RAZOM WE STAND

International Special Envoy
for the Implementation of EU Sanctions
David O'Sullivan

19 May 2023

Dear Mr. O'Sullivan,

We, Razom We Stand, extend our compliments to the European Commission and yourself and express our sincere appreciation for your cooperation. Through this letter, we aim to bring your attention to the following matters.

We must urgently address our concern to the European Commission and all governments of the sanctions coalition countries that the EU and most of the G7 countries, despite banning or limiting imports of russian crude oil and oil products, have seen an increase in imports of refined oil products from countries that have become the largest importers of russian crude, creating a significant loophole that undermines the effectiveness of the sanctions on russia.

These moves, while long overdue, had significant impact on russia, as oil exports provide a key revenue stream to the aggressor country that commits countless war crimes in Ukraine for more than a year, grossly violating Geneva Conventions and undermining the international rules-based order. Yet, the oil sanctions regime as of now is not sufficiently enforced and has large loopholes that are undermining the whole effort. It is especially the russian export of fossil fuels which funds these war crimes, causing daily deaths and horrible human suffering across Ukraine.

Recent news reveals an encouraging development regarding this issue. Josep Borrell, the EU's foreign policy chief, emphasized the necessity for the European Union to crack down on India's reselling of russian oil into Europe as refined fuel, including diesel. We are deeply thankful for this crucial action and appreciate the attention given to this matter. We hope that this ambitious goal will translate into powerful actions on the ground.

As stated by Mr. Borrell, it is vital to implement mechanisms to curb the flow of russian oil, and this responsibility lies with national authorities. The EU could potentially target buyers of Indian refined fuels that are believed to be derived from russian crude. We firmly believe that addressing these buyers is a crucial step in countering the circumvention of sanctions. As Mr. Borrell rightly pointed out, if they sell, it is because someone is buying, and it is imperative to investigate and take appropriate measures against these buyers.

While progress has been made, promised sanctions on russian fossil fuels are still not working and much more needs to be done to address the remaining issues concerning russia's major revenue stream associated with oil exports. The current gaps in the sanctions regime and the insufficient enforcement must be urgently addressed. We implore you to take decisive action and close these loopholes to ensure the effectiveness of the sanctions and to prevent further support for russia's war crimes.

The new research by the Centre for Research on Energy and Clean Air (CREA) of 19 April named "The Laundromat: How the price cap coalition whitewashes Russian oil in third countries" shows that well into the second year of the full-scale invasion of Ukraine the EU, most of G7 and Australia have banned or limited imports of russian crude oil and oil products, leading to a significant fall in russia's oil prices and export revenues.

However, these price cap coalition countries have increased imports of refined oil products from countries that have become the largest importers of russian crude. This is a major loophole that can undermine the impact of the sanctions on russia. The import rose from China (+3.6 million tonnes or +94%), India (+0.3 million tonnes or +2%), Turkey (+1.8 million tonnes or +43%), UAE (+2.6 million tonnes or +23%) and Singapore (+1.8 million tonnes or +33%0, which totals to the increase by +10 million tonnes (+26%) or EUR 18.7 bln (+80% in value terms) in the year since russia's invasion compared to the prior year. We call these five countries that have increased purchases of russian oil and "launder" it into products shipped to countries having sanctioned russian oil the "laundromat" countries.

Among the price cap coalition, the largest importer of oil products from the "laundromat" countries was the EU, whose imports amounted to EUR 17.7 bln. As russia is forced to offer discounted oil to ensure it is able to find buyers, the laundromat countries are refining larger volumes of imported russian crude to then export the refined products to sanction imposing countries (+10 mln tonnes or +26% of refined oil products exported to price cap coalition countries one year post invasion compared to the prior 12 months). **This is currently a legal way of exporting oil products to countries that are imposing sanctions on russia as the product origin has been changed. This process provides funds to putin's war chest.**

The price cap coalition countries are responsible for the vast majority of the increase in laundromat countries' exports of oil products since the start of russia's invasion. Laundromat countries' exports of oil products increased 80% in value terms and 26% in volume terms (selling an additional +10 million tonnes) to price cap coalition countries, but only rose 2% (or +2.9 million tonnes) to non-price cap countries in the year since the invasion on prior year levels.

