Energy crisis

How the G7’s oil price cap blocked the Bosphorus

Disruption in Turkish waters is first sign of potential unintended consequences of intervention in global markets

A crude oil tanker anchored off the port of Nakhodka, Russia. Before the invasion of Ukraine, Russia was the world's largest oil exporter © Tatiana Meel/Reuters

Tom Wilson in London 9 HOURS AGO

The G7's plan to keep Russian crude flowing while denting Moscow's revenues is already facing its first problem.

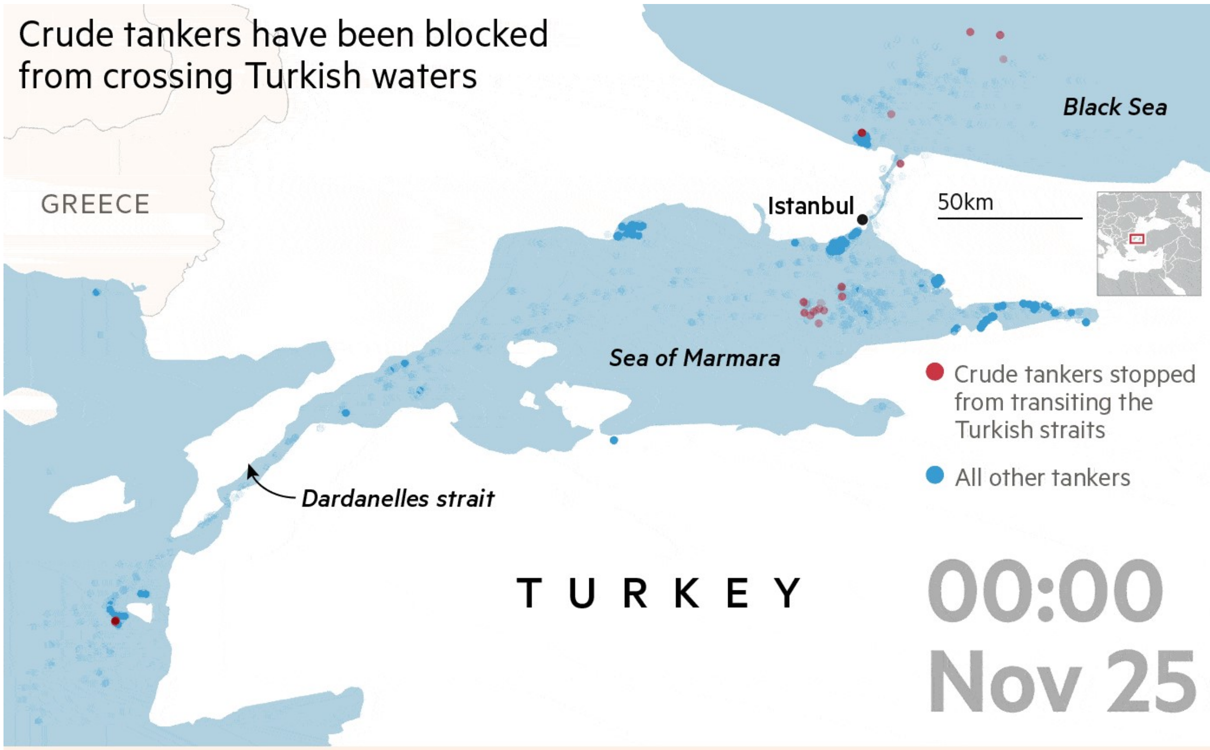
By Tuesday afternoon, less than 48 hours after the EU sanctions and associated price cap on Russian oil came into effect, at least 22 crude tankers had been blocked from crossing Turkish waters over fears in Ankara that uninsured vessels risked causing "catastrophic" damage in the Turkish Straits.

Talks are under way to resolve the impasse, but the disruption is the first sign of the potential unintended consequences of the G7's intervention in the global oil market.

What is the problem?

The jam has been caused by new Turkish requirements that all crude vessels travelling through the Bosphorus, the Sea of Marmara and the Dardanelles — collectively known as the Turkish Straits — prove they have valid insurance to cover incidents such as oil spills and collisions.

The requirement, which came into force on December 2, is a response to new EU sanctions that bar vessels transporting Russian crude from accessing European maritime insurance unless the oil is sold for $60 a barrel or less.



