

Anders Engebretsen

Challenges for the tanker segment after sanctions against Russia

“What challenges has the tanker segment seen after the newly introduced sanctions against Russia?”

Bacheloroppgave i Shipping Management
Veileder: Bjørn Harald Bakke
Desember 2022

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Norges teknisk–naturvitenskapelige universitet
Fakultet for ingeniørvitenskap



Kunnskap for en bedre verden
Institutt for havromsoperasjoner og byggteknikk

Summary

The aim of the following thesis is to unveil how the tanker market has been affected by the recently introduced sanctions against Russia. The thesis builds on four hypotheses and uses both external sources and interviews with relevant industrial persons who are affected by the sanctions.

The subject to be discussed in the following paper will be:

“What challenges has the tanker segment seen after the newly introduced sanctions against Russia?”

The different hypotheses look to uncover how different aspects of the market has changed, for example regarding trading routes, the effectiveness of the sanctions, KYC work and the proposed price cap on Russian oil.

Western countries mostly prohibit import of Russian oil, meaning Russia had to find appropriate substitutes for export. Russia has found new trading partners following the sanctions, exporting oil to China and India at discounted prices.

Sanctions have been around for some time. The informants deliberate about the difference between the sanctions against Russia and Iran. There is also an evaluation of how effective the sanctions have been, and how they could have been more effective.

KYC, or Know Your Customer/Client, has now become more important. Fines, bans or even prison could be potential punishments for breaching sanctions. The informants reflect on the difficulties in this respect, especially as the sanctions are unclear as to how far one should conduct due diligence.

The proposed price cap on Russian oil, set to be introduced 5th of December, is another factor affecting the tanker market. The G7 countries look to reduce Russia’s potential oil revenues by capping the price. There are many unanswered questions around the price cap and the following thesis aims to reflect some of these, and how the situation eventually may work out.

Preface

The following thesis is written as a part of the Shipping Management study at NTNU in Ålesund. I have spent the last semester as an intern with Gard in Oslo and want to express my sincerest gratitude to everyone who has helped me and included me in their work. I especially want to thank Lene Bjørhei Skyum, who took me in as the first “intern” at Gard Oslo and to Kine Haaland who both introduced me to the world of sanctions and allowed herself to be interviewed.

Another special thanks to the Gard Analytics team and Kim Watle, who gave me access to a large amount of AIS data provided by Lloyd’s List.

The thesis is written to unveil challenges the tanker market has faced following the sanctions against Russia after their invasion of Ukraine. I have been in contact with Ukrainian correspondents and have gotten first-hand impressions of what horrible effects this war has had on them. I want to give my deepest sympathies for everyone affected by this invasion.

I also want to thank Bjørn Harald Bakke at NTNU who has helped me continuously with my thesis and guided me whenever needed.

Oslo 15.12.2022

Dictionary

AIS	Automatic Identification System
CEFOR	The Nordic Association of Marine Insurers
GDP	Gross domestic product
G7	The G7 is an international forum consisting of the U.S., France, Germany, Japan, Italy, Canada and the UK.
IG	International Group, consists of 13 P&I providers who provide cover for 90% of the world's tonnage
JCPOA	The Joint Comprehensive Plan of Action, more commonly known as the Iran nuclear deal
KYC	Know your customer/client
OPEC	Organization of the Petroleum Exporting Countries, consisting of 13 members in five Middle Eastern countries, seven Africa countries and Venezuela.
OPEC+	Consists of ten non-OPEC countries from around the world, including Russia, alongside the OPEC countries.
OSCE	The Organization for Security and Co-operation in Europe
P&I Club	Protection and Indemnity Club, insurance company specialized in liability insurance for ships.
STS	Ship to Ship transfers of cargo.

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1.0 Introduction

“Some owners would have been caught out halfway through a voyage they thought to be entirely lawful”, explains David Osler, Lloyd’s List author. The ever-changing environment of sanctions can be extremely difficult for ship owners, operators and other stakeholders in the shipping industry. The insurers of ships are no exception. Insurers might be placed in a situation where they have to pull cover or deny members/clients insurance, as a result of sanctions. Recently, sanctions against Russia have been the most pressing issue, (Osler, 2022).

The matter to be discussed in the following paper, will be:

“What challenges has the tanker segment seen after the newly introduced sanctions against Russia?”

1.1 Limitations

The discussion will be limited to the oil tanker segment, as the challenges created by sanctions and war are very complex, and not suited for an assignment such as mine. Different segments of the shipping market experience different challenges and some are subject to more political involvement than others. The tanker segment could be seen as one of the more interesting segments as the trading routes have changed significantly. I have chosen to limit relevant sanctions to those recently imposed on Russia, as there already are a great number of other sanctions against other countries and individuals.

As the war in Ukraine is an ongoing situation, the task will have a “last date” for information. This might be unfortunate, but it would be difficult to complete the thesis if the information from early December should be used. The last date for updated and new information is the 5th of December. This date is also relevant as it is the day of implementation of the price cap on Russian oil.

1.2 Context

Since the fall of the Soviet Union, there has been conflicts of different magnitude between Russia and Ukraine. E.g., annexation of Crimea in 2014, can be considered a major conflict before the recent invasion of Ukraine. In the early days of February 2022, satellite images showed Russian troops gathering by the Russian border towards Ukraine and Belarus. Russian President Vladimir Putin then ordered his troops to the regions of Luhansk and Donetsk, supposedly for a “peacekeeping” function. After the news of the deployment of these troops broke, the US imposed sanctions against Russia and the North Stream 2 pipeline, (White House, 2022). A few days later, on February 24, President Putin announced a full-scale invasion of Ukraine. US President Joe Biden described the attack as “unprovoked and unjustified”, (U.S. Treasury, 2022).

Following the invasion of areas in Ukraine, global actors flocked to prevent Russia’s economic gain and to stop their offensive. Sanctions were one of the most important tools used to achieve this. The number of sanctions against Russian individuals and entities increased rapidly, as illustrated in figure 1. Some of the most notable sanctions targeted oligarchs and major Russian banks close to Putin’s sphere.

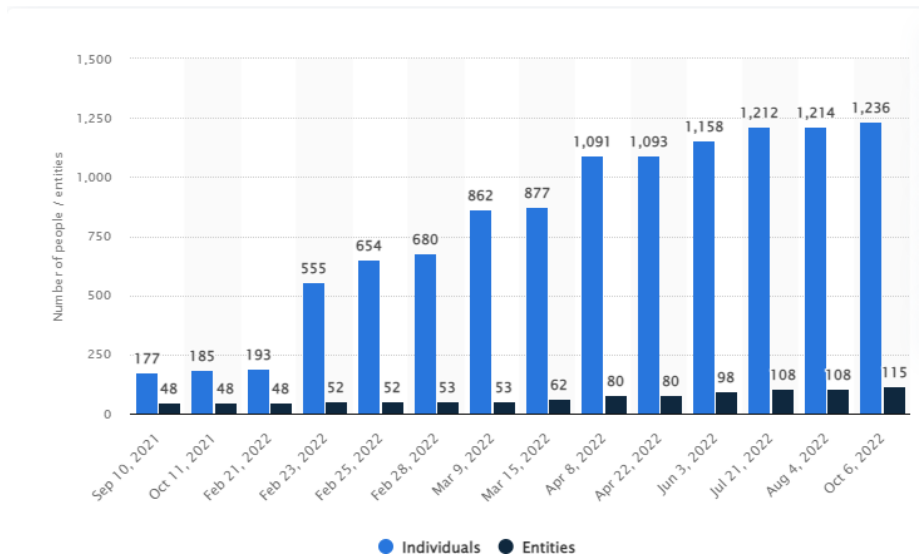


Figure 1, Cumulative number of European Union sanctions against individuals and entities against Russia due to Ukraine from September 2021 to October 2022

1.3 Hypotheses

The task will be based on four different hypotheses. These hypotheses will be broad and form the foundation for further discussion. The hypotheses are the following:

Hypothesis 1:

“The global trading routes for tankers have changed as a result of the sanctions.”

Hypothesis 2:

“The sanctions are effective and have hindered the Russian economy drastically.”

Hypothesis 3:

“KYC has become more important, and maritime actors are more open to sharing information and routines.”

Hypothesis 4:

“The proposed price cap will work as intended.”

2.0 Theory

The following chapter will include relevant theories for the different hypotheses. It should be noted that some theories might be applicable to more than one statement.

2.1 Hypothesis 1

2.1.1 Tankers

This paper will focus on the tanker segment, but what ships fall under the category?

According to Marineinsight, a tanker is “*Vessels that facilitate the supplying of mass quantities of liquefied freight*”. These ships often carry oil excavated from underwater reservoirs (crude oil), but also carry other types of liquids in bulk. This includes chemicals, hydrogen-based organic compounds, liquefied gaseous substances, alcoholic beverages and juices, (Mohit, 2021).

The thesis is limited to crude oil tankers, which is designed to carry crude oil, as opposed to refined oil.

2.1.2 AIS

A relevant factor for assessing trading routes can be the movement of vessels. Some cargo owners might conduct illegal trades by entering sanctioned ports or have suspicious movements deviating from their original routes. The ships AIS, *Automatic Identification System*, track the ships position in real time, and can be accessed from different providers. The vessels’ history can also be provided, showing where the ship has been in the past days, weeks, months, or years. This information can be essential to assess the risk associated with a trade. In some cases, ships turn off their AIS, especially in areas where coverage is inconsistent and bad, to conduct illegal trades. Such actions are called “dark activity”, (Basquill, 2020). This includes entering sanctioned ports, ship-to-ship transfers, or other acts of transporting goods to the ship. When the illegal activity is completed, the ship would return to their original route and turn on their AIS again and blame the blackout on some technical difficulties or a mistake, (Wright, 2022).

If there is reason to believe that a ship purposely turned off the AIS, this should be marked as a red flag. The area where the blackout has happened often coincide with sanctioned

areas, or areas with a high degree of corruption. If a ship has a history of repeated blackouts, this would call for a closer inspection.

There are different providers of AIS data. Lloyd's List is a diverse company who also buy and analyze data, (Lloyd's List, n.d.). Lloyd's List has provided all port calls in Russia in 2021 and 2022 for crude oil tankers.

2.2 Hypothesis 2

2.2.1 Sanctions

Sanctions are tools of economic warfare in modern times. The aim of sanctions is to impact the economic interests of regimes, individuals or groups, as a way to create social or political change. Sanctions can also be used in attempts to ensure international peace and security, prevent conflicts, defend democratic principles and human rights, prevent the proliferation of weapons of mass destruction and to fight terrorism. On the other hand, some sanctions have been heavily criticized for being used as an inappropriate substitute for law enforcement. This means that sanctions are introduced against an entity, without any sort of legal conviction for wrongdoing, (Glucroft, 2021).

There are numerous types of sanctions with key differences in both broadness and targets. The three major imposers of sanctions are the EU, the UN and the US (Office of Foreign Assets Control (OFAC)). In most instances the different sanction regimes target the same entities, but there are anomalies – i.e., US sanctions against Cuba.