CREA analysis also shows that 56% of russian crude oil shipped to laundromat countries has been transported by vessels owned and/or insured by the price cap coalition countries since December 2022 up until the anniversary of Russia's invasion of Ukraine. This share is 74% for oil products exported from laundromat countries from December 2022 until the anniversary. This illustrates the coalition's strong leverage to ratchet down the price cap level as well as taking action to ban refineries buying russian crude to refine it and sell the products to sanctioning countries.

We now urge the EU to act now to close all the "laundromat" loopholes, and create effective policy and enforcement measures and impact the G7 decision on sanctions against russian fossil fuels.

We are also alarmed by the results of an investigation published by the Financial Times, which spotlights operations of oil trading company Paramount and its founder Neils Troost, who according to the FT report is standing behind sanctions evasion related to exports of ESPO crude oil from Russian port Kozmino.

Moreover, detailed research performed by Global Witness shows widespread and systemic violations of the price cap regime in the trades of ESPO crude oil at Asian markets, where companies from price cap coalition countries continue trading unchecked. We share the concerns expressed by Global Witness about the lack of enforcement and evidence of ongoing involvement

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of European companies in unsanctioned trade of russian oil and request that you engage relevant actors for necessary legal action to stop these practices.

In this context, we point to the fact that both export revenues and extraction volumes of russian fossil fuels must decline and international sanctions must work towards dismantling the russian fossil fuel industry, not keeping it afloat. Oil and gas production in russia should be the first avenue for necessary production cuts - both for ending war in Ukraine and mitigating climate change.

We call for tightening the oil embargo against russia and closing all loopholes with the consistent aim of keeping russian oil in the ground permanently. In particular, we urge to:

- advocate through political relationships or trade deals to dissuade ally countries from purchasing russian oil as it is providing finance to Putin's warchest;
- consider expanding the scope of embargo to include refined oil products from third countries produced from russian oil to close the "laundromat" gap, with proper enforcement via certificates of origin for primary supply of crude for refining;
- review the oil price cap towards further reduction in order to reflect actual market outlook and prevent the Kremlin from receiving revenues on supplies to "laundromat" countries, and implement effective oversight and enforcement mechanisms;
- uphold the commitment given by Mr. Borrell to implement mechanisms aimed at curbing the flow of russian oil, emphasizing the responsibility that rests with national authorities thus targeting buyers of Indian refined fuels derived from russian crude;
- ban investments into refineries identified as importing russian crude oil and exporting oil products likely from russian origin to price cap coalition countries;
- permanently ban tankers that violate price cap restrictions from entering EU and G7 ports or territorial waters, permanently ban insurance of such tankers;
- introduce restrictions on the sales of tankers, to prevent russia, its allies and related traders from acquiring old tankers for 'shadow fleet' to use to circumvent the price cap;
- require enhanced P&I insurance disclosure and review for any vessels not insured by the International Group of P&I Clubs when passing through the Danish Straits and other EU/G7 territorial waters or exclusive economic zones;
- prohibit transhipment of russian oil in territorial waters and exclusive economic zones of price cap coalition countries;
- introduce export restrictions on all software, technology and equipment used for the development, production and rehabilitation of oil fields in russia.

We hope for your active support in cutting critical money flows that drive both catastrophic climate change and the russian terrorist state, its military, and the war crimes they perpetuate. We are ready to collaborate closely with you to achieve this vital objective, and we eagerly await your prompt response in this regard.

Sincerely,

Svitlana Romanko
Founder and Director
Razom We Stand