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Russian Shadow Tankers and Iraqi Oil Exports: Balancing Sanctions and Gaining a Share of the Asian

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Al-Bayan Center Studies Series

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Russian Shadow Tankers and Iraqi Oil Exports: Balancing Sanctions and Gaining a Share of the Asian Continent

Dr. Ali Abdul-Kadhim Daadoushi*

Abstract:

- There are three systems of fleets for transporting crude oil and other petroleum products, including the White or legal fleet, which enjoys global acceptance and transparency in dealings between exporting and importing countries. The Gray and Dark fleets, constituting the shadow tanker fleet, are involved in circumventing sanctions imposed on Russia.
- After the war in Ukraine and the imposition of sanctions on Russia regarding oil exports, new carriers began to emerge in energy markets. These new marketers have bases and headquarters in Hong Kong and Dubai.
- There are approximately 500 ships, many of them old tankers with mysterious ownership and insurance companies. They can play a crucial role in transporting Russian crude oil to China and other ports in Asia due to the price ceiling imposed by the Group of Seven industrialized nations, aiming to keep oil revenues in foreign currencies out of competition.
- Ships often use tactics designed to hide their location or the source of the transported crude oil from Russian ports. This oil may be refined later in India and other countries before being re-exported to Western countries that impose sanctions on the Kremlin.
- The Russian economy recovered after the sanctions imposed on it due to its use of shadow oil tankers to sell Russian oil to China and India.

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- Shadow tankers caused significant pollution and had a negative impact on environmental safety, as well as the safety of the crew and workers on these ships.
- Shadow tankers had a negative impact on Iraqi oil exports, especially to India, causing Iraq to fall to the second position. Iraq used to export around 1.2 million barrels per day, but it decreased to 890,000 barrels per day.

Introduction:

Since the outbreak of the war in Ukraine, we have witnessed reduced engagement from previously dominant Western companies in the fields of trade, shipping, and insurance of Russian oil. This reality has contributed to the emergence of new players in the market for transporting and selling Urals crude oil. These new companies are based not only in Geneva but also, to a greater extent, in Hong Kong and Dubai.

Russia's need for an alternative supply chain, known as "shadow tankers," has become more urgent since the beginning of the war, especially after December 5, 2022, when the Western sanctions package began to be implemented. These measures prohibit European imports of seaborne crude and allow Russian ships to benefit from the services of Western logistics and insurance companies only if the price of their cargo is less than $60 per barrel (the maximum allowed for Russian oil prices). Sanctions on diesel and other refined products increased after the decision was implemented on September 5th, making alternative channels (shadow tankers) more critical.[1]

1. For further information on the price ceiling, refer to: Ali Daadoush, 'A Chart of the Ceiling for the Price of Oil and Its Implications for OPEC (Plus) Countries,' published on the Al-Iqtisad News Network in 2022. The article is available at the following link: -
https://economy-news.net/content.php?id=31005&fbclid=IwAR3pHp5k_w7wq1qwrw-ba9FVTQJ28xRs%20p0c4ggFTS721dJXPmuwnjBtfp4s_aem_AQ721fz_rq7tWykFV7t8w7tW_oz0w4ap0rgi1HNGMT857Dsb6thWiGKBZC8WYgUTyr0

First: Maritime Transport Systems Worldwide

The phenomenon of the "Shadow Fleet" (alternatively known as the "Dark Fleet") has attracted significant attention from mainstream media since the outbreak of the Russian invasion of Ukraine. The term "Shadow Fleet" is widely used by both the media and within the maritime industry.

This type of tanker will be more effective and implementable by focusing on the grey and dark fleets fraught with risks. This new conceptual framework will enable institutions to better predict risks, allowing them to continue engaging in commodity trading, understanding the balance of supply and demand, and negotiating shipping deals more enlightened.

