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US plan to ease shadow fleet sanctions unlikely to free up many tankers, analysts say

By Arathy Somasekhar

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An Italian military helicopter flies near the oil tanker Toa Payoh, foreground, as the Italian Navy ship Thaon di Revel sails nearby during an inspection by the European Union's EUNAVFOR MED... [Purchase Licensing Rights](#) [Read more](#)

Summary

Shadow fleet ships still face other countries' sanctions and lack certification, traders, analysts say
Insurance and maintenance on shadow fleet vessels also pose challenges
US Gulf Coast-to-Europe Aframax freight futures fall 30 points

HOUSTON, Oct 15 (Reuters) - A potential Trump administration plan to ease sanctions on vessels that have transported sanctioned oil and fuel would likely have limited impact on boosting tanker availability, traders and analysts said on Thursday.

Shadow fleet ships still face sanctions from other countries and lack the certification, insurance and maintenance needed to enter mainstream trade.

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The [discussions](#) are the latest in a string of ideas the Trump administration is considering to lower fuel prices and inflation. Tanker rates have [surged](#) in recent weeks because of attacks, higher war-risk insurance costs and complicated operations to move oil out of the Strait of Hormuz that have reduced ship availability.

"Kpler expects the measure to have virtually no impact on the current tanker crisis. The proposal assumes that removing sanctions will translate into additional commercially available capacity. In practice, the relationship is far more complicated," analysts at ship-tracking firm Kpler said.

Aging vessels, uncertain seaworthiness and unresolved insurance, crewing and management arrangements will limit the ships' commercial appeal, the analysts said.

Kpler tracks about 160 supertankers under US sanctions, or about 22% of the commercial fleet. About 46 of them, or 27%, are more than 20 years old.

Only about 24 ships could rejoin global trade once age is taken into account and tankers owned by Iran's National Tanker Company are excluded, Kpler said.

"Companies are unlikely to charter tankers that were recently under sanctions as significant risks remain in dealing with vessels. For tankers engaged in Russian trade, EU sanctions still exist while for those engaged in Iranian trade, there is still a lot of liability as the ships were sanctioned for supporting a terrorist organization," said David Tannenbaum, director of sanctions consultancy Blackstone Compliance Services and a former US Treasury sanctions specialist.

He added that a lot of ships sanctioned over Venezuela trade were also dealing with Iran, potentially excluding them from easily joining the commercial fleet.

The Department of Energy said any move to ease sanctions on the shadow fleet would not help Russia move oil or oil products.

"There have been discussions regarding lifting sanctions on dark fleet tankers on an individual basis to allow them to transfer ownership to legitimate operators and move more non-sanctioned oil," said a US official familiar with the discussions, who spoke on condition of anonymity. "This would lower shipping rates and increase flows."

However, getting the licenses needed to repossess or sell a shadow fleet tanker typically takes months, if not years, Tannenbaum said.

INSURANCE AND MAINTENANCE CHALLENGES

Shadow fleet ships also often lack a class certificate, a document from an independent inspection body confirming that a ship and its systems meet technical, safety and environmental standards. Insurers generally require these certificates.

Shadow fleet vessels often do not have insurance from credible global organizations, or have insurance from entities set up to cater to the shadow fleet, Tannenbaum said. Insurance tends to be far more expensive for these ships as they are poorly maintained and sail through war-prone regions, traders added.

Forward freight agreements — futures contracts that let traders bet on future freight rates — have tumbled on the report that sanctions could be eased on sanctioned ships.

Rates to hire an Aframax ship, which can carry up to 750,000 barrels of oil, from US Gulf Coast to Europe fell 30 points, said Scott Shelton, an energy specialist at TP ICAP.

The lower freight rates also narrowed the discount of US West Texas Intermediate crude to global benchmark Brent to about \$10.42. High shipping costs have hurt US exports, pushing the discount to \$14.17 this week, the widest in over five months.

Reporting by Arathy Somasekhar in Houston; additional reporting by Timothy Gardner in Washington; Editing by Liz Hampton and Sanjeev Miglani

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