

The Russian Oil Price Cap – Circular 15th March 2023

Following the Russian invasion of Ukraine in February 2022, an unprecedented amount of sanctions have been issued against Russia to restrict the revenue Russia derives from its petroleum exports.

On the 5th December 2022, the European Union (EU) introduced the first of two bans on Russian **seaborne crude oil** imports. From the 5th February 2023, the EU has implemented the second ban on Russian **seaborne refined oil** imports and expanded as planned to set price caps for petroleum products of Russian origins which fall under the CN code 2710. The level of the price cap is set by the coalition of countries backing the scheme – the EU, G7 countries and Australia. This is intended to address inflation and stabilise global energy prices, alongside the primary purpose of reducing Russian revenues.

The price cap is the price per barrel at or below which petroleum products from Russia are exempt from the exclusions to provide:

- Maritime transport of petroleum products to third countries (i.e. not the EU, G7 or Australia)
- Technical assistance, brokering services or financing or financial assistance, related to the maritime transport of petroleum products to third countries.

The Two price caps that have been set are as follows:

- USD 45 per barrel for petroleum products traded at a '**discount to crude oil**' – Products of a lesser export value.
- USD 100 per barrel for petroleum products traded at a '**premium to crude oil**' – Products of a high export value often used for transport and electricity generation such as jet fuel and diesel.

Executive Summary

- The cap enables shipping companies carrying Russian oil products to access western insurance and financing only if they purchase Russia oil products at or below the cap.
- As stated by the EU's press release on the 4th February 2023, a 'transitional period of 55 days is foreseen for those vessels carrying Russian petroleum products, which were purchased and loaded onto the vessel prior to 5 February 2023 and unloaded prior to 1 April 2023.'
- The European Council will 'revert to review the price cap mechanism for crude oil as of mid-March and the review will occur regularly every two months.'
- Trading in non-price-capped oil originating from Russia could lead to a fine of \$1.2 million or more in the UK.
- Bulgaria is exempt from the price cap and can remain receiving Russian seaborne crude imports until the end of 2024. Croatia has an exemption for 'vacuum gasoil' until the end of 2023.
- As British Marine and QBE is subject to Australian sanctions reference has been made to Australian Regulation in this circular.

Legislative summary

Legislation and guidance giving effect to the Price Cap Scheme has been updated and published by the **European Union, the United Kingdom the United States, and Australia** and this Notice describes the impact of the scheme on shipowners, charterers and cover for such trades.

- This measure was legislated for in the “The Russia (Sanctions) (EU Exit) (Amendment) (No. 16) Regulations 2022” laid on 3 November 2022.
- A General Licence INT/2022/2469656 was issued on 4 December, and updated on 3 February, which provides the oil price cap exception to this legislation and enables UK services to continue facilitating the transport of refined oil products from 5 February, from a place in Russia to a third country as well as between third countries when purchased at or below the oil product price cap levels.
- A list of premium-to crude products, as well as further detail to help industry comply with the new rules, is included in both the General Licence INT/2022/2469656 and OFSI Guidance published on 3 February.

Details of legislation in respect of the European Union, United Kingdom, United States, and Australia are provided from page 3.

Attestation Summary

A shipowner or charterer that intends to transport Russian crude oil cargoes after 5 December 2022 and/or petroleum cargoes after 5 February 2023 will need to provide its P&I Insurer with an attestation that it will not for the duration of the period of insurance carry Russian oil and/or petroleum cargoes which have been sold at a price that for the period it is on board the vessel has exceeded the Price Cap. The attestation required is Annex II to this notice.

Additionally, shipowners and charterers currently engaged in trades involving the carriage of Russian petroleum products that commenced prior to 5 February 2023, but which will be completed by 1 April 2023 will need to complete a separate attestation. The attestation required is Annex I to this notice. Please download and complete the attestation(s) and email this to your usual contact or alternatively managers@britishmarine.com

The United States

US legislation is relevant because many service providers including P&I Insurers and re-insurers and banks either fall within its territorial jurisdiction or have financial arrangements or contracts subject to US law.

