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When Russia (re)invaded Ukraine in February, national sanctions imposed on Russian shipping companies and designated Russian-owned vessels and financial institutions began degrading the country's maritime sector. These sanctions include the launch of "Task Force Kleptocapture" by the U.S. Treasury Department on March 2 to seize luxury yachts owned by oligarchs close to Putin.¹ The next day, the world's three largest container lines, A.P. Moller-Maersk A/S, MSC Mediterranean Shipping Co., and CMA CGM S.A., joined Hapag-Lloyd AG and Asia's Ocean Network Express Pte. Ltd. in stopping service to Russia. These companies represent 47 percent of the global shipping trade, and their suspension of cargo routes to Russia is slowly bleeding Russia's economy.²

War-related sanctions have banned Russian-flagged and Russian-controlled vessels from ports in the United States, the European Union, and other countries. The sanctions are impacting Russian commodity traders, container shipping, dry bulk carriers, and natural gas. Because the Russian

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1. *The Rachel Maddow Show* (MSNBC television broadcast Apr. 4, 2022), available at YOUTUBE, DOJ's "Task Force KleptoCapture" Seizes Russian's Yacht in New Push (Apr. 4, 2022), <https://www.youtube.com/watch?v=uOaCv-S5ubU>.

2. Pamela Glass, *Ocean Shipping to and from Russia Halted by Container Lines*, WORKBOAT (Mar. 3, 2022), https://www.workboat.com/bluewater/ocean-shipping-to-and-from-russia-halted-by-container-lines?utm_source=marketo&utm_medium=email&utm_campaign=newsletter&utm_content=newsletter&mkt_tok=NzU2LUZXS0wNjEAAAGC8YZJylsgWelqUuyjFGIdVumXiA73guksMm36ey5ssjQNu-Eu-5JQQ6TM_BfbzAmqDPnrz4oildlQR5W6MIJTE1LZpOa8A8OoW4rl_sueX5w8zWM.

fleet of container ships is modest, however, the greatest challenges for Moscow come from the cessation of foreign container lines operating in Russian domestic commerce. Before the current phase of the Russia-Ukraine conflict, foreign operators also performed all the voyages to ports in the northwest and south of Russia. As these carriers withdraw, Russian cabotage shipping is impaired. Presumably, Russian hulls would take over the trade.

This alternative approach, however, is no longer feasible because of a move on March 11 by the International Association of Classification Societies (IACS) to expel the Russian Maritime Register of Shipping (RMRS) from the organization.³ The governing Council of IACS determined RMRS membership was “no longer tenable.”⁴ The remaining eleven major registry members of IACS cover more than 90 percent of global merchant shipping and include: American Bureau of Shipping (ABS, United States); Bureau Veritas (BV, France); China Classification Society (CCS, China); Croatian Register of Shipping (CRS, Croatia); DNV (Norway-Germany); Indian Register of Shipping (IRS, India); Korean Register of Shipping (KR, South Korea); Lloyd’s Register (LR, United Kingdom); Polish Register of Shipping (PRS, Poland); Registro Italiano Navale (RINA, Italy); and Nippon Kaiji Kyokai (ClassNK, Japan).

IACS is a technical international organization that sets standards and helps national registries ensure compliance with technical and engineering standards in the construction, design, equipping, and manning of ships, offshore units, and port facilities. For example, member classification societies conduct surveys of ships flying the flag of national registries to ensure the vessels are “in class,” or in compliance with generally accepted international rules and standards for operations at sea, such as the Safety of Life at Sea Convention (SOLAS).⁵ The individual societies and IACS also participate in the development of revisions to international conventions and provide technical support to member States of the International Maritime Organization (IMO). The extensive reach of the IACS is the most powerful mechanism in the world to eliminate the operation of substandard ships.

3. Richard Meade, *Russian Class Expelled From IACS*, LLOYD’S LIST (Mar. 11, 2022), <https://lloydlist.maritimeintelligence.informa.com/LL1140123/Russian-class-expelled-from-IACS>.

4. *Id.*

5. See generally INTERNATIONAL MARITIME ORGANIZATION, *International Convention for the Safety of Life at Sea (SOLAS)*, 1974, [https://www.imo.org/en/About/Conventions/Pages/International-Convention-for-the-Safety-of-Life-at-Sea-\(SOLAS\)-1974.aspx](https://www.imo.org/en/About/Conventions/Pages/International-Convention-for-the-Safety-of-Life-at-Sea-(SOLAS)-1974.aspx) (last visited Aug. 26, 2022).

