TP&I News

May 2024

The purpose of the TP&I News is to provide the latest news for the shipowners, charterers, as well as any other maritime interests around the globe. Each issue of TP&I News will include a focused review section of several articles on a topic of current interest.[1]

1. Phase Two of the Price Cap on Russian Oil

Source: U.S. Department of the Treasury

I. After the Second Year of the Russian-Ukrainian Conflict

The second year of Russia's large-scale operations against Ukraine is over. Russian oil is the Kremlin's main source of income to finance its activities. The United States and the International Coalition against Russia are determined to reduce Kremlin's profits,while at the same time, their aim to cut off the flow of Russian oil would have serious consequences for the global economy, depriving the developing world of energy and driving up global oil prices. In 2022, the Coalition imposed a price cap on Russian oil, allowing service providers in Coalition countries to continue trading Russian oil only if the oil is sold at or below a certain cap price. Russia responded to this policy by selling its oil at a significant discount to the market in order to maintain access to the main Coalition service providers.

This mechanism worked well in the year following the price cap announcement, with the Kremlin's oil tax revenue falling by more than 40 per cent year-on-year in the first nine months of 2023, while global energy supplies remained stable. As a result, the Kremlin has focussed on circumventing the restrictions and has made various investments in avoiding the effects of implementation by adapting. In the summer and autumn of 2023, the Kremlin exported more of its oil through a "shadow fleet", an infrastructure of vessels, insurers and other service providers with opaque ownership structures and a history of sanctions-busting activities. At the same time, the Kremlin and its proxies developed new ways to deceive and exploit Coalition service providers, and Russia's average oil earnings rose above the cap price, driven by price increases on the world oil market. In response, in October 2023, the Coalition launched the second phase of the price cap in a two-pronged approach: to tighten the price cap for trades using Coalition services and to increase the Kremlin's costs of selling oil through this alternative transport ecosystem.

The price cap remains a new policy, backed by a multilateral sanctions regime, to limit the price a single global supplier can receive for its most important exports. As the third month of the second phase of the price cap is over, three key observations about its progress stand out.

The price at which Russia sells its oil has fallen significantly since the start of the second phase, reflecting the impact of falling global oil prices as well as a significant increase in the discount Russia has to apply relative to other global oil suppliers. This discount has risen from a low of $12 to $13 per barrel of crude oil in October to around $19 per barrel over the last month.

Energy market participants and analysts attributed the discounts in Russian oil to the Coalition's increased monitoring activities during the second phase of the price cap, which clearly demonstrated that the second phase was working.

[1] Disclaimer

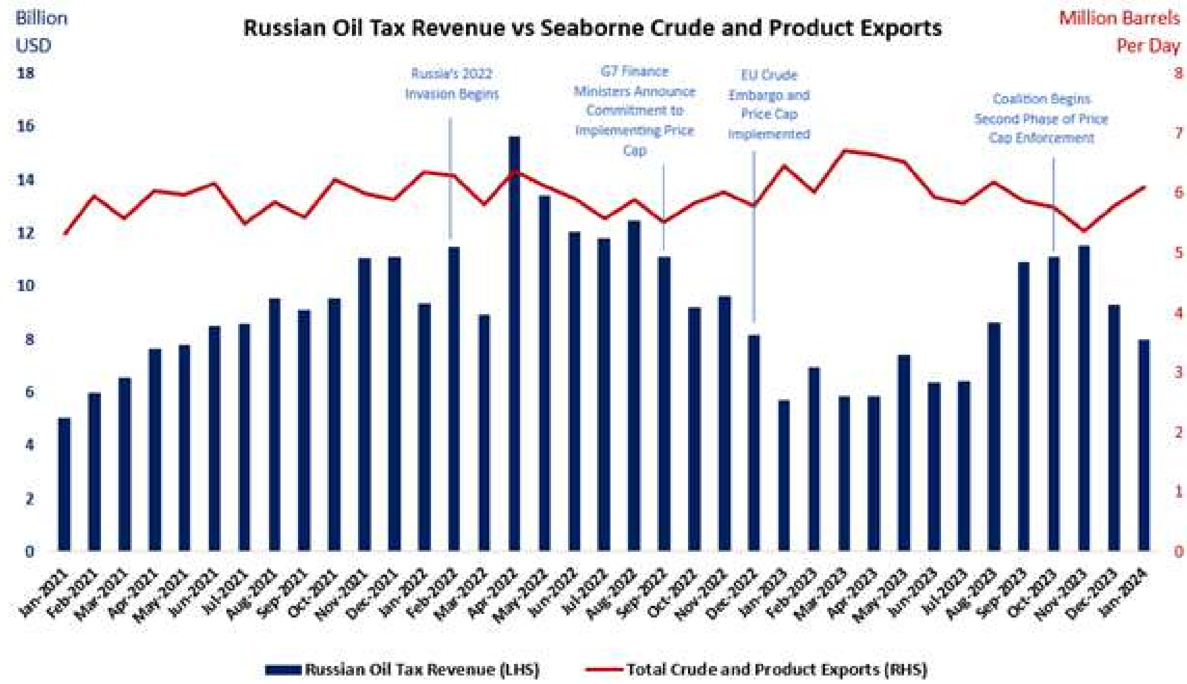
Russia's oil export volumes have remained stable in recent months and the price cap has helped to maintain a stable energy supply to global consumers and businesses. The price cap has also reduced the Kremlin's profits from oil sales following the imposition of significant sanctions.