On 21 November 2022, the US Department of the Treasury issued a **Determination** pursuant to Executive Order 14071 that prohibits the following categories of services related to the maritime transport of Crude Oil of Russian Federation origin: (i) trading/commodities brokering; (ii) financing; (iii) shipping; (iv) insurance, including reinsurance and protection and indemnity; (v) flagging; and (vi) customs brokering. The prohibition on providing these services took effect on 5 December 2022: https://home.treasury.gov/system/files/126/20221205_Price_cap_determination.pdf

On 3 February 2023 the US Department of Treasury issued a Determination pursuant to section 1(a)(ii) of executive order 14071 effective 5 February prohibiting certain services as they relate to the

maritime transport of petroleum products of Russian Federation origin. On the same date the Department of Treasury also published a document titled “OFAC Guidance on Implementation of the Price Cap Policy for Crude Oil and Petroleum Products of Russian Federation Origin”:

https://home.treasury.gov/system/files/126/price_cap_guidance_combined_20230203.pdf.

On the same date the Department of Treasury / OFAC also published “General Licence No. 57A Authorizing Certain Services Related to Vessel Emergencies”:

https://home.treasury.gov/system/files/126/russia_ql57a.pdf

Insureds considering participating in Price Cap Scheme cargoes are recommended to read these documents.

Under the US Price Cap Scheme, it will be lawful for US persons to transport and provide services for the transportation of Russian origin Crude oil *and Petroleum Products* to countries outside the EU / G7 coalition provided that the price paid for the oil is at or less than the Price Cap from the point at which the Crude Oil *or Petroleum Product* is sold by a Russian entity for maritime transport until the first landed sale after passing customs clearance in a jurisdiction other than the Russian Federation. *If, however, after clearing customs, the Russian oil or Russian Petroleum Products are taken back out on the water (i.e., using maritime transport) without being substantially transformed outside of the Russian Federation, the price cap still applies.*

Shipowners and service providers must take certain steps to check the price of the Crude Oil or *Petroleum Product* for this period. The nature of those steps depends on the proximity of a party to the sale contract with those having access to the price subject to more onerous obligations. For this purpose, the EU/ G7 coalition deems parties engaged in the oil shipment to fall into one of three “Tiers”. More extensive checks are expected of those falling within the definition of a Tier 1 Actor than those of a Tier 2 or 3 Actor. Tier 3 Actors are those without direct access to information on the price of a cargo and will include P&I Insurers and shipowners. Charterers may also be considered a Tier 3 Actor but could also be a Tier 2 Actor or even a Tier 1 Actor depending on their proximity to and their knowledge of the sale contract.

Parties engaging in the Price Cap Scheme are also obliged to keep records of the transaction including written statements or evidence (“Attestations”) obtained from those with whom they contract that the price paid for the cargo complies with the Price Cap.

The OFAC guidance referred to above establishes a so-called “safe harbour” from OFAC enforcement for US service providers that comply in good faith with the applicable record keeping and attestation process.

US persons must not engage in a trade that violates the EO 14701 Determination and / or seek to evade the provisions of the Determination and must report any such activities to OFAC.

The United Kingdom

UK legislation is relevant because many marine service providers including P&I Insurers either fall within its territorial jurisdiction or have financial arrangements or contracts subject to English law. On 1 November 2022 the UK government published the Russia (Sanctions) (EU Exit) (Amendment) (No.16) Regulations 2022 the effect of which was to broadly align UK law with that of the EU Sixth Sanctions Package published on 4 June 2022. Under Amendment No. 16 it is prohibited to provide:

- Maritime transport of Russian Crude Oil and Petroleum Products to third countries; and
- Ancillary maritime and financial services for such transport.