Winward's Maritime AI™ platform has identified a three-tier ship system to draw a more accurate picture of the smuggling of Russian oil, specifying three systems for transporting oil and its derivatives by ships[2]:

1. **Legal Carrier Fleet**: These are tankers that show no suspicious behavior, such as changing flags or irregular ownership structures. It is essential for specialized institutions to quickly identify these ships so that maritime organizations are not hindered by false impressions that may impede the flow of global movement.

2. **Grey Transport Fleet**: This is a new maritime fleet that emerged and evolved after the Russian-Ukrainian war. Foreign companies were quickly established in the aftermath of the war to conceal the origins and ownership of ships, appearing to be law-abiding and not subject to sanctions. This fleet is described as "grey" because it is challenging to determine legitimacy and sanctions compliance in many cases. Many of these ships frequently change flags. Windward identified more than 900 grey ships worldwide by the end of 2022.

2. Illuminating Russia's Shadow Fleet, https://windward.ai/knowledge-base/illuminating-russias-shadow-fleet/

3. **Dark Carrier Fleet**: This fleet is often used in illicit or illegal activities, deliberately disabling the ship's automatic identification system, along with other Deceptive Shipping Practices (DSPs), such as identity and location manipulation. Windward identified approximately 1,100 ships in a dark fleet roaming the seas.

The grey and dark fleets together form what is known as the "Shadow Tankers in Russia," where these ships pose a legitimate risk due to activities that are often challenging to detect, related to attempts to smuggle liquid commodities such as oil from Russia.

Vortex technology discovered that the grey fleet carries around 2.6 million barrels per day each month after the Russian-Ukrainian war, translating to a 68% increase compared to pre-Russian-Ukrainian war levels. As for the dark fleet, it increased by 21%, attributed solely to quantities of Russian oil.

Second: The Economic Sanctions Approach of the United States

Since World War II, the United States has positioned itself as a global power, both economically and politically. Consequently, the dollar became the world's primary currency in all geopolitical, economic, and social operations. Most countries compare their currencies to the dollar, especially when conducting national accounts, gross domestic product, and other macroeconomic indicators.

From this perspective, the United States, with its economic, military, and political power, seeks to maintain global dominance post-World War II. Any competition against it in all aspects is considered a threat to its internal and external national security. This has led to the imposition of economic sanctions on countries that the United States considers adversaries, transitioning from military intervention to economic sanctions due to their lower cost to the U.S. economy.

Several sanctions were imposed on countries adopting a socialist economic approach, such as Russia due to its war with Ukraine, and China due to manipulating its currency exchange rate, in addition to its support for Russia and Iran and its nuclear program, which the United States considers a threat to its national security. Economic sanctions were imposed on other countries based on similar considerations.

On the other hand, it is noteworthy that most sanctioned countries have not remained hostage to the sanctions. Therefore, they have tried and continue to seek all outlets and means to escape the imposed economic sanctions. Sometimes, they negotiate with the United States, and in other instances, they avoid sanctions using various innovative methods and measures.

Most sanctioned countries are either oil exporters (energy) or importers. China, after the turn of the millennium, emerged as a trading force with continuous annual growth, thanks to its low costs, as well as its reliance on lowering the value of its local currency as an excuse to export surpluses of goods, services, and commodities. The United States took firm actions, especially in 2018, by imposing a package of sanctions on Chinese trade.