The coalition remains focused on further reducing the Kremlin's profits while maintaining market stability and energy supplies. This approach is forcing the Kremlin to either sell its oil much cheaper than other global suppliers under the price cap, or face high costs to export through non-Coalition avenues.

II. Russian Revenues And Exports

The price cap has two goals: to reduce Russia's ability to finance its war and to maintain energy market supply. The price cap's ideal outcome is a market in which Russia supplies as much energy as possible to emerging market consumers and businesses who need it most, but at the most heavily discounted price, to limit Kremlin's profits: maintaining the volume of energy supplied, while minimizing the profit earned from it.

The figure below plots a time series of the volume of Russia's seaborne crude and refined product exports, along with Kremlin revenues from the major taxes on oil. Of course, revenues are only part of the story on profits, and the Coalition's efforts to raise the Kremlin's costs are an important element of reducing profits. But as the costs are much less transparent, revenues should be focused. When the price cap went into effect, Russian oil tax revenues fell meaningfully (by more than 40 percent comparing the first nine months of 2023 to the same period of 2022) while the volume of seaborne exports was stable and even ticked up a bit (from about 6 to 6.2 million barrels per day, partially offsetting the decline in pipeline exports to the EU). Russia was selling at a meaningful discount but was still supplying oil to the market. In summer 2023, we saw this effect partially unwind as the discount on Russian oil narrowed. But in recent months, the volume of exports has largely remained steady and oil tax revenues are nearly back down to late-summer 2023 levels.



Note: Russian Oil Tax Revenue includes revenue from the Mineral Extraction Tax and the Oil Export Duty. Revenue generated through the NDD, a quarterly tax on additional energy income, is tax is not included as oil revenue cannot be decomposed from the total.
Source: Russian Ministry of Finance, IEA

[1] Disclaimer

III. Conclusion

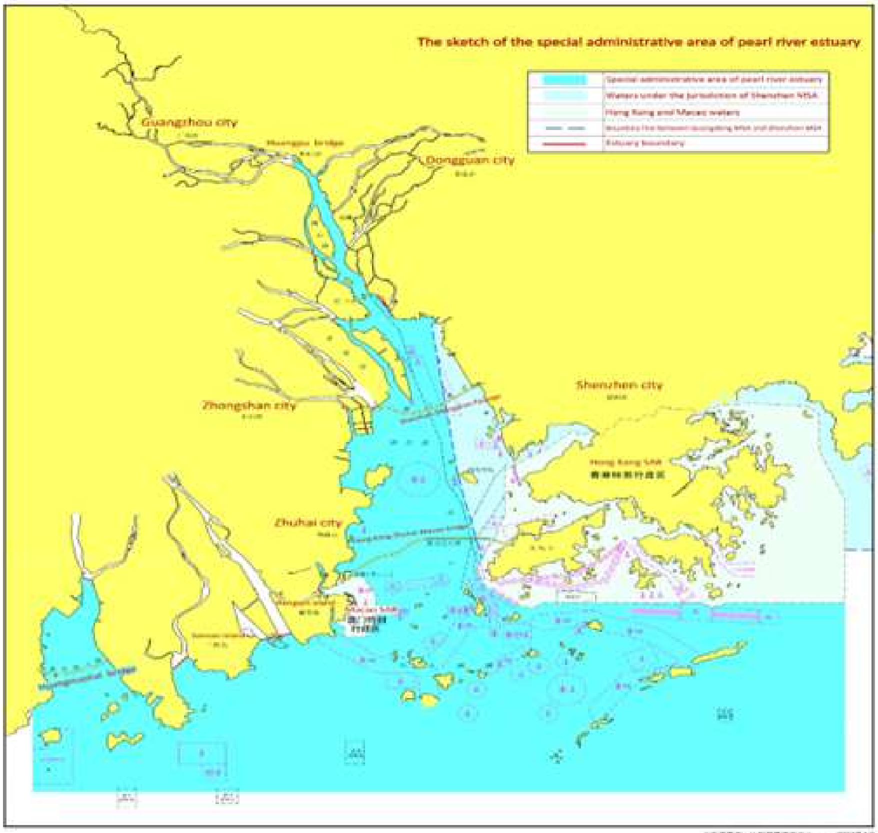
Of course, uncertainty and opacity remain in these markets and the Coalition continues to closely monitor energy market dynamics to better understand the impact of price caps and sanctions on Russia's finances and global energy markets. As we have seen in the summer and autumn, Russia will continue to invest money to avoid sanctions, resulting in continued adaptation and renewal of sanctions/capping.