Almost every country follows UN sanctions, with others often using the US and EU sanctions as 'reference' points for their own sanctions. Following Brexit, the UK has developed their own sanction regime largely similar to the EU, but with some differences.

Other actors not mirroring the three major actors include the Arab League which currently are sanctioning Israel and Syria. Australia and New Zealand have used limited sanctions against Fiji. The OSCE, The Organization for Security and Co-operation in Europe, has

imposed an arms embargo in relation to occupied territories in Azerbaijan, affecting both Armenia and Azerbaijan.

Table 1, Different types of sanctions

Designated / Blocked Persons List	Designated persons may be domiciled in any country. For instance, Norway is not a sanctioned country, but Mullah Krekar is a designated person who for several years lived in Norway, (OFAC, 2022).
Country or Region-Specific Restrictions	A country can be Sanctioned, trade or transactions could be deemed illegal simply because of the country involvement. DNR and LNR are examples of region specific sanction, (White House, 2022).
Commodity Restrictions	Commodities can be sanctioned. An item could be illegal. Other times, the item could be illegal depending on its intended use. For instance, vehicles for commercial on-sale would be allowed, however certain vehicles in so far as intended for military use might be illegal to import/export or might only be allowed once license has been obtained, (EUR-Lex, 2009).
Movement Restrictions	Sanctions can restrict movements. Travel companies have received fines for facilitating movement between USA and Cuba, (U.S. Department of the Treasury, 2019). Designated Individuals may be restricted from certain travels. For instance, Russian Designated individuals are restricted from entering certain European countries, (EU, 2022).
Financial Restrictions	Financial Restrictions. Sometimes a company or country may be prevented from gaining access to international financial markets. An example of this is the ban on debt financing on Rosneft, cf. Council Regulation (EU) No 833/2014 article 5 (3). An example with even wider scope could be EU's Decision to exclude Russia from the SWIFT-system, (EU, 2022).

Table 1 shows different types of sanctions, with respective examples to further show how they work.

There may be a sanction imposed against a target by a sanction regime, however it is the subsequent withdrawal of goods and services by commercial actors that produces the effect. A government's sanctions are therefore merely hortatory without the compliance of private actors. Rachel Barnes states that there are two main factors a sanctions success depends on. "*The magnitude and importance of commercial activity available to be withdrawn; and the degree to which individuals and entities comply with the sanctions.*", (Barnes et al, 2022). This statement supports the successfulness of the U.S. sanctions, as they have a great presence in the global markets. By threatening to deny access to its markets through secondary sanctions, the US gains meaningful leverage by requiring compliance from entities or persons where they normally have no legal jurisdiction. This is called secondary sanctions and are opposite to primary sanctions which take place within U.S. Nexus cases. These happen outside of any U.S. jurisdiction.

When the U.S. sanctioned Iran, they use secondary sanctions by threatening to stop conducting business with anyone breaching these sanctions. As many countries and companies rely on the U.S. in some way, most chose to avoid doing business with Iran at any cost.

2.2.2 The beginning

To begin assessing this goal, we need to see the greater picture of what has happened in Ukraine. Already before the invasion, sanctions were imposed in an attempt to hinder Russia from entering Ukraine. The number of sanctioned individuals and entities drastically increased late February 2022, (figure 1). As mentioned previously, there are also a number of sanction regimes. Figure 2 illustrates how different sanction regimes has reacted to Russia's aggression.

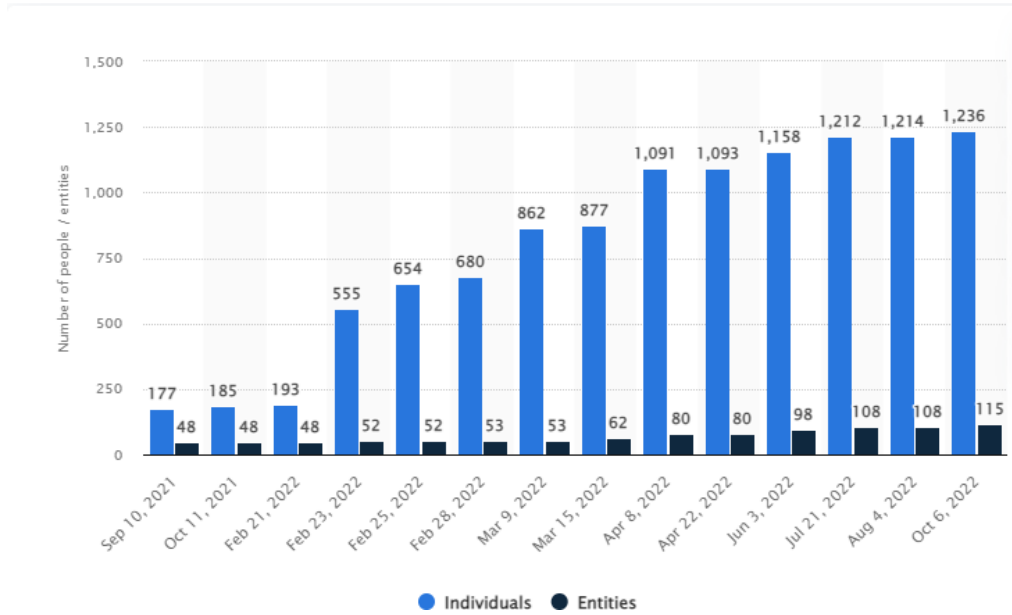


Figure 1, Cumulative number of European Union sanctions against individuals and entities against Russia due to Ukraine from September 2021 to October 2022

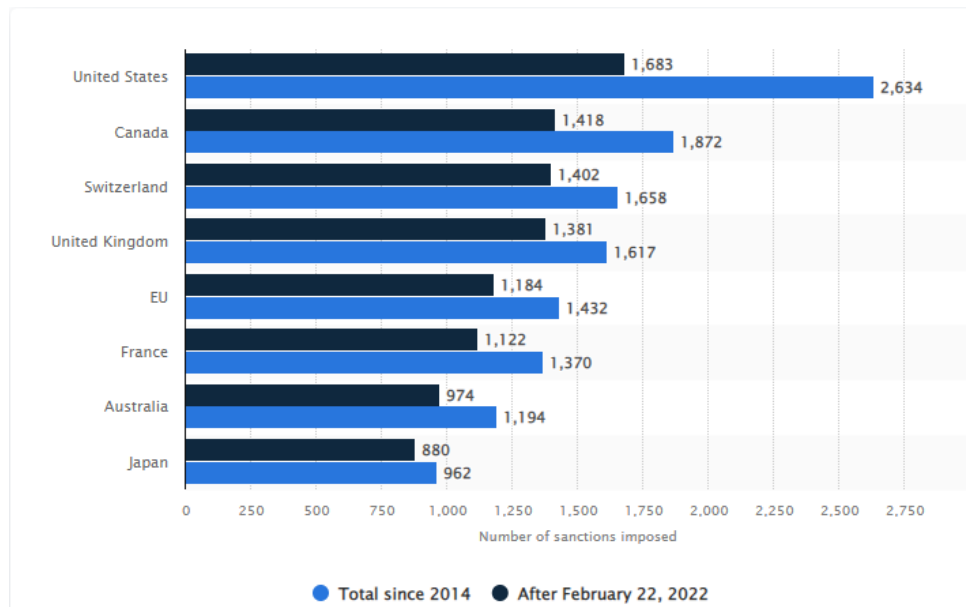


Figure 2, Total number of restrictive measures imposed on Russia since 2014 and after February 22, 2022 as of October 28, 2022, by selected actor

As showed, the sanctions imposed on Russia since 2014, largely consist of new sanctions, imposed after Russia's invasion of Ukraine. With the exception of the U.S., around 80-90% of sanctions imposed against Russia since 2014, have taken place after February 22nd, 2022. There is a feeling that the world community is united against what is seen as an unjustified invasion of Ukraine.

2.3 Hypothesis 3

2.3.1 KYC

KYC, or “Know Your Client”, has become an increasingly important theme for insurance companies, as well as for other financial institutions. KYC is not limited to the client, but also to all companies and people the client does business with. A company’s KYC team aims to unveil any unlawful business conducted, including breaches of sanctions. Risk assessments will be essential for any maritime business which aims to comply with rules and regulations put out by different governmental bodies and associations, (Chen, 2022).

2.3.2 Risk assessment

When dealing with sanctions and risk assessments, it can be difficult to get full information on a companies’ owners. If a sanctioned individual has at least 50% ownership of a company, one shall not perform business activities with that company. The same applies where two sanctioned minor shareholders control more than 50% combined.

Another important factor to assess are the relevant loading and discharging ports. Certain sanctions affect countries or regions, preventing them from exporting/importing named goods. Therefore, it is also important to know to which cargo is being transported, and who supplies it, as well as the receiver. All of these could in theory be sanctioned, meaning there is a greater need for assessments.

An example could be a trade of goods between companies in Turkey and Iraq, seeming legitimate, but is in some way affected by sanctions imposed on Iraq, making it illegal. This could result in heavy fines against actors involved in the deal, including those who provide facilitating services. Such services could include insurance and brokering.

2.3.3 Screening/Due Diligence

Many companies also have access to databases containing relevant information on the companies in question. This includes beneficial owners, board members and directors,

country of origin and operation, and more. It can often be difficult to know where to draw the line when it comes to screening. Companies often have complex ownership structures, which seemingly can go on forever, (Chen, 2022).

It can often be a good start to identify the beneficial owners and those at the top of an organization. These are often the individuals who get sanctioned first. If there is not any such instance, the screening generally is concluded if there are no red flags to be found. Search engines is also a tool used to research companies to gain a different perspective than the databases provide.

2.4 Hypothesis 4

2.4.1 Price cap

The price cap is a proposal from the G7 countries, the EU and the U.S. to ban a wide range of maritime services in relation to the transportation of Russian crude oil and petroleum products. The cap on crude oil will apply as from the 5th of December 2022, and on refined products on the 5th of February 2023.

The price cap will essentially work as an exception to the ban, allowing the services to be provided as long as actors purchase the oil at or below the proposed price cap. On December 3rd, the G7 announced that the price cap was set at \$60 a barrel, (Shankar, 2022).

In a preliminary guidance published by OFAC, there are three objectives mentioned for the price cap. Firstly the cap aims to maintain a reliable supply of seaborne Russian oil into the global market. Secondly it should ease upward pressure on the energy prices. Lastly the price cap intends to reduce the revenues Russia can earn from its oil exports, especially since the war has led to increased global energy prices, (U.S. Department of the Treasury, 2022).

3.0 Method

3.1 Quantitative vs. Qualitative

The processes of collecting data within methodology are qualitative and quantitative methods. The main difference between the two, is that a quantitative method will provide numerical and measurable data from several units, while a qualitative method accesses the informants' deeper opinions and thoughts on a topic. The aim of the two methods is another difference. Quantitative research aims to have a comparable or descriptive result, while qualitative research aims for different results. E.g., in-depth interviews, which is a qualitative method, are based on a phenomenological perspective, where the interviewer wishes to understand the informant's experiences and how it reflects over these, (Tjora, p.128, 2021). Qualitative research therefore emphasizes insight and seeks understanding, while quantitative research emphasizes overview and seeks explanation.

