



SITUATION REPORT

Black and Azov seas and South Russian ports

14th April 2022



1. Ports and adjacent waters status

- The following Russian port are continuing their normal operations:

- | | |
|---------------------|-------------------|
| - Port Novorossiysk | - Port Gelendzhik |
| - Port Taman | - Port Kerch |
| - Port Tuapse | - Port Sevastopol |
| - Port Kavkaz | - Port Yalta |
| - Port Sochi | - Port Evpatoriya |
| - Port Anapa | - Port Feodosiya |

In accordance with Order of Russian Transport authority (Rosmorrechflot) dated 09.04.2022, Port security level No.2 was established in all Russian ports and port waters until 25th April 2022. Based on previous updates we expect prolongation of the security level for 15 days further.

- Azov Sea is still officially restricted for shipping. As per last navigational warning, issued by Russian Department of Navigation and Oceanography:

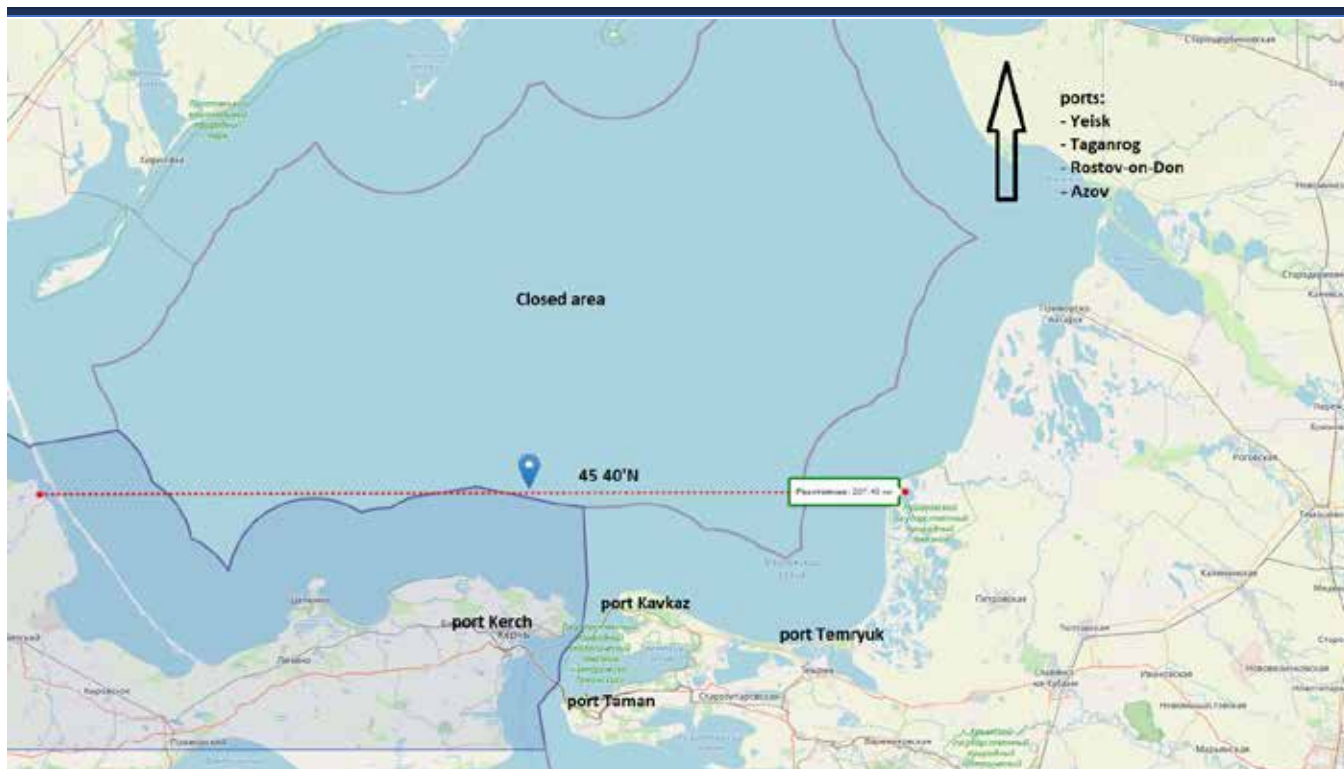
"In connection with counter-terrorist measures sailing of all ships is prohibited in Azov sea above 45-40' parallel"

Therefore, the following ports are open for vessels traffic:

- Port Kavkaz
- Port Temryuk
- Pot Kerch

The following port in Azov sea are continuing internal operations only:

- Port Rostov-on-Don
- Port Yeisk
- Port Taganrog
- Port Azov



- For general review, please see the [sanction map](#), provide by Shipping Company Wilhelmsen.

