Future Thinking S1 E4: Russian Oil Price Cap enforcement

00:00:06.125 --> 00:00:11.685
<v SPEAKER_1>Welcome to Future Thinking, an Alongside podcast miniseries from NorthStandard, one of the world's leading marine insurers.

00:00:11.845 --> 00:00:12.785
<v SPEAKER_1>I'm Mike Salthouse.

00:00:13.585 --> 00:00:21.585
<v SPEAKER_1>Today, I'm delighted to be joined by Olga Dimitrescu, Head of Engagement, Oil Price Cap at the UK Office of Financial Sanctions Implementation.

00:00:21.945 --> 00:00:25.185
<v SPEAKER_1>Olga, welcome, first of all, thank you very much for coming down to see us.

00:00:25.385 --> 00:00:26.185
<v SPEAKER_2>Thanks very much, Mike.

00:00:26.285 --> 00:00:27.505
<v SPEAKER_2>Really good to be here.

00:00:27.765 --> 00:00:32.545
<v SPEAKER_1>Could perhaps you say a little bit about yourself, then Ofsea, and the role that you have within Ofsea.

00:00:33.245 --> 00:00:37.645
<v SPEAKER_2>So I am the Head of Engagement for the Oil Price Cap in Ofsea.

00:00:37.965 --> 00:00:41.665
<v SPEAKER_2>Ofsea being the Office of Financial Sanctions Implementation, we are part of HM Treasury.

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<v SPEAKER_2>And our team is actively engaging with industry, monitoring the impact of the cap, and of course, enforcing against non-compliant actors.

00:00:52.885 --> 00:01:10.765
<v SPEAKER_2>Within this team, my role and also the role of other people working for me is to make sure that we remain appraised of developments in industry and that we inform industry of upcoming changes to the guidance and to the general licenses that underpin the oil price cap mechanism.

00:01:11.865 --> 00:01:12.205
<v SPEAKER_1>Thank you.

00:01:12.645 --> 00:01:15.265
<v SPEAKER_1>So let's talk a little bit about the oil price cap then.

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<v SPEAKER_1>Can you tell me what, from Ofsea's point of view, the objectives of the oil price cap are?

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<v SPEAKER_1>And then also, do you think they're being achieved?

00:01:23.285 --> 00:01:29.905
<v SPEAKER_2>So I'd say the oil price cap is novel at the intersection of trade and financial sanctions.

00:01:30.165 --> 00:01:34.785
<v SPEAKER_2>It is implemented and enforced multilaterally, which of course is a challenge in itself.

00:01:35.325 --> 00:01:54.325
<v SPEAKER_2>And maybe just to remind our listeners, what the oil price cap does is that it operates globally by prohibiting UK and coalition entities from providing services such as shipping, insurance, or finance that facilitate the maritime transportation of Russian oil, unless, of course, the oil is purchased at or below the relevant price cap.

00:01:55.525 --> 00:01:59.165
<v SPEAKER_2>Now, the oil price cap has a dual purpose, was designed with a dual purpose.

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<v SPEAKER_2>It restricts the revenues flowing to the Russian state, which in turn, of course, undermines Putin's ability to fund his war in Ukraine.

00:02:07.345 --> 00:02:16.785
<v SPEAKER_2>And the second purpose is to ensure that third countries can continue to secure oil at affordable prices and that we maintain stability in global markets.

00:02:17.585 --> 00:02:22.565
<v SPEAKER_2>Now, in terms of the success of the policy, I think we are, broadly speaking, quite successful.

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<v SPEAKER_2>We have driven down Russian revenue, which is evidenced by the IEA research published earlier this year.

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<v SPEAKER_2>The OPC has contributed to reducing Russian oil export revenues by about 20% in 2023 compared to the previous years, 2022.

00:02:38.585 --> 00:02:41.545
<v SPEAKER_2>And of course, there are other factors within this context.

00:02:41.565 --> 00:02:43.585
<v SPEAKER_2>There are other factors that Russia needs to contend with.

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<v SPEAKER_2>There is a global decline of oil prices, which means that Russian oil export revenues were all 9% lower month on month in December 2023, despite the increase in export volumes.