3.2 Choice of method

Through assessing the different methods available, it could be difficult to conduct questionnaires and receive meaningful results. The work associated with sanctions is largely complex and forming expressive questions might be challenging. There is also a high degree of confidentiality surrounding sanctions, making it difficult to recruit enough willing participants to make the research substantial.

The preferred method for the following research, is in-depth interviews. The reason for the preference is that they are a good method for gaining insight into the informants.

The factor of confidentiality has also affected the questions the informants will receive. There has been a focus on developing questions that different actors in the market can answer, without giving sensitive information, that could hurt them or their organization. Therefore, the paper will focus on general changes within the market, rather than focusing details or ongoing or confidential cases.

It is of great importance to be aware of relationships and trust surrounding such interviews. There should be a relaxed mood between the interviewer and the informant. The mood can be affected by several factors, such as body language, degree of formality,

professionalism and location. The location affects the interview and should be a tool to make the informant feel as safe as possible. As a way of achieving this, the informants were encouraged to choose the location.

The interview was recorded and then transcribed. This can be considered a strength, as opposed to taking notes during the interview. Taking notes can be slow and could waste the time of the informant. The digital recording ensured that no information was missed, and also gave the possibility to re-listen to the interview to clear up potential misunderstandings, which ensures higher validity.

3.3 Question design

I have interviewed different actors in the maritime market and have aimed to gain insight into their perception of the changes due to sanctions. The questions asked should therefore be the same. There are quite a few challenges arising due to this, and forming questions becomes difficult. To prevent information falling outside the questions, and making the informants more comfortable answering them, there were some adjustments to make the questions a better “fit” for the informants. An example can be that CEFOR is not a commercial actor, as opposed to Gard and Bergvall Marine, hence not all the questions asked would be suited for both commercial and non-commercial actors.

Still, there are general areas where all the informants would be able to provide crucial insight. Some examples of this are how the outbreak of the war affected their day-to-day work, the importance of KYC, challenges and assessing the sanctions, the proposed price cap, etc.

3.4 Recruiting informants

Following the theme of this paper, there are many possibilities when it comes to choice of informants. The maritime market is big and includes many companies and groups of people affected by the sanctions against Russia. Insurance companies are in many ways the temperature gauge of the maritime industry. The marine insurance companies are one

of the prerequisites for global shipping and touches most markets. Changes to any segment will affect the marine insurance companies, and they have been used as tools for sanctions. The companies also possess knowledge over ships and trading routes and are forced to change their practice as a result of sanctions.

Still, to include a variety of perspectives, the interviews shall be conducted with informants in from different areas.

Recruiting informants can be done in multiple ways. The distinction in sampling is often split into two categories: Probability sampling and non-probability sampling.

Probability sampling is common when the aim of the research is to achieve statistical generalization, (McCombes, 2022). This is not the aim of this thesis, which have chosen a strategic sampling of relevant industry members.

As previously discussed, the marine insurance industry has been greatly affected. To include the perspective of this industry, one of the leading liability insurers for ships (P&I Clubs), Gard, was contacted and agreed to be interviewed.

Furthermore, I wanted to include an informant with substantial overview of the market and its changes. CEFOR is the Nordic Association of Marine Insurers, and its managing director, Helle Hammer has agreed to be interviewed. Lastly, I wanted to include a broker, as they are intermediaries between ship owners and underwriters, and their work has been greatly affected. Bergvall Marine's CEO, Anders Mjaaland, accepted to be interviewed.

3.3 Validity and reliability

To consider both validity and reliability of the following research is essential for knowing if it can be used in later projects. This assessment is an ongoing action and is fundamental for the planning and data collection parts.

Validity in qualitative analysis is used to assess the credibility of the research and determine whether the information is transferable to other studies. It should be the goal of any scientific study to achieve this.

Reliability applies to whether the research is trustworthy or not. It can be difficult to assess the reliability of an interview, as they often include personal opinions and perceptions. If the informants are well respected persons, the general perception of the studies' reliability might increase, (Golafshani, 2003).

4.0 Interview abstracts

By performing interviews with different members of the maritime sector, information on the hypotheses have been gathered. The following section will include abstracts from these, summing up the informants' thoughts. The complete interview results and questions asked can be found in attachment 2.

4.1 Hypothesis 1

“The global trading routes for tankers have changed as a result of the sanctions”

The interviews showed changes in trading routes. Anders Mjaaland, CEO of Bergvall Marine, pointed out that there now are different buyers of Russia's oil than before. It appears that more Russian oil is now being exported to India, where the refineries are running at full speed. Mjaaland points out that a lot of this oil then is transported back to Europe, creating a non-environmentally friendly “cycle”, where the oil ends up in the place it would have been in the first place after a lap around the globe. On the topic whether this will be a permanent situation, Mjaaland is in doubt and points to how the Western world will treat Russia post-war, although he believes that the so-called dark fleet will be present for many years.

Kine Haaland, sanctions adviser for Gard, points out that several news sources have reported an increase of Russia related illegal ship-to-ship (STS) transfers in Eastern Asia, which normally would not happen. Haaland on the other hand does not believe in permanent long-term changes in the market. *“Money talks. The market is reactionary, and my gut feeling says things will eventually go back to normal after the war.”*

4.2 Hypothesis 2

“The sanctions are effective and have hindered the Russian economy drastically”

As all the informants agree that this is a complex theme and needs definitions to provide some sort of conclusion. The process is still ongoing, and we may see further developments in the future.

Helle Hammer, managing director of the Nordic Association of Marine Insurers (CEFOR), mentions how the sanctions picture is rapidly changing and how legislators in many cases lack understanding of the importance of global shipping and how it actually works. Hammer has spent a lot of time explaining the different types of marine insurance to decision makers. Quote: “*Insurance is seen as something that’s “just there”, you don’t see it until there is an incident and you need it*”.

There is understanding in the marine markets that sanctions need to be imposed quickly, but they need to be well drafted to prevent confusion and allow businesses to continue. Another issue Hammer points to is that there are multiple sanction regimes that do not do things the same way. These differences in sanction regimes can mean differences in competition, where some markets are subjected to rules stricter than others.

Hammer also mentions that contracts from before the 4th of June will still run until December, so the full impact is yet to be seen.

One of the ways sanctions aim to hinder the Russian export of oil, is to prevent them from getting insurance cover.

Hammer points out that other insurance markets are building capacity, and is concerned about this development, especially on the P&I side. Until now, there has not been any large incidents, but once something happens, Hammer believes these markets will really be tested.

The informants were asked to rank how effective they feel the sanctions have been on a scale from 1-10, and to deliberate their answers.

There was a consensus that the sanctions would be rated somewhere around the middle of the scale. Hammer took the middle ground, giving the sanctions a five, pointing out the effectiveness of being able to terminate all contracts where you were sanctioned. On

the other hand, Hammer continued elaborating her previous point that Russian business is being picked up elsewhere. Even though volumes of cargo moved from Russia has reduced to European destinations, they are still at similar total levels as exports to Asia are increasing. Hammer concludes that the sanctions have been effective, but have not had quite the drastic effect that was desired.

Mjaaland ranks the effectiveness “*not more than five*” and discusses the challenges European markets have seen as a result. There is still a vast amount of oil flowing out of Russia, although it has dropped to approximately 900,000 barrels per day. Money is still flowing in and out of Russia, funding the continuation of the war. However, there are effective parts of the sanctions, especially when it comes to import of certain cargos. A reduction of technological items, arms and spare parts are some of the most hurtful, Mjaaland concludes.

Gard’s sanctions adviser gives the sanctions a rating of six but includes the proposed price cap which is underway. Sanctions seem to work the best when they are respected by many. Therefore, points were reduced as OPEC does not appear to align with U.S. political preferences. Further points were reduced because of Russia’s availability to explore other markets, especially China and India. A point was added for seeing potential for strong long-term ties taking shape between India and UK following the recent appointment of the new British prime minister, Rishi Sunak, of Indian descent.

4.3 Hypothesis 3

“KYC has become more important, and maritime actors are more open to sharing information and routines”

Both Mjaaland and Haaland agree that KYC is more important than ever. The Bergvall Marine CEO fears a worst-case scenario where insurers might face jail time. Bergvall Marine is also American owned, potentially giving them a higher risk for prosecution from the U.S. He points out how there is an increased focus on these sanctions, and that they are “taken more seriously” than the Iran sanctions some ten years ago. Mjaaland clarifies that the Iran sanctions also were serious, but the Russia sanctions are on a larger scale. Therefore, Bergvall Marine has a strong team working on compliance and sanctions. Mjaaland also feels there are currently better tools for compliance and screening. On the other hand, Mjaaland deliberates on how the legislation has not improved. In his opinion, rules have become more unclear, and it is difficult to know where your duty of due diligence ends. The maritime market is huge, and one works with a number of different companies, who again work with more organizations, creating difficulties with screening where unclear laws does not help either. Mjaaland states that most companies understand that this is necessary, but that most of them “hate” it, as its cumbersome, time consuming and expensive.

Haaland also points out the importance of KYC due diligence as a result of the way the sanction regulations against Russia have been drafted. The sanctions analyst recognizes how the market has had to change the procedures drastically, within just six months, to comply with regulations. Gard’s KYC team has also increased internal resources to ensure compliance across the board. Haaland looks at this change as positive and states that there now is a greater acknowledgement in the market that the insurance companies’ need for information has increased. According to her, more and more companies are becoming open to sharing information timely and proactively.

Haaland also acknowledges the fear of being pursued for breaching the sanctions, even if one has done the utmost to remain compliant, the risk will always be present. Moving on, Haaland considers the sanctions against Russia to resemble the ones against Iran. Haaland recognizes the sanctions against Russia is like a “spider’s web”, where it is difficult to

distinguish between allowed and banned activities, and where it is difficult to obtain official or certified company data. Regarding Iran, following Donald Trump's decision to pull out of the JCPOA and place Iran under a more stringent Sanctions Regime, many companies, also outside of U.S. jurisdiction chose a careful approach towards Iran trade due to the risk of facing U.S. secondary sanctions.

Hammer chooses a different approach to the question, implying that the importance of KYC has not become greater, as it has been important for quite a few years. Anti-money laundering and sanctions have already been on the agenda for some time. Hammer mentions that CEFOR established a compliance forum back in 2018, where the members share information and routines in areas that are non-sensitive to competition. This has helped the members get a better understanding of the rules and regulations and has established an arena for sharing competence and understanding of the legislation. Hammer also appreciates the work of the IG when seeking clarification from different authorities and sharing this information with their members and clients.

What has changed in Hammers' opinion is the number of resources needed to remain compliant. Another factor Hammer highlights is how much easier it has become to clear up misunderstandings, by e.g., the simplicity of setting up a Teams meeting, which would not have been possible just a couple of years ago.

