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# THE WESTERN ENABLERS KEEPING THE "SHADOW" SHIPPING INDUSTRY AFLOAT

## Structural Barriers to Regulation of Maritime Commerce

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## About Crude Accountability

Crude Accountability is an environmental and human rights non-profit organization that works with communities in the Caspian and Black Sea regions, which struggle against threats to local natural resources and negative health impacts. Crude Accountability works on the local, national, regional, and international levels in partnership with communities and organizations committed to a just and environmentally sustainable world. Based in Northern Virginia, Crude Accountability also collaborates with other environmental organizations in the United States.

# Abstract

In a February 2023 report, Crude Accountability discussed the many factors that contribute to the opaque nature of the maritime shipping industry, making it an ideal environment for sanctions evasions and other corrupt dealings. In the following paper, we go into greater detail about the regulatory and sanctions regimes that govern maritime commerce at present, and the gaps therein (with a focus on oil and gas). Groups like the International Maritime Organization (IMO) lack the teeth to enforce the regulations they have on their books, and often fail to lend civil society organizations equal footing in setting the standards of the industry. Western enablers, including both insurers and consumers, create a market for sanctioned governments like the Russian Federation to continue deriving profit from energy exports, while classification societies based in the UK and US lend an air of legitimacy to illicit actors. In the end, this enriches western facilitators like George Prokopiou, a Greek shipping magnate, who is indicative of a class of individuals who have created an unregulated 'shadow' industry unto itself that lines their own pockets and those of authoritarian regimes in Russia, Iran, Venezuela, and elsewhere.

# Regulation of the Maritime Shipping Industry, or Lack Thereof

## Role of the International Maritime Organization (IMO)

The main regulatory body in the maritime transport industry is the International Maritime Organization (IMO), a specialized agency of the United Nations headquartered in London, UK.[1]

Perhaps the most important thing to know about the IMO is that it acts primarily as a forum for its 170 member states to discuss and come to a consensus regarding the standards of the industry; it is up to individual member states to implement the policies, or conventions, put forth by the agency. The structure of the IMO consists of an Assembly, Council, Secretariat, and a number of committees and subcommittees. The Assembly is the primary decision making body within the agency, with all member states meeting once every two years. The Council acts in an executive role within the IMO, and is a 40 seat body elected by the Assembly. The committees, chief among them the Maritime Safety Committee (MSC) and Marine Environment Protection Committee (MEPC), act in support roles while focusing on specific issues like maritime safety and environmental impacts of the industry.[2] Any conventions put forth by individual member states are only ratified once an arbitrary number of states, representing an arbitrary percentage of global registered tonnage, approve it; these thresholds change on a case-by-case basis.[3]

Among the structural problems facing the IMO is the unequal level of influence wielded by member states representing the highest percentages of global registered tonnage. These member states, many of them so influential because

[1] Other regional agencies like the European Maritime Safety Agency (EMSA) and U.S. based Federal Maritime Commission (FMC), as well as trade associations like the International Chamber of Shipping (ICS) are worth mentioning, but this piece will focus on the IMO given its outsized influence. https://sinay.ai/en/who-regulates-the-shipping-industry/

[2] https://www.imo.org/en/about/pages/structure.aspx

[3] https://images.transparencycdn.org/images/2018_Report_GovernanceatIMO_English.pdf

they operate as open registries (i.e flags of convenience[4]), exercise undue influence over the policymaking/ratification process given the concentration of overall tonnage handled by these flag states. The IMO's finance mechanism also requires such states to contribute a greater level of funding towards the agency than others, as a result of these being the states with the largest perceived interests in maritime commerce. Due to a lack of transparency, it is impossible for the public to know whether these member states, such as Panama and Liberia, take advantage of their structural advantage to block policies that could potentially hurt their business models.[5] For example, a state like the Marshall Islands is financially reliant on the revenue brought in by its open registry, and thus opposed to any climate change-related provision or broader regulation that may negatively impact its profit margins, despite being on the front lines of the climate crisis.[6]