On 4 December 2022 HM Treasury published a document titled “UK Maritime Services Prohibition and Oil Price Cap Guidance” *which has now been updated following the introduction of the Petroleum Products price cap: Russian Oil Services ban - GOV.UK*

On the same date the UK also published a General Licence to give effect to the Price Cap Scheme <https://www.gov.uk/government/publications/russian-oil-services-ban> . *This licence has been amended on 3 February 2023 following the introduction of the Petroleum Products price cap.* Also, on 4 December 2022 the UK published a General Licence – Wind down to deal with transitional arrangements for handling vessels already loaded with Russian oil at the time the Price Cap scheme commences. *An additional wind down General Licence for Petroleum Products was published on 3 February 2023.*

The effect of the UK Price Cap scheme largely mirrors that of the US but does contain some significant differences. To fall within the scope of the General Licence the price of the relevant cargo must remain at or below the Price Cap from the “...receipt of cargo on a ship up to the point where it is delivered and passes through customs controls in a third country or is substantially transformed into a different good in line with the non-preferential Rules of Origin”. *Similar to the position under the US Guidance, the UK Guidance provides that “...if the oil or oil products pass customs in a third country and then re-enter trade by maritime transportation without being substantially processed, the price cap will still apply.”*

As with the US Guidance, the UK requires parties participating in the Price Cap Scheme to obtain evidence that the cargo complies with the Price Cap and the extent of a party’s obligations in this regard depends on its proximity to the sale contract. The “Tier” structure is adopted, and the descriptions of each Tier are largely the same as for the US.

The reference to the concept of a “safe harbour” in the US Guidance does not appear in the UK Guidance. Instead, a party subject to UK jurisdiction (which includes British nationals irrespective of domicile) will need to demonstrate to OFSI “... that they have fulfilled the requirements of the attestation process ...in a timely manner and in full to OFSI’s satisfaction and undertaken appropriate due diligence...” if they are to avoid enforcement action, where the price cap scheme has not been complied with.

It is now a criminal offence for a British company or citizen to provide financial services, funds, or brokering services to anyone globally who is transporting Russian origin Crude Oil or Petroleum Products by ship from a place in Russia to a third country, or from one third country to another third country, if the Crude Oil or Petroleum Product has been purchased above the price cap after the relevant dates (5 December 2022 in respect of Crude Oil and 5 February 2023 in respect of Petroleum Products). The range of enforcement action available to OFSI also includes civil fines that may be imposed on a strict liability basis, and which can be as high as 50% of the value of the breach of the Price Cap scheme.

The UK also introduces significant reporting obligations on a party participating in the Price Cap scheme. For instance, a UK service provider is required both to report any breach of the Price Cap prohibitions to OFSI and must “...*withdraw their services as soon as reasonably practicable should they suspect a breach of UK sanctions has occurred*”.

The European Union

Like the UK, the EU is home to much of the financial and technical maritime services industry.

The EU’s sixth sanctions package published on 4 June 2022 and contained in EU Regulation 833/2014 prohibited the provision of maritime services to ships carrying Russian origin Crude Oil to third countries after 5 December 2022 in respect of Crude Oil and 5 February 2023 in respect of Petroleum Products. Regulation 833/2014 and the accompanying consolidated Frequently Asked Questions (FAQs) forms the basis of the Price Cap scheme announced by the EU / G7 coalition in September.

On 6 October 2022 the EU announced the eighth sanctions package which included exceptions for transportation and associated maritime services for cargoes sold at or below the Price Cap:

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2022:2591:FULL&from=EN>

On 3 December 2022 the EU Council published a Decision giving effect to the Price Cap: <https://eur-lex.europa.eu/eli/reg/2022/2367>

On 3 December 2022 Frequently Asked Questions (FAQS) and a guidance document were published by the EU Commission setting out how the Price Cap Scheme was to be interpreted: **Questions and Answers: G7 agrees oil price cap (europa.eu)** / https://finance.ec.europa.eu/system/files/2022-12/guidance-russian-oil-price-cap_en_0.pdf

On 4 February 2023 the EU published a Decision on the setting of price caps for Petroleum Product of Russian origin falling under CN Code 2710: <https://www.consilium.europa.eu/en/press/press-releases/2023/02/04/eu-agrees-on-level-of-price-caps-for-russian-petroleum-products/>

On the same date the EU published updated Frequently Asked Questions (FAQs) and a guidance document on the operation of the Price Cap Scheme for Petroleum Products:

https://finance.ec.europa.eu/system/files/2023-02/guidance-russian-oil-price-cap_en.pdf

The EU Price Cap scheme mirrors much of that contained in the US and UK schemes. Again, there are some important differences reflecting existing EU legislation.