4.4 Hypothesis 4

“The proposed price cap will work as intended”

All the informants start off by saying they find it difficult to answer the question. Hammer has fed into the process in the U.S., UK, EU, and Norway, by explaining to them that insurers should not be the ones “policing” the price cap. This is important as insurers are not party to any agreements relating to the price, and do not have any direct access to this information. Hammer explains that the process appears to be promising as the published “preliminary U.S. price cap guidance” limits the role of insurers, and explains they only have to obtain an attestation in which the customer commits not to purchase Russian oil above the cap. Hammer believes there is an intent to align the workings of the price cap between the G7 countries. The main concern Hammer has related to the price cap is how well it will work in regard to the growing dark fleet.

Mjaaland voices his concerns regarding how it will be policed, and the concern that not all countries will sign up. Haaland points out how Russia currently is threatening to withhold oil from any country participating in the price cap. Halaand is uncertain how the price cap will work but believes that there will be unforeseen consequences in geopolitics.

It should also be noted that the informants were asked the question before the announcement of what the cap would be.

5.0 Discussion

The following chapter will discuss the hypotheses by comparing external sources and the results of the interviews.

5.1 Hypothesis 1

“The global trading routes for tankers have changed as a result of the sanctions”

The imposition of sanctions against Russia has had a significant impact on the global trading routes for tankers. Prior to the sanctions, Russia was one of the world's largest exporters of crude oil, with much of its oil being transported by tanker to markets in Europe and other regions. However, the sanctions have made it difficult for Russia to sell its oil to many of its traditional markets, forcing it to find new buyers and resulting in a decrease in demand for Russian crude.

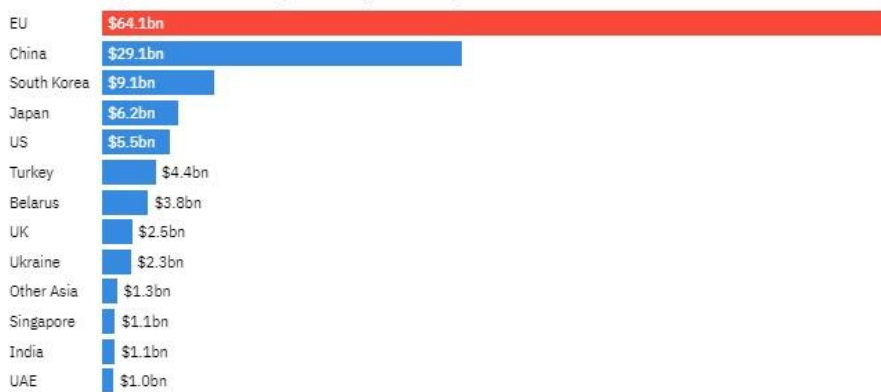
The hypothesis is also followed by two supporting hypotheses:

“The number of port calls in Russia has decreased” and *“there are more port calls in Eastern Russia”*.

The following discussion will be based on the interviews, AIS data from Lloyd’s List and external sources. The thesis aims to unveil differences in trading routes, and one of the factors being which parts of Russia is the most affected.

The EU is by far the largest buyer of Russian energy

Russian hydrocarbon exports by country, 2020



Source: UN Comtrade

INVESTMENT MONITOR

Figure 3, Russian hydrocarbon exports by country, 2020

Figure 3 includes gas, which will not be discussed in this thesis. Europe is still responsible for half of Russia's oil exports, and historically an important trading partner for Russia, (IEA, 2022).

5.1.1 Lloyd's List AIS Data

Lloyd's List provided an Excel file containing all port calls for merchant ships which have been in Russia from 01.01.2021 to 02.12.2022. This list will be the source for the following discussion. First, the list was shortened down by filtering out all ships who were not crude oil tankers. To have the best possible comparable result, the discussion will be based on the interval March to November. This is done as it was first in March the sanctions took complete effect, and November is the last month in 2022 with complete data. The periods which will be compared is therefore 01.03.2021-30.11.2021 and 01.03.2022-30.11.2022.

Number of port calls

The first factor to be discussed regarding the first supporting hypothesis, is the amount of port calls within Russia for crude oil tankers. By filtering out the relevant months and when the tankers left Russia, the Excel file provides that there was a total of 3 322 port calls in March-November 2021. In the same period in 2022, there was a total of 3 403 port calls.

The number of port calls did in fact go up following the sanctions. There can be several reasons as to why this might be the case. Firstly, there has been an increase in both disablement of AIS and illegal STS transfers, especially in the Mid-North Atlantic area, (Windward, 2022). Such activity could mean ships unload their cargo at a closer point than they normally would, which could again lead to an increased number

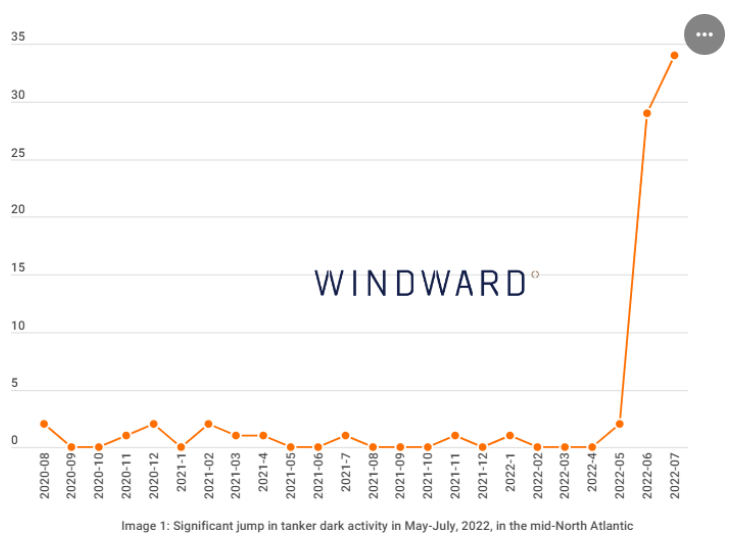


Figure 4, Amount of dark activity in the Mid-North Atlantic

of port calls. Figure 4 illustrates a significant jump in dark activity, presumably with Russian oil cargo. This area is often chosen as it is usually quiet and falls outside the European maritime jurisdiction. Haaland also pointed out that there is increased illegal STS transfers happening in Southeast Asia.

Figure 5 shows an example of what such a voyage could look like. The area is close to other relevant areas, such as the Gibraltar strait and the Suez Canal. It could also be a trans-Atlantic shipment, ending in the Americas. There has also been an increase in Floating Storage Vessels, which are thought to facilitate such dark activity, (Windward, 2022).

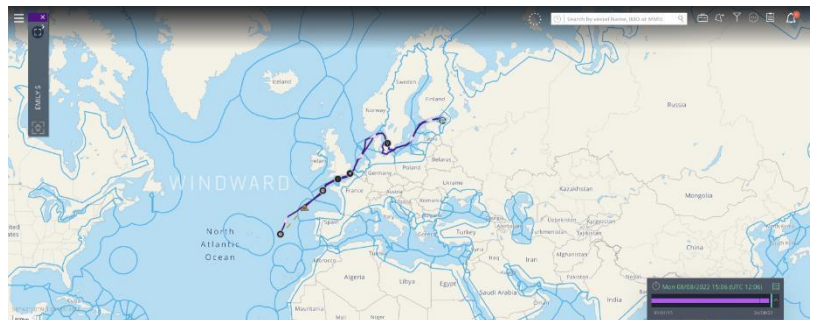


Figure 5, A ships path between Russia and the Mid-North Atlantic

Some of these ships performing illegal activities also choose to take routes going around Africa to avoid checkpoints and remain undetected.

The supporting hypothesis could therefore be said to have been proved false, as there instead has been an increased number of port calls.

Areas of origin

Secondly, the thesis aims to seek differences in which areas most port calls have taken place. The information provided by Lloyd's List splits Russia into three main areas.

Figure 6 intends to illustrate such areas. The areas Lloyd's List defines are Scandinavia/Baltic (Arctic and Baltic in figure 6), Black Sea and Eastern Asia (Pacific). Of the 3 322 port calls in March-November 2021, 1 464 of these were in the Scandinavia/Baltic area, 1 280 were in the Black Sea, and 578 were in Asia.



Figure 6, Russia's Export Duty from Seaborne Crude

In the same period in 2022, 1 714 were in the Scandinavia/Baltic area, 936 were in the Black Sea, and 753 were in Asia.

The second supporting hypothesis is based on changes in ports of origin within Russia. The number of port calls in Eastern Russia went from 578 in 2021, to 753 in 2022. This supports the sub-hypothesis that there is increased activity in Eastern Russia. An explanation for this could be that Russia has increased oil exports to Asian countries, such as China and India. Especially China is closer to the Eastern Russia ports, and voyages would become shorter and more efficient.

The number of port calls in the Black Sea has decreased from 1 280 to 936 in 2022. This could be explained by the increased risk in this area, following the conflicts between

Russia and Ukraine. 936 calls are still a significant number of port calls, and could be explained by Russia's key relationship with Turkey. Shipments from the Black Sea need to pass through the Bosphorus Strait in Istanbul, and it is still possible due to this relationship.

It could be thought that the increased number of port calls in Scandinavia/Baltic is due to the decrease in the Black Sea. There were almost 300 more port calls in this area in 2022, compared to 2021. It could simply be because there is less risk in this area, while not being too inconvenient to transport the oil there.

Hypothesis 1 could be said to be true. The trading routes has been affected by the sanctions, both by where the exports are originating from within Russia, and where the final destination is.

The Lloyd's List data also provided information on the number of unique crude oil tankers which have has port calls in Russia. There were 564 unique ships in 2021, compared to 545 ships in 2022. Comparing the number of ships trading in the country with the amount of port calls, one could say that there are fewer ships with a higher frequency having port calls in Russia.

Recipients of Russian oil

The two supporting hypotheses provided information on where the origin point in Russia is, but where does the oil end up?

The informants also agree that the destination of the Russian oil has changed. India and China were pointed out as the two largest importers of Russian oil. Figure 7 demonstrates that India has gone from no imports to over 900 000 barrels per day, while China also has imported larger quantities.

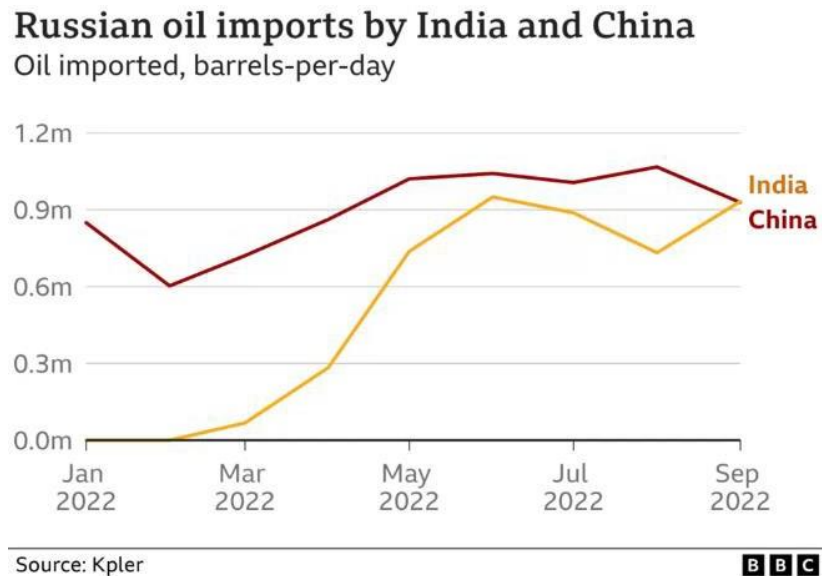


Figure 7, Russian oil imports by India and China

Figure 8 provides information on what countries import the Russian oil. The changes in recipients have been apparent. This also changes the global trading routes, as the destination is different. Turkey is another country which has increased the amount of oil imported from Russia.