2. Regulation Issued by Guangdong MSA Regarding the Supervision and Management of Marine Traffic Safety in the Special Administrative Area of Pearl River Estuary of China

Guangdong MSA issued a Regulation on the Administration of Special Administrative Area of Pearl River Estuary for Marine Traffic Safety (for Trial Implementation) recently, which will come into effect as of 01 uly 2024 with validity of two years. A summary of ships' safe navigation requirements is given below for your easy reference.

Source: Oasis P&I Services Company Limited

I. The sketch of the Special Administrative Area



II. Requirements for safe navigation of ships

1. The regulation applies to ships engaged in navigation, berthing, and operations in the Special Administrative Area and other activities related to marine traffic safety.

2. Ships shall maintain sufficient UKC (under keel clearance) during navigation, berthing, and operations in different waters and passages.

3. When navigating along the route, ships shall navigate as close as possible to the outer edge of the route on her starboard side, if it is safe and feasible. Whereas ships navigate near the outer edge of the route shall maintain their courses in accordance with the traffic flow on the adjacent route.

4. When joining or leaving the route, ships shall give way to other ships that navigate along the route.

5. Before crossing the route, ships shall check the surrounding environment and ensure that there is no obstruction to other ships' navigation before proceeding, and shall follow the below rules:

    a) Proactively avoid ships navigating along the route;

    b) Sound one long horn before crossing and take measures, such as flashlight warnings to alert other ships during night time;

    c) When crossing a route, ships are recommended to navigate vertically to the route or traffic flow as much as possible and avoid crossing through the bow of other ships.

6. Ships shall avoid encountering each other at bends of the route.

7. Ships are prohibited from overtaking other ships in the southern section of the Dahaozhou route (south of the Huangpu Bridge), the northern section of the Chisha route (north of the turning point of the Chisha Channel), the Xinsha route, the Lianhuashan East route, and the Lianhuashan West route. When navigating in the Chuanbi route, as far as it is safe and practicable, ships shall avoid overtaking other ships by going outside of the route.

8. Ships shall avoid turning around at the bifurcation area of river mouths or narrow or curved segments of the route.

9. Ships shall comply with the speed limit rules published by the maritime administrative authorities during navigation.

10. When the visibility is poor, ships shall keep engines and anchors standby, navigate with great care under safe speed, strengthen the lookout, communicate with nearby ships, and sound the fog signals in accordance with relevant regulations.

11. Ships of 50,000 DWT and above shall have their M/E, rudders, communication and emergency equipment tested in advance to ensure that they are in good technical condition before entering the outbound route of Guangzhou port and the main route of Zhuhai Gaolan port.

12. Ships are prohibited from sailing through non-navigable bridge spans. Before passing through the bridge, ships shall choose the suitable bridge span and retain sufficient air draft according to its tonnage and technical dimensions of the navigable bridge spans.

13. Ships shall not enter into waters within 1,000 meters on both sides of the axis of the non-navigable bridge spans of the Shenzhen-Zhongshan Passage and the Huangmaohai cross-sea Passage without prior permission.

14. Ships shall avoid entering into waters of offshore wind farms and marine pastures.

III. Suggestions

1. Ships are recommended to conduct self-check of the mechanical and electrical equipment before entering the Special Administrative Area. When a ship encounters mechanical or electrical failure, crew members shall report to local MSA or vessel traffic service centre (VTS) immediately via VHF or other possible means with detailed information including the ship's name, position, the need for rescue, and other emergency situations so that measures can be taken by the local authorities accordingly.

2. Ships should fully comply with relevant provisions of COLREG 1972 and Safety Management System, ensure there is proper and sufficient lookout, keep a safe speed and take early avoidance actions.

3. In case a collision incident occurs or is suspected to have occurred, if there is human life at hazard, rescue operation shall be immediately carried out, taking into consideration various factors such as safety of the ship and her crew, the surrounding environment etc. Meanwhile, the ship shall contact the nearest VTS/MSA via VHF or their emergency telephone no. +86 12395 as soon as possible. The ship's agents, P&I Club and its correspondent should also be informed.

4. Ships are suggested to contact their local ship agent in advance for detailed information and guidance in case it is required.