2. Navigational circumstances:

- Closed area in North-Western part of Black Sea**
North-Western part of Black sea is closed in connection with the special operation (for details please check the previous update).
In accordance with last update from Navigational department of the Ministry of Defense:

"All vessels at roads of Danube estuary, ports of Chernomorsk, Odessa, Yuzhniy, Ochakov, Zheleznii port, Skadovsk, Kherson are requested to proceed to ports for berthing. All activities in are is prohibited, including fishing and movement of small vessels. Movement is allowed southbound for vessels proceeding from Danube river. Detection of any vessel in closed area, as well as detection of any activity in closed area will be recognized as terrorist act."



- **Mine danger**

As per our last report, there is a danger of drifting mines in Back Sea. Mines established in Odessa region were cut off from their position due to adverse weather and presently drifting in Western part of Black Sea area. Please note below scheme:



Vessels are recommended to proceed with caution, keep well clear of any suspicious object in vicinity, and immediately report in case of detection of such object.

As per last information from Navigational services, several mines were detected off Bosphorus strait.



- **Naval exercises in Black Sea**

There are a number of areas in Black Sea, where naval exercises will be performed until 30th April 2022. Sailing in these areas was declared as "Temporary dangerous"

- **Area No.1**

44 24.18N, 033 52.57E

44 22.36N, 033 52.57E

44 22.36N, 033 52.30E

44 24.18N, 033 52.30E

- **Area No.2**

44 42.2N, 033 32.4E

44 42.2N, 033 32.9E

44 40.5N, 033 32.8E

44 40.5N, 033 30.7E

44 41.1N, 033 30.7E

- **Area No.3**

44 48.0N, 032 05.0E

45 03.0N, 032 17.0E

44 58.1N, 032 31.4E

44 43.8N, 032 49.6E

44 36.0N, 032 36.0E

44 40.0N, 032 10.0E

- **Area No.4**

44 29.7N, 032 19.6E

44 38.2N, 032 53.0E

44 27.8N, 033 06.6E

44 05.4N, 032 48.4E

- **Area No.5**

44 58.0N, 033 03.0E

44 51.6N, 033 10.9E

44 47.5N, 033 11.0E

44 45.0N, 033 05.5E

44 52.8N, 032 54.9E

Exercises performed daily 0500-1700 LT

- **Area No.6**

45 15.0N, 032 39.5E

45 13.0N, 032 45.8E

45 11.6N, 032 45.0E

45 12.5N, 032 37.8E

Exercises performed daily 0500-1700 LT

(GMT+3) except Sundays.

- **Area No.7**

45 49.0N, 032 28.0E

45 41.0N, 032 43.0E

45 34.0N, 032 32.0E

45 42.0N, 032 18.0E

Exercises performed daily 0500-1700 LT

(GMT+3) except Sundays.

- **Area No.8**

45 03.5N, 036 17.0E

44 57.5N, 036 23.0E

44 45.0N, 035 50.0E

45 00.0N, 035 50.0E

and shore line.

Exercises performed daily 0500-1700 LT

(GMT+3) except Sundays.



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As from the above scheme, most of the areas are located within the already closed area. However, area No.8 located close to approaches to ports Taman and Kavkaz, therefore we recommend the vessels to proceed with caution in this area.



3. Travel, crew and logistic restrictions

- Restrictions of flights were imposed the following airports in South and central parts of Russian Federation until 19 April 2022.

- | | |
|-----------------|---------------|
| - Anapa | - Voronezh |
| - Gelendzhik | - Kursk |
| - Krasnodar | - Lipetsk |
| - Rostov-on-Don | - Simpheropol |
| - Belgorod | - Elista |
| - Bryansk | |

Airport Sochi is presently working as a hub for South Russia region. As per latest news, flights will be resumed at 17 foreign countries (including Armenia, Egypt, Israel, Kazakhstan, Turkey and Uzbekistan) in April 2022.

- Potential issues with Russian crewmembers.**

As we have noted from statistics, crewing companies recruiting and managing ships' crews on behalf of shipowners, often prefer to hire Russians and Ukrainians, as leaders in terms of navigational and seamanship skills. However, due to the present restrictions, the situation may change dramatically.