RUSSIAN SEABORNE CRUDE EXPORTS FALL BELOW PRE-WAR LEVELS

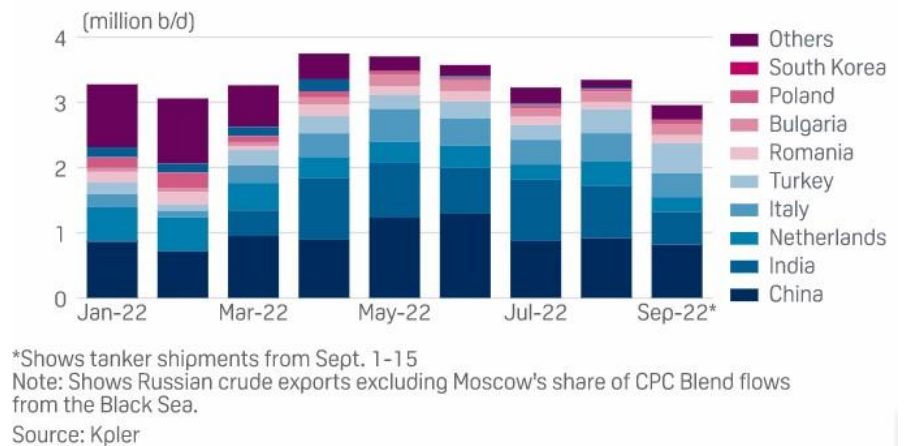


Figure 8, Russian seaborne crude exports as of 2022

To summarize, there has been changes at both ends of the trade. Russian port activity has seen increases in both the Scandinavia/Baltic area and in Eastern Russia, while the recipients of the oil also has changed.

5.2 Hypothesis 2

“The sanctions are effective and have hindered the Russian economy drastically”

To better be able to evaluate the effectiveness of the sanctions, there must be some underlying goals. Such goals have not been specifically put forward, but there is a clear purpose behind these sanctions, which for the purpose of this task will be translated into goals. The perceived main goal of the sanctions is to stop Russia’s aggression in Ukraine. Even though the aim of this thesis is to uncover changes to the tanker market, this goal will be briefly discussed as it is a fundamentally important rationale for the sanctions.

A secondary goal derived from the main goal is to disrupt the Russian economy, both by targeting companies and individuals. The sanctioning of individuals on such a far-reaching level, is something which has not been done before, hence another sub-goal could be said to create division within Russia’s elite in an attempt to pressure Putin from within as well as from the outside.

Now that there have been three identified goals, one can start to assess and discuss how effective these sanctions have been related to the goals mentioned.

5.2.1 Stopping Russia’s aggression

As mentioned in the theory chapter, there was a rapid increase in the number of both individuals and entities sanctioned in late February. Different sanction regimes deployed new sanctions, and according to CEFOR Managing director Helle Hammer, and often did not consider the consequences of the sanctions. Marine insurance was an easy target, as lack of insurance effectively stops ship owners from performing their activities.

Despite the sanctions, Russia continued their aggression, moving deeper and deeper into Ukraine. The sanctions seemed to have little effect in the first months of the war, as Putin’s regime had prepared for war for some time. As time went on, Russia’s military forces has been seen to deteriorate, and lack crucial equipment. As of November 2022, Russia has pulled out of key areas in Ukraine, but are still keeping Ukraine under heavy missile attacks. One could argue that the sanctions has become more efficient with time,

as Russia's supplies are depleting, and they are not being able to import key items. Bergvall Marine CEO, Anders Mjaaland, points out that the lack of import of spare parts, arms and electronic components has perhaps been the most hurtful effect of the sanctions against Russia.

5.2.2 Disrupting the Russian Economy

As sanctions are a tool of economic warfare, the disruption of the Russian economy will be the main goal for the sanctions. Russia's export industry accounts for a massive amount of their income. Both natural gas and oil rank among the most important export income sources. Russia's exports values of around \$300 billion, with crude oil accounting for \$123 billion, (OEC, 2022). As natural gas is exported through pipelines and not shipped on LNG vessels, this task will mainly focus on the oil exports, but also imports.

Already on the 8th of April 2022, the EU named all imports of Russian coal and banned Russian vessels from their ports. As discussed previously in Hypothesis 1, Russia had to look to other markets as they were increasingly less welcome in European countries and ports. The two major countries Russia turned to was India and China.

India has not yet condemned the invasion of Ukraine, and their finance minister, Nirmala Sitharaman, say they will continue buying crude oil from Russia. India is currently struggling with inflation and see discounted oil as a way to combat this, (Ahmed, 2022).

On the other hand, India might not be a long-term trading partner for Russia, states Jeffrey Sonnenfeld, professor at Yale School of Management. According to professor Sonnenfeld, India has taken advantage of discounted prices and has filled up their crude oil storage facilities. Russia must find other markets to ensure their financial stability but are finding difficulties in replacing the declining exports to Europe, (Watts, 2022).

As figure 8 illustrated, the Russian seaborne crude exports have fallen to lower levels than before the war. Russia has also given its trading partners large discounts on their imports. Professor Sonnenfeld, says Russia has given discounts up to \$35 a barrel, pressing the price down from a little over \$80, to just above \$45. Russia is barely breaking even at this rate, (Watts, 2022).

Another way to examine the economic impact on Russia, is by analyzing their GDP. Figure 9 shows a considerable growth between 2020 and 2021, with an increase of 4%. According to an independent analysis by OECD, the World Bank, and the International Monetary Fund, Russia's GDP is heavily suffering this year. It is expected to fall somewhere between 5.5% and 9%, (European Council, 2022). This could be a result of many factors, including the decline in exports and imports as a result of sanctions imposed on the country.

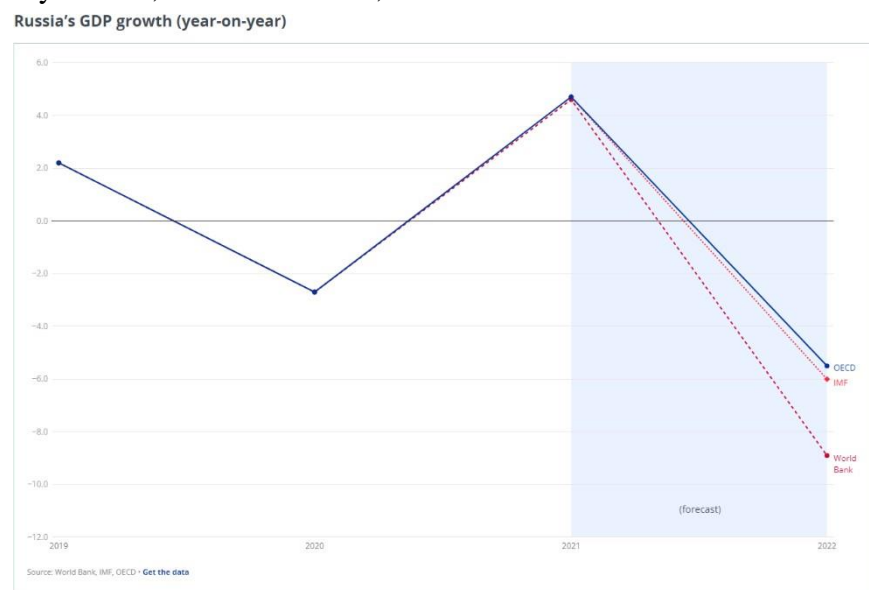


Figure 9, Russia's GDP – evolution from 2018 to 2023

Russia seems to have moved to diminish its connections to the West and the NATO countries. Since 2013, there has been a drastic change in the geographical location of the country's foreign exchange reserves, as illustrated in figure 10. France and the US stood out as they both were home to over 30% of the foreign reserves, but that amount has shrunk to respectively 16% and 8%. Notable increases include the East-Asian states Japan and China, with China now being the country with the highest percentage of the reserves, (van der Merwe, 2022).

Sanctions could potentially have frozen these assets, but Russia seems to have planned ahead, as figure 10 shows. It appears that Russia's economy has not been as disrupted as it could have been without this movement of reserves.

Russia has been moving its reserves to safety

Geographical location of Russia's foreign exchange reserves

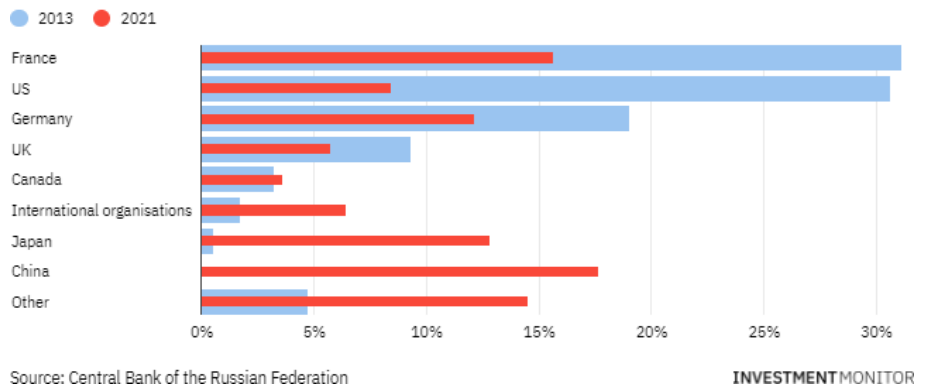


Figure 10, Geographical location of Russia's foreign exchange reserves

Studies show that as of 2020, Russia relied on imports for 75% of its consumer goods, (van Der Merwe, 2022). The factors discussed so far is only covering exports from Russia. Import sanctions are also important and will be swiftly discussed. Figure 11 exemplifies the drastic fall in Russia's imports.