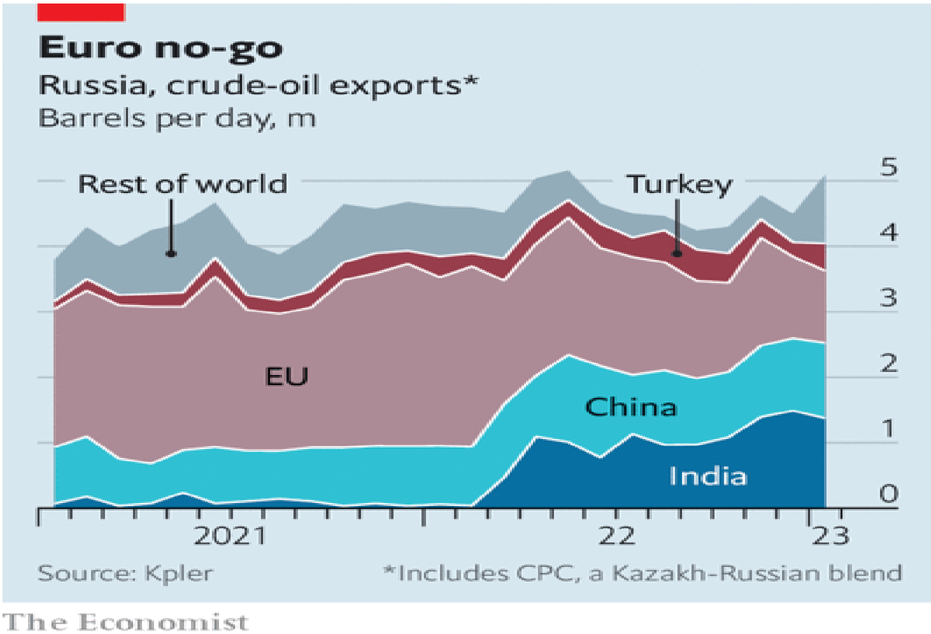
As for Iran, it is a producer and exporter of crude oil, seeking to transition to nuclear energy through a nuclear program aimed at positioning Iran as a major player on the international scene. Finally, Russia, where animosity dates back to World War II and the Cold War. However, later agreements were reached between the two countries, leading to a sort of peace serving the global economies and their stability to achieve growth. However, its war with Ukraine rekindled tensions, leading the United States to impose economic sanctions, including the ban on dealing with the global SWIFT system, causing a shortage of dollars entering Russia, directly affecting domestic trade. Russian exports, which accounted for more than 10% of the world's export volume in 2022, were damaged after the sanctions imposed by the European Union and the United States. However, we observe the Russian economy recovering just two months after the start of the mentioned sanctions, as China and India began importing most of the banned Russian oil at reduced prices, around $30 per barrel.

Some trading companies still use the same Greek shipping companies, British insurance companies, and Dutch and Japanese banks that have dominated the industry for a long time. This policy succeeded due to imposing price ceilings by the West, where European companies temporarily suspended their operations to review the relevant paperwork, leading to a decrease in the share of Western Russian oil from 60% to about 13%. After the final confirmation of the nature of the sanctions, the share returned to around 36%.[3]

Figure (1) below illustrates the volume of oil exports to key destinations worldwide, with a particular focus on European Union countries, China, India, and Turkey. These destinations experienced a significant surge in oil imports after the embargo on Russian oil. Notably, there is a discernible increase in exports to China, India, and Turkey following the sale of oil at discounts of around 30 dollars per barrel. Conversely, exports to the European Union dipped in early 2023 due to the impact of sanctions.

3. Russia shadow fleet king Gatik sinks on paper, transfers all tankers to related companies , 2023 , https://indianexpress.com/article/business/russia-shadow-fleet-king-gatik-sinks-on-paper-transfers-all-tankers-to-related-companies-8901462/

Figure 1: Russian Crude Oil Exports



Source: The Economist, based on KPLER data, 2023.

Moreover, the shadow fleet may undermine Russia's ability to evade sanctions or sell its oil above the specified price ceiling of $60. It also makes it challenging to precisely determine the number of Russian barrels sold. Experts have found evidence, including customs data on Urals crude, indicating that it has been sold in major ports far beyond what official prices suggest.

Third: Russia and Confronting Economic Sanctions

The ghost ships, with a history dating back half a century, navigate to secret clients with their transceivers turned off. They are renamed and repainted, sometimes multiple times in a single journey. Often, these ships pass through busy stations where their crude oil is mixed with other types, making them difficult to detect. Recently, several massive tankers that were previously anchored in the Gulf were observed transferring cargo from smaller Russian ships off the coast of Gibraltar.