There is a potential risk and there is already intention about reluctance on the part of international crewing companies to continue to work with Russian crewing agencies seafarers, particularly with the top 4 ranks (Master/ Chief Officers/ Chief Engineers/ 2nd Engineers). As per our information, there are many seafarers in South Russia area, who did not receive a new appointment after beginning of the present conflict. The difficulty of the situation was also increased due to present restriction applied on international air traffic and local restrictions in South Russia area.



4. Sanction update

• USA update

Several changes were made in USA OFAC [SDN List](#), with addition of United Shipbuilding Corporation and its affiliated Companies.

New General Licenses were issued:

- [General License No.9C](#), related to debt or equity transactions to certain Russian Financial Institutions, including: Vnesheconombank, Sovcombank, Sberbank, Bank VTB)
- [General License No.10C](#), related to derivatives transactions to the same institutions as in License No.9C
- [General License No.21A](#), related to winding down of transactions of Sberbank USA and Alrosa USA (jewelry commodities).
- [General License No.24](#), related to winding down of all transaction of PJSC Alrosa.
- [General License No.25](#), related to allowance of operations of certain Telecommunications and Internet-based services.
- [General License No.26](#), related to winding down of transactions of PJSC Sberbank Kazakhstan and Sberbank Europe AG.

To sum up, we can see that sanction pressure is increasing and presently the top 3 Russian banks are more or less affected by US sanctions. Meantime Sberbank was winded down all outcoming transactions in foreign currency as counter-measure.

• EU update

[Fifth package](#) of sanction was released against of Russian Federation on 08th April 2022
The package includes:

- *A prohibition to purchase, import or transfer coal and other solid fossil fuels into the EU if they originate in Russia or are exported from Russia, as from August 2022. Imports of coal into the EU are currently worth EUR 8 billion per year.*
- *A prohibition to provide access to EU ports to vessels registered under the flag of Russia. Derogations are granted for agricultural and food products, humanitarian aid, and energy.*



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- *A ban on any Russian and Belarusian road transport undertaking preventing them from transporting goods by road within the EU, including in transit. Derogations are nonetheless granted for a number of products, such as pharmaceutical, medical, agricultural and food products, including wheat, and for road transport for humanitarian purposes.*
- *Further export bans, targeting jet fuel and other goods such as quantum computers and advanced semiconductors, high-end electronics, software, sensitive machinery and transportation equipment, and new import bans on products such as: wood, cement, fertilizers, seafood and liquor. The agreed export and import bans only account for EUR 10 billion and EUR 5.5 billion respectively.*
- *A series of targeted economic measures intended to strengthen existing measures and close loopholes, such as: a general EU ban on participation of Russian companies in public procurement in member states, the exclusion of all financial support to Russian public bodies. An extended prohibition on deposits to crypto-wallets, and on the sale of banknotes and transferrable securities denominated in any official currencies of the EU member states to Russia and Belarus, or to any natural or legal person, entity or body in Russia and Belarus.*

In addition, EU has adopted the quotas for imports of a number of Russian-originated fertilizers. This decision will become enforceable since 10th July 2022.

- Potassium chloride (Code 3104 20): 837,57 thousand tones
- Other complex fertilizers containing potassium (Codes 3105 20; 3105 60; 3105 90): 1,587,807 thousand tones.
- Volume of the mentioned quotas may be adjusted by EU commission.

A brief overview may be found in [infographics materials](#), representing the sanctions taken so far by EU.



• Russian counter-measures

The Russian Ministry of Transport proposes to export cargo from the Russian Federation only on ships controlled by Russian shipping companies. Cargo would have to be taken out of the Russian Federation either on Russian-flagged vessels or on vessels "whose owners or beneficial owners are Russian legal entities". To implement this decision, the intention of the Government is to amend Federal Law, related to sea ports (No.216-FZ). Presently, relevant bill is on the "project" stage, however preliminary text is available.

"In order to ensure maximum loading of vessels controlled by Russian shipping companies, at the request of ship owners of vessels flying the State flag of the Russian Federation or Russian legal entities which are ship owners or beneficial owners of vessels flying the flags of foreign states, the federal executive body in charge of providing services and managing state property in the field of maritime and inland waterway transport, in the manner prescribed by the federal executive body in the field of transport, determines the types and volumes of cargo transported from Russian seaports by ships flying the State flag of the Russian Federation or by ships flying the flags of foreign states, whose owners or beneficial owners are Russian legal entities."