**If the shipping industry were a country, it would be the sixth-worst GHG emitter in the world** at 1 billion tons annually, and in our increasingly globalized world, it is feasible that the international shipping industry could be contributing 17% of global GHG emissions by 2050 (up from 4% in 2022).[7] Yet while the IMO has put forth strategies to decarbonize the sector,[8] member states have complained about the lack of support put forth by the agency in the realms of research and development to implement such regulations.[9] In its current form, the IMO lacks the capacity to provide comprehensive guidance to member states regarding steps towards decarbonization, leaving these efforts fractured at best.

[4] Open registries, often referred to as 'flags of convenience', are a financial win-win for shipowners and the countries operating them; small countries like Liberia, Panama, and the Marshall Islands offer shipowners extremely favorable regulatory and tax environments (favorable meaning lax) if they register with them, and in return for offering their flag, these countries receive payments from shipowners eager to maximize profit and avoid scrutiny. The increased prevalence of these open registries makes sanctions and international regulatory compliance less common. https://crudeaccountability.org/wp-content/uploads/THE-MARITIME-SHIPPING-INDUSTRY.pdf
[5] https://images.transparencycdn.org/images/2018_Report_GovernanceatIMO_English.pdf
[6] https://www.sciencedirect.com/science/article/pii/S0308597X22004262#sec0010
[7] https://www.climateworks.org/programs/transportation/maritime-shipping/
[8] https://www.imo.org/en/MediaCentre/PressBriefings/Pages/Revised-GHG-reduction-strategy-for-global-shipping-adopted-.aspx
[9] https://www.sciencedirect.com/science/article/pii/S0308597X22004262#sec0010

## Role of Civil Society

Members of the shipping industry wield incredible amounts of influence over the IMO, while the voices of civil society are relegated to the sidelines. Attendance records from the meetings of IMO committees in 2018 show that industry representatives outnumbered civil society representatives 312 to 64. In an example of the lack of transparency within the IMO, there are no rules governing who a member state appoints as a delegate, and whether they have any secondary employment, meaning that it is not uncommon for prominent shipping industry members to serve as delegates to the institution. Not only that, but IMO meeting reports never identify the specific positions taken by delegates, shielding them from the scrutiny of civil society.[10]

Some civil society organizations, such as Pacific Environment and Greenpeace International, enjoy consultative status at the IMO. However, in practice, their role in criticizing the IMO is limited. The IMO maintains a right to revoke the consultative status of a civil society organization that engages in criticism of adopted IMO conventions. In 2009, the IMO threatened to do exactly that to Greenpeace International after it brought to a conference guest representatives from two groups that were critical of the proceedings.[11]

## Current Sanctions Regime

A notable gap in the Western-led sanctions regime raises questions about their effectiveness. While the United States and the United Kingdom have banned all Russian oil and gas imports,[12] the European Union (EU) has thus far stopped short of banning Russian gas imports, whether that be pipeline gas or LNG imports via tanker.[13]

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[10] https://images.transparencycdn.org/images/2018_Report_GovernanceatIMO_English.pdf
[11] Ibid
[12] https://www.bbc.com/news/world-europe-60125659
[13] https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/sanctions-against-russia-explained/#sanctions

Global Witness, a climate advocacy group, in tandem with the data analysts at Kpler, release a weekly "Russian Shipping Forecast," which acts as a great resource for those interested in tracking the flows of Russian fossil fuel products. For the week of July 31 - August 7, 2023, they forecast that Russia would ship up to 1.52 million cubic meters of liquified natural gas; 1.34 million cubic meters will originate from the Russian Port of Sabetta and the Yamal LNG terminal.[14] Of this 1.34 million cubic meters of LNG, ~503k cubic meters will be bought by French multinational TotalEnergies (336k) and Spanish multinational Naturgy (167k). For another 463k cubic meters of this LNG, the buyer has not been reported. Not only does this continued European reliance on Russian gas imports fuel its war effort, it is also illustrative of the West's continued complicity in propagating the myth that natural gas is somehow any better for the environment than other fossil fuels. A recent study published in the journal Environmental Research Letters makes clear that global gas systems which leak more than 4.7% of their methane over a 20 year timeframe have life-cycle emissions intensities (emissions per unit of production) on par with coal. To use U.S oil and gas basins as an example, studies have found that methane leakage rates can reach as high as 66% at some production sites.[15]