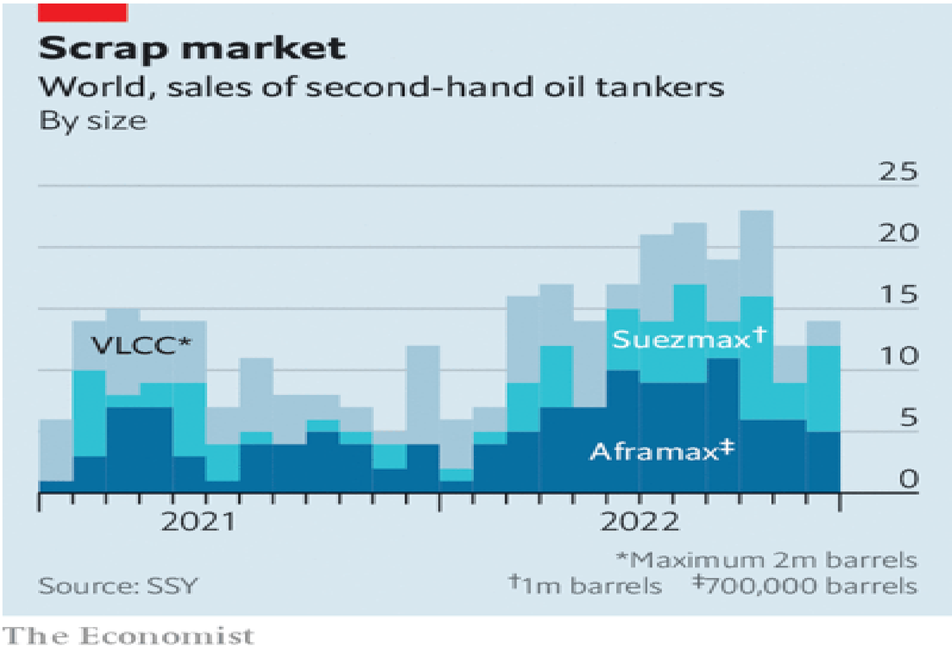
Oman and the United Arab Emirates (UAE) are among the prominent countries that imported oil from Russia in the first ten months of 2022. The import value was the highest in the past three years combined. It seems they mixed Urals crude with their own and resold some to Europe.

Similarly, Malaysia, which exported only half of its crude oil production to China in 2022, is another example. It imports a significant portion of Iranian oil through Iranian shadow tankers. However, ship monitors suspect that a few Russian barrels have also infiltrated.

Russia has been accustomed to selling crude oil abroad through the trading arms of Russian producers and oil companies to major European Union (G7) countries and Swiss commodity traders based in Geneva. However, it's noted that since the outbreak of the Russo-Ukrainian war, many of these traders have moved to more significant locations. Robin Mills of Moon Energy, a consultancy firm, believes that more than 30 Russian trading companies have set up shop in Dubai, some with new names. As a result, new companies have emerged to sell Russian oil to India, Sri Lanka, Turkey, and others. Most of these traders have no history of trading Russian oil, or in fact, no previous oil trade at all. Experts suspect that the majority of these companies represent fronts for Russian government-owned companies, with the purpose of circumventing sanctions and setting price ceilings.

This group of companies, the "fronts for the Russian government," regulates the sprawling fleet of shadow ships, and the prices of used oil tanker markets have inflated since the European Union first considered imposing sanctions on Russian goods and logistical services. In early 2022, around 200 crude oil carriers were traded, an increase of about 55% from 2021.

Figure (2): Increased prices of second-hand oil tankers



Source: The Economist, based on SSY data, 2023.