Our comments:

The purpose of the bill is to ensure maximum loading of vessels controlled by Russian shipping companies. In practice, the potential beneficiary of this decision might be JSC Sovcomflot, which has been hit by the present sanctions. Sovcomflot operates 135 vessels with a total deadweight of 11,67 million tones, specializing in transportation of liquefied gas, oil and oil products. Also, the potential beneficiaries are Russian Shipping Companies operating with a fleet of "river-sea" vessels, who will be able to take a relatively small parcels from south Russian ports through Turkey and North African ports. In this case, the entire logistic chain will be changed and probably supply contract terms will be changed to CIF.

Despite of intention of the Ministry of Transport to create a cargo base for Russian ships, the main condition for this decision to be workable is the sufficient tonnage of Russian-flagged and Russian-operated fleet. Presently Russian cargoes are exported mainly by foreign-flagged vessels. The share of cargo transported by Russian-flagged ships is only about 2% of total cargo traffic from Russian seaports.

The similar scheme was earlier implemented on the Northern Sea Route, in terms of cabotage oil and coal shipments. However, in 2020 the Government was made an



exception for foreign vessels to participate in cabotage carriage in connection with shortage of Russian-owned tonnage.

Our comments on EU fifth sanction package:

We have received a plenty of queries from Members in respect of the present EU ban for Russian vessels and potential counter-measures would be applied by Russian Government. Therefore, we take a chance to explain how it going in practice:

1/ Ban for Russian vessels calling EU ports.

First of all, attention is due to be paid to last EU sanction update and imposing a ban for all Russian-flagged ships for calling EU ports. But this decision has some exceptions for:

- Vessels, carrying medical/ humanitarian cargoes
- Vessels, carrying agriculture/ food commodities
- Vessels, carrying energy consumables

Also, these restrictions were already indirectly imposed by including Russian Maritime Register of Shipping into relevant sanction list. Therefore, we can see that measures are not so strict as it could be appeared initially.

At the same time The Government of the Russian Federation, has approved a **mechanism** for accelerated decision-making on the admission or non-admission of vessels of a particular unfriendly state to domestic seaports.

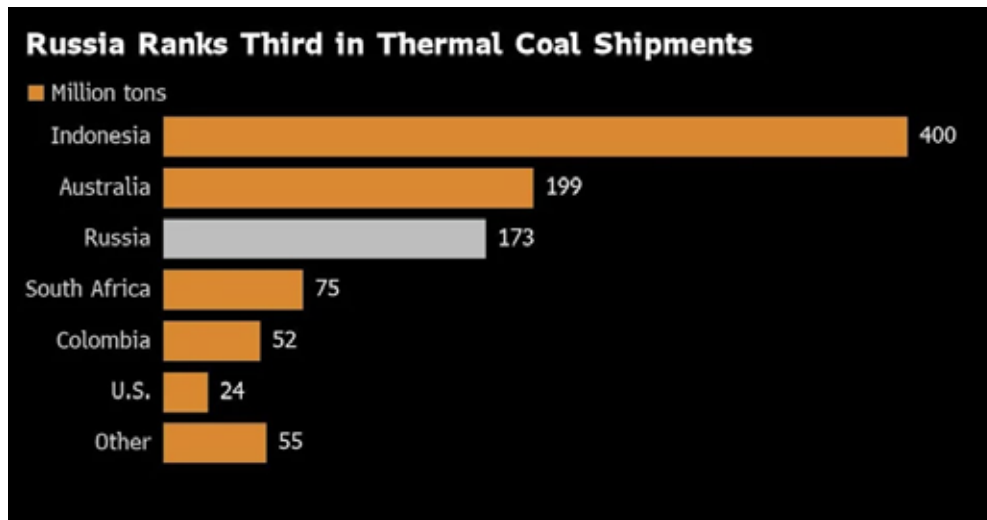
Therefore, based on a previous Russian counter-measures implementation (mirrored sanctions were imposed previously), we expect the same restrictions to be applied on EU ships, with the same exclusions. However, the following points are to be taken into account:

- In respect of UK and Canada ban, the Government has issued only a recommendation for vessels under Russian Flag, as well as for vessels operated under Russian-based management, just to «avoid» calling UK and Canada waters
- Presently nothing was declared by the Russian Government (as it was mentioned above, any specific restrictions are to be issued in the separate Government Decree).



