

4th December 2024

CIRCULAR

OIL AND OIL PRODUCTS PRICE CAP – UPDATED PRICE CAP COALITION ADVISORY

Introduction

On 21 October 2024, the Price Cap Coalition (**Coalition**) issued an Updated Advisory for the Maritime Industry which sets out best practice recommendations for those involved in the trade of Russian crude oil and petroleum products.¹ The updated version provides further recommendations on meeting international maritime safety and environmental obligations, enhancing due diligence around tanker sales, avoiding interactions with sanctioned counterparties and raising internal awareness.

The Coalition maintains its commitment to maintaining the safe flow of certain oil and petroleum products from Russia while emphasising the commercial and legal risks for entities transporting or exporting Russian-origin oil under the oil price cap regime.

Increased Risk

The Coalition has highlighted the following areas of increased risk in the maritime sector:

- *maritime safety and marine environment*: risk factors indicating that a vessel belongs to the "shadow fleet" are as follows – these factors also ensure that vessels belonging to the "shadow fleet" could increase the likelihood of marine casualties in the event of an incident:
 - vessels involved in the shadow trade of Russian oil (known as the "shadow fleet") are ordinarily older ships – many of which are operating past their traditional lifespans;
 - vessels registered with flag states that fail to meet their international obligations;
 - vessels that fabricate or neglect the appropriate surveys or inspections and lack regulatory certificates required under

¹ The Updated Advisory can be found here:
<https://ofac.treasury.gov/media/933506/download?inline>

- crew may be less experienced and may face pressure to disregard prudent shipboard practices.
- *insurance and economic*: vessels involved in the shadow fleet may rely on unproven P and I providers that operate in jurisdictions with opaque or limited regulation and insufficient capital, reinsurance arrangements, and/or technical expertise to handle a major claim in the event of a marine casualty. Accordingly, it is more challenging to hold such vessels accountable for the heavy economic burden generated by environmental damage;
- *reputational, logistical and financial*: shadow fleet vessels often have concealed ownership structures and cargo origins. The ownership may be concealed through complex ownership chains, with a recent increase of single vessel fleets. Shadow fleet tankers have been observed disabling or manipulating AIS systems to conceal illicit activity or other information about their voyages. Such deceptive practices may cause stakeholders to unknowingly engage in transactions that are inconsistent with stakeholders' compliance policies, affect stakeholders' reputations and trigger de-risking behaviours from counterparties. This de-risking can result in loss of access to reputable service providers, financing, customers and ports;
- *legal and sanctions*: some actors may use deceptive practices to access Coalition services to transport Russian oil or petroleum products sold above the price cap, or to engage in activity that may otherwise violate the Coalition's sanctions, laws or regulations.

Best Practices

The Coalition's circular advises the following best practices which the Club expects its Members to adhere to so that Members can ensure compliance with the Club's rules:

- *require appropriately capitalized P and I insurance*: stakeholders should require counterparty vessels to be insured by legitimate insurance providers with sufficient coverage for Civil Liability Convention and Oil Pollution Act liabilities;
- *best-practice use of AIS systems*: by requiring that vessels with which they engage use AIS in compliance with the International Convention for Safety of Life at Sea, industry stakeholders will improve their understanding of the vessels' activities and reduce their exposure to criminal actors and associated risks. If accessible, Members should complement AIS data with Long-Range Identification and Tracking;
- *monitor high-risk ship-to-ship transfers*: Members should conduct enhanced due diligence in the context of STS transfers, including the notification of STS oil cargo transfers as required by Annex 1 of the International Convention for the Prevention of Pollution from Ships,

especially in areas at higher risk for illicit trading activity or AIS manipulation – Members should also verify oil record logs hold an accountable record of cargo movements aboard vessels;

- *request associated shipping and ancillary costs:* Members involved in the Russian oil trade should require an itemised breakdown of all known costs negotiated at the start of the trade transaction;
- *undertake appropriate due diligence:* Members should undertake appropriate due diligence – heightened diligence may be appropriate for ships that have undergone numerous administrative changes, if they are owned by intermediary entities with opaque beneficial ownership structures or where market information indicates that Russian oil prices exceed the price cap;
- *report ships that trigger concerns:* if Members are aware of potentially illicit or unsafe maritime oil trade, they should report these concerns to relevant authorities;
- *ensure vessels meet international maritime safety and environmental obligations:* Members should engage with Flag States or other relevant authorities when dealing with vessels of particular concern;
- *monitor tanker sales:* Members should obtain information such as contact details, source of funds and copies of identification of the buyer's beneficial owner or owners when selling a tanker to another person;
- *avoid interactions with sanctioned persons:* Members should review all counterparties to ensure they are not sanctioned and not (directly or indirectly) owned or controlled by a sanctioned person. Members should, where possible, deny attempts by sanctioned persons to engage in ship-to-ship transfers or purchase tankers. Sanctioned persons may engage in deceptive practices to disguise their involvement in a transaction;
- *raise the level of awareness and enhance market transparency:* Members should develop training programmes for their employees and associated partners focused on the risks of shadow fleet activities and deceptive practices. Members should prioritise open communication and collaboration to combat deceptive practices, including information and data sharing with industry partners.

OFAC has separately released a scenario-based communique to aid maritime sector stakeholders in identifying certain new or common fact patterns that may be indicative of sanctions evasion, addressing common counterparty due diligence issues and implementing best practices to promote sanctions compliance.

Yours faithfully

The Board of Directors

Maritime Mutual Insurance Association (NZ) Limited