# POTEN TANKER OPINION

## Two Years And Counting ...

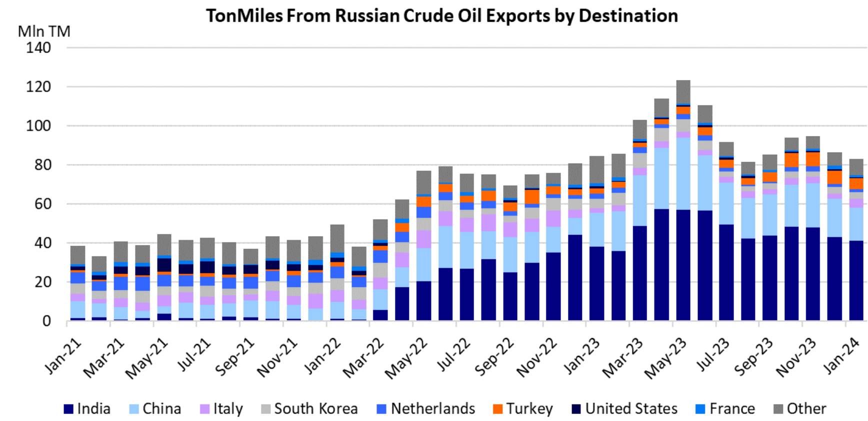
**How the Russian invasion of Ukraine changed tanker markets**

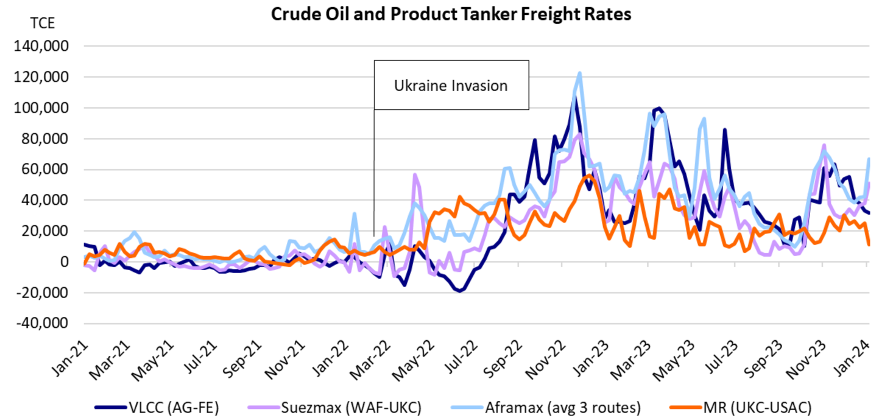
Tomorrow, Saturday 24 February 2024, marks the second anniversary of Russia's invasion of Ukraine. The war has had a profound impact on the oil and tanker markets. It has upended trade flows for both crude oil and refined products, boosted freight rates and led to a surge in transactions for older second-hand vessels. In this weekly opinion, we will take stock of some of the most important developments since the conflict started two years ago.

The first time we wrote about the situation in Ukraine was on January 21, 2022, one month before the invasion. In our Opinion titled "Russian Roulette", we highlighted the importance of Russian crude and product for the European markets. We said: "Sanctions will disrupt trade flows and create significant dislocations and inefficiencies, which typically benefit the tanker market." This is exactly how it played out. Ultimately, Europe stopped importing crude oil and refined products from Russia and this completely scrambled trade flows, in particular in the Atlantic Basin. Europe kept more of its North Sea production and boosted crude oil imports from across the Atlantic, in particular the United States.

Initially, while sanctions were being developed, many tanker owners continued to move Russian oil. Most Western countries and companies started self-sanctioning Russia and trade flows started to shift from Europe and North America towards Turkey, India and China. This represented a major boost in ton-mile demand and, since Moscow's export infrastructure in the Baltic, Black Sea and the Russian Far East can only accommodate tankers up to Aframax/Suezmax size, earnings for these crude tanker segments gained the most. On the product side, MR's were the main beneficiaries. By December 2022 the EU completely stopped importing crude oil from Russia, followed by a ban on product imports in February 2023. Coinciding with these bans, the G7 countries (EU, US, UK, Canada and Japan) implemented a price Cap system that would allow western tanker companies and service providers (like insurance companies) to be involved in the transportation of Russian oil only if the product was sold below a certain price. The price cap is $60/barrel for crude. For clean products, it is set at $100 per barrel for products that trade at a premium to crude, such as diesel, and $45 per barrel for products that trade at a discount to crude, like fuel oil.

Due to the G7 sanctions and price cap, customers of Russian oil and oil product could no longer rely on the large international fleet of tankers, many of which carry western insurance and/or have western ownership interests. This led to a rapid expansion of the so-called "dark fleet", a group of tankers involved in clandestine activities to move sanctioned oil from Iran, Venezuela and Russia. These tankers are often old, not well maintained, operated by inexperienced crews and therefore considered unsafe. They also have murky ownership structures and obscure insurers. These vessels often employ tactics to hide their location, the origin of the crude they carry, and their ownership. The exact size of the dark fleet is impossible to determine, but it is widely estimated to have at least doubled and possibly tripled in size since the sanctions against Russia were implemented.




Sources: Vortexa / Poten & Partners

The growth in the dark fleet has been facilitated by an active second-hand market, in particular during 2022. An analysis of our S&P data showed that transactions for Aframaxes and Suezmaxes increased by 50% and 25% respectively from 2021 to 2022. Older vessels were the primary target: No less than 75% of transactions was for vessels that were older than 15 years. The new owner paid top dollar for these ageing tankers; prices for 15-year-old Aframaxes and Suezmaxes more than doubled since the invasion of Ukraine.

Despite the sanctions, Russian exports of crude oil and refined products have remained fairly stable, although their customer base is very different now. The growth of the dark fleet has largely protected the Kremlin from the worst effects of the G7 price cap. The sanctions against Russia have certainly boosted the fortunes of the Aframax and Suezmax tankers (as well as the MR's). We don't expect this situation to change as long as the conflict continues, and the sanctions remain in place.