Russia's Imports, January 2013–April 2022

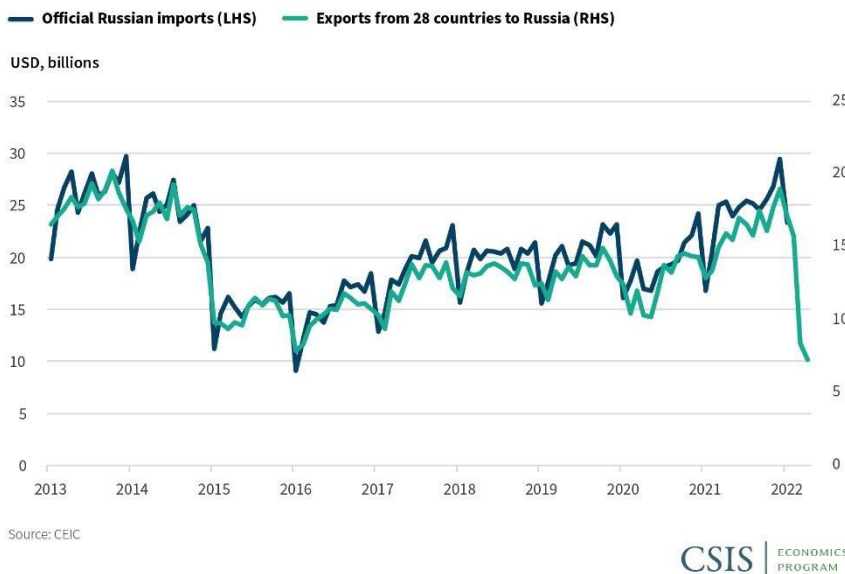


Figure 11, Russia's Imports, January 2013-April 2022

Some of the most relevant products include electronic components, military equipment, and parts for the automobile industry. Global chip exports to Russia are down 90%, according to The U.S. Department of Commerce claims.

These microchips are used in many industries. Reports from the Yale

University's School of Management reported that as of mid-June 2022, 24% of companies announced a withdrawal from Russia, 35% were suspending their operations, and 12% were scaling back operations. The sample size for this study was more than 1,350 companies, (DiPippo, 2022). Russia's imports have also declined 50%, as seen in figure 12.

The automobile industry in Russia has also suffered heavily. Due to import sanctions, or companies self-sanctioning, the Russian industry is not acquiring the parts needed, and are looking at a significant automobile



production decline. Russian car manufactures have also taken advantage of the government’s decision to slash safety regulations, producing automobiles without air bags, anti-lock braking systems, and more, as these are features normally imported from foreign companies, (McCausland, 2022).

5.2.3 Dividing the regime

The Russian elite is known apparent in many parts of the world. The so called “oligarchs” are extremely wealthy Russian businessmen, well connected with the Russian government. They can be found in different parts of the world and have been the target of sanctions in foreign areas where they may reside. This group of people have been thought to have influence over the Kremlin. However, politics professor at Moscow’s Higher School of Economics, Nikolai Petrov, states that oligarchs simply cannot approach Putin and persuade him in any direction, (van der Merwe, 2022).

Moving on Petrov says: *“All oligarchs depend on the Kremlin, if only because they have business in Russia. None of them can be happy with what’s going on, but they are atomized just like the general population. There is no way for them to consolidate against Putin. We’ve not heard any criticism from the elites. The bravest have called for peace, but none of them have criticized Putin for starting this war.”*, (van der Merwe, 2022).

Petrov argues that the asset freeze of the oligarchs will drive them closer to each other and make them more dependent on the Kremlin. This is the totally opposite effect of what

the sanctions are meant to achieve. If this continues over time, this effect might grow stronger, but at the same time if the regime grows stronger, there is not much for the oligarchs to hold on to. Petrov argues that the longer the war rages on, the more conflict will take place internally. Differences in perceptions on the war, control and economic reasons will create friction over time. Petrov assesses the likelihood of a coup as low, but that the regime will continue to grow weaker, (van der Merwe, 2022).

Lessons from Iraq

The sanctions imposed on Iraq heavily affected the country's energy exports. Oil was one of the main income sources for Iraq, and the sanctions effectively stopped the exports. This forced Hussein's regime to look for other sources of income. Political instability and uncertainty within the country made the regime desperate, and to ensure its power, they allied with those few who benefitted from the sanctions, (van der Merwe, 2022).

This included tribal lords and smuggling networks, that were unpopular both internationally and within the country. By integrating tribal landlords into the political system, Hussein undermined the government's neutrality in handling disputes between the clans. This resulted in multiple failed coup attempts, (van der Merwe, 2022).

Could sanctions against Russia provide similar reactions? It could be argued that the rest of the world is too dependent on Russian energy exports for them to be shut off. A price cap on Russian oil is underway and will be discussed in the next Hypothesis. On the other hand, Russia is heavily reliant on these exports, both to fund the war and to keep their society running. If these exports ever were to dry up, it could create calls for change within Russia, (van der Merwe, 2022).

The status quo

The result of sanctions when it comes to division within a country could be split into two extremes: The notion that an elite in the country are fighting against unjustified sanctions,

doing their utmost to secure the safety and economic stability of their people, or the idea that these people are acting out of self-interest to guard their own financial interests, which would cause anger amongst the population.

Broad-based sanctions can be justified if one believes that a countries elite will inevitably respond to the suffering of ordinary people, while targeted sanctions will be more used if one believes that the elite will only take action if their own financial interests are at stake.

No government can act entirely independently or insulated from its citizens. All types of elites, whether they are derived from dictatorships, democracies, or any other form of rule, are based on the cooperation of different social groups.

Lee Jones, sanctions expert at University of London, summarizes Putin’s regime as “*narrow in the sense that it’s quite closed and semi-authoritarian, but it’s also very broadly based,*”. Jones continues to state that Putin is not only in power as “he and a few of his mates decree it”, but rather that he was widely popular in Russia.

The success of sanctions is then not solely based on the measures taken, or the response of Russia, but also how the domestic political landscape reacts to the economic challenges resulted from sanctions.

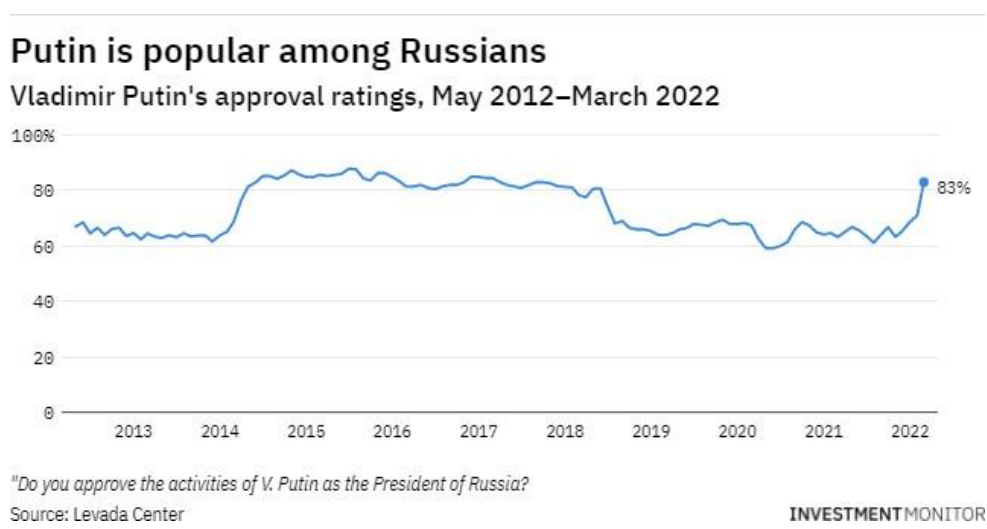


Figure 13, Vladimir Putin’s approval ratings, May 2012-March 2022

Translated, sanctions should have an aim to divide the current regime, and at the same time unify the opposition. As figure 13 states, Putin’s approval rate is almost at an all-time high in March 2022. There is also a great increase in approval from February to March, as the invasion took place, (van der Merwe, 2022).

These numbers might come as a surprise to many, and questions about their legitimacy might be raised. If one assumes that it is legitimate, this goal could be considered to not be achieved. It seems like currently the desirable effect is yet to be achieved, but as discussed previously, Russia is depleting month by month. If the economic impacts continue in the fashion that they currently are, there could be developments in the approval rating for Putin's regime. The lack of opposition in Russia is another factor which impacts how easy this goal is to achieve.

5.2.4 Is there a way the sanctions could be more effective?

The informants from the interviews stated a clear perception that the sanctions did not live up to their full potential and that they often created more confusion than effect. As discussed previously, the Russian economy has been greatly affected by the sanctions.

One of the factors the informants agree upon, is the difficulty of handling the differences in the sanction regimes. The fact that there are so many different regimes, illustrated in figure 2. These are not necessarily in accordance with each other, making the sanction related work challenging. It also has the potential to create differences in competition if some companies are subject to less strict sanctions. Hammer addresses this as one of her main concerns when it comes to sanctions.

Another factor making the sanctions less effective according to the informants, is the lack of clarity. All the informants agreed that the sanctions have been written in an unclear manner, opening for difficult interpretations of what is allowed. This has not only placed them in difficult positions, but also has led to unlawful trade which was not intended. The EU has changed views on what actually is allowed to do. Hammer stated that in communication with authorities, the request from insurers is that the sanctions are formulated as clearly as possible, or somehow explained through a FAQ, something which the EU has done.

- Effects on P&I?

5.3 Hypothesis 3

“KYC has become more important, and maritime actors are more open to sharing information and routines”

During the interviews, there was a consensus that the work with KYC and due diligence has become more focused and has received more resources. Haaland and Mjaaland declared that the importance of KYC increased following the sanctions against Russia, while Hammer pointed out that she believes that it has not, as it already has been great for quite some time. Both arguments can be described as accurate. Both Haaland and Mjaaland pointed out that KYC was important in relation to previous sanctions, such as those imposed against Iran. The sanctions against Russia were described as more complex, and the fact there are still things one can do without being sanctioned, makes the “spider’s web” of sanctions harder to navigate. Large fines or penalties, and in some cases even prison, could become the punishment for engaging in business with the wrong people at the wrong time.

By 2029, the global electronic KYC market is expected to be worth almost \$2 billion, a significant increase from



today’s market, which is assessed to be worth approximately \$450 million, as seen in figure 14. (Polaris Market Research, 2022). The informants touched upon that there were better tools available, and most of them are online.

As previously stated, KYC has become essential for any maritime organization who wishes to comply with rules and regulations. Shipping has become increasingly global, and the number of actors has grown. This makes KYC and due diligence more difficult.

Hammer also states that the information sharing regarding KYC and due diligence has increased. Companies are aware that the importance of this work is crucial, and that they can achieve better results through sharing routines, whilst not going into specific, confidential information. Forums, such as CEFOR, are used to discuss such routines.

When it comes to communication, Hammer states that the introduction of digital meetings has helped the sector massively. Both technological advancements and the sudden need for digital meetings as a result of Covid-19, have laid the foundation for such communication. These kinds of quickly and easily arranged meetings have helped the sector in handling the ever-changing sanction picture, where things can change overnight.

The change in resources allocated to KYC and due diligence is largely described as positive. Haaland recognizes that the maritime market has had to change their procedures drastically, within just six months, to comply with regulations. Such a change across the whole sector is seen as excellent.

