

The sanctions-skirting secrets of shipping

Thought Leadership from your trusted independent partner for insight into global maritime trade

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Introduction

In *The Sanctions-Skirting Secrets of Shipping*, we look at the global scale of the operations that transport and exchange illicit commodities through a network of vessels using similar playbook tactics to evade detection. Our data shows how large and impactful the problem is today – and it's growing and evolving.

Analysing the deceptive and evasive practices deployed by a subterfuge fleet of about 160 tankers shipping US-sanctioned Venezuelan and Iranian energy commodities can provide invaluable insight for those who need to track and trace suspicious vessels and cargo.

A global network of deception

Subterfuge shipping is the darkest and most opaque sub-sector of energy commodities trading. It is currently dominated by a fleet of elderly tankers that keep oil and refined products flowing from Venezuela and Iran.

The fleet carries billions of dollars' worth of oil without penalty each month, all beyond the reach of US authorities.

For the last 36 months the fleet has evolved, coalesced and expanded to ply the world's busiest waterways and collectively carry billions of dollars' worth of oil without penalty each month, all beyond the reach of US authorities.

The fleet operates outside the established international framework of maritime regulations with no real accountability or liability in the event of an environmental or safety disaster.

Tell-tale signs

The companies, people and assets involved do not appear on any US Office of Foreign Assets Control (OFAC) blacklist, nor are they overtly associated with Iran or Venezuelan oil marketers or buyers — but the clues are there for those who know where to look and how to read them.

These clues sit alongside commonly known deceptive and evasive practices such as conducting multiple ship-to-ship transfers, vessel sailing patterns, and temporarily disabling Automatic Identification System transponders ('going dark') in defiance of international safety rules.

Other red flags include multiple and complex ownership, registry and name changes, the vessel's age and size, its sale and purchase history, and the marine service providers used to provide registry, class and insurance.

A blueprint for super-sized illicit trade tactics

There are 160-plus tankers exceeding 25.6m dwt currently identified as engaged in subterfuge shipping via a Lloyd's List investigation using Lloyd's List Intelligence data. This accounts for about 5% of the trading fleet of very large crude carriers, suezmax and aframax crude tankers by deadweight tonnage.

This tally excludes any additional tankers either flagged by Iran or owned by the national oil tanker fleet that are subject to sanctions but often work in tandem with the other vessels for storage, or ship-to-ship transfers.



Sanctioned oil and products are mostly shipped via a hub-and-spoke logistics system based around ship-to-ship transfers. Tankers shuttle to and from these hubs and do not need to call at ports. The cargo can be transferred to four or five different vessels during a voyage from Iran or Venezuela to its final destination, usually China or Syria.

"They get away with all of this because the crude is being shipped between friendly jurisdictions," one senior insurance executive told Lloyd's List.

The current template was first drawn in April 2019 when a fledgling, under-the-radar network of Chinese-controlled very large crude carriers was noticed shipping Iranian crude. They were managed by a subsidiary of China's Cosco Shipping, Cosco Shipping Tanker Management (Dalian) Seaman & Ship Management. In September 2019 OFAC sanctioned the subsidiary. Beneficial owner China National Petroleum Corp then sold at least six elderly VLCCs that the world's third-largest oil company had purchased in 2018 and early 2019 solely for deployment on Iran-China trades.

This model that evolved from Cosco and CNPC — of buying or chartering cheap, vintage or marginal tonnage for Iranian-origin cargoes — is now the preferred modus operandi for today's sanctioned oil trading. This has underpinned a flourishing second-hand market for vintage tankers near the end of their life and reborn in subterfuge trades.

With very few exceptions all 161 tankers are aged over 19 years and nearing the end of their economic life. They have been sold in the past 18 months to single-entity, anonymous, untraceable companies worldwide. They were then immediately deployed for shipping Iranian or Venezuelan oil.

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These sanctions-busting tactics first deployed by Iranian and Chinese-linked vessels during 2019 have been copied and extended to Venezuelan flows in the last 18 months. This followed OFAC's tighter implementation of Venezuelan sanctions which saw most Greek shipowners, who previously carried 80% of cargoes, formally exiting the trade. Over May and June 2020, six companies relating to six tankers owned by four prominent Greek families were briefly sanctioned. That was perceived as a warning for all to avoid the business or face tougher penalties.

What it means for P&I clubs

Who provides third-party liability is important to note. The 13 members of the International Group of P&I Clubs covering 90% of the world's fleet have stripped cover from at least 116 of the 161 tankers tracked over the past two years.



This means ships' insurance status is uncertain, even though the tankers regularly call at offshore anchorages in Iraq, Fujairah, Oman, Singapore, Malaysia, Indonesia, and ports in China. Research uncovered at least five P&I clubs outside the IG Group that have provided blue certificates that cover third-party liability for bunker and oil spills.

They include Lichtenstein-based Maritime Mutual Insurance Association (NZ) Ltd, British Virgin Islands-headquartered The Anglo & Eastern Ship Owners P&I Club Ltd, United Arab Emirates-based Islamic P&I Club and QBE Asia P&I.