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[14] The Yamal LNG project is located on Russia's Yamal Peninsula, above the Arctic Circle, and utilizes the South Tambey gas field. The Yamal LNG Project involves Russian natural gas giant Novatek (50.1%), a subsidiary of French multinational energy company TotalEnergies named TOTAL E&P Yamal (20%), China National Oil & Gas Exploration and Development Corporation (20%) and Yaym Limited (9%). Its connection to George Prokopiou, the Greek shipping magnate, will be explored in a later section of the piece.
http://yamallng.ru/en/project/about/

[15] https://iopscience.iop.org/article/10.1088/1748-9326/ace3db
*See also*
*For more information on the impact of methane emissions, and leakages, from oil and gas production on the climate crisis, see the recent paper published by Crude Accountability on the topic*
*https://crudeaccountability.org/wp-content/uploads/Methane-in-Turkmenistan.pdf*

# Western Enablers

## Classification Societies

Classification societies are non-governmental organizations that establish and work to maintain certain technical standards for the construction and operation of ships. They operate on behalf of certain Flag Administrations (countries), and work in an advisory capacity with both shipowners and regulatory agencies to develop the standards of the industry.[16] Many of the most prominent classification societies are based in the West; Det Norske Veritas (DNV) is based in Norway, the American Bureau of Shipping (ABS) has its headquarters in Houston, Texas, Lloyd's Register is based in London, and Bureau Veritas is headquartered out of Paris, France.[17] Certification from a classification society is a prerequisite for vessels to receive insurance coverage, making any uncertified vessel essentially inoperable.[18]

A flaw inherent within the business model of classification societies is that they are paid by shipowners, and thus compete among themselves for business. This establishes an incentive for these organizations to be less stringent in enforcing costly standards of construction and operation in the hopes of driving up business.[19] Considering that shipowners serve in important advisory roles to these classification societies through regional committees, the potential conflict of interest becomes starker. George Prokopiou, a Greek shipping magnate to be discussed later, currently serves as Chairman of the Greek Committee of Bureau Veritas,[20] and in 2021, Frangiskos Kanellakis, Director of Pantheon Tankers, assumed his role as Chairman of Lloyd's Register's Hellenic Advisory Committee.[21] Requiring the insight of industry leaders to set the standards of operation in

[16] https://iacs.org.uk/media/8875/classification-societies-key-role.pdf

[17] https://www.marineinsight.com/maritime-law/classification-societies-in-the-world/

[18] https://comitemaritime.org/wp-content/uploads/2018/05/Vaughan-The-Liability-of-Classification-Societies-UCT-LLM.pdf

[19] https://comitemaritime.org/wp-content/uploads/2018/05/Vaughan-The-Liability-of-Classification-Societies-UCT-LLM.pdf

[20] https://www.athenscollege.edu.gr/en/about-us/board-of-directors/georgios-prokopiou

[21] https://www.hellenicshippingnews.com/lloyds-registers-hellenic-advisory-committee-convenes-virtually-to-address-future-fuel-challenges-and-sustainability-in-the-maritime-industry/

maritime shipping is useful, but when classification societies are competing for the business of the very shipowners they consult with, and said shipowners financially benefit from more lax building and operating standards, the potential for impropriety grows significantly.

