

Oil Market Report: July 2023

Last month's report highlighted that Russian exports of oil had actually increased since the invasion of Ukraine, thus highlighting the failure of Western sanctions. One of the key enablers of this unexpected surge in exports has come through the so-called maritime "Dark Fleet", which now accounts for over 50% of Russia's oil sales.

Sadly, the shipping industry has never been much of an exemplar for scrupulous standards. From poor labour conditions, to eye-wateringly complex ownership structures - shipowners across the world have often excelled at operating beyond public scrutiny. Just look at the quite ludicrous "Flags of Convenience" system, whereby over 40% of the world's ships are registered with either Panama, Liberia or the Marshall Islands. This, to minimise legislative, environmental and legal burden in case of catastrophe. That isn't to say that blue-chip fleets operating to the very highest standards don't exist, but in an industry as fragmented as international shipping, there are far too many companies navigating in the shadows. These organisations have made perfect converts to the world of dark shipping.

The Dark Fleet itself is estimated to be made up of around 1,000 ships and this equates to around a tenth of the global tanker fleet. Even prior to the Ukraine invasion, ageing tankers - some over 50 years old - were plying their trade to sanction-hit destinations such as Iran, Venezuela and North Korea. Iran itself has around 200 active Dark Fleet tankers and Venezuela has around 125. But since the invasion of Ukraine, the numbers of dark ships have surged and the fleet has doubled in size. Russian shipments account for the largest part of the Dark Fleet with over 600 ships (crude + product tankers) and it is estimated that this fleet now makes up around 80% of all opaque tanker movements.

Sailing with their maritime transponders switched off, dark fleet vessels are almost impossible to track and trace. The vessels are frequently renamed and repainted whilst at sea and documents are constantly falsified. As efforts increase to monitor these ships, so does the counter-subterfuge from the ship owners. Dark Fleet vessels frequently engage in a new technique called "spoofing", whereby military-grade software is used to manipulate AIS signals (transponders), thus disguising the ship ID, location and route. Other activities to avoid "capture", involve the transshipment of liquid cargoes to another vessel mid-voyage. Such transshipments in open waters (rather than in sheltered anchorages and ports) are operationally challenging and present tremendous environmental hazards. Spillages are common-place. A further tactic is to quickly land Russian product at busy (non-sanctioned) oil terminals, where the oil can be blended with "legitimate" oil and thus lose its Russian provenance. This then allows exports of the oil as a non-sanctioned product. An example of this practice can be seen in Malaysia, where the country is managing to export twice as much oil as they actually produce - no prizes for guessing how this is being done.

Initial hopes to counter dark shipping activities were initially pinned on the insurance market, as prior to the invasion of Ukraine, 95% of the global oil fleet was insured by Protection & Indemnity (PI) Clubs in London. The thinking was that if insurance was withheld, then the illicit shipping would cease. After all, even the most reckless of operators would surely never take the risk of transporting millions of dollars of uninsured cargo? However, as soon as the London PI Clubs pulled cover (as part of the sanctions programme), new and shady PI clubs cropped up, almost certainly Russian owned. These insurance outfits have of course never been tested in anger and how reliable they would be if (for example) a tanker ran aground in the Bosphorus, is anybody's guess. But such is the lucrative nature of current Dark Fleet shipping rates that many ship owners are seemingly willing to take the risk. Or worse, they are simply sailing without insurance cover at all.

This makes for a bleak and worrying picture. Here we have an aged and secret fleet, largely designed for short-sea shipping, but now carrying hazardous cargoes half-way around the world with inadequate (or no) insurance. It used to take 4-5 days to ship Russian oil from the Baltic ports (Primorsk, Kozmino and Novorossiysk) to the Amsterdam-Rotterdam-Antwerp trading hub. Now it takes up to 6 weeks to sail to the new refining destinations of the Middle East, India and China. Perhaps this was always the inevitable result of the western sanctions programme, which were applied for the right reasons but seem to have worked for neither the oil trade, nor the shipping movements that go with it. Good intent does not necessarily equate to good outcomes and until there is a far wider global consensus on sanctions - that includes the operational sea lanes of West Africa, Malacca and the Black Sea - then the Dark Fleet will continue to sail and the ships involved may never come back into the light.