5.4 Hypothesis 4

“The proposed price cap will work as intended”

The U.S. has pushed to introduce a price cap in response to the EU’s plan to ban all Russian oil imports. The plan includes a ban of seaborne imports of crude oil on the 5th of December, and petroleum product imports on the 5th of February 2023, with certain exceptions. The plan also bans marine services, such as financing, shipping insurance, brokering, etc. to third countries (not within the EU). The price cap is a reaction to this planned ban and works as an exception if the crude oil is traded at or below the \$60 price cap. Sources within the U.S. Treasury indicate a huge impact on the market, with reductions of Russian exports between three and five million barrels per day, if there is no exception to the ban. This is thought to trigger a substantial price spike, (Cahill, 2022).

The following segment will discuss both strengths and weaknesses of the proposal, and how likely it is to be followed. It will also debate different scenarios, depending on how countries react to the price cap. These scenarios are speculative and are intended to give a sort of practical explanation of how things may develop.

5.4.1 Strengths

One of the main purposes of the price cap, is that the world is dependent on Russian oil. If this supply were to be cut off, it is thought to cause a price spike on oil products. The price cap will ensure that this supply is still being put into the market, without a great financial gain for Russia, while securing low prices worldwide. The fact that the G7 also has control over the level of the proposed price cap, can be considered as a strength.

As the plan is introduced, both insurers and shippers must provide information that they are complying with regulations and are trading below or at the \$60 price cap, (HM Treasury, 2022). If parties are breaching these regulations, the buyers will require to find shipping, brokering, insurance and re-insurance from countries not participating in the price cap. Such services are thought to be more expensive and less reliable. As of early December, there are still details to be ironed out, but there is no indication that secondary sanctions will be imposed against non-participating countries.

The current participants of the price cap include the G7 countries, the EU and Australia. Bloomberg reported that South Korea has outlined its intentions to comply, and that G7 also are trying to persuade Norway and New Zealand to join, (Shalal & Lawder, 2022). One could argue that the more countries that are complying with the price cap, the more influence and power it gains. However, U.S. Treasury Secretary, Janet Yellen, explained that it was not important to them how many countries endorsed the price cap. Real success would rather be to see the continuation of Russian oil flow into the market, and non-participants being able to use the price cap to bargain lower prices.

While the world still wants to receive Russian oil, Russia on the other hand also rely on the exports, not only because of the income it brings. If Russia were to halt production, equipment in Western Siberia and other places might freeze and cause damage to oil infrastructure. The country also has limited storage capacity, (Watts, 2022).

5.4.2 Weaknesses

Different challenges can be identified when it comes to the implementation of the price cap. Firstly, and perhaps most relevant, how will Russia respond to the implementation? To introduce a cap on a countries' export prices is a fine line to thread, especially for a country such as Russia which has acted in a manner which many would describe as irrational and dangerous.

The Kremlin has already threatened to withhold oil from the participating countries and warn of “retaliation”, (Reuters, 2022). Many consider these threats as a bluff and point to the previously discussed point that it would hurt Russia if they were to withhold oil exports. Still, it seems presumptuous to believe that Russia would outright just accept far lower prices for their products. It could be thought that President Putin may wager that withholding their oil could cause panic in the market, resulting in a price shock which will weaken the Western resolve, (Cahill, 2022).

A second question is if Asian buyers will get on board. China and India are currently receiving substantial discounts for Russian oil products and are free to purchase as much

as they want. As long as they are not directly dealing with sanctioned individuals or companies, the trade is still considered to be legal. The price cap is in theory still allowing these countries to continue buying oil products for lower prices than the price cap of \$60. If Russia still allows this to happen, it can be thought that there is not any real initiative to endorse such a price cap, as the Asian buyers also would have to implement the monitoring and enforcement systems to comply with the regulations, (Cahill, 2022).

The OPEC+ countries, consisting of OPEC and non-OPEC allies, are not included in the countries determined to follow the price cap. OPEC has a significant influence on the global oil market, and recent events seem to signal that they are not always on board with the G7, and the U.S. In early October of 2022, OPEC decided to cut production by 2 million barrels per day from November, (Meredith & Turak, 2022). The move caused criticism from the Biden administration and was described as “shortsighted”. The production cut is designed to increase the oil prices, which at the time of the decision had fallen to around \$80 a barrel, down from \$120 a barrel three months prior.

Another question to ask is what will happen if the market consists of multiple prices? Russian exports have been changed quite drastically after the sanctions, with Russia now being forced to sell its oil products for discounted prices. Other countries might see this as an economic opportunity. Refiners in the Middle East have e.g., bought Russian crude and refined it before selling the products for significant profit. It can be thought that demand for the cheap Russian oil will surpass the supply, creating multiple prices in the market. The price cap would then affect the market in a way that one could create multiple prices, for example multiple prices for the global crude oil, the price for capped Russian oil, and a shadow price in between these two. These differences in price would be thought to create immense arbitrage potential for traders, (Cahill, 2022).

Another point to be made could be the challenge of both monitoring and enforcement of the price cap. Historically, traders have managed time and time again to evade sanctions through STS transfers. This phenomenon has been seen in both Iranian and Venezuelan waters, and still continues. Recent reports show how a Ukrainian individual managed to

acquire and operate a dark fleet, performing illicit tanker trade with Iran, starting in 2021, (Coyne, 2022). Many consider it naïve to believe that such trade will not take place with Russia.

Faking of documents or acquiring several letters of credit from different banks, or the usage of multiple subsidiaries are also pointed out as possible ways to document trades at approved prices, while actually paying more and cheating the system, (Cahill, 2022).

5.4.3 Possible outcomes

It should be noted that the following outcomes are theoretical situations to build a foundation for further discussions, as we are yet to see the developments unfold.

Scenario 1

Russia chooses to comply with the price cap.

If Russia were to comply with the price cap, their supply of oil can be thought to be filled by the ship owners. The G7 countries will then have their intended result, limiting Russia’s profitability on oil exports. There can still be illegal trades going on, but most should fall under the umbrella of “legal” trades within the price cap. It should also be noted that Russian oil still will not be allowed into most European countries, but maritime actors are still allowed to provide services for these shipments.

Category	Sample actors	Expectation	Examples of information or documentation	Recommendations for risk-based measures for compliance with price exception
Tier 1 — Actors with direct access to price information	Refiners, importers, commodities brokers, traders, customs brokers	Retain and share price information and provide attestation to Tier 2 or Tier 3, as needed	Invoices, contracts, receipts/ proof of accounts payable	Updating terms and conditions of contracts, updating invoice structure to include itemized price for oil purchase (excluding shipping, freight, and customs costs)
Tier 2 — Actors sometimes able to request price information	Financial institutions providing trade finance, shippers	Request, retain, and share, as needed, price information (when practicable) or attestation from Tier 1 (when direct receipt of price information is not practicable)	Invoices, contracts, receipts/ proof of accounts payable; price cap attestation	Providing guidance to trade finance department/ relationship managers/ compliance staff, updating requests for information (RFIs) or sanctions questionnaire templates, updating bill of lading templates to include attestations
Tier 3 — Actors without direct access to price information	Insurance brokers, cargo / Hull and Machinery (H&M) insurers, reinsurers, P&I clubs	Receive attestation from Tier 1 or Tier 2 regarding compliance with the price cap	Attestation tied to an annual policy	Updating policies and terms and conditions, providing guidance to staff

Figure 15, Tiers of recordkeeping and attestation

If such a scenario were to happen, there would be a great need for recordkeeping and attestation, where all parties involved in the trade would need to provide information that they comply with the price cap. OFAC has attempted to guide shipping actors to how such a system would work, (U.S. Department of the Treasury, 2022). Illustrated in figure 15, the actors are split into three tiers, depending on their access to information regarding the trade. Notably, marine insurers are put into tier 3, which is for actors without direct access to the price information. As stated in the interviews, there was a fear that insurance companies had to police deals, while not having access to the price information. The preliminary U.S. guidelines states that the insurers will have a limited role and are only required to obtain an attestation from the customer, stating that the customer will not purchase Russian oil above the price cap. Hammer also states that she understands there is an intent to align such guidelines between the G7 countries, and that the UK guidance also includes the limitation of the insurer's roles.

The U.S. also clarifies that U.S. citizens or companies will be allowed to export, sell and supply Russian oil, as long as it has been sold at below or at price cap level. The situation could then go "back to normal". The global trading routes could go back to normal, depending on Russia's reaction. In this scenario, Russia does comply, and it can be thought that Russian oil again would flow into Europe. This would also affect the trading routes, returning to the "pre-sanctions" status. Such a scenario would also be more environmentally friendly, as the total distance oil is transported decreases. All the goals identified by OFAC would also be met, maintaining the supply of seaborne Russian oil, reducing the pressure on the energy prices and reducing the revenues of Russia, (U.S. Department of the Treasury, 2022). There could also be a large number of traders wanting to transport this oil. Head of research at BRS brokers assumed one could earn \$200,000 a day moving Russian oil, compared to \$75,000 moving non-Russian oil, (Peachy, 2022).

Scenario 2

Russia looks to find effective substitutes in the dark fleet.

A possible outcome could be that Russia attempts to find sufficient tonnage in the dark fleet. Arthur Richer, head of strategic partnership at Vortexa, assesses that there are approximately 100 tankers who could potentially make the move to Russian crude if the price cap gets introduced. These are tankers who are currently transporting either Iranian or Venezuelan oil. Richer analysis judged that most of these ships have “50% or greater chance of switching”.

Richer concludes that even if these 100 ships start transporting Russian oil, it still will not be enough. The logistical problem with moving oil will on the other will be a continuous headache for Russia, (Coyne, 2022).

Jan Stockbruegger, expert in maritime competition at the University of Copenhagen, says it is possible for Russia to build a large enough tanker fleet, beyond the reach of Western sanctions. This will require more ships than was used by Iran and Venezuela. Market experts then believe if this scenario was to unfold, the market for older tankers would boom. Iran and Venezuela bought lots of older tankers, and considering that Russia would need even more ships, the prices could skyrocket, (Peachy, 2022).

6.0 Summary

To summarize, the tanker market has been greatly affected by the sanctions against Russia in multiple ways.

Firstly, trading routes have changed. The Black Sea area has seen a decrease in activity, while the Scandinavia/Baltic area along with Eastern Russia has seen an increase. Surprisingly, the amount of port calls has gone up in 2022, even with sanctions in place. The two supporting hypotheses have split answers. The first sub-hypothesis was concluded to be proved wrong, as the port calls had increased, while the second sub-hypothesis was proved correct as the Eastern Russian areas saw more activity.

Secondly, the sanctions have had an effect, but the informants declare they could have been formulated better. Due to the nature of the situation, the sanctions had to be drafted quickly, resulting in perhaps unintended effects. The sanction regimes targeted marine insurance while possibly not fully understanding the industry. The thesis identified three goals for the sanctions, and the one which could be deemed the most successful, is the economical one. Even though the levels of oil exports have not greatly dropped, the revenue been reduced. The goal to stop Russian aggression could be judged as partly failed, as the Russians moved further into Ukraine. It could be argued that the Ukrainian military are the most responsible for the fall back of the Russian troops, but the lack of import of both spare parts and electronic components due to sanctions has helped. The last goal is related to creating division within Russia. This goal is difficult to achieve, as there is a lack of opposition within the country. It was believed that the oligarchs had a strong position and influence with the Kremlin, and there was a belief that targeting their businesses might make them advocate for peace. Such influence was hardly present, and there were only a few oligarchs who spoke out publicly against the war.

