

EU Mediterranean shipping nations to get EU concessions over planned new Russian sanctions

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Web site *Politico* has reported that Greece, Cyprus and Malta have wrung shipping concessions from the other EU member states as compensation for the disproportionate impact that the imposition of a Russian oil price cap might have on their economies.

Malta and Greece in particular have concerns that the cap could mean a number of tankers currently sailing under their flags might move to non-EU countries instead. In Malta's case in particular a significant percentage of these vessels would be non-EU-owned as well.

A final text is anticipated by the end of the week.

Politico said that a draft text of the sanctions package included the section "the Commission will set up a monitoring system specifically to assess potential evasive and circumvention practices ... such as the reflagging of vessels ... if significant loss of business is reported due to evasive practices the Commission will propose measures to mitigate the adverse effects".

As has been noted, the emphasis on "reflagging" raises as many questions as it answers. While Malta and Greece between them were the flag countries for nearly a quarter of tankers calling at some Russian ports this year, a Greek or Maltese owner would not seem likely to gain from reflagging to a non-EU jurisdiction, since as an owner the company presumably would also be subject to the sanctions. The precise wording of the final text therefore will be important.

Apart from the highly publicized oil price cap, other additions to existing sanctions were reported to be an import ban on certain types of steel from Russia, plus export bans on aviation components.

Analyst Edward Finley-Richardson noted in a recent Substack article in the *Misadventures in Shipping* series that oil exports out of Novorossiysk Sea Port had dominated Russian oil port market share in 2022

Loading data showed that most of this oil went, at least initially, to the European Union, Turkey and Israel. However, the ultimate destination could often be further away, he said.

“Where will all this oil go, once the EU embargo on Russian crude oil takes effect on December 5th, 2022? Much, much farther away. That is precisely what oil tanker executives and investors are so excited about. With the increase in “ton miles” the amount of available tankers at any time will be artificially limited”, Finley-Richardson wrote.

He also noted that “increasingly the oil is loaded onto a second tanker via ship-to-ship transfer, to be sent to Chinese and Indian refineries...only to be exported back to the West, once the provenance of the Russian crude has been sufficiently obscured.”

Deutsche Bank equities analyst Amit Mehrotra noted in a recent “Weekly Voyage” that there were reports that non-European owners were preparing to secure older tonnage in order to transport Russian crude and products to other markets in an effort to capture premium rates. Those “non-European owners” (with ships increasingly classed by lesser-known Societies) would presumably be purchasing insurance from providers not withholding cover on vessels moving sanctioned cargoes, said Finley-Richardson.

The growing interpretation is that within the oil sector, and the sanctions currently being imposed on Russia, Venezuela and Iran, we could be seeing a bifurcated and highly inefficient tanker market emerge. While the west might think that the tanker market was operating according to its rules, this would be only a proportion of the total global tanker market, with many other owners and vessels operating in a greyer, more opaque, oil-transport system.

Commenting on the imminent eighth sanctions package and the oil price cap, Mehrotra said that it was “unclear how price cap measures could be enforced outside of the EU, and several key importers of Russian crude, including China and India, have not agreed to such a plan.”