Source: Spire ShipView
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Cartography: Steven Bernard

The EU sanctions, which came into force on Monday and include an almost complete ban on the import of seaborne Russian crude into the bloc, initially provided for a worldwide embargo on the provision of shipping and insurance services. The price cap was designed by the US to allow Russian crude oil shipments to other parts of the world to continue, thereby limiting the impact on the global market.

Before the invasion of Ukraine, Russia was the world's largest oil exporter, shipping about 8mn barrels per day of crude and petroleum products, equivalent to 8 per cent of global supply.

But the complexity of enforcing the price cap, combined with Russia's assembly of a so-called "shadow fleet" to circumvent the restrictions, has raised concerns in Turkey of a potentially dangerous increase in the number of uninsured vessels sailing through the straits.

What does Turkey want?

Ünal Baylan, Turkey's maritime director-general, wrote to shipowners and insurers on November 16 requesting that maritime protection and indemnity providers, known as P&I clubs, provide additional letters confirming vessels were fully insured.

“During passage through Turkish Straits of ships carrying . . . such cargo as crude oil products which may cause catastrophic consequences for our country, our assets and our people in the case of a probable accident, it is absolutely required for us to confirm in some way that their P&I insurance cover is still valid and comprehensive,” he said in a letter seen by the Financial Times.

The Turkish Straits is one of the busiest shipping lanes in the world and is one of four export routes for Russian seaborne crude. The others are the Baltic Sea, the Barents Sea and the Sea of Japan.

Transiting the Bosphorus, which is 32km long and 550 metres wide at its narrowest point, can be challenging, with at least one tanker collision as recently as 2018. Every year an estimated 48,000 tankers cross the waterway, carrying about 3mn barrels a day of oil.

What does the shipping industry say?

The P&I clubs argue that the Turkish request goes “well beyond” the guarantees insurers would normally provide. The longstanding policy of P&I clubs has been to assess the merits of a claim only once it has materialised.

Turkey’s request would require P&I clubs to guarantee cover, even if it transpired a vessel had violated sanctions, the London P&I Club said on Monday. To do so would put the clubs themselves in violation of sanctions, it said, adding it was not their role to assess in advance whether a vessel was in compliance with sanctions.

The industry consensus was that no P&I club would agree to the wording requested by Turkey, western ship brokers said.

However, one shipowner with a southbound tanker of Kazakh crude stuck at the mouth of the Bosphorus accused the P&I clubs of being “unreasonable”, particularly since the movement of Kazakh crude was not restricted.

It should be possible for the clubs to provide Turkey with assurances without exposing themselves to liabilities related to the sanctions, he said. Shippers carrying Kazakh crude, for example, had already provided detailed information about the origins of their cargo to obtain insurance, he added.

The UK Treasury department said Britain, the US and EU were “working closely” with the Turkish government and the shipping and insurance industries to "reach a resolution". "There is no reason for ships to be denied access to the Bosporus Straits for environmental or health and safety concerns," the UK Treasury spokesperson said.

Who is being affected?

The impact of Turkey's actions on vessels carrying Kazakh crude provides an early example of how the Russia sanctions and price cap mechanism could disrupt legal crude shipments.

Kazakh crude is exported from Russia's Black Sea ports but its movement is not restricted under the west's Russia sanctions.

Of the 22 tankers waiting on Tuesday, 11 were in the Black Sea at the entrance to the Bosphorus, while 11 had crossed the Bosphorus and were in the Sea of Marmara, according to a ship broker who asked not to be named. The first arrived on November 29 and had been waiting for six days. Most of the vessels are carrying Kazakh rather than Russian crude, according to shipbrokers and tanker tracking services.

Chevron, which operates Kazakhstan's 500,000 b/d Tengiz field in partnership with ExxonMobil and exports via the Black Sea, said it was closely monitoring the situation.

Meanwhile, the only crude vessels getting through the straits may be vessels carrying Russian oil. One oil industry participant with knowledge of the situation said Russian insurance companies had provided the requested letters of confirmation to Turkish authorities.

The shipowner said other vessels carrying Russian oil were submitting letters from newly established non-European P&I clubs outside the main International Group, which represents 90 per cent of the industry and has so far refused Turkey's request.

The presence of such vessels in the Turkish Straits, underwritten by lesser-known insurers, represented a potential risk, he said, adding: "The mainstream fleet is blocked . . . while in theory the shadow fleet can transit."

Additional reporting by David Sheppard