2/ Ban of imports of Russian commodities

§ In accordance with EU sanctions, ban for “solid fossil fuels” will become in force in August 2022. Therefore, present long-term contracts are still valid until August 2022. In accordance with statistics, Russia is Europe's largest supplier of steam coal (and third in the world after Indonesia and Australia).



In view of the above, with total refuse from coal of Russian origin, further coal imports expected to be significantly expensive (with supply from Australia or South Africa) with another issue with quality and suitability of non-Russian coal.

Therefore we expect some exceptions in this sector, which may be applied in the future. For example, presently there are no specific instructions, which grades of coal (and what are exact codes, with reference to the quotas declared for fertilizers) are banned for import. Also, we may assume that there may be specific recommendation for allowable percentage of Russian originated coal in the final shipment.

Presently we can see increased coal traffic through the port of Taman (OTEKO Terminal), which traffic was increased up to 55% for the 1st quarter of 2022, due to the Terminal advantages: modern loading infrastructure, deep water berths and supply infrastructure for 7 million tons per quarter.



§ Potential of Russian Oil export.

In recent months, there have been increasing calls for a total embargo on Russian oil and oil products.

There are also major traders such as Shell/BP/VITOL which have publicly announced their intentions not to buy oil of Russian origin.

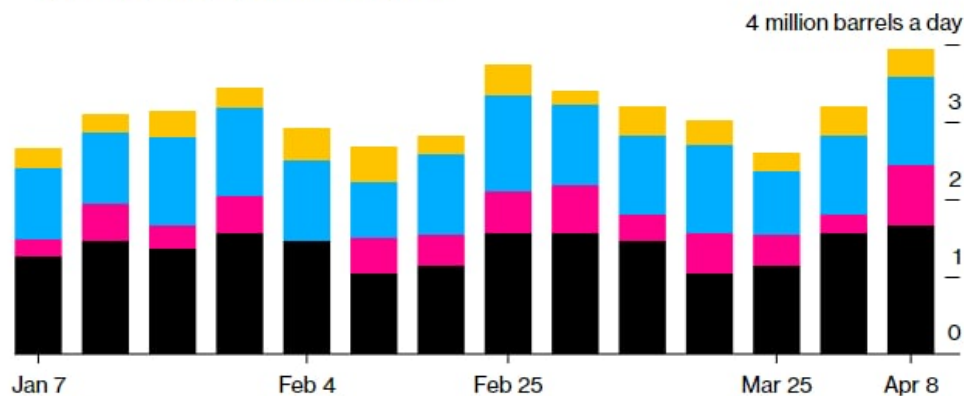
But nevertheless, it has become known that in practice Russian oil continues to be present in the final product delivered to Europe. This practice is not new, where "sanctioned product" share is about 49% of the total and such supplies becomes legal. A similar scheme was previously used for supply oil from Iran and Venezuela. In terms of South Russian region, such operations may be performed at port Kavkaz OPL area, which has a status of "neutral waters", or in suitable Turkish ports.

Such assumptions are supported by data on oil exports from Russia since January 2021. The chart shows a recovery of export volumes after a dip at the end of February 2022.

Crude Flows

Russia's seaborne crude flows rebound after post-invasion tumble

■ Baltic ■ Black Sea ■ Pacific ■ Arctic



Source: Vessel tracking data monitored by Bloomberg

Despite the above, not all oil traders are of the same opinion. For example, the French oil and gas company TotalEnergies excludes the production of fuel whose raw material is wholly or partly produced in Russia. Spain's Repsol SA has established similar rules banning any "Russian molecules".



Summary:

Despite of a large number of sanctions, Russian export is still alive, and has a potential to stay stable. Markets are commenced to move towards Asia-Pacific and Middle East regions.

As per last application from Ministries of Economic, Transport, Finance and Federal Customs:

"We are working with transport companies (shipping lines) in China on the possibility of allocating additional tonnage for the transportation of Russian cargo, as well as exploring the possibility of creating new ports - hubs on the territory of friendly countries and the organization of feeder lines to the ports of Novorossiysk and St. Petersburg".

We also have noted from the Turkish news, that all Turkish merchant ships engaged in trading in the ports of the Russian Federation and Ukraine will receive insurance guarantees from the Ministry of Transport. It was noted that insurance guarantees will be provided against risks that may arise due to the crisis in Ukraine. The insurance will be issued by the Special Risk Management Centre.

This fact also indirectly confirms that Turkey is intended to become a "hub" for all Russian "sanctioned cargo", therefore we do not expect any significant decrease of main cargo traffic through South Russian ports.