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Ghost Ships Avoid U.S. Oil Sanctions

In recent years, so-called "ghost fleets" or "shadow fleets" have emerged as a shipping methodology that certain state actors use to circumvent economic sanctions and sell illicit oil on the international market. Ghost fleets are comprised of oil tankers operated outside of international shipping norms and regulations. These vessels often hide in plain sight by simply turning off their Automatic Identification Systems (AIS) and disappearing. AIS is a shipboard broadcast system that operates in the very high frequency (VHF) maritime band. It acts as a transponder and broadcasts the vessel's identity, location, and heading.[1] Ghost fleet vessels have been known to "flag hop," or sail under flags of convenience from countries with lax regulations and controls. Additionally, these vessels frequently conduct offshore ship-to-ship transfers to avoid coming to port. They also regularly operate without insurance and use dangerously dilapidated tankers, making them a danger to the crew and the environment. To complicate matters further, the ownership of these vessels is further hidden behind shell corporations, complex ownership structures, and straw purchasers, creating a difficult trail for investigators to follow. These clandestine behaviors make it challenging for authorities to track their movements and enforce sanctions effectively.

No other countries have perfected this illicit strategy as well as Russia and Iran, which utilize their elusive fleets to bypass sanctions and continue their oil sales worldwide. Industry experts believe that between 530 and 800 ghost fleet tankers are currently in operation.[2] Understanding the intricacies and risks associated with these ghost fleets is paramount for banking and insurance professionals.

The Russian-Iranian Nexus

Over the past few years, Russia and Iran have responded strongly to Western sanctions imposed on their oil industries. Initially aimed at cutting off significant revenue streams and exerting economic pressure, these sanctions have been met with resilience and criminal ingenuity. They have created sophisticated clandestine shipping networks that enable the continued sale of oil and have the potential to challenge the effectiveness of Western sanctions directly.

In the case of Iran, their ghost fleet has been instrumental since the re-imposition of sanctions by the United States in 2018. Iranian tanker tactics, frequently controlled by the National Iranian Tanker Company – a heavily sanctioned agent of Iran's Islamic Revolutionary Guard Corps – have led to Iran's oil exports increasing in recent years to their highest volume since 2018, averaging 1.56 million barrels per day.[3] In 2020, United Against Nuclear Iran identified about seventy foreign ships suspected of illegally trading Iranian crude oil and other petroleum goods using these tactics.[4] Two years later, the number had increased up to about 383.

As of March 2021, Iranian officials

brokered a deal with Beijing to ship virtually all crude exports to China. The deal, estimated to be valued at £300 billion of crude, gives China access to discounted oil in exchange for military, defense, and security cooperation for the next 25 years.[5] Beijing assesses this deal to be an essential component of its Belt and Road Initiative, offering China a vital geopolitical foothold in the Middle East in furtherance of its strategic ambitions.[6]

Russia is facing similar sanctions in the wake of its unprovoked 2022 invasion of Ukraine. Moscow has learned from Iran's success, as well as from its trials and errors, and has adopted similar tactics to keep its oil flowing to markets in Asia and the Middle East.

Russia has adopted many of Iran's tactics for evading sanctions on their oil industry. However, most concerning is that vessels in their fleet often well past their service life and do not undergo regular maintenance, posing a substantial safety risk.[7] Most of these vessels also lack protection and indemnity insurance, which is viewed as the industry standard. As of January 2024, two-thirds of tankers carrying Russian crude oil were listed as insured by "unknown."[8]

In March of this year, the Andromeda Star, a Panamanian-registered tanker identified as part of the Russian ghost fleet, collided with another ship near Denmark. Fortunately, the ship was empty and on its way to be loaded with crude in Russia.[9] Last year, the 26-year-old Russian ghost fleet oil tanker Pablo exploded in Malaysian waters, killing three of its crew.[10] These are only a few examples of the dozens of accidents that have occurred over the past few years.

Implications for the Banking and Insurance Sectors

For banks and insurance providers, the primary concern with ghost fleets is the risk of inadvertently facilitating sanctions evasion. According to the Association of Certified Anti-Money Laundering Specialists, financial institutions that provide services such as financing, payment processing, or insurance to these vessels may unknowingly become complicit in sanctions evasion, which not only exposes these institutions to legal and regulatory risks but also to significant reputational damage.[11]

1. **Legal and Regulatory Risks:** Engaging with entities involved in sanction evasion can result in severe penalties from regulatory bodies or criminal investigations by federal law enforcement agencies. Banks and insurers found to violate sanctions can face hefty fines, restrictions on operations, and even criminal charges.
2. **Reputational Risks:** Reputational damage can be swift and severe. Financial institutions linked to sanction evasion may lose client trust and face public backlash. This can lead to a decline in business and long-term financial harm.
3. **Operational Risks:** Ensuring compliance with international sanctions requires robust monitoring and due diligence processes. Ghost fleets, by their very nature, complicate these efforts.

Mitigating the Risks

To navigate the challenges posed by ghost fleets, the banking and insurance sectors should adopt a multifaceted approach, including the following measures:

- **Enhanced Due Diligence:** Implement comprehensive due diligence procedures to identify high-risk clients and transactions. This includes thorough background checks on vessel ownership, flag history, and transaction patterns. Such procedures will tighten the existing loopholes and identify and address risks promptly.
- **Technological Solutions:** Utilize advanced technologies such as commercial carrier tracking services and AI-driven analytics to monitor vessel movements and detect anomalies. These tools can provide real-time insights and flag suspicious activities compared to typical commercial traffic. Implementing such measures will ensure prompt identification and flagging of possible risks for preventive measures to be implemented.
- **Collaborative Efforts:** Partner with international regulatory bodies, law enforcement agencies, maritime organizations, and other financial institutions to share intelligence and best practices. Collaborative efforts can enhance the effectiveness of monitoring and enforcement measures.
- **Training:** Regularly conducting staff training on the latest sanction regulations and evasion tactics developments. Training programs should be implemented in order to equip employees with the relevant knowledge to effectively identify and report suspicious activities promptly.

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ABOUT THE E2C2

The Export Enforcement Coordination Center (E2C2) serves as the primary forum within the federal government for executive departments and agencies to coordinate and enhance their export enforcement efforts.

The E2C2 promotes a robust whole-of-government approach to export enforcement by ensuring inter-agency coordination, promoting multi-agency collaboration, minimizing duplication of efforts, and strengthening the critical link between law enforcement, the intelligence community, export licensing entities, and the public sector.

Agencies, organizations, or businesses who have questions or would like to learn more about partnership opportunities, email us.

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