In 2023, the Russian fleet capable of circumventing price ceilings encompasses approximately 360 individual vessels, equivalent to about 16% of the global inventory of crude oil carriers. Consequently, if all Western vessels decide to avoid shipping Russian oil, the "Shadow Fleet" would be sufficient to maintain the flow of Russian oil exports at current levels. However, it is noteworthy that many of these vessels are aging, with some exceeding two decades, and undertake exceptionally long voyages. For instance, crude oil takes less than a week to reach Europe from the Black Sea, while its journey to China takes around 45 days.

Due to the lack of insurance by global insurance companies for Russian carriers due to sanctions, the “Shadow Trade” or “Shadow Fleet” relies on credit from the Russian state. Brokers pay only the shipment cost upon receipt of revenues. Additionally, Gulf banks, particularly those in the UAE, also issue checks.

Fourth: **Destinations of Russian Oil from Shadow Fleets**

Regarding the direction these shipments are headed, India and China have been the primary buyers of crude oil. Their share increased after the European Union imposed a ban on Russian crude, leading the European part of the Mediterranean countries to halt purchases of Russian Urals crude.

In terms of clean petroleum products (CPP), the mutual dependence between Russia and Europe remained strong even after the war, especially concerning diesel. As a result, Belgium and the Netherlands (ARA region) continued to be the preferred destination throughout the end of 2022. Since then, the European Union has started to reduce its exposure to Russian products, peaking in the ban adopted on February 5th. As a result, attention turned to Turkey as the dominant buyer, and a significant number of buyers for Russian diesel emerged in regions such as North and West Africa, the Middle East, particularly in South America, notably in Brazil.

The destinations (directions) of Russian crude oil and its derivatives are detailed below, distinguishing between the gray fleet and dark fleet tankers:

Table (1): Destinations of Russian Crude Oil and its Derivatives

Ships Type	*Crude Oil*	*Oil Products*
Gray Ships	*China (+600 bpd)* *India (+480 thousand bpd Turkey (+180 thousand bpd)*	*Turkey (+80 thousand bpd) Belgium (+37 thousand bpd) Netherlands (+32 thousand bpd)*
Dark Ships	*India (+420,000 bpd) China (+400,000 bpd) Bulgaria (+100,000 bpd)*	*Netherlands (+88 thousand bpd) Turkey (+67 thousand bpd) Germany (+65 thousand bpd).*

Source: The information is based on the research conducted by Julia Horowitz as referenced in the article titled "A mysterious fleet is helping Russia ship oil around the world. And it's growing," published in 2023.

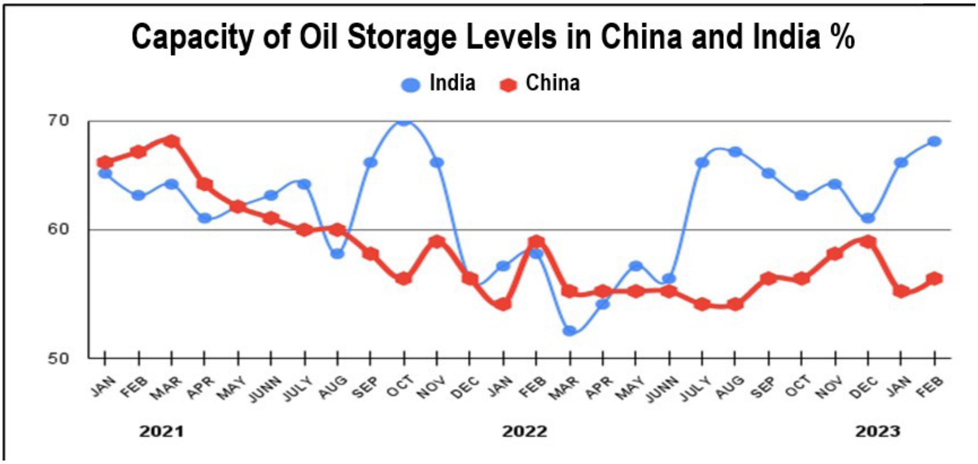
Fifth: Implications of Shadow Trade on the Global Economy

China and India can purchase more Russian crude, but according to the data, their tanks remain less than two-thirds full after buying all Russian oil. This suggests that most purchases are being refined and resold (some to Europe), and this process is done with the knowledge of the European Union. Evidence of this is China increasing the shares of oil product exports on January 3, 2023, by 50% compared to 2022.

