

Navigating Supply Shocks: The Pivot to Sanctioned Energy Suppliers

Faced with unprecedented disruptions in Middle Eastern energy deliveries, Asian refiners and industrial buyers are increasingly looking toward alternative sources to prevent severe operational shutdowns. This pivot has led to a surge in transactions involving sanctioned suppliers and “shadow fleets,” raising complex compliance and legal risks for companies operating out of global hubs like Singapore.



I. The Shift to High-Risk Supply Channels

To bypass the logjam at the Strait of Hormuz, Asian buyers are aggressively seeking replacement volumes through heavily scrutinized channels:

- **The “Shadow Fleet”:** A significant portion of substitute crude is being transported via Russian and Iranian shadow fleets. These vessels typically operate outside Western maritime insurance markets and frequently disable tracking systems to obscure their origins.
- **Alternative Payment Mechanisms:** To circumvent US dollar-dominated financial systems and associated

sanctions, buyers in China and elsewhere are increasingly utilizing alternative settlement methods, including the digital yuan and the mBridge cross-border payment platform.

- **Emerging Exemptions:** Some buyers are capitalizing on specific geopolitical carve-outs, such as utilizing US General License frameworks to import Venezuelan crude as a direct replacement for Middle Eastern grades.

II. Sanctions and Compliance Risks

Engaging with sanctioned entities, even indirectly, exposes Asian buyers, traders, and their financial institutions to severe legal liabilities:

- **Secondary Sanctions:** The US Department of the Treasury's Office of Foreign Assets Control (OFAC) actively targets non-US persons who materially assist, sponsor, or provide financial, material, or technological support for sanctioned parties.
- **Maritime and Insurance Scrutiny:** The latest rounds of EU and US sanctions specifically target maritime services. Engaging vessels involved in deceptive shipping practices (e.g., ship-to-ship transfers, AIS spoofing) can lead to immediate blacklisting and the voiding of maritime insurance policies.
- **Banking and Trade Finance:** Financial institutions in Singapore maintain zero-tolerance policies for sanctions evasion. Transactions linked to shadow fleets or sanctioned jurisdictions risk frozen funds, suspended credit lines, and regulatory investigations.

III. To-Dos for Energy Traders and Buyers

Companies must implement robust, airtight compliance frameworks to navigate this high-risk environment:

- **Enhanced Due Diligence (EDD):** Implement rigorous KYC and AML checks that go beyond immediate counterparties to identify the ultimate beneficial owners (UBOs) of suppliers and shipping companies.
- **Vessel Screening:** Utilize advanced maritime tracking software to audit the historical movements of chartered vessels, ensuring they have not engaged in deceptive practices or docked at sanctioned ports.
- **Update Compliance Policies:** Regularly update internal trade compliance manuals to reflect the rapidly changing landscape of US, EU, and UN sanctions, ensuring all procurement teams are trained on red flags.

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