is attractive.

Lord Tugendhat: So we are talking about quite large ships. Are there any ports along the eastern seaboard that you think might be particularly suitable for this? One that comes to mind is Hull, but are there any ports whose depth of water and other facilities make them stand out as potential candidates?

Colin Manson: Hull is about the only one I have thought of, because if you come much further south you might as well go to Rotterdam. You have to be relatively far north. You have to save the big ships that additional day's sailing in order to make it viable for them, but the onward shipping system has to be in place to make it viable for the owners of the cargo to move it forward in a different way. I do not think that coming much further south than Hull is really viable. As I say, you might as well go straight across to Rotterdam. But of course to make that attractive you must have the infrastructure to move the cargo onwards, which means better road and rail links, the Tunnel of course, but also internal waters, or North Sea transport systems, and smaller ships to take that spoke from the hub.

The Chairman: Perhaps we could hear from you other two colleagues. Dr Stopford, could you comment on the UK?

Dr Martin Stopford: It is a difficult question. This is a long-term perspective. We are only scratching the surface in what has happened so far. The UK has a very good position in maritime services, law, insurance, shipbroking, information management—things like that. The issue here, I would have thought, is that any significant change will shake the tree a little, and we have to be careful that we do not lose our position by missing out to, say, the

Scandinavians, who are taking this very seriously. I see this as a defensive issue that we need to watch. The reason for watching it is just to make sure that we do not lose market position on the service side.

Kiran Khosla: I represent the International Chamber of Shipping, and the members who have been really pressing for this have been the Scandinavian members. From the UK perspective, if I may I will go back to our UK chamber, ask them for their perspective, and come back with some comments in writing.

The Chairman: Yes, please do offer written evidence.

Lord Hannay of Chiswick: Your answer seems to me a very narrow interpretation of the question Lord Tugendhat asked. It implies that the improved trans-Arctic trade route would benefit the UK only if the containers were actually landed in the UK, but presumably the UK economy could perfectly well benefit from it if they were landed in Rotterdam too and then transhipped. A rather wider interpretation, which I think Dr Stopford gave, brought in insurance and all the other services that we provide. It is not just a geographical question of whether we will be able to get these large container ships into a port on the east coast of the UK because that is of benefit to the UK. Is that not right?

Dr Martin Stopford: I think you are perfectly right. The issue is much broader; it is not simply geographical. I am not in a position to comment on insurance and all the other things, but I am aware of some of the more direct trade issues, which is why I answered the question that way.

Q80 The Chairman: We need to finish, but I will ask one more question. If there was one thing that you felt was really important for us as a Select Committee to concentrate on in our report, what, in one sentence, would you say that should be in the context of the subject that we have been discussing today? Perhaps I could start with Dr Stopford.

Dr Martin Stopford: I would say for the reasons I mentioned at the beginning that this is potentially a very good thing. If you look at the history of trade, it will balance up the world economy and it will help the northern economies to develop, which is excellent, but do not hold your breath.

Colin Manson: It is really important that the UK pushes hard in the international community to get the Polar Code installed as soon as is feasible but also takes a very active role inside the Arctic Council to develop additional support to the international search and rescue capabilities and disaster relief, so that the UK really does help in those areas. It might just be that we agree to reposition some of our assets into Norway's waters, for example, if the Norwegian search and rescue effort suddenly has to deal with an incident in the Arctic Circle. That kind of international agreement or co-operation is a critical element.

Kiran Khosla: As the international arm of shipowners' bodies, we urge the UK to use its influence to promote global standards for a global industry. We have seen the problems with regard to the Law of the Sea Convention issues that I highlighted earlier. If the UK can help to direct that discussion towards global standards that can be measured and that are recognised, that would be very helpful.

The Chairman: Thank you very much indeed for giving evidence. We will produce the report in February next year. If there is anything else that you think we have not covered, please let us know. I am particularly interested in having any written evidence on future projections of volume and the legal side: port state control, flag states, who is responsible for what. That would be very useful to us. Dr Stopford, is that an area of yours?

Dr Martin Stopford: I do not think I can advise you on what will bring the Polar Code into force, but could try to look at some of the other issues.

The Chairman: It would be very useful to have a note on who is responsible for what in shipping that goes through this region. I bring public session to a close at this point. Thank you very much indeed, and thank you to the public who have attended and watched as well.