In line with the UK and US legislation, under the EU scheme where the oil has cleared customs at the third country destination in circumstances where it then “...*becomes seaborne again without being substantially transformed into a different good in line with non-preferential rules of origin. (i.e., without being refined) ... the price cap will still apply.*”

Again, parties are expected to obtain appropriate attestations of cargo price the nature of which will depend on which Tier they fall into. The definition of the Tiers is the same as that adopted by the UK and US with shipowners and P&I Insurers identified as Tier 3 Actors. The FAQs go on to say that: *“In cases when an EU operator without direct access to price information reasonably relies on an attestation, after performing appropriate due diligence, and such an attestation was falsified or provided by illegitimate actors, the EU operator would not be considered in breach of the price cap provided it has acted in good faith.”*

There had been concern about how Article 3n(7) of EU Regulation 833/2014 would be interpreted as it had appeared to prohibit the provision of financial and technical services to a vessel found carrying Russian crude oil and Petroleum Products at a price that exceeded the Price Cap in perpetuity. Interpretation of the article is addressed by FAQs 32-34 which explain that in respect of non-EU vessels, such a prohibition will be limited to a situation in which the Price Cap was intentionally breached and the prohibition on the provision of maritime and technical services to subsequent voyages applies only to Russian cargoes and for a period of 90 days. EU vessels that breach Article 3n(7) will be dealt with in accordance with the relevant Member State law.

Australia

DFAT (Department of Foreign Affairs and Trade) has issued guidance relating to the oil price cap which can be accessed [here](#)

QBE (being ultimately Australian owned) has been issued appropriate permits to operate under oil price cap arrangements. QBE will also adhere to applicable reporting requirements to DFAT.

Transitional arrangements

There is provision for a 45-day winddown period expiring on 19 January 2023 for vessels carrying Russian Crude Oil at the time Price Cap scheme commences. The exact timings at which the winddown period commence and expire differ slightly between the three jurisdictions.

Under UK law P&I Insurers may only provide cover to a shipowner or charterer that loaded Russian Crude Oil prior to 12:01 GMT 5 December 2022 where that shipowner and / or charterer provided the Insurer a Date Attestation, which confirmed that the cargo was fully loaded prior to 05:01 GMT 5 December 2022 and was discharged prior to 05:01 GMT 19 January 2023.

To enable the P&I Insurers to continue to provide cover, shipowners and charterers carrying Russian Crude Oil had to comply with this requirement by completing the form of attestation set out in Annex I to this circular and submit it to the P&I Insurer.

There is provision for a winddown period expiring on 1 April 2023 for vessels carrying Russian Petroleum Products at the time Price Cap scheme commences.

Under UK law P&I Insurers may only provide cover to a shipowner or charterer that has loaded Russian Petroleum Products prior to 12:01 GMT 5 February 2023 where that shipowner and / or charterer has provided the Insurer a Date Attestation, which confirms that the cargo was fully loaded prior to 05:01 GMT 5 February 2023 and will be discharged prior to 05:01 GMT 1 April 2023.

To enable the P&I Insurers to continue to provide cover, shipowners and charterers currently carrying Russian Petroleum Products must comply with this requirement by completing the form of attestation set out in Annex I to this circular and return it to the Insurer as soon as possible.

Form of Attestation required

Shipowners are considered Tier 3 Actors by all three jurisdictions. As such a shipowner must obtain a contractual commitment from its contractual counter party – usually the charterer – that its counter party has committed not to purchase Crude Oil or Petroleum Products above the Price Cap. Such an Attestation may be a stand-alone document or included within a wide contract.

All three jurisdictions provide draft attestation wordings which may be adapted to particular contracts.

Charterers may be Tier 3 or more probably Tier 2 Actors depending on their role in the sale contract. Exceptionally they may be Tier 1 Actors particularly where they are a party to the sale contract or benefit directly from it. As such the Attestation obligations are more onerous. As Tier 2 Actors they will be required to obtain details of the price under the contract and make it available to other parties on request. If that information is not available commitments not to purchase oil above the Price Cap will need to be obtained. Additional reporting obligations will apply, including but not limited to where the Tier 1 counterparty is subject to the jurisdiction of the UK.