We believe that this has alleviated the shortage of oil products and somewhat covered the Russian share that was exported to Eurozone countries, positively impacting the stability of energy prices at reasonable levels.

The following is Figure (3), illustrating the oil storage capacity of India and China from 2021 to the beginning of 2023:

Figure (3)



Source: The information is based on the researcher's reliance on the data from the mentioned countries.

On the other hand, the incentives to adhere to price ceilings may also diminish. In December 2022, Russian President Vladimir Putin issued a decree prohibiting the sale and dealing with unfriendly countries to Russia that adhere to and agree to sanctions. However, it is noted that the language of the statement was weak and may allow for exceptions, potentially enabling Russia to engage with countries in the Eurozone.

From a third perspective, in terms of implications for shadow trade, an increase in crude oil prices can drastically alter the situation and have a negative impact on the world economies. Currently, Brent crude, the international benchmark, is trading at prices ranging between $80–$83 per barrel, which is lower than the average price of around $100 in 2022. This reduction is due to Russia's weakened negotiating power and increased shipping costs. In other words, the price of Urals crude was discounted even before setting price ceilings. Consequently, Urals barrels, which flow from Western Russia and constitute a significant portion of its exports, were sold for less than $60.

This lower price allows advanced economies to thrive in the short and medium term, contingent upon any country wishing to comply with international rules. However, the recovery of Chinese demand, coupled with weak investment in new oil supplies, may keep Brent crude around $80 until the end of 2023. In such a scenario, the price of Urals is likely to rise as well, and some buyers may opt for shadow trade rather than confronting compliance issues.

The subsequent round of sanctions on Russia's refined products further incentivizes shadow trade. In December 2022, Europe purchased one million barrels per day of diesel and other clean distillation products, equivalent to about 55% of Russia's exports. This is insufficient to meet the total demand of EU countries, as refined products in China and India alone are not enough. Therefore, Russia's better bets might lie in smaller markets like Brazil and Mexico, which will witness a decline in supplies with the increase in US exports to Europe. However, the small fleet for transporting refined products, along with the length of the journey, exacerbates shortages in those countries. This indicates that Russia may not be able to sell many oil products and will instead try to push as much crude oil as possible into the gray market, specifically to China, India, and Turkey, based on the quantities exported as outlined in **Table (1)**[4].

4. Alex Longley and Serene Cheong: Russia's Rusty Oil Tanker Fleet Sets Sail with Newer Ships,2023. https://www.bloomberg.com/news/articles/2023-07-01/russia-s-scrapheap-worthy-fleet-of-oil-tankers-gets-an-infusion-of-newer-ships#xj4y7vzkg

Sixth: Growth of Russian Shadow Fleet Trade: Pros and Cons

The expansion of shadow trade in Urals crude oil provides Russia with a strategic advantage by enabling increased oil exports beyond the oversight of Western intermediaries or nations imposing sanctions, thereby reducing pricing transparency. Market data from India in November 2022 suggests that the country procured oil at significantly lower discounts than publicly reported. A former Russian oil official proposes that gray market brokers, who manage costs such as shipping, serve as conduits for transferring funds to external company accounts potentially influenced by the Kremlin.

However, Russia's evasion of sanctions brings about negative consequences globally, including:

1. **Geopolitical Division of Oil Trade**: In December 2022, major Western companies like ExxonMobil and Shell announced their refusal to charter tankers carrying Russian oil, compelling vessel owners to comply.
2. **Increased Trading Risks**: A growing share of global petroleum is transported by companies with limited field experience or a reputable track record, aboard aging vessels undertaking longer and riskier journeys. In case of accidents, insurance companies may be hesitant or unable to cover damages.

