

Locke Lord QuickStudy: Price Cap Coalition Issues Advisory Regarding Sanctions Evasion Techniques by the Shadow Fleet

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On October 21, 2024, the Price Cap Coalition—comprising the G7, European Union, Australia, and New Zealand—released an updated advisory to address the rising risks of price cap evasion associated with the maritime oil trade, particularly concerning Russian Federation origin crude oil and petroleum products. The advisory focuses on the “shadow fleet,” a term used to describe aging vessels that engage in deceptive and illegal practices to circumvent sanctions and price caps.

The Coalition’s updated guidance outlines 11 recommendations to help combat oil price cap evasion by the shadow fleet. The advisory is intended to arm industry participants with information regarding emerging issues such as vessel compliance, insurance legitimacy, and tracking systems, and emphasizes the need for thorough due diligence when dealing in the oil transport maritime sector.

Here is a summary of the 11 key recommendations for industry participants:

1. **Ensure Adequate Insurance:** Verify that vessels are insured by globally recognized and legitimate insurance providers to avoid dealing with potentially unreliable or non-compliant insurers; confirm insurance coverage directly with the issuer.
2. **Vessel Classification by a Recognized Authority:** Confirm that vessels meet international safety and regulatory standards pursuant to International Association of Classification Societies (IACS) certification.
3. **Continuous AIS Usage:** Ships should maintain continuous use of Automatic Identification Systems (“AIS”) to ensure transparency in vessel movements; avoid engaging with vessels that manipulate or disable AIS.
4. **Due Diligence on Ship-to-Ship Transfers:** Closely monitor ship-to-ship transfers, which can be exploited for illicit oil movements.
5. **Ownership and Management Transparency:** Conduct enhanced due diligence to verify the beneficial ownership of vessels avoiding dealing with blocked persons.
6. **Legal and Reputational Risk Awareness:** Assess exposure to legal and reputational risks when dealing with vessels that may be part of the shadow fleet or have questionable compliance practices.
7. **Verify Flag State Compliance:** Use reputable third party services to verify that vessels are registered with flag states that meet international compliance and safety standards. Low-compliance flag states are often associated with higher risks.
8. **Track Vessel Age and Condition:** Review hull and safety reports to verify the age and seaworthy condition of vessels. The shadow fleet often consists of older, poorly maintained ships that pose significant safety and environmental risks.
9. **Evaluate Chartering Practices:** Conduct comprehensive reviews of chartering practices, including reviewing counterparties’ involvement with vessels known for sanction evasion or poor regulatory compliance.

10. Enhanced Vetting of Financial Transactions: Perform enhanced due diligence on financial transactions, including payment flows, to ensure no funds are being routed through or to jurisdictions or entities linked to sanctions evasion.
11. Report Suspicious Activity: Promptly report any suspicious activities or behaviors related to sanctions evasion, AIS manipulation, or shadow fleet operations to relevant authorities to assist in enforcement efforts.

These recommendations are intended to safeguard industry participants from inadvertently aiding sanctions evaders and to bolster global enforcement of the price cap policy. The advisory also highlights the potential consequences of non-compliance, which include severe financial penalties, reputational damage, environmental liability, and the risk of involvement in illicit finance schemes. The Coalition urges all stakeholders to maintain vigilance and implement robust compliance frameworks to avoid being implicated in sanction-evasion activities. By following these best practices, companies involved in oil transportation can mitigate the risks posed by dealing with non-compliant vessels and ensure adherence to international standards.

Conclusion

This paper is intended as a guide only and is not a substitute for specific legal or tax advice. Please reach out to the authors for any specific questions. We expect to continue to monitor the topics addressed in this paper and provide future client updates when useful.

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