A fifth, the mysterious, Seychelles-registered, Greece-based East of England P&I Association, was revealed to have a website built by GoDaddy in Bulgaria. The club sounds similar to popular IG group members such as West of England and North of England clubs but has no connection. East of England P&I Association removed false claims on its website about its reinsurance status in the Lloyd's of London market in February 2021.

All five clubs were listed as approved P&I clubs on the flag registry websites. Two of the clubs told Lloyd's List that coverage rules included sanctions clauses that void any liability if vessels are involved in sanctions-busting. This is the same as clauses contained in IG Group-entered tankers. That means certificates issued by any P&I clubs with such clauses are not valid for civil liability for oil pollution, bunker oil pollution damage and wreck removal for all the 161 tankers.

What it means for flag registries

Flag-hopping — the repeated changing of registries, often alongside the formation of different companies and new names — is a common cat-and-mouse game used by sanctions-skirting tankers.

Owners exploit little-known, poorly resourced registries in Pacific, African and Caribbean nations with lax maritime oversight and little technical scrutiny. Management is often subcontracted to private companies beyond the flag country and there are few eligibility checks. Using such flags not only keeps owners one step ahead of regulators, but also allows them to hide in plain sight.

This practice evolved from the first round of Iranian sanctions a decade ago, when the country's national tanker fleet switched flags to Tanzania-Zanzibar. Vessels frequently reflag every few months or seek out new flags, as others remove them as links to Iran or Venezuelan cargoes are revealed.

Fifty-seven tankers were suspended from the 12 members of the International Association of Classification Societies that cover 90% of the world's fleet

As a result, the choice of flag registry today can yield crucial intelligence when identifying suspect ships. These 19 registries flag some 70% of tonnage as of June 2021. Guyana was the latest registry targeted, in June 2021. The country joins Belize, Cameroon, Comoros, the Cook Islands, Djibouti, Palau, Samoa, São Tomé & Príncipe, Sierra Leone, St Kitts and Nevis, Tanzania, Gabon, Honduras, Kiribati, Nauru, Palau, Tanzania-Zanzibar and Togo as registering tankers used in sanctions-skirting trades.

At least six tankers are confirmed as fraudulently or falsely registered. Three of these flags — Samoa, Nauru and São Tomé & Príncipe — do not have international registries. The Panama, Liberia, Belize, the Cook Islands, Gabon, St Kitts and Nevis, and Tanzania registries have all purged subterfuge ships, only for them to reappear with other registries.

Over the last 12 months, classification societies have quietly removed many of these subterfuge tankers from their business. Fifty-seven tankers were suspended from the 12 members of the International Association of Classification Societies that cover 90% of the world's fleet, analysis by Lloyd's List shows.

What it means for classification societies

Classification societies provide a little-noticed but crucial layer of accountability upon which flag administrations rely. These organisations ensure vessels' compliance with common technical rules, standards and international regulations and conventions that are integral to their seaworthiness and safe operation.

Along with recognised organisations, class societies undertake the surveys and inspections on behalf of flag administrations. Marine insurers, oil traders, charterers, and port authorities are among those who rely on the accuracy of this information.

Investigations detected fraudulent papers from a Panama-based recognised organisation. The organisation listed as providing two certificates on behalf of a small African-flag administration told Lloyd's List the information was false. Eighteen of the tankers removed from class were vintage very large crude carriers with an average age of 21 years, a time when enhanced structural, machinery and pollution prevention checks are required.

All ships operate outside the Ship Inspection Report Programme, known as SIRE, a database of 8,000 tankers that benchmarks their safety standards.

Charterers and traders worldwide shun tankers without SIRE accreditation, leaving owners consigned to a regulatory no man's land limited to a dangerous shipping sub-sector where safety and technical compliance are not necessary. Even though surveys are overdue, which would trigger detention, tankers escape scrutiny because they tend to avoid calling at ports and are instead deployed for ship-to-ship transfers to load and discharge.



Obfuscation and deception

Alongside class, flag and insurance is a network of fake addresses. The companies that allegedly manage or issue international safety management code certificates were tracked to places as diverse as a parking lot in Ningbo, China, and an architecturally challenged four-storey building tenanted by a bathroom supplier in suburban Dubai.

Numerous companies spanning India, China, Singapore, Lebanon, and the United Arab Emirates provide office addresses traced to improbable locations. These companies and vessels are not so much exploiting existing regulatory gaps common to international shipping; rather they have discovered the gaping crevices.

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They rely on haphazard due diligence across the regulatory landscape to underpin other well-known deceptive practices, such as switching off AIS transponders for the majority or entirety of the ballast and laden voyage sectors.

Further obfuscating detection are those tankers that spoof AIS signals so as to appear in one location when they are in another as STS transfers take place. Forged bills of lading and fake loading lists are also commonplace. For Iranian cargoes, subterfuge tankers often signal Basrah, Iraq, as their destination upon entering the Strait of Hormuz. This destination is manually inputted by the tanker's master.

