



POTEN TANKER OPINION



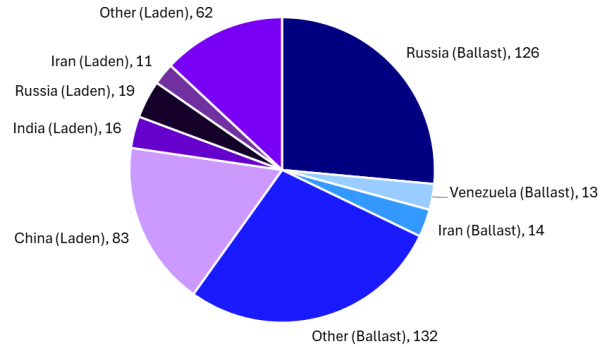
The End Of The Dark Fleet?

End of global conflicts would reduce employment options

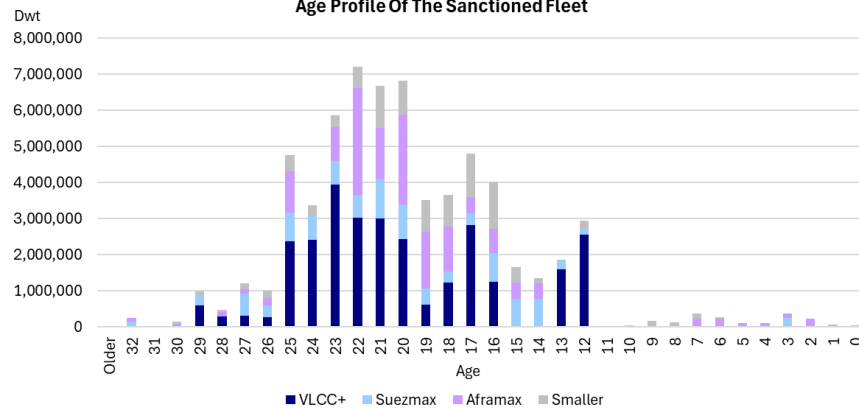
This week, President Trump announced that he talked to Russian President Putin and with Ukraine’s President Zelenskyy to start negotiations to end the war in Ukraine. No details on terms and timing have been released, but if talks are indeed scheduled, this would be a first step in de-escalating the conflict. At the same time, the cease-fire between Hamas and Israel still holds despite tensions, and the Houthi’s have suspended their attack on commercial ships passing through the Red Sea. There is a possibility (albeit remote) that the Trump administration will engage in negotiations with Iran about a “verified nuclear peace agreement”. However, President Trump did restart his “maximum pressure” campaign on Iran. The relationship of the United States with Venezuela, another Trump adversary from his first term in office, has also shifted and there seems to be a possibility of negotiations between the two governments, even though the U.S. does not formally recognize the Maduro regime. What do Russia, Iran and Venezuela have in common? These countries are all sanctioned by the U.S. and other Western countries and they use the so-called “Dark Fleet” to keep their oil and oil products flowing to markets around the world. All three countries depend heavily on these exports to keep their economies afloat. What would happen to the tanker market in general and the dark fleet in particular if peace broke out and sanctions on these countries were lifted?

There is no official definition of the dark fleet (or shadow fleet). It is a term used to identify tankers that try to obscure their activities (such as disabling their AIS) because they engage in sanctioned trades with the countries identified above (Russia, Iran and Venezuela). The tankers in the dark fleet are often older ships without proper insurance and operated by inexperienced crews. Many of these vessels have unclear ownership structures and frequently change names and flag registrations to evade authorities. Estimates of the size of the dark fleet vary considerably. Some analysts count 600 tankers, while others estimate the fleet to be as large as 1,100 vessels. A subset of the dark fleet is the sanctioned fleet, i.e. the tankers that have been formally sanctioned by the governments of the U.S., the U.K. and/or the E.U. The fleet of sanctioned tankers is smaller, but unlike the dark fleet, these vessels have been listed by name and can be clearly identified. In their system, Vortexa identifies 476 sanctioned tankers (94 VLCCs, 68 Suezmaxes/LR3s, 179 Aframax/LR2s, 25 Panamax/LR1s, 78 MRs and 32 smaller tankers). The tankers on the sanctions list, especially the ones targeted by the U.S. have become increasingly difficult to trade because the countries receiving the oil (primarily China and India) do not want to run afoul of U.S. sanctions.

Destination Of Sanctioned Vessels



Age Profile Of The Sanctioned Fleet



Source: Vortexa

The largest number of sanctioned tankers (primarily Aframaxes and Suezmaxes) are trading Russian oil. The number of vessels in the Iranian trades is smaller, but still substantial, while the exports from Venezuela are small in comparison and employ only a limited number of vessels. At the moment, it appears that lifting or relaxing the sanctions on Russia seems to be the most impactful if there is a negotiated cease fire or peace treaty. A deal with Venezuela does not really move the needle in the tanker market and a nuclear peace agreement with Iran still seems far off.

However, if we assume that over the course of the next 12-18 months, all sanctions will be lifted, what will happen to the sanctioned tankers? As can be seen in Chart 2, the average age of the sanctioned fleet is high. About 60% of the sanctioned fleet is 20 years old or older and will likely be recycled when sanctions are lifted, and the mainstream tanker fleet is allowed to trade to Russia, Iran and Venezuela again. The state-owned fleets of Russia (Sovcomflot) and Iran (National Iranian Tanker Company) will re-enter the market, but most other companies that were set up specifically to take advantage of the premium earnings that were available in the sanctioned trades will likely disappear after they dispose of their assets.

The impact on the tanker market will generally be positive, in particular if the older vessels are quickly recycled and the trade flows do not immediately revert back to pre-war patterns. In that case, ton-mile demand remains elevated, and tonnage supply is restricted. However, even if trade patterns return to “normal”, the removal of a large portion of the dark fleet will boost the market.