



POTEN TANKER OPINION



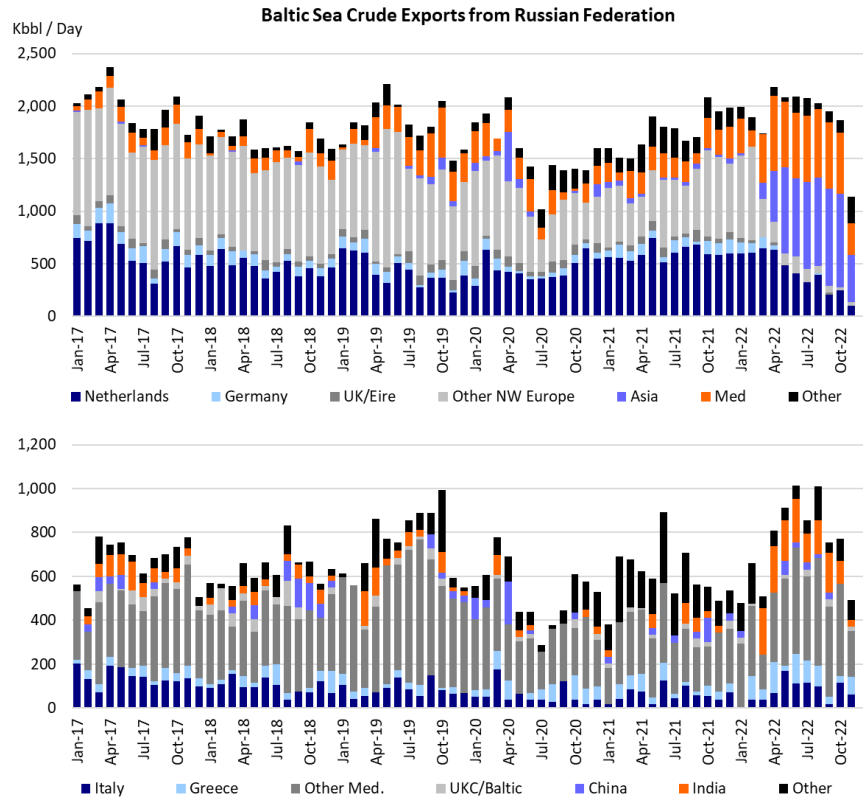
Risky Business

Uncertainty remains as the December 5 deadline looms

In a little more than two weeks (on December 5, 2022), the EU will ban the seaborne imports of Russian crude oil, followed by a ban on petroleum product imports from February 5, 2023. As of these dates, the EU's 27 member countries, with a population of 447 million people, will no longer be allowed to purchase, import, or transfer crude oil and certain petroleum products from Russia to the EU. There are some exceptions, involving countries with no viable alternatives, but they are very limited and mostly temporary.

Some 90% of the EU's imports from Russia are seaborne, so these restrictions will cut off almost all deliveries of Russian oil into the EU. As can be seen in the charts on the right, the Russian exports to the EU have already dropped significantly, although they remain considerable. Give the short distances involved, European buyers have been able to buy Russian crude well into November without risking running afoul of the sanctions. However, even for short-haul buyers, the window is closing. The rush to get as much crude as possible delivered before the deadline as well as the need to start sourcing oil from alternative suppliers further afield, have pushed up tanker freight rates across the board.

Europe has traditionally been Russia's largest customer, so this ban will hurt. However, the EU sanctions go further: The EU has already closed its ports to Russia's entire merchant fleet. It will also ban EU companies to provide maritime transportation and financial services to maritime voyages between Russia and a non-EU country and between two non-EU countries, if these voyages involve crude oil or petroleum products that are of Russian origin or consigned from Russia. The United States and the United Kingdom are implementing similar bans on maritime and financial services to align with the EU's approach. This ban on maritime services, in particular insurance, is a key measure that can have very significant consequences. Some 90% of ocean going vessels are covered by the International Group of P&I Insurers, which are predominantly based in Europe and in the U.K.. It also has members in the USA and Japan. When the EU ban goes into effect, these insurance companies will no longer be able to provide cover for vessels carrying Russian oil. There is one important exception to that rule: maritime services (including insurance) can be provided to shipowners and vessels carrying Russian oil if the oil is bought at or below the agreed price cap proposed by the G7 countries. However, the level of the price cap remains unknown, and the Russian government remains adamant that they will not sell oil to anybody under the price cap rules. This has created significant uncertainty in the tanker markets: which vessels are willing and able to move Russian oil and where do the owners of these vessels obtain the



Source: Lloyd's List Intelligence

proper insurance cover if they cannot rely on the International Group of P&I Insurers? This uncertainty may have contributed to the following announcement of the Turkish Ministry of Transportation and Infrastructure. On November 16, they issued a directive that every ship passing through the Turkish Straits after December 1, 2022 in loaded condition carrying oil, will need to provide a letter of confirmation that the ship has valid P&I Insurance with sufficient coverage for that ship, voyage and cargo. The letter correctly points out that "in the event of an accident involving such ships, there will be potentially catastrophic consequences for our country, people and our national values."

There are alternatives to the International Group of P&I Insurers. For example, the state-controlled Russian National Reinsurance Company (RNRC) is currently the main reinsurer of the Russian national fleet, which are covered by the Ingosstrakh Insurance Company after they were dropped by the Western insurers. However, the Russian national fleet is not sufficient to move all of Russia's exports. Will Ingosstrakh also be providing coverage for the "Dark Fleet" which will be needed to move the remainder of Russian crude and products? If so, what will happen if there is an oil spill, and a western country submits a claim? Will the Russian government allow payment? Can payment be received? Too many questions without appropriate answers. As a result, most owners will likely steer clear of Russian oil after the ban(s) goes into effect.