# Banks remain wary as Russian oil price cap ki in

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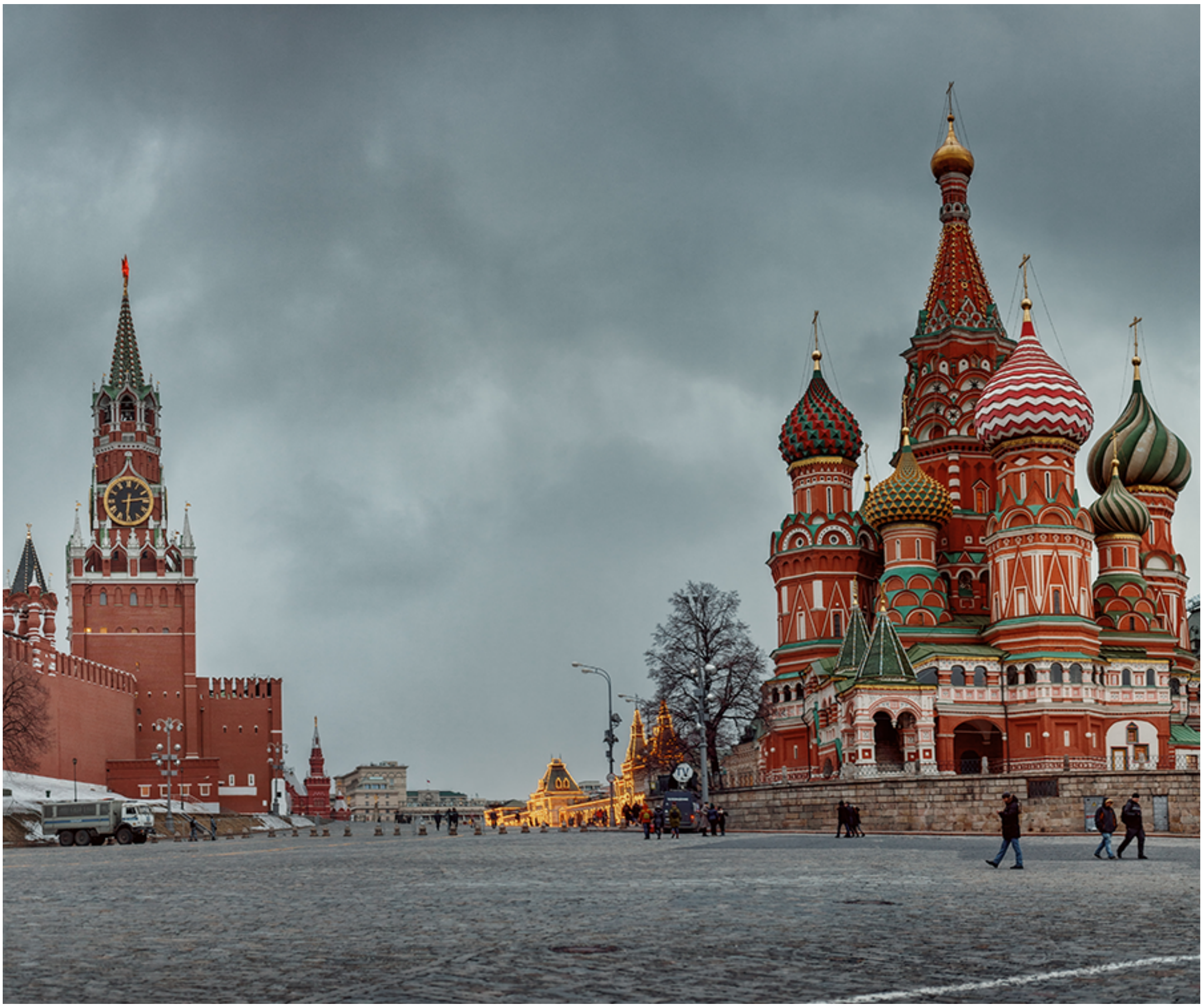

Major western powers will allow banks and insurers to back trade in Russian oil below US$60 per barrel, but industry insiders warn such transactions likely lie beyond the risk appetite of trade finance lenders.