3. **Environmental and Safety Hazards**: The shadow fleet engages in risky ship-to-ship oil transfer operations in open waters, employs methods to conceal vessel identities, and turns off AIS (Automatic Identification System) transponders. The frequent change of ship names and ownership makes tracking challenging, leading to legal issues in less stringent jurisdictions[5].

There have been a reported eight incidents involving grounding, collisions, or near accidents concerning tankers transporting sanctioned oil products in 2022. In March 2022, the shadow tanker Arzio ran aground off the east coast of China.

A. Following the grounding of the shadow tanker Arwi, the oil tanker Petion was involved in a collision in Cuba just days later.

B. In November 2022, the oil tanker Linda 1 was found to have severe defects and was in violation of pollution regulations for using high-sulfur marine fuel without an exhaust gas cleaning system.

C. In May 2023, the ship Pablo exploded in Southeast Asia, resulting in the death of three crew members and an oil spillage along the shores near the accident site.

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5. The Legal Committee of the International Maritime Organization, during its 110th session, broadly endorsed the proposed measures as outlined in the original submission. These include:

- Flag State Responsibilities: Flag States are urged to ensure that vessels flying their flag strictly adhere to measures legally prohibiting or regulating ship-to-ship transfer operations. These vessels are mandated to uphold the safety requirements outlined in International Maritime Organization conventions and adhere to safe shipping standards, thereby minimizing the risk of oil pollution.
- Notification Protocols for Flag States: Flag States are advised to consider encouraging ships to update their ship-to-ship transfer operation manuals. These updates should incorporate notifications to the flag State when engaging in mid-ocean operations, fostering improved communication and operational transparency.
- Port State Enforcement: Port States are tasked with enforcing safety and liability agreements on these ships, ensuring that ship-to-ship transfer operations align with the safety requirements outlined in International Maritime Organization conventions. In cases where "dark shipping" vessels are identified, port States should contemplate subjecting these ships to enhanced inspection operations as authorized. Additionally, they are recommended to promptly notify the relevant ship's flag administration when deemed appropriate.

Additionally,[6] as per international news, the shadow tanker fleet named Canis Power recently experienced engine failure in the Baltic Sea in May, while loaded with up to 340,000 barrels of oil.

The International Maritime Organization warns that unclear ownership and a lack of insurance may lead to shipowners evading responsibility under relevant liability and compensation treaties (such as the International Convention on Civil Liability for Oil Pollution Damage (CLC) and the International Convention on Civil Liability for Bunker Oil Pollution Damage), which are responsible for pollution damage from ship fuel.

In conclusion, reports indicate that shadow tankers, operating covertly, pose significant risks to the safety of the crew. These vessels are not easily detectable and lack insurance, posing a threat to the safety of the crew on board these ships as well as individuals working on other vessels.

Seventh: The Role of Russian Shadow Tankers in Reducing Iraqi Oil Exports to Asia

India is the third-largest importer of crude oil globally, following the United States and China. It holds the top position as the largest importer of Iraqi oil, accounting for approximately 23%. Saudi Arabia comes in second with around 17%, followed by the United Arab Emirates at approximately 9%. These percentages are based on data from the end of the first month of 2022. Notably, India only imported around 2% of its oil from Russia during the same year.

However, due to the price discounts offered by Moscow to buyers of Russian Urals crude, reaching up to $30 per barrel and supplied to Asia through shadow tankers, the flow of Russian crude to Asian markets increased by about 875,000 barrels per day since the start of the Russo-

6. Going dark' is a red flag – AIS tracking and sanctions compliance, 2019. https://safety4sea.com/going-dark-is-a-red-flag-ais-tracking-and-sanctions-compliance

Ukrainian war. This surge led to a doubling of India's purchases of Russian oil in the second quarter of 2022 compared to its acquisitions in 2021.

