

News

The World Has Discovered a \$1 Trillion Ocean

Now what to do with it. The Arctic is open for business, and everyone wants a piece. A council at Davos lays down some rules.

As chairman of investments at Guggenheim Partners, Scott MinerD thought he had a realistic view on how big an economic challenge climate change poses.

Then, at a Hoover Institution conference almost three years ago, he met former U.S. Secretary of State George Shultz. MinerD recalled him saying: “Scott, imagine that you woke up tomorrow morning, and the headline on the newspapers was, ‘The World Has Discovered a New Ocean.’” The opening of the Arctic, Shultz told him, may be one of the most important events since the end of the ice age, some 12,000 years ago.

And while Shultz’s spokesman couldn’t confirm the conversation, there’s no doubting the melting of the Arctic ice cap, and the unveiling of resources below, presents mind-boggling opportunities for energy, shipping, fishing, science, and military exploitation. Russia even planted its flag on the sea floor at the North Pole in 2007.

Energy and shipping have been first up. Norway made its national fortune drilling in northern waters, and Arctic fossil fuel exploration has become a more prominent part of U.S. energy policy. Melting ice means that in summer months, cargo can travel approximately 5,000 km from Korea to New York, rather than the 12,000 km it takes to pass through the Panama Canal. Warming waters also open up access to commercial fish stocks, making the Arctic a growing source of food.

Not long after that Hoover conference, MinerD joined a World Economic Forum advisory council. Its task? Develop guidelines for those nations looking to do business at the top of the world. That framework is to be released Thursday, in Davos.

“The history of economic development in regions of the world has really been fraught with a mass of mistakes,” said MinerD, who before Guggenheim worked at Credit Suisse and Morgan Stanley. “It really seems that someone

needed to start developing a minimum standard, as a guide for economic development in the region.”

The Arctic Investment Protocol, developed by a 22-member WEF “global agenda council,” puts forward sustainability principles similar to initiatives developed for mature economies in recent years. The focus is long-term: tap the expertise of indigenous communities and treat them as commercial partners, protect ecosystems (even as rising temperatures change them before our eyes), and prevent corruption while encouraging international collaboration. The Arctic nations include Canada, Denmark, Finland, Iceland, Norway, Russia, Sweden and the U.S., so there is a lot of collaboration to be had.

The WEF protocol seeks to address a region changing dramatically, and rapidly. Guggenheim, the first financial services firm to endorse the protocol, started its Arctic research about five years ago. That’s when MinerD made his first trip up north. Growing up in Pittsburgh, he saw first-hand how investment can help develop a community, and then just as quickly leave it to rust. The trick will be to avoid having the same thing happen to the Arctic.

Guggenheim has long provided infrastructure finance, because it’s an area that can offer long-term, stable returns. That’s partly why the firm was drawn to the Arctic. From there, researchers started looking into just what the region needed to become networked into the global economy.

The financial measure of opportunities available there is difficult to estimate, but \$1 trillion may be a solid first-pass.

That’s the figure Guggenheim says may be needed to get the Arctic up and running in a manner that won’t deplete it in the long run. The figure is based on a list of public and private infrastructure projects already being planned. Not all of those efforts will even need outside investment, particularly in the energy sector.

Remaking the Top of the World

The rapidly changing Arctic may need \$1 trillion in infrastructure investment if nations and business are to use it responsibly, according to research by Guggenheim Partners. The firm is researching public and private Arctic infrastructure projects that are planned. Here’s the current tally.

Sector	Value	# of Projects
Energy	\$192.7B	47
Mining	79.5	119
Renewable Energy	60.6	88
Rail	23.3	43
Industry	18.6	49
Maritime	16.8	31
Road	13.4	84
Power	13	23
Tourism	5.3	32
Aviation	3.3	37
Social	2.4	16
Telecom	1.8	2
Trade	1.7	14

Source: Guggenheim Partners

Bloomberg

The list isn’t meant to be an investment blueprint, but a research-driven assessment of what’s needed, MinerD said. Its purpose is to provoke discussion—and hopefully reasoned investment—in the region.

The Arctic guidelines are voluntary, like many other sustainable investment initiatives, including the Principles for Responsible Investment or even the WEF’s own work on “sustainable competitiveness.”

How does anyone expect to protect the Arctic environment in such a gold rush? The

project is designed to complement the United Nations Sustainable Development Goals, and while the green earth is littered with do-good business pledges, the notion received a shot in the arm recently.

In December, almost 200 nations agreed in Paris to adhere to the first-ever universal climate goals. How nations contribute to progress toward them is their call, since there are no binding demands to cut greenhouse gas emissions. The Paris agreement will work—if it works at all—by relying on the soft power of international political consensus to encourage change, in business and government. Laying

waste to the Arctic would seem to contradict that.

The next step for the protocol, Minerod said, is to encourage national and local governments, and financiers, to sign on. If those responsible for infrastructure-permitting and investment are on board, perhaps there's a chance to develop the Arctic without destroying it.

Such an effort will require significant scientific observation, especially given how little data there is, and how few have ever lived north of 66 degrees.

Jan-Gunnar Winther, director of the Norwegian Polar Institute and a member of the WEF

group, said increases in shipping, mining or other natural resource harvesting will be at the mercy of a fast melting ice cap. The retreat of ice sheets has created a shifting seascape of shipping channels. Melting glaciers are spawning more pesky icebergs that can wreak havoc on container ships and drilling platforms.

The Arctic is warming faster than any other part of the globe, Winther says: "These changes are like nothing we have seen. We don't have anything to compare with in history."

By Eric Roston

Posted from *Bloomberg.com*, January 21, 2016, copyright by Bloomberg L.P. with all rights reserved.
This reprint implies no endorsement, either tacit or expressed, of any company, product, service or investment opportunity.
#C47342 Managed by The YGS Group, 800.290.5460. For more information visit www.theYGSgroup.com.

This article is distributed for informational purposes only and should not be considered as investing advice or a recommendation of any particular security, strategy or investment product. The article should not be considered research nor is the article intended to provide a sufficient basis on which to make an investment decision. This article contains opinions of the author but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The author's opinions are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

Guggenheim Funds Distributors is an affiliate of Guggenheim Partners, LLC.

GUGGENHEIM