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POTEN TANKER OPINION
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Nothing To See Here (Yet)

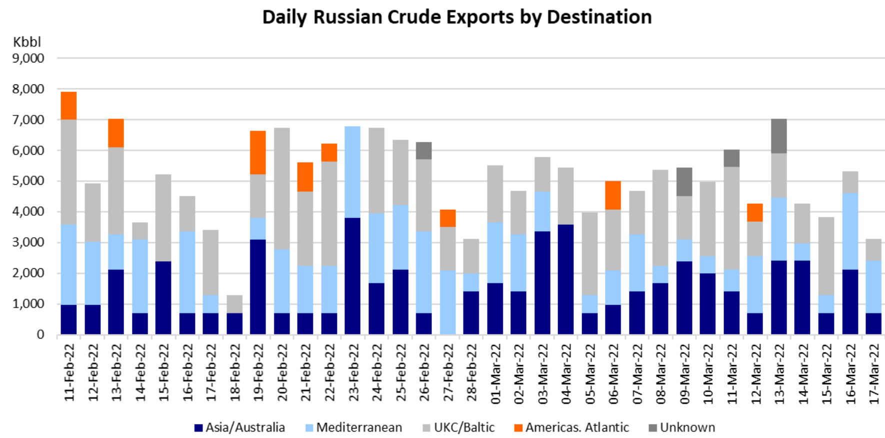
When will Russian exports really stop flowing?

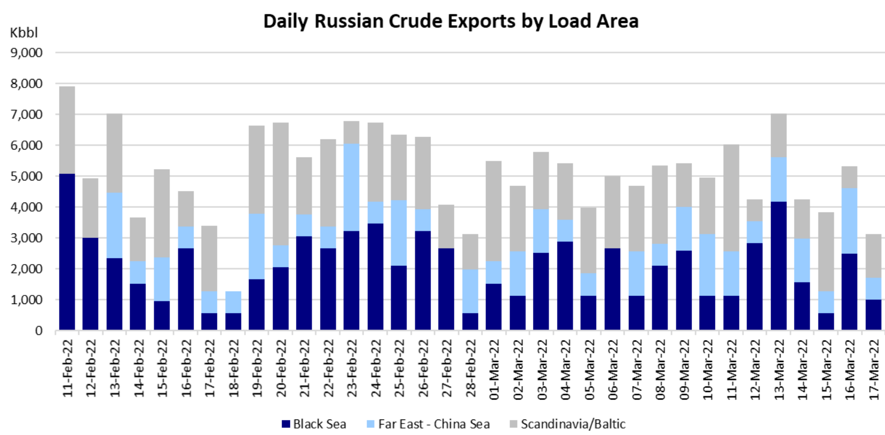
Russia invaded Ukraine on 24 February 2022. In the 22 days that followed, most of the world has responded with a vast array of economic sanctions. Initially, most of these sanctions carefully avoided targeting the energy industry, because Russia is a major oil and gas supplier, in particular to Europe. However, even though Western companies could still legally purchase Russian oil, many decided that they would no longer do business with Moscow. The oil companies that are "self-sanctioning" include most European refiners, including oil majors such as BP, Shell and TotalEnergies. Despite a lack of official sanctions, potential importers of Russian oil have to deal with significant transaction challenges, including problems financing, insuring and shipping the product. On top of that, firms that continue to transact with Russia face major reputational risks. Over time, the pressure grew to officially sanction Russian energy exports and on March 8, U.S. President Biden signed an Executive Order to ban the import of Russian oil, LNG, and coal to the United States. Canada, Australia, and the U.K. also restricted oil imports from Russia. How much of an impact will these actions have on Russian exports, when will this be visible in the physical market, and what could be the impact on the tanker market?

The U.S. sanctions, announced on March 8, come with a 45-day window. This means that contracts entered into prior to the ban will have until April 22 to be finalized. According to market reports, a number of tankers laden with Russian crude or products are on their way to discharge in the U.S. prior to the deadline. The U.K. ban will be effective by the end of the year 2022, giving U.K. refiners time to find alternative sources of oil to ensure a smooth transition. The E.U. has not announced a ban on Russian oil imports, but the European Commission has published plans to cut the E.U.'s dependency on Russian oil & gas before 2030.

Are any of the above developments showing up in the daily APEX statistics from Lloyd List Intelligence (Figure 1 and 2)? The short answer is: Not really. Exports to the U.S. were already fairly limited and that does not seem to have changed in recent weeks. Exports to the Mediterranean and northern Europe have also held up so far. The main reason that we have not seen any major changes in exports is that most of the barrels that have been shipped since Russia's invasion of Ukraine were already purchased prior to the outbreak of the conflict.

However, there are some changes that could be indicative of future variations in trade flows. Although it is a small sample size, exports to Asia seem to have picked up in the period since the invasion. The export volumes loaded in Russia destined for Asia averaged 1.4 Mb/d in the 10 days prior to February 24. Since then, volumes have increased to an average of 1.75 Mb/d. Within Asia, India is an interesting case. India has maintained a "neutral" stance in the conflict between Russia and the Ukraine. It has strong diplomatic and economic ties with both Russia and the United States. In the weeks before the invasion, no crude oil cargoes were shipped to India. Since then, four Suezmax cargoes have loaded in the Black Sea port of Novorossiysk destined for India. Like China, India is a price sensitive buyer and it seems to be taking advantage of the opportunity to buy Russian crude at a discount.





Source: Lloyd's List Intelligence

South Korea is another interesting case study. The country has joined the international economic sanctions against Russia, but they are also a regular importer of Russian crude, both from the Black Sea and from Russia's Far East. South Korea is the main buyer of the crude oil from Sakhalin 1. It takes about one Aframax cargo every 4-5 days. On March 2, U.S. oil major ExxonMobil, the operator of the field, announced it would discontinue operations at Sakhalin 1. It is uncertain at this point what the impact will be on the Sakhalin exports and if South Korea will continue to buy the crude. A complicating factor may be that all Sakhalin exports are done by a dedicated fleet of Russian owned, ice-class Aframaxes.

We will keep a close eye on Russian oil exports to see what will happen in April, when we expect that the effects of the sanctions will start to show.