The tanker then goes dark while an STS is undertaken at the offshore anchorage with "Iraqi origin" oil from a tanker carrying Iranian crude. Venezuela-bound ships may signal Trinidad and Tobago as next port of call or switch off their AIS in this vicinity before sailing for STS transfer elsewhere.

Photos have emerged of at least two VLCCs roughly painting over their vessel's name at Jose Terminal, Venezuela, to avoid scrutiny while loading. Iran-linked tankers have painted decks of tankers to further obfuscate identity to thwart satellite aperture radio images that can locate tankers when they have gone dark by identifying them based on visual characteristics.

Other vessels in the Iran-linked subterfuge fleet can be tracked to transshipment and storage hubs at Fujairah, Sohar, Oman, the Sunnai Linggi anchorage off Malaysia, waters outside eastern Malaysia, Indonesia, as well as West Africa off Lomé in Togo for Venezuela cargoes.

Subterfuge growth and evolution

Before sanctions were reimposed by the US, Iranian exports regularly exceeded 2m barrels per day, falling to between 300,000 bpd to 600,000 bpd monthly in 2019 and 2020.

Since the inauguration of US president Joe Biden, Chinese imports of Iranian-origin crude have climbed. In March 2021, illicit shipments from Iran saw exports estimated above 1.2m bpd, the highest since sanctions were introduced.

Venezuelan exports dipped to 280,000 bpd in December 2020 and 230,000 bpd in January 2021. Like Iran's exports, monthly figures are difficult to estimate accurately. Outside terminals and ports, loadings are made while AIS signals are switched off, in waters off Aruba, Bonaire and Curacao.

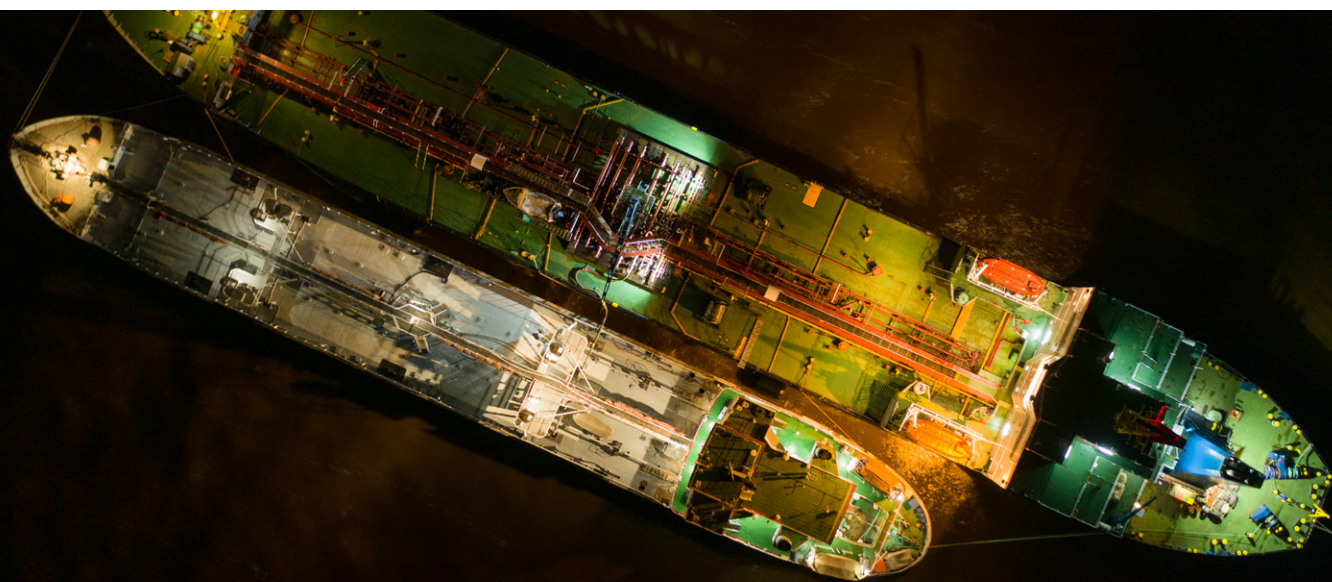
Also, some of Venezuela's heavy crude is rebranded as bitumen blend and exported to China via STS transfers off Malaysia.

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What's next?

The subterfuge fleet's evolution has not only rendered insurance sanctions clauses redundant, but also has taken them beyond the scope of port state control, vetting authorities, international conventions and established legal redress.

This imperils liability for accidents, oil spills and crew welfare. Non-compliance with common technical rules and operational standards affects seaworthiness and safety as these ships sail through some of the busiest chokepoints and call at the world's busiest ports.



Professionals in maritime-related organisations can now access the new standard in sanctions compliance risk analysis to help them save time and effort completing sanctions compliance checks, investigations and monitoring vessels for illicit activity. Seasearcher Advanced Risk & Compliance uses artificial intelligence and our unparalleled data to bring insight that hasn't been attainable before, all in one place.

Find out more about Seasearcher Advanced Risk & Compliance [here](#)

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