Record Keeping

All three jurisdictions require parties participating in the Price Cap scheme to keep records. In the case of the UK records must be kept for four years. In the case of the US and EU that period is five years. The extent of the record keeping is determined by a party's status in the Price Cap transaction i.e., whether they are a Tier 1, 2 or 3 Actor.

P&I Cover

International Group Clubs and Fixed Premium Insurers can provide cover to vessels engaged in the lawful carriage of Russian Crude Oil or Petroleum Products in accordance with their rules. To engage in such lawful carriage an insured shipowner or charterer must comply fully with the requirements of all the Price Cap schemes, conduct appropriate due diligence and adhere fully to the Attestation processes.

Insureds should note the requirements of all three jurisdictions when carrying Russian origin Crude Oil or Petroleum Products and must be prepared to provide their P&I Insurer with a copy of the Attestation on which they rely to perform the voyage upon request.

To comply with the Price Cap scheme P&I Insurers are required to withdraw cover in circumstances where there are reasonable grounds to suspect that the Price Cap attestations provided to a shipowner or charterer are false and / or where the cargo is sold after the voyage has commenced at a price greater than the Price Cap.

In all circumstances P&I cover is conditional upon strict adherence to the Price Cap scheme. Those P&I Insurers subject to UK and US law are also obliged to notify their respective regulators of any suspected breach of the Price Cap scheme.

Insureds should note that from 05:01 GMT 5 December 2022, P&I cover for Russian Crude Oil Price Cap cargoes is conditional upon the unit price of the Russian Crude Oil supplied or delivered, or being supplied or delivered, being at or below the Price Cap.

Insureds should note that from 05:01 GMT 5 February 2023, P&I cover for Russian Petroleum Product Price Cap cargoes is conditional upon the unit price of the Russian Petroleum Product supplied or delivered, or being supplied or delivered, being at or below the applicable Price Cap for that product.

Russian bunkers

Insureds that are looking to stem bunkers are recommended to seek clarification on the legality of stemming Russian origin bunker fuel in Russia or elsewhere. The current situation in regard to EU and UK Regulations and Guidance is not entirely clear, especially since the types of product which typically comprise ships' bunkers would fall under a CN 2710 code and consequently be subject to the price caps. The International Group is currently seeking clarification from the relevant regulatory authorities and further guidance will be provided in due course.

Cover in Emergencies

Price cap legislation appears to recognise the need to ensure that sanctions do not prevent persons from responding to marine emergencies. The UK legislation has an exception for activities of persons dealing with a marine emergency that assist with prevention or mitigation of harm to human health or safety, infrastructure, or the environment; similar provisions, although perhaps of narrower scope, are found in the EU legislation; and the US General License 57 authorises maritime services transactions that are ordinarily incident and necessary to addressing vessel emergencies related to the health or safety of the crew or environmental protection.

The P&I Insurers are mindful of their direct obligations to third party victims of maritime emergencies (including coastal states) under Blue Cards issued pursuant to the CLC, Bunkers and Wreck conventions, and therefore welcome the recognition of a need to be able to respond to third party claims relating to the prevention and mitigation of harm caused by maritime emergencies.

However, Insureds should be aware that if their Insurer incurs and is permitted to discharge blue card obligations in respect of a voyage involving unlawful carriage, the Insurer will be entitled to recover the costs thereof from the Insured.

Risks

The Price Cap scheme advanced by the EU/ G7 coalition (which also includes Australia) presents unique compliance challenges.

Russia is opposed to the Price Cap scheme and there is a risk that attempts to evade sanctions by creating false documentation and / or using multiple ship to ship transfers to mix and or obscure the origin of the cargo may become common place.

Whilst a shipowner or charterer may not break any law if it conducts appropriate due diligence and receives an ostensibly valid attestation, providers of maritime services and technical assistance such as insurers, reinsurers, flag states and banks are obliged to withdraw their services in the event they have reasonable grounds to suspect that the Price Cap has not been complied with.