00:02:54.805 --> 00:03:03.385

<v SPEAKER_2>So the price cap operates alongside other drivers at international level that converge to impact Russian profits.

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<v SPEAKER_2>And furthermore, we also know that the cost of creating and maintaining this infamous shadow fleet is around $2.25 billion in just one year, according to Yale research.

00:03:17.345 --> 00:03:22.385
<v SPEAKER_2>And of course, this further diminishes Russia's profits from oil exports, even if indirectly.

00:03:23.085 --> 00:03:24.965
<v SPEAKER_2>So this is kind of on the revenue side.

00:03:25.185 --> 00:03:28.245
<v SPEAKER_2>I'd say we are achieving our purpose.

00:03:28.985 --> 00:03:31.305
<v SPEAKER_2>On the oil flow side, there is stability in the market.

00:03:31.645 --> 00:03:46.385
<v SPEAKER_2>Oil prices did spike prior to the price cap due to the war risk premium, of course, but the OPC reassured and calmed the markets, which gives us further evidence that the Russian, the price cap is delivering against its dual intent purpose.

00:03:46.725 --> 00:03:54.265
<v SPEAKER_1>Good, I'm really glad that you highlighted some of the successors of the oil price cap, because I think sometimes in all the conversation about it, that gets missed.

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<v SPEAKER_1>So given that it has had a real impact on the amount of revenue that Russia generates from its oil sales, do you anticipate changes to the oil price cap system in 2024?

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<v SPEAKER_2>Definitely, maybe taking back one step, I'd say that our overall priority is to tighten compliance and reinforcement of the policy mechanism.

00:04:17.065 --> 00:04:20.405
<v SPEAKER_2>And within this aim, maybe to give you a bit of a timeline.

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<v SPEAKER_2>In the first quarter, what we'll want to do is focus on updating the attestation process in February, as of 19th of February, which is quite a significant change.

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<v SPEAKER_2>And then we'll also take stock of industry feedback in the coming months and see how that is implemented and perhaps do an internal evaluation of its impact.

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<v SPEAKER_2>In the second quarter, we'll very likely up the ante on enforcement and continue taking action against actors engaged in deceptive practices.

00:04:48.225 --> 00:04:55.865
<v SPEAKER_2>Now, of course, there may be further coalition advisory notes, statements, may also be new designations under the Russia sanctions regime.

00:04:56.365 --> 00:04:59.885
<v SPEAKER_2>And we retain the right to keep our options open.

00:05:00.185 --> 00:05:05.665
<v SPEAKER_2>But the overall theme is remaining, we want to remain nimble and we want to crack down on circumventions.

00:05:06.005 --> 00:05:07.205
<v SPEAKER_1>Understood, absolutely.

00:05:07.625 --> 00:05:13.185
<v SPEAKER_1>And of course, on 19th of February, we've got some changes being made to the attestation process.

00:05:13.205 --> 00:05:16.125
<v SPEAKER_1>Perhaps you could explain those a little bit or describe those.

00:05:16.465 --> 00:05:20.405
<v SPEAKER_2>I'd say there are three main changes from the 19th of February onwards.

00:05:20.825 --> 00:05:27.385
<v SPEAKER_2>The first one is attestations that we now expect to be cascaded proactively on a per voyage basis.

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<v SPEAKER_2>The introduction of a new requirement to record and provide itemized ancillary costs.

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<v SPEAKER_2>And also the creation of the two sub tiers, tier 3A and tier 3B.

00:05:38.565 --> 00:05:41.585
<v SPEAKER_2>Just to give you a bit more insight into this.

00:05:41.665 --> 00:05:59.805
<v SPEAKER_2>So for the per voyage basis attestations, what we're looking at is a new attestation model whereby attestations are to be cascaded or passed down proactively from tier one to tier two to then tier three providers on a per voyage basis as part of, of course, the relevant transaction.

00:06:00.585 --> 00:06:10.405
<v SPEAKER_2>And I guess when we say a voyage, what we mean is that a voyage is a period between when the oil is loaded onto a ship and when it's offloaded.