## Western Insurance

Similar to classification societies, insurance companies lend a necessary air of legitimacy to the vessels they cover. And not only that, but western insurance opens up an entire market to vessels that may have otherwise been denied it; vessels cannot operate at most major ports without insurance, and western insurers are those most financially able to cover oil and gas tankers.[22]

As of February of this year, up to 60% of Russian tankers were still covered by western insurance, only slightly down from 80% the previous February.[23] In the first quarter of 2023, 96% of the oil shipped from the Russian Port of Kozmino was sold above the price cap, for an average price of $73 per barrel; more than half of these shipments involved western shipping or insurance firms.[24]

The insurers in question are predominantly from the United Kingdom, United States, and Norway, and include The Standard Club (UK), Assuranceforeningen Skuld Norway, North of England P & I Association (UK), UK P&I Club and The American Club (US), among others. These insurers argue that it can be extremely difficult to determine the price at which oil products were sold, with cargoes changing hands multiple times before reaching port. Shipping documentation can also be falsified to further obfuscate its origin and original price tag.[25] While this most certainly does not excuse insurers' outsized role as enablers of the Russian oil

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22 https://www.nytimes.com/interactive/2023/05/30/world/asia/russia-oil-ships-sanctions.html?campaign_id=2&emc=edit_th_20230531&instance_id=93863&nl=todaysheadlines&regi_id=96672200&segment_id=134310&user_id=616106f23127f7523e76a37782267aee

23 https://finance.yahoo.com/news/russia-continued-western-insurance-services-163953223.html

24 https://foreignpolicy.com/2023/05/25/russia-sanctions-evasion-west-ukraine-war-oil-gas-semiconductors-china/

25 https://www.reuters.com/business/autos-transportation/ship-insurers-warn-russian-oil-price-cap-evasion-risks-dark-fleet-2023-04-27/

trade, these strategies further emphasize the ease with which shipowners and bad actors are able to work around the regulation and sanctions regimes that do exist to govern maritime commerce.

## Western Demand for Cheap Oil & Gas

Any discussion of western enablers of illicit practices and sanctions evasion in maritime commerce would be incomplete without addressing the role that western consumers, and our thirst for cheap energy, plays in keeping Russian oil and gas revenues afloat.

According to data gathered by the Centre for Research on Energy and Clean Air, a Finnish think tank, the European Union has received by far the most shipments of Russian LNG since its import ban on Russian oil came into effect in December 2022. The EU also ranked second, behind Turkey, in liquified petroleum gas (LPG) shipments from Russia, and a distant, but notable, third place behind China and India in shipments of Russian crude oil received.[26]

[26] https://energyandcleanair.org/june-2023-monthly-snapshot-on-russian-fossil-fuel-exports-sanctions/

# The Shipping Magnates & Authoritarian Regimes Who Profit

### George Prokopiou

It is difficult to imagine an individual more firmly ensconced in the maritime shipping industry than George Prokopiou. Born in Athens, Greece in 1946, Prokopiou founded companies involved in many of the most profitable realms of maritime commerce.[27] Dynacom Tankers Management is a major player in the maritime oil trade, with up to 70 vessels under its management.[28] Sea Traders S.A. is an international dry bulk cargo carrier with 40 vessels in its fleet and eight offices spanning from Athens to Singapore.[29] Dynagas Limited is a liquified natural gas (LNG) transportation company,[30] which manages, among other vessels, those owned by Dynagas LNG Partners LP, a limited partnership listed on the New York Stock Exchange and chaired/directed by George Prokopiou.[31]

These businesses have made George Prokopiou an exceedingly wealthy man. He is the owner of not one, but two luxury yachts; the 'Dream' and the 'Nomad'. The Dream was purchased by Prokopiou for ~$150 million, and has an annual running cost of ~$15 million; it can accommodate 44 guests in tandem with 28 crew members, and features a helipad.[32] The more modest of his two megayachts, the Nomad, was purchased for ~$50 million, and has an annual running cost of ~$5 million; it can accommodate 12 guests and 15 crew members, and also features a helipad.[33] Prokopiou is also a prominent property baron, with multiple sources indicating he owns upwards of 1,500-2,000 properties. Most notable among them are the legendary property Villa Cristina in Portofino, Italy (bought in spite of

