

## **CLIENT ALERT: OFAC SANCTIONS TWO VESSELS AND THEIR REGISTERED OWNERS FOR TRANSPORTING OIL SOLD OVER THE G7 PRICE CAP, ISSUES PRICE CAP ADVISORY FOR MARITIME OIL INDUSTRY AND RELATED SECTORS**

**October 16, 2023**

### **SDN List Designation of Vessels and Owners Transporting Oil Sold Over the Price Cap**

On October 12, 2023, OFAC designated the vessels *SCF Primorye* and *Yasa Golden Bosphorus* (collectively, the “Vessels”) and their respective registered owners to the SDN List for transporting Russian-origin crude oil sold above the G7 coalition price cap. The registered owner of the *SCF Primorye* that has been designated to the SDN List is **Lumber Marine SA**; the registered owner of the *Yasa Golden Bosphorus* that has been designated to the SDN List is **Ice Pearl Navigation Corp.**

According to the OFAC Press Release concerning the designations, both Vessels transported a cargo of Russian-origin crude oil above the relevant price cap while utilizing U.S.-based service providers, thereby creating a U.S. nexus to allow enforcement of the price cap by OFAC. The Vessels’ respective registered owners were designated to the SDN List for operating in the “marine sector” of the Russian economy pursuant to Executive Order 14024 (“E.O. 14024”), and the Vessels were designated to the SDN List as property in which the sanctioned registered owners have an interest.

A full copy of the OFAC Press Release announcing these designations can be found [here](#).

### **OFAC Issues “Price Cap Coalition Advisory for the Maritime Oil Industry and Related Sectors”**

In conjunction with the SDN List designations discussed above, OFAC also issued a “Price Cap Coalition Advisory for the Maritime Oil Industry and Related Sectors” (the “Price Cap Advisory”), which is designed to further inform the industry as to “best practices in the maritime oil industry” with respect to ensuring compliance with the G7 price cap. A full copy of the Price Cap Advisory can be found [here](#).

The Price Cap Advisory is divided into two parts. The first discusses “increased risks from recent developments in the maritime trade.” Such risks primarily concern what has become known in the industry as the “shadow trade,” which OFAC defines as being “characterized by irregular and often high-risk shipping practices that generate significant concerns for both the public and private sectors.” The specific categories of risks identified include:

1. *Maritime Safety and Marine Environment*

The risks identified in this category primarily concern the use of older vessels in the shadow fleet. Such vessels frequently operate beyond their intended lifespan and thus

may be in substandard condition, lack the necessary surveys and/or inspections, and be manned by crew who are pressured to ignore prudent shipboard practices.

2. *Insurance and Economic*

The primary insurance and economic risk identified by OFAC is the ability to financially respond to an oil spill. Because vessels operating in the shadow trade are rarely covered by traditional P&I Clubs, they may be unable to bear the financial burden of responding to an oil spill given the lack of appropriate insurance coverage.

3. *Reputational, Logistical, and Financial*

This broad category of risks focuses on the various deceptive practices employed by entities involved in the shadow trade, including but not limited to the use of complex ownership structures and the manipulation of AIS systems. OFAC has warned that the use of such deceptive practices “may cause industry stakeholders to unknowingly engage in transactions that are inconsistent with industry stakeholders’ compliance policies.”

4. *Legal and Sanctions*

The legal and sanctions risks identified by OFAC concern the use of deceptive practices to transport oil sold at levels that violate the G7 price cap. Such deceptive practices may also lead to violations of other relevant sanctions laws, rules, and/or regulations.

The second part of the Price Cap Advisory sets forth 7 recommended actions that OFAC advises industry actors to take in order to ensure compliance with the G7 price cap as follows:

1. *Require appropriately capitalized P&I insurance.*
2. *Receive classification from an International Association of Classification Societies member society.*
3. *Best-practice use of Automatic Identification Systems (“AIS”) (promoting the continuous broadcasting of AIS throughout the lifetime of the voyage).*
4. *Monitor high-risk ship-to-ship transfers.*
5. *Request associated shipping and ancillary costs.*
6. *Undertake appropriate due diligence.*
7. *Report ships that trigger concerns.*

The Price Cap Advisory acknowledges that not all actors in the maritime oil industry will be able to employ the aforementioned recommended actions, and in turn recommends that such actions be adopted by industry actors based upon “(i) their role; (ii) the information available to them; and (iii) the types of transactions in which they engage.”

Moving forward, the recent SDN List designations make clear that OFAC will, if possible, act to enforce compliance with the G7 price cap. Clients should therefore take all necessary actions to ensure that any voyage involving the carriage of Russian-origin crude oil or petroleum products fully complies with the relevant price cap regime, and should employ all relevant and appropriate recommended actions from the Price Cap Advisory in order to ensure such compliance.

If you have any questions about the contents of this alert or would like further information regarding U.S. sanctions, please feel free to contact the authors, Bill Pallas at [pallas@freehill.com](mailto:pallas@freehill.com), or Mike Dehart at [dehart@freehill.com](mailto:dehart@freehill.com).

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