00:06:10.845 --> 00:06:18.145
<v SPEAKER_2>So to the extent that we're doing, that we see several ship-to-ship transfers, those would constitute two separate voyages.

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<v SPEAKER_2>So there will be, we would want to see more attestations being shared down the chain.

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<v SPEAKER_2>As for the second requirement, recording and providing itemized ancillary costs, again, these are to be recorded by tier one entities and of course tier two entities with access to price information and then provided to tier two and tier three contractual counterparties upon request.

00:06:39.305 --> 00:06:40.225
<v SPEAKER_2>So that would be the difference.

00:06:40.245 --> 00:06:43.045
<v SPEAKER_2>First one is proactive and we'd expect that to happen.

00:06:43.225 --> 00:06:46.165
<v SPEAKER_2>And the second requirement is upon request.

00:06:46.865 --> 00:06:49.685
<v SPEAKER_2>So you would not necessarily need to happen proactively.

00:06:50.705 --> 00:06:57.425
<v SPEAKER_2>The third change, the creation of the splitting of tier three into these two sub tiers, three and three B.

00:06:57.965 --> 00:07:17.105
<v SPEAKER_2>The rationale behind this split is that entities that are placed in tier three B are seen to, we judge them to operate at such a distance from the original transaction and the voyages that it may not be entirely practical to obtain an attestation for each voyage.

00:07:17.485 --> 00:07:24.165
<v SPEAKER_2>And so creating this sub tier better reflects how the market operates and is slightly more workable for industry.

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<v SPEAKER_2>And of course, tier three B will, we've already mentioned this in the existing guidance.

00:07:29.945 --> 00:07:42.445
<v SPEAKER_2>It will comprise re-insurers, financial institutions that provide general financing facilities, P&I clubs, cargo insurers, hollow machinery, insurance brokers, and ship owners will all be in tier three A.

00:07:42.905 --> 00:07:44.025
<v SPEAKER_1>Yeah, understood.

00:07:44.785 --> 00:07:50.265
<v SPEAKER_1>And perhaps you could also explain what you're hoping to achieve with these new changes.

00:07:51.125 --> 00:08:00.165
<v SPEAKER_2>We've listened to feedback from industry, and we understand that currently there is limited sight of what's going on in all transactions.

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<v SPEAKER_2>We also understand that the current model is exploited by nefarious actors who falsify attestation documents in order to unlock access to coalition services.

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<v SPEAKER_2>And of course, because these transactions appear to be price cap compliant, we realize that good faith service providers can inadvertently be drawn into facilitating illegal trades.

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<v SPEAKER_2>And so because of that, what we're trying to achieve is increasing the visibility of transactions across the entire supply chain and also empowering legitimate actors to refine their due diligence processes.

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<v SPEAKER_2>And particularly, we realize that supply chains are quite complex, they cross jurisdiction.

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<v SPEAKER_2>And so on one hand, we want to empower these market participants to have more transparency and more visibility across transactions and gain more confidence in their counterparties.

00:08:55.665 --> 00:09:06.565
<v SPEAKER_2>But at the same time, we want to provide G7 authorities with additional intel to support investigations into suspicious trades and also allow for a more targeted enforcement approach.

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<v SPEAKER_2>And so I'd say that overall, these changes have been designed to ensure a balance between enforceability and maintaining incentives for continued trading.

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<v SPEAKER_2>And of course, it will make it easier for good faith actors to comply with the price gap, whilst also making evasion more challenging.

00:09:24.785 --> 00:09:25.945
<v SPEAKER_1>Yeah, let's hope so.

00:09:26.565 --> 00:09:34.825
<v SPEAKER_1>So staying with the attestation, the new attestation contains a right to require a breakdown of the ancillary shipping costs from a contractual counterpart.

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<v SPEAKER_1>So I think we'd be interested in learning in what circumstances would you expect a tier 3A party, such as a P&I club or perhaps a ship owner, to make such a request?

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<v SPEAKER_2>I think there are several scenarios where that could be activated.