As a result, Urals crude has become a key player in India, with imports reaching around 1.97 million barrels per day in August 2023, up from about 1.68 million barrels per day in April 2023. This displaces Iraq from the forefront of oil exports to India, giving Russia a market share of 39% of India's total oil imports. India's oil imports from Iraq decreased from 1.2 million barrels per day in March 2023 to approximately 890,000 barrels per day in May 2023, making Russia the second-largest supplier to India[7]. This caused Iraq to lose nearly 310,000 barrels per day from its total oil exports to India.

The following table shows the quantities of oil exported by Iraq during the post-Russian-Ukrainian war period until June 2023:

Table (2): Iraqi Monthly Oil Exports During February 2022 – June 2023

Date	Exported Quantities (Basra) million barrels	Growth Rate %	Total Oil Exports (million barrels)	Growth Rate %
February (2022)	111,645	---	112,125	---
March	99,115	(11.2)	100,561	(10.3)
April	98,100	(1.0)	101,390	0.8
May	98,946	0.8	102,303	0.9
June	97,980	(0.9)	101,191	(1.0)
July	99,965	2.0	102,385	1.1
August	100,750	0.7	101,859	(0.5)
September	96,445	(4.2)	98,765	(3.0)
October	102,070	5.8	104,831	6.1
November	97,204	(4.7)	99,868	(4.7)
December	100,753	3.6	103,281	3.4
January (2023)	98,460	(2.2)	101,245	(1.9)

7. Definitive Oil Research,2023.

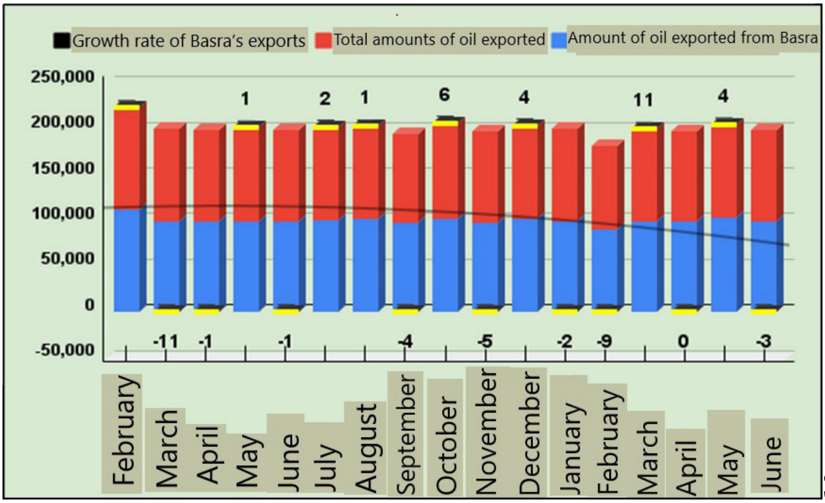
Date	Exported Quantities (Basra) million barrels	Growth Rate %	Total Oil Exports (million barrels)	Growth Rate %
February	89,140	(9.4)	92,225	(8.9)
March	98,875	10.9	100,913	9.4
April	98,643	(0.2)	98,634	(2.2)
May	102,206	3.6	102,463	3.8
June	98,725	(3.4)	100,059	(2.3)

Sources:

1. "Somo Oil, IRAQ CRUDE OIL EXPORTS - MAY – 2023."

2. Percentages derived from the researcher's own analysis and extraction.

Figure (4): **Monthly Oil Exports in Iraq**



Source: Researcher, based on data from Table (2).

Table (2) and Figure (4) highlight the adverse effects of the Russian-Ukrainian war on Iraq's monthly oil exports, particularly following the imposition of price ceilings on Urals crude. Total oil exports decreased from 112.125 million barrels in February 2022 to approximately 92.225 million barrels in February 2023, reflecting a negative growth rate of 8.9%. This clearly illustrates the direct and negative impact of the Urals crude price discount on Basra's exports to India, experiencing a negative growth of 9.4% between January and February 2023.