[27] https://www.athenscollege.edu.gr/en/about-us/board-of-directors/georgios-prokopiou
[28] http://www.dynacomtm.com/
[29] https://seatraders.com/
[30] http://www.dynagas.com/?page=home
[31] http://www.dynagaspartners.com/upload_earnings/dlng20f2022.pdf
[32] https://yachtbible.com/dream-yacht/
[33] https://yachtbible.com/nomad-yacht/

objections from former Italian Prime Minister Silvio Berlusconi, who allegedly wanted the property for himself) and a lavish €20 million apartment in the exclusive Knightsbridge One Hyde Park complex in London.[34]

## Russia Connection

The luxurious lifestyle that George Prokopiou has cultivated is in part thanks to his continued facilitation of the Russian oil and gas trade, which would not be possible if not for the lax, gap-laden regulatory regimes which govern maritime commerce, as well as the well-intentioned, but incomplete, attempts to sanction the Russian government's ability to derive profit from its oil and gas sector.

### *Yamal*

Two LNG tankers owned and operated by Dynagas LNG Partners LP, the *Yenisei River* and *Lena River*, are currently chartered to Yamal Trade Pte. Limited, the trading arm of the Yamal LNG Project in Northern Russia.[35] In 2022, these two charters accounted for 41% of the company's revenue.[36] An additional five LNG tankers, the *Fedor Litke*, *Boris Vilkiltsky*, *Boris Davydov*, *Georgiy Brusilov,* and *Nikolay Zubov*, each 49% owned by Dynagas Holding Limited, a company beneficially owned and chaired by George Prokopiou,[37] are also chartered to the Yamal LNG Project.[38] Utilizing MarineTraffic, Crude Accountability has tracked these LNG tankers making frequent European port calls in Spain, France, Belgium, and the Netherlands between trips to the Russian Port of Sabetta, the distribution

34 https://www.newmoney.gr/roh/palmos-oikonomias/business-stories/giorgos-prokopiou-o-tycoon-pou-egine-aftokratoras-tou-real-estate/
35 http://www.dynagaspartners.com/upload_earnings/dlng20f2022.pdf
36 Ibid
37 Ibid
38 https://www.offshore-energy.biz/sinotrans-dynagas-and-clng-agree-yamal-lng-deal/

center for Yamal LNG. Additional vessels owned by Dynagas LNG Partners LP were previously on charter to a Gazprom subsidiary.[39]

### *Russian Oil Trade: Dynacom Tankers*

Oil tankers owned or operated by Prokopiou's Dynacom Tankers Management have continued to ferry Russian oil throughout 2023. Utilizing MarineTraffic, Crude Accountability has tracked the Liberia-flagged crude oil tankers *Maistros* (managed by Dynacom), *Ice Fighter* (owned by Dynacom), and *Sikinos I* (managed by Dynacom) at Russian ports as recently as July 23, 2023 in the case of the *Ice Fighter*. The *Maistros*, the least recent visitor to a Russian port, was tracked at the Port of Ust-Luga on June 20, 2023.

[39] Prior to the outset of the Russian war of aggression in Ukraine, three LNG tankers owned and operated by Dynagas LNG Partners LP, the *Clean Energy*, *Ob River* and *Amur River*, were chartered to Gazprom Germania, the German branch of Russian state-owned energy company Gazprom. If not for the German government's nationalization and subsequent rebranding of Gazprom Germania as SEFE (Securing Energy for Europe), these vessels would have been operating under this charter until at least 2026. https://www.nytimes.com/2022/11/14/world/europe/germania-gazprom-nationalized.html