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<v SPEAKER_2>So perhaps if a service provider wants additional clarification about a particular trade, as part of their own due diligence processes, or maybe they are interacting with a new counterparty they do not have sufficient information about, maybe they are requested by another contractual counterparty in the chain, or perhaps OFSI is requesting that information.

00:10:17.125 --> 00:10:17.525
<v SPEAKER_1>I see.

00:10:17.625 --> 00:10:18.485
<v SPEAKER_1>Okay, interesting.

00:10:18.845 --> 00:10:30.545
<v SPEAKER_1>Now let's move on and have a look at the dark, or as I prefer to call it, the parallel fleet, because the growth of this parallel fleet has been one of the less welcome consequences of the oil price cap.

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<v SPEAKER_1>I'm curious, what actions is OFSI taking to reduce the number of Russian oil shipments on vessels that do not access coalition services?

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<v SPEAKER_2>That is a really good question.

00:10:41.505 --> 00:10:45.045
<v SPEAKER_2>We are aware that there is a parallel fleet, there's no denying that.

00:10:45.365 --> 00:10:49.965
<v SPEAKER_2>And we know that it has also grown significantly, which is slightly unwelcome.

00:10:50.505 --> 00:10:54.465
<v SPEAKER_2>But as I mentioned earlier, that comes at a significant cost to Russia.

00:10:55.245 --> 00:11:05.125
<v SPEAKER_2>$2.25 billion in one year, that is spent by the Putin regime on tankers and tanks, as our coalition partners like to say.

00:11:05.585 --> 00:11:11.045
<v SPEAKER_2>So I'd say that perhaps looking at this on two different levels in terms of our response to this.

00:11:11.565 --> 00:11:17.365
<v SPEAKER_2>So there's an internal level to what we're doing within the jurisdiction of the G7 plus coalition.

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<v SPEAKER_2>Primarily, we want to have more guidance around deceptive practices.

00:11:22.185 --> 00:11:29.565
<v SPEAKER_2>We're updating our compliance rules and regulations, as seen in the advisory that we've issued on October 10th last year.

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<v SPEAKER_2>The coalition statement on December 20th, and of course the red alert sent out earlier this morning.

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<v SPEAKER_2>And what we're trying to do with this additional guidance that takes the form of not just the old price cap guidance, but also these alert statements.

00:11:44.565 --> 00:11:54.325
<v SPEAKER_2>And what we're trying to do is to ensure that legitimate industry actors remain vigilant and able to enhance their compliance processes.

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<v SPEAKER_2>And they know the steps that we expect them to take in case of, in case there's any inadvertent misinterpretation of the cap, or even if there is some outright non-compliance.

00:12:07.305 --> 00:12:09.965
<v SPEAKER_2>So this is internally to the coalition.

00:12:10.385 --> 00:12:16.705
<v SPEAKER_2>Now, external to that, because we realize that there is a world out there, that is outside our nexus.

00:12:17.485 --> 00:12:25.185
<v SPEAKER_2>What we're doing against the shadow fleet is very much taking action against those entities that are deliberately circumventing the sanction.

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<v SPEAKER_2>We've got designations.

00:12:27.005 --> 00:12:34.465
<v SPEAKER_2>The FCDO has already designated a number of entities, and that can continue to happen in 2024.

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<v SPEAKER_2>There will be more coalition alerts that go to governments as well.

00:12:37.945 --> 00:12:57.205
<v SPEAKER_2>There is international engagement with state actors, so with other governments, we're trying to drive up understanding of and compliance with our aims, and also making these other governments aware of the maritime risks that are associated with circumvention of the cap and of course the environmental risks as well.

00:12:57.985 --> 00:13:10.765
<v SPEAKER_2>And so I'd say that by operating on both these two levels, we're making it harder for Russia to use its shadow fleet, which in turn would force more volume back into the G7 fleet, where service providers are compliant with the cap.

00:13:11.185 --> 00:13:22.005
<v SPEAKER_1>And it's interesting actually, because I saw it's been reported in the maritime press that a number of Indian banks are refusing to engage with vessels that seem to have been carrying these cargoes that are a part of this parallel fleet.

00:13:22.025 --> 00:13:23.185
<v SPEAKER_1>I think that was reported today.