Thirdly, the significance of Know Your Customer could be said to have increased. As stated in the interviews, it has been great for some time, but the amount of resources and work needed has grown. The sanctions targeted Russian entities and individuals spread over the whole globe. Companies which have Russian owners who were targeted by the sanctions, were all of a sudden red flagged. The penalties for breaching sanctions and

interacting with these companies are substantial. This has resulted in greater need for identity of business partners, and the ownership of the entities.

The sanctions were also drafted in a way which seemed confusing to many. The EU were indecisive on what one was allowed to do. The fact that sanctions can change overnight, has made companies more reliant on their KYC teams and there is a greater need to share information and routines. Compliance could be more difficult than ever to achieve.

Lastly, the G7 countries wish to reduce the oil export revenues of Russia, by introducing a cap on the price of Russian oil. Western actors would be allowed to provide marine services related to Russian oil, as long as it is traded at or below the price cap.

Russia has stated that they will not sell oil to any country participating in the price cap. U.S. officials has on the other hand said that the goal of the price cap is not to get as many actors as possible onboard, but rather that others can use the price cap to achieve lower prices themselves. Russian oil has for the last few months been sold to China and India at lower prices than the price cap of \$60. This does not give these two countries any incentive to join the initiative.

7.0 Criticism

7.1 Sources

One of the most controversial sources used in the thesis is the approval rating of President Putin (figure 8). The approval rating was said to be over 80%, including a significant increase following the invasion of Ukraine. The graphic is taken from an article about sanctions and the source credited is the Levada Center.

The Levada Center is said to be “*an independent, non-governmental polling and sociological research organization*”, and identify themselves as the main source of information of Russians, (Levada Center, 2022). In 2013, The Moscow Times published an article titled “*Why the Kremlin Hates the Levada Center*”, as the center has conducted polls placing the Kremlin in a bad light, (Triesman, 2013). It does appear the approval rating could be legitimate. Potential reasons behind the increased approval rating might be that Russians feel they have become passive or have decreased their international reputation following the fall of the Soviet Union. Another reason could be propaganda. The Russians introduced strict propaganda control and have cracked down protestors, (Clark, 2022).

The invasion of Ukraine has also become a political issue around the world. There is a “West versus East” attitude. During the UN General Assembly, there was a vote on the territorial integrity of Ukraine from Russia. The four countries voting in favor of Russia was Belarus, Syria, Nicaragua, and North Korea. While a lot of the eastern countries sustained from voting, notably including India and China, (UN, 2022). As there is political split, information retrieved might be unreliable.

Every source in the thesis has been assessed in order to sustain independence and reliability of the research.

7.2 Unavailability of information

It has been unveiled that certain areas discussed in the thesis have a lack of academical literature.

Firstly, it could be said to be a lack of academical theories surrounding the trading routes of tankers, as they often are determined by markets, trends, seasons etc.

The KYC market is interesting in the way that most companies perform activities relating to it, but there is a lack of academical theories behind it. This produces a source of uncertainty and might affect the thesis' discussions as there is an abstinence of theoretical foundation. Despite all this, there has been an attempt to maintain a credible discussion.

The proposed price cap on Russian oil is another area where there is a lack of relevant theory. It is perhaps based on economic theories, but these are not appropriate for a thesis such as mine. The discussion about the price cap is therefore rather based on plausible outcomes and how different actors might react to the implementation.

7.3 Criticism of the thesis

The matter to be discussed in the thesis is wide but was narrowed down to the oil tanker segment as this gives a good temperature gauge of the effectiveness of the sanctions. It would be difficult to narrow it down even more, but the matter is still wide. The discussions could have been elaborated, for the sake of the length of the task this has not been done.

One of the possible improvement factors would have been to create the hypotheses earlier, as the interviews were conducted before the hypotheses were completed. The questions could then have been more accurate towards what the thesis aims to unveil. Still, I believe the interviews were a great source of information, and a good foundation for further discussion. There could also have been done more interviews done, if not for the width of the thesis.

The third hypothesis is shorter than the others, but still prove an important point. This is partly due to the unavailability of information, as previously discussed. It could perhaps have made way for further discussions in the other hypotheses but was ultimately included as there are significant changes in procedures.

8.0 Suggestions for further research

In my opinion this has been an exciting theme to research. It would be natural to research the effects on the same topic at a later date, to see what developments have taken place. There are still questions unanswered surrounding the price cap and other developments which might come in the future.

Some of the questions asked during the interviews may get a different answer in the future, which would be an interesting foundation for further discussions. The informants expressed that some sanctions had become more effective over time. It could be interesting to especially ask the question about the sanction's effectiveness in the future. If the war comes to an end and sanctions are ended, the reactions from the market would also be a foundation for further research. The informants were unsure whether the changes in trading routes would be permanent or not.

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10.0 Attachments

1. Declaration of consent

Vil du delta i forskningsprosjektet **«Sanctions in today's tanker market»**

Dette er et spørsmål til deg om å delta i et forskningsprosjekt hvor formålet er å avdekke hvordan sanksjoner mot Russland har påvirket tanksegmentet innenfor sjøfrakt. I dette skrivet gir vi deg informasjon om målene for prosjektet og hva deltakelse vil innebære for deg.

Formål

Prosjektet er utformet i henhold til bacheloroppgaven som skal leveres ved slutt av praksisperioden. Oppgaven vil ha som mål å undersøke hvordan sanksjoner mot Russland har påvirket tanksegmentet, ved å intervju ulike aktører i markedet.

Hvem er ansvarlig for forskningsprosjektet?

havromsoperasjoner og byggeteknikk er ansvarlig for prosjektet.
Bjørn Harald Bakke (bjorn.bakke@ntnu.no , +47 952 19 025) er ansvarlig veileder.

Hvorfor får du spørsmål om å delta?

Du er utpekt som en kompetanserik person som vil kunne heve det faglige nivået i oppgaven.

Hva innebærer det for deg å delta?

Dersom du godtar, vil det gjennomføres et dybdeintervju som vil ta omkring 30 minutter. Spørsmålene vil handle om sanksjoner og deres påvirkning og generelle endringer i markedet. Det trengs også samtykke til at det gjøres lydopptak av intervjuet.

Det er frivillig å delta

Det er frivillig å delta i prosjektet. Hvis du velger å delta, kan du når som helst trekke samtykket tilbake uten å oppgi noen grunn. Alle dine personopplysninger vil da bli slettet. Det vil ikke ha noen negative konsekvenser for deg hvis du ikke vil delta eller senere velger å trekke deg.

Ditt personvern – hvordan vi oppbevarer og bruker dine opplysninger

Vi vil bare bruke opplysningene om deg til formålene vi har fortalt om i dette skrivet. Vi behandler opplysningene konfidensielt og i samsvar med personvernregelverket.
Det vil kun være Anders Engebretsen (intervjuer) og Bjørn Harald Bakke (ansvarlig veileder) som vil ha tilgang til intervjuet. Intervjuet vil slettes etter det har blitt transkribert.

Intervjuet vil bli brukt i bacheloroppgaven, og det vil brukes sitater, ditt navn vil derfor bli stående i den fullførte oppgaven.

Hva skjer med personopplysningene dine når forskningsprosjektet avsluttes?

Prosjektet vil etter planen avsluttes 15. desember 2022. De eneste personopplysningene som vil brukes er navn og organisasjon. Lydopptak vil slettes, og det eneste som vil bli igjen er sitatene.

Hva gir oss rett til å behandle personopplysninger om deg?

Vi behandler opplysninger om deg basert på ditt samtykke.

På oppdrag fra NTNU - Institutt for havromsoperasjoner og byggingsteknikk har Personverntjenester vurdert at behandlingen av personopplysninger i dette prosjektet er i samsvar med personvernregelverket.

Dine rettigheter

Så lenge du kan identifiseres i datamaterialet, har du rett til:

- innsyn i hvilke opplysninger vi behandler om deg, og å få utlevert en kopi av opplysningene
- å få rettet opplysninger om deg som er feil eller misvisende
- å få slettet personopplysninger om deg
- å sende klage til Datatilsynet om behandlingen av dine personopplysninger

Hvis du har spørsmål til studien, eller ønsker å vite mer om eller benytte deg av dine rettigheter, ta kontakt med:

Norges teknisk-naturvitenskapelige universitet – Fakultet for ingeniørvitenskap – Institutt for havromsoperasjoner og byggingsteknikk ved Bjørn Harald Bakke. I studentprosjekt må kontaktopplysninger til veileder/prosjektansvarlig fremgå, ikke kun student

Hvis du har spørsmål knyttet til Personverntjenester sin vurdering av prosjektet, kan du ta kontakt med:

- Personverntjenester på epost (personverntjenester@sikt.no) eller på telefon: 53 21 15 00.

Med vennlig hilsen



Bjørn Harald Bakke
(Forsker/veileder)



Anders Engebretsen

Samtykkeerklæring

Jeg har mottatt og forstått informasjon om prosjektet «Sanctions in today's tanker market», og har fått anledning til å stille spørsmål. Jeg samtykker til:

- å delta i intervju
- at opplysninger om meg publiseres slik at jeg kan gjenkjennes, i form av sitat

Jeg samtykker til at mine opplysninger behandles frem til prosjektet er avsluttet

(Signert av prosjektdeltaker, dato)

2. Interview guide

1.	<i>“Who are you and what is your role in your company?”</i>
2.	<i>“How has your internal procedures and the advice you give you clients changed following the recent sanctions against Russia?”</i>
2,5 (Follow-up for P1)	<i>“Do you feel like the politicians are not educated on the insurance part and do you spend a lot of time trying to explain what the sanctions will mean for marine insurers?”</i>
3.	<i>“What in the days following the invasion look like for you?”</i>
4. (P1)	<i>“What major changes have you seen in the global marine insurance market (following the sanctions against Russia)?”</i>
4. (P2+P3)	<i>“What changes have you seen in the global tanker market?”</i>
5. (P1)	<i>“How would you describe these markets and are they sustainable?”</i>
5. (P2+P3)	<i>“Do you think these changes will be permanent?”</i>
6.	<i>“Do you feel the importance of KYC has become greater?”</i>
7.	<i>“Do you feel companies have turned towards openness in terms of being more collaborative following greater demands from authorities to remain compliant?”</i>
8.	<i>“On a scale from 1-10, how effective do you feel these sanctions have been? Please deliberate your answer.”</i>
9.	<i>“Do you think there will be any unforeseen consequences by these sanctions?”</i>
10.	<i>“What are your thoughts on the proposed price cap, and do you think it will work as intended?”</i>

P1: Helle Hammer

P2: Anders Mjaaland

P3: Kine Haaland