Where a breach is identified after loading vessels may be left uninsured and without access to normal banking services for an extended period whilst the authorities determine how best to dispose of the cargo.

All International Group Clubs and Fixed Premium Insurers have issued similar circulars.

Insureds that intend to carry Russian Crude Oil or Petroleum Products in accordance with the Price Cap scheme should complete the form of Attestation set out in Annex II to this circular and return it to British Marine as soon as possible. Please email your usual contact or alternatively managers@britishmarine.com

**PRICE CAP EXCEPTION CLAUSE (P&I) – ANNEX I
PRE-INCEPTION/ENDORSEMENT ATTESTATION**

[INSURED'S FULL NAME AND ADDRESS] (the "Company") hereby attests that:

- (a) save as provided in (b) below, the Company, the insured vessel(s) and any vessel which may subsequently be insured with Underwriters will not at any time during the period of the policy and in any way whatsoever, whether directly or indirectly, be used or involved in a supply or delivery of any oil (HS code 2709 / CN code 2709 00 / HTS code 2709.00) or oil product (HS code 2710 / CN code 2710 / HTS code 2710), originating in or consigned from Russia (the "Russian Oil" and the "Russian Oil Product", respectively), from a place in Russia to a third country or from one third country to another unless the price paid for the Russian Oil or the Russian Oil Product, as the case may be, at all material times complies with the relevant price cap set by the Price Cap Coalition as may be amended from time to time (the "Price Cap");
- (b) any Russian Oil Product loaded onto an insured vessel before 5.01 am GMT on 5 February 2023 which may be sold or purchased above the relevant Price Cap was or will be offloaded at the port of destination before 5.01 am GMT on 1 April 2023; and
- (c) the Company has taken, is taking and will take all reasonable steps available to it to ensure compliance with the stipulations in (a) and (b) above regardless of whether the Company itself is under a legal obligation to comply with the laws, regulations and rules concerning the maritime transportation and related services prohibition, and the Price Cap exception thereto, imposed by the Price Cap Coalition.

[SIGNATURE OF INSURED'S AUTHORISED REPRESENTATIVE]

[FULL NAME OF INSURED'S AUTHORISED REPRESENTATIVE]

[DATE OF SIGNATURE]

**PRICE CAP EXCEPTION CLAUSE (P&I) – ANNEX II
CLAIM ATTESTATION**

[INSURED'S FULL NAME AND ADDRESS] (the "Company") hereby attests that the Company and **[INSURED VESSEL'S NAME AND IMO NO.]** (the "Vessel") have not at any time during the period of the policy in any way whatsoever, whether directly or indirectly, been used or involved in a supply or delivery of any oil (HS code 2709 / CN code 2709 00 / HTS code 2709.00) or oil product (HS code 2710 / CN code 2710 / HTS code 2710), originating in or consigned from Russia (the "Russian Oil" and the "Russian Oil Product", respectively), from a place in Russia to a third country or from one third country to another without the price paid for the Russian Oil or the Russian Oil Product, as the case may be, at all material times being at or below the relevant price cap set by the Price Cap Coalition as may be amended from time to time (the "Price Cap") regardless of whether the Company itself was/is under a legal obligation to comply with the laws, regulations and rules concerning the maritime transportation and related services prohibition, and the Price Cap exception thereto, imposed by the Price Cap Coalition.

The Company further attests that it holds (a) price information demonstrating that any such Russian Oil or Russian Oil Product as may have been put on board the Vessel was at all material times purchased or sold at or below the relevant Price Cap, unless it was and remains not practicable to request and receive such information; and (b) a signed attestation from the party with whom it contracted in connection with the use or operation of the Vessel confirming that is the case.

[SIGNATURE OF INSURED'S AUTHORISED REPRESENTATIVE]

[FULL NAME OF INSURED'S AUTHORISED REPRESENTATIVE]

[DATE OF SIGNATURE]

This circular is general in nature so you should also refer to the relevant, up-to-date legislation. This circular does not represent legal advice, and you should consider taking independent legal advice if you are unsure about your obligations in a given case.