Under the regime, businesses in the G7, European Union and Australia are prohibited from providing services supporting seaborne Russian oil exports, **such as shipping, insurance and trade finance** (https://www.gtreview.com/news/global/banks-insurers-expected-to-help-enforce-g7-price-cap-on-russian-oil/), unless the price is below the cap. The measures took effect on December 5 and apply to crude oil, with a second cap on petroleum products to be introduced on February 5.

An EU ban on **all seaborne imports of Russian oil** (https://www.gtreview.com/news/global/traders-face-daunting-task-as-west-restricts-russian-oil-and-gas-imports/) has also come into effect, except in exceptional cases such as unexpected disruption to pipelines. At the same time, EU-flagged, owned or operated vessels are prohibited from carrying Russian oil, including to non-EU countries.

European Commission president Ursula von der Leyen says the fresh round of restrictions "will hit Russia's revenues even harder and reduce its ability to wage war in Ukraine".

"It will also help us to stabilise global energy prices, benefitting countries across the world who are currently confronted with high oil prices," she says.

Janet Yellen, US secretary of the Treasury, adds that if countries buy oil outside the cap they will still be able to "bargain for steeper discounts on Russian oil and benefit from greater stability in global energy markets".

However, the involvement of trade finance lenders in facilitating trade within the price cap remains highly uncertain.

"Banks are going to be very cautious," says Jean-François Lambert, chief executive of Lambert Commodities. "The compliance risk is massive, and banks are obsessed by the reputational risk as well."

Lambert notes that a similar pattern has emerged in agri and non-ferrous metals, where traders have struggled to obtain financing for transactions that are not subject to sanctions.

"If you take one Russian-related deal, the bank will be asking, 'do I have the proper information? Am I dealing with the right party, or might I be caught in a transit trade situation?' They are probably going to keep erring on the side of caution and telling their customer they are not equipped," he tells **GTR**.

Sean Edwards, chairman of the International Trade and Forfaiting Association, adds that the due diligence burden on banks is heightened by the **potential use of deceptive shipping practices** (https://www.gtreview.com/news/global/first-signs-emerge-of-russian-ships-going-dark/) by entities involved in trading Russian oil.

"Given the destination of a lot of Russian crude to certain Asian countries since the start of the conflict, and the subterfuge used by Russia to export a lot of its cargoes, including ship-to-ship transfers to vessels that have switched off their AIS [automatic identification system], I suspect that the will need to be greater scrutiny of the origin of the crude sold by certain traders," he tells **GTR**.

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"As always those traders with robust compliance mechanisms will benefit and it's possible that some of the weaker ones will find it harder to get funding."

There are other potential complications around shipping and insurance. In an oil market note, Rystad Energy says Russia is expected to face a shortage of tankers maintaining crude oil exports from western ports.

"The threat of losing protection and indemnity insurance will limit Russia's access to the tanker market, reducing crude exports to 2.4 million barrels per day – 500,000 bpd lower than levels seen before Russia invaded Ukraine in late February this year," say analyst Viktor Kurilov and senior vice-president Jorge Leon.

Russia will likely be able to expand its fleet and restore crude export volumes by summer next year, the note says.

The *Financial Times* reported on December 5 that a backlog of around 19 oil tankers had formed in Turkish waters, with inspection authorities demanding additional evidence that insurance cover would remain valid despite the new restrictions.

Commodity traders' appetite for re-entering the market is also questionable, with several major players telling **GTR** they have **no immediate plans** (https://www.gtreview.com/news/global/as-deadline-looms-some-traders-remain-wary-of-russia-oil-price-cap/) to resume or continue buying Russian crude.

A final complication is Russia's potential response. President Vladimir Putin has long dismissed the possibility of selling under the terms of the price cap, and Rystad Energy says it expects a presidential decree "prohibit[ing] Russian companies and traders from working with countries and companies that have signed up".

The country could seek to disrupt the impact of the cap by driving up oil prices "one way or another", Lambert says. Though the G7, EU and US say the cap could be raised in future, doing so "means more money for the Russian and more spending for us".

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