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<v SPEAKER_1>And do you obviously have any figures or any understanding as to what proportion of Russian oil cargoes currently think still access the coalition services?

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<v SPEAKER_2>We know there's been a reduction, but we want to crack down on non-compliance and circumvention.

00:13:38.645 --> 00:13:42.085
<v SPEAKER_2>So what we want to do is force these volumes back into the G7 fleet.

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<v SPEAKER_2>And particularly since it is in our interest that this happens.

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<v SPEAKER_2>One of the reasons why the price cap is so effective is because we have this prevalence of services provided by G7 service providers.

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<v SPEAKER_2>It is difficult to make trades or gain significant market share without using G service at all.

00:13:59.185 --> 00:14:01.785
<v SPEAKER_2>So this is why we're talking to industry.

00:14:02.485 --> 00:14:09.645
<v SPEAKER_2>We never wanted to cut off G7 maritime services from insuring or being involved in the global trade of Russian oil cargoes.

00:14:10.405 --> 00:14:13.265
<v SPEAKER_2>We need the price cap to remain workable.

00:14:13.285 --> 00:14:19.525
<v SPEAKER_2>And this is why we're quite keen to make sure that these volumes are forced back into our jurisdictions.

00:14:19.885 --> 00:14:20.185
<v SPEAKER_1>Yeah.

00:14:20.245 --> 00:14:21.145
<v SPEAKER_1>Oh, that's encouraging.

00:14:21.245 --> 00:14:22.305
<v SPEAKER_1>Right.

00:14:22.665 --> 00:14:24.745
<v SPEAKER_1>So one very topical question.

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<v SPEAKER_1>You mentioned it, I think, slightly earlier today, and it's the 1st of February, for those of you who are listening, OFSE published a compliance advisory.

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<v SPEAKER_1>Would you like to take the opportunity to say just a few words about this and perhaps how we should read it alongside the oil price cap guidance?

00:14:38.645 --> 00:14:39.185
<v SPEAKER_2>Definitely.

00:14:39.885 --> 00:14:45.745
<v SPEAKER_2>So we've, as of this morning, we have published this Red Alert, Compliance and Enforcement.

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<v SPEAKER_2>It contains an overview of key evasion methods and specific recommendations on how to identify these methods, how to mitigate the risks and negative impacts, as well as information on how to report suspected breaches across the price cap coalition.

00:15:01.925 --> 00:15:23.325
<v SPEAKER_2>Just to give you a very quick overview, we're looking at forced buy documentation and attestations, opaque shipping and insularity costs, overly complex supply chains that include third countries with intermediaries that have also quite irregular corporate structures, shadow fleet, of course, irregularities in voyages, and also a little bit on flagging.

00:15:23.965 --> 00:15:27.365
<v SPEAKER_1>Excellent, good, well, I haven't read it yet, but I certainly will do so.

00:15:27.585 --> 00:15:30.765
<v SPEAKER_1>I'm sure there'll be lots of very good advice and guidance contained in it.

00:15:31.085 --> 00:15:34.965
<v SPEAKER_1>Olga and Ofsi, thank you very much for taking the time today to explain your approach.

00:15:35.385 --> 00:15:36.365
<v SPEAKER_2>Thanks for having us, Mike.

00:15:36.885 --> 00:15:37.365
<v SPEAKER_1>Delighted.

00:15:37.705 --> 00:15:40.625
<v SPEAKER_1>Well, that's it, everybody, for this episode of Future Thinking.

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<v SPEAKER_1>Remember to listen to the other episodes in the Future Thinking series where we talk all things maritime, from ship security in the Red Sea to what another Trump presidency might mean for the world.

00:15:50.465 --> 00:15:59.125
<v SPEAKER_1>You'll find the Alongside podcast and these Future Thinking episodes on the North Standard website at northstandard.com or wherever you get your podcasts from.

00:15:59.465 --> 00:16:02.965
<v SPEAKER_1>You can also click follow to ensure that you don't miss a single episode.

00:16:03.305 --> 00:16:05.425
<v SPEAKER_1>From me, Mike Salthouse, bye for now.