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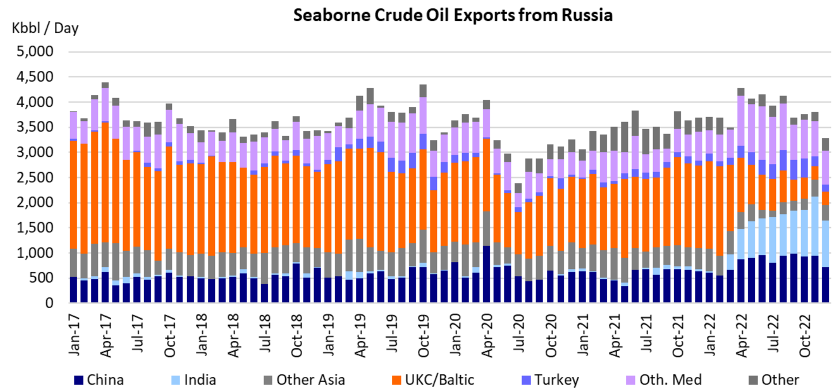
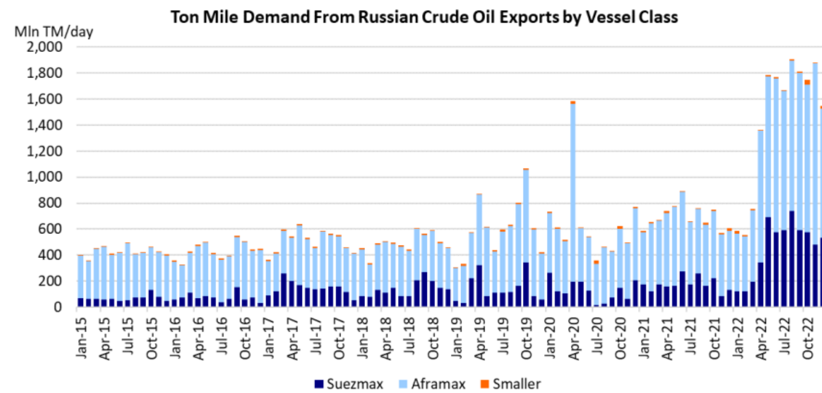
POTEN TANKER OPINION

Rerouting Russian Oil





Sources: Poten & Partners, Lloyd's List Intelligence

Early impacts of the EU import ban and G7 price cap

On December 5, 2022, the EU ban on seaborne crude oil imports from Russia went into effect, accompanied by a $60 per barrel price cap for exports to countries outside the G7, the EU and Australia. While there are a few allowed exceptions, Europe has largely stopped importing oil from Russia. Did Russia reduce its exports and if so, who picked up the slack? How effective has the price-cap been? Did Russia employ more vessels of the shadow fleet to move its crude? What has been the impact on the tanker market so far? These are some of the questions we will try to address in this Tanker Opinion.

According to data from Lloyds List Intelligence, seaborne crude oil exports from Russia peaked in April of 2022 at 4.3 Mb/d and overall volumes have been gradually declining since then. The drop accelerated in December, but this may be temporary, since this was the month that the EU ban went into effect. As the first chart shows, the changes in cargo destinations are a lot more significant. In January 2022, the month prior to Russia's invasion of Ukraine, 1.7 Mb/d (47%) of Russian crude was exported to Northwest Europe (UKC/Baltic). By December, this had fallen to 266 Kb/d and in January 2023, because of the ban, this will be down to zero. India has been the biggest "beneficiary" of the shift in trade flows. Exports to this country increased from virtually nothing prior to the invasion to 1.2 Mb/d in November last year, making India the largest seaborne importer of Russian crude. Exports to India eased slightly in December. China also increased its intake of Russian crude, from around 600 Kb/d in the beginning of the year to around 940 Kb/d in November. While India is targeting mostly European barrels from the Black Sea and some from the Baltic, China has focused on the Russian exports from the Far East. Currently, China buys almost all crude exported from Kozmino as other traditional customers Korea and Japan reduced their imports. Turkey initially increased its purchases from the Kremlin, but its imports of Russian crude have fallen by more than 50% since peaking in August.

It must be noted that the transparency of the Russian trade flow data has been somewhat reduced since the conflict started and sanctions have been imposed. Tankers leaving the Russian ports frequently don't indicate their target destination until later in the voyage (if at all), and the increased use of ship-to-ship (STS) transfers makes it more difficult to track the ultimate destination of these Russian barrels. The increased use of the "shadow fleet" is a further complicating factor. After the invasion and in particular since sanctions were applied to Russian crude oil exports, a growing contingent of owners has declined to engage in moving Russian oil. Many of these owners are publicly traded companies which tend to have more modern vessels. The result of this trend has been an "ageing" of the tanker fleet calling on Russian ports. For example, in January 2022, 40% of the Aframax voyages ex-Russia were done on tankers that were younger than 10 years and only 28% on vessels that were older than 15 years. No vessels older than 20 years were utilized. By December, this age profile had changed dramatically: Only 22% of the Aframaxes were less than 10 years old and 50% was over 15 years old. Several voyages were performed on vessels older than 20 years and one Aframax employed was even older than 25 years!

The existence of the G7 price-cap has had an impact on the tanker markets. This mechanism, which was created to keep Russian oil flowing below a certain price level, reduced the impact of the EU import ban. Since the price of Urals (the main export grade from Russia's European ports) has remained below the $60 price-cap, mainstream owners are still allowed to move these barrels without fear of sanctions. Exports out of the Russian Far East were impacted, however. There, prices exceeded $60/barrel, which eliminated most mainstream owners from the trade. Almost 75% of the Aframaxes employed on these voyages are now 15 years old or older, indicating a clear shift towards the shadow fleet. If prices for Russian oil are to exceed the price-cap in the Atlantic Basin, Russia may struggle to find enough vessels to move their crude. This could tighten the oil markets and raise prices.

The overall impact on the tanker market has been positive with longer voyages driving more ton-mile demand. The ton-mile demand generated by Russian crude oil exports has tripled since the start of the war (chart 2). This trend has been very supportive for the freight market and is likely to continue in 2023.

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