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EU Insurance Ban Targets Russian Oil Exports

By Emeline Burckel for AFP and Thomas Urbain for AFP

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A view of the Musa Dzhalil oil tanker at the seaport of Astrakhan. **Erik Romanenko/TASS**

An EU ban on insuring ships transporting Russian oil could potentially hurt Moscow more than its embargo on the nation's crude, analysts say.

The European Union recently unveiled the insurance ban in a sixth set of economic sanctions aimed at punishing Russia over its invasion of Ukraine.

In a further knock, G7 leaders are seeking a price cap for Russian oil to further hurt Kremlin revenues.

The EU insurance and reinsurance ban, covering all maritime transportation of Russian oil, comes as Moscow seeks to ramp up sales to China and India to help offset the embargo.

'Further reaching than embargo'

The insurance ban "would have further-reaching consequences for the oil market than the EU oil embargo", noted Commerzbank analyst Carsten Fritsch.

Companies will no longer be permitted to transport oil from Russia by sea, or to insure such shipments.

EU insurers have until the end of this year to implement the ban, while those in Britain are expected to follow suit.

"There is going to be an impact and there is going to be a pricing impact," said Marcus Baker, international head of marine at US broker Marsh.

A similar ban was used in 2012 when the EU prohibited European insurers and reinsurers from covering vessels carrying Iranian oil.

The bloc had also slapped an embargo on the purchase of Iranian crude as part of sanctions against Tehran's controversial nuclear program.

Commercial ship operators require insurance for the vessel, its cargo and for protection and indemnity (P&I) covering events such as war and environmental damage.

Mathieu Berrurier, managing director of marine insurance broker Eyssautier-Verlingue, told AFP that vast amounts of cash were required for potential payouts caused by such disasters.

This results in insurers forming P&I clubs that "are able to offer guarantees equal to the risks involved in" events including "a major oil spill or "collision with an oceanliner," said Berrurier.

"Colossal amounts are needed," he stressed, adding that such disasters can potentially cost "billions of dollars."

Russia's former president Dmitry Medvedev, who is deputy head of the country's security council, has hinted that Moscow could get around the ban by providing state guarantees to cover oil exports.

That could allow Russia to self-insure and circumvent EU sanctions, he insisted.

"That is true to an extent," said analyst Livia Gallarati at consultancy Energy Aspects.

But with as much as 95% of the P&I insurance market handled by EU and UK-based insurers, according to experts, it will be difficult for Russia to completely get around the ban.

"The market is so heavily entwined in Europe [that it] is going to be almost impossible" to escape the impact of the ban, an oil shipping executive told AFP on condition of anonymity.

"There is not a very mature and deep alternative insurance market out there," the executive noted.

India 'helping Russia'

It emerged late last week that India has reportedly stepped in to offer certification services for some tankers carrying Russian crude.

That threw the spotlight on this week's G7 summit, which focused on more coordinated financial action against Russia.

"India is helping Russia to continue selling its oil despite the West's sanctions," said Commerzbank analyst Fritsch.

He added that India has provided safety certification for more than 80 ships belonging to a Dubai-based subsidiary of the state Russian shipping company Sovcomflot.

G7 leaders, meeting in Germany on Monday and Tuesday, condemned Russia's Ukraine invasion as "illegal and unjustifiable."

"We reemphasize our condemnation of Russia's illegal and unjustifiable war of aggression against Ukraine," they said in their draft final statement.

The communique was issued after the G7 held talks with Indian Prime Minister Narendra Modi, as well as the leaders of Argentina, Indonesia, Senegal, South Africa and Ukraine.

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