# Conclusion

As of 2019, the value of the annual world shipping trade reached approximately $14 trillion. 11 billion tons of goods are transported by ship each year.[40] Yet, perversely, regulation of the maritime shipping industry is fragmented, abstruse, and easily circumvented. Structural issues within the International Maritime Organization plague its ability to offer a comprehensive regulatory framework to govern an increasingly rogue industry. Shipping industry representatives exercise greater sway over the regulatory process than civil society, which is especially harmful to efforts at decarbonizing the shipping sector, a costly short-term endeavor unlikely to be implemented if left up to those with a financial interest in the industry. And all the while, western businessmen like George Prokopiou profit in part due to these lax regulations, and the ability it grants them to continue working with sanctioned regimes like Russia. Such an insular, profit-driven industry will never police itself, so it is up to the international community to do so. This starts with OSCE participating states controlling what they can control, and making concrete efforts to implement the conventions put forth by the IMO, especially those pertaining to decarbonizing the sector.

[40] https://www.ics-shipping.org/shipping-fact/shipping-and-world-trade-driving-prosperity/

# Recommendations

For the International Maritime Organization and other regulatory agencies:

- The IMO should make concrete efforts, perhaps in the form of an equal allocation system, to ensure that all stakeholders are better represented within the organization. Civil society and labor organizations are far less represented than shipping industry reps, giving them disproportionate lobbying power.
    - The IMO should institute a comprehensive screening process of the national delegates appointed by member states to ensure that there is no active connection among these delegates to any organization that derives profit from maritime commerce.
- The IMO should forgo its ability to revoke the consultative status of a civil society organization if it is engaged in criticism of adopted IMO conventions. Civil society representatives are a key voice for frontline communities affected by the shipping industry; contaminates emitted by vessels contribute to 60,000 deaths annually related to heart and respiratory diseases, especially among communities located near seaports.[41] These CSOs are hamstrung so long as they must operate in fear of having their consultative status revoked simply for disagreeing with the scale or scope of an IMO convention.
- The IMO should make changes to the ratification process of its conventions so that handling a high percentage of global registered tonnage does not grant member states a disproportionate amount of influence over the potential ratification of an amendment. This practice grants open registries, who actively compete with one another for business by offering lenient regulatory and tax environments, the power to further hamstring global efforts to ensure strict regulation of the maritime shipping industry.

[41] https://www.climateworks.org/programs/transportation/maritime-shipping/

- The IMO should seek to provide more comprehensive research and development assistance to member states to aid in their implementation of conventions, especially those pertaining to decarbonization efforts. This research and development assistance should be administered first to member states from the Global South, that may lack the requisite funds or expertise to successfully implement measures put forth by the IMO.

For OSCE Participating States:

- OSCE participating states should acknowledge and make efforts to rein in the activities of western insurance companies and classification societies on their home soil who play an integral role in the facilitation of the Russian oil and gas trade.
    - Participating states should develop regulatory bodies to strictly monitor the activities of ship insurers operating within their borders. Data logs covering where cargo was received, from what ship, and for what price said cargo was purchased for should be kept for all insured vessels. Access to western ports should be predicated on compliance with current sanctions and regulatory regimes.
- OSCE participating states should include Russian LNG imports via tanker in their respective sanctions regimes against the Russian Federation. These imports have the dual negative impact of enriching a country committing war crimes in Ukraine and contributing to GHG emissions both during its transportation via tanker and when burned for energy.
- OSCE participating states who are party to the IMO should establish criteria to guarantee that the delegates they send to Assembly, Council, and committee meetings are dedicated to more strictly regulating the shipping industry so as to ensure sanctions compliance, as well as concrete progress towards decarbonization of the maritime shipping sector.
- OSCE participating states should create a certification agency/process that would necessitate maritime shipping companies headquartered within their borders to prove a concrete connection between their business and an open registry that they wish to work under. This would have the dual benefit of decreasing the number of vessels operating under 'flags of convenience'

while ensuring that shipowners are following the regulatory and taxpayer guidelines established by the country they operate within, as opposed to seeking out a weaker regulatory environment.