IACS is domiciled in London and subject to the United Kingdom sanction regime, hence the reason it removed RMRS. RMRS is the largest provider of classification services to vessels under the ownership or control of Russia, covering some 77.78 percent of Russian ships.⁶ RMRS is followed by Rina (4.42 percent), DNV (3.75 percent), and then Bureau Veritas (3.27 percent) in coverage of Russian ships. After RMRS was expelled from IACS, Lloyd's Register (LR) withdrew from Russia, followed by DNV, stating that it was winding down "business that is not in line with our values."⁷ Most U.S. and U.K. carriers have already issued notices of cancellation for shipments into and out of Russia and Ukraine through the Black Sea and Sea of Azov.

The expulsion of RMRS from IACS means that the registry members and other registries have begun to drop Russian-controlled shipping from class, essentially expiring or withdrawing ship certifications across some fifty separate international maritime conventions. This process steadily makes it more difficult for Russian ships to maintain insurance coverage. Insurance coverage is typically afforded only to vessels "in class" or meeting the standards set by one of the major classification societies that are members of IACS, assuring that international safety, security, and environmental requirements set forth in maritime conventions are being met. The decision to withdraw RMRS from IACS required concurrence of 75 percent of the members.

While IACS is the global standard for ship surveys and classification, non-IACS members may pick up the business since they are not subject to the sanctions regime. Russian vessels potentially may seek ship surveys and classification from open registries, such as Liberia. But it is not clear that even these open registries will deal with Russian ships now that they do not have current ship surveys from an IACS member. A spokesman for the Liberian flag said, "Liberia is a sovereign nation that closely follows and applies international sanctions guidelines as long as they are not in direct contravention with its national laws. The registry conducts rigorous due diligence regarding sanctions compliance and assesses non-sanctioned entities on a case-

6. Richard Meade, *Class Societies Start Pulling Out of Russia*, LLOYD'S LIST (Mar. 10, 2022), <https://lloydslist.maritimeintelligence.informa.com/LL1140117/Class-societies-start-pulling-out-of-Russia>.

7. *Id.*

by-case basis.”⁸ If a Protection and Indemnity (P&I) club cancels or suspends insurance coverage due to an unacceptable sanctions risk or violation of the club rules, a ship will be stuck in port.⁹

The sanctions are having a cascading effect on Russian maritime commerce, similar to what occurred when UN sanctions under Resolution 1718 began to strangle North Korea’s maritime sector.¹⁰ For example, while Lloyd’s List has no discrete deadline to withdraw class from Russian ships, it is not providing new certificates to Russian clients going forward, notifying relevant flag administrations as the withdrawals of class take effect. The removal of class on each ship invalidates existing certificates issued on behalf of the flag State administration and compels ship owners to reinstate insurance coverage. Coverage through non-IACS insurers, however, is severely limited, especially in light of the added risks brought on by the ongoing conflict and a reluctance of many societies to deal with Russian entities.¹¹ Many insurers and financiers require that a ship be in class with an IACS member, effectively halting Russian ship operations or forcing the Russian ships to scramble for insurance coverage. Ships that are not in class can expect to pay higher costs of ship surveys. The decision also bars the ships from entering many ports throughout the world, prevents completion of transactions, and imposes obstacles on receipt, delivery, and payment for goods and services.

The decision to remove RMRS from IACS will not have an immediate impact, like turning off a light.¹² Rather, it is slowly bogging down Russia’s shipping sector by making foreign clients reluctant to deal with Russian-owned or managed entities and raising the cost of doing business, frustrating trade, and hampering the economy. Shipowners and shipbrokers are beginning to proactively communicate that they are not using Russian ships or companies subject to sanctions, forcing Russian shippers to find substitutes

8. Meade, *supra* note 3.

9. See Sean T. Pribyl et al., *U.S. Sanctions on Russia: Impact on Shipping Business and Contractual Considerations*, HOLLAND & KNIGHT (Mar. 7, 2022), <https://www.hklaw.com/en/insights/publications/2022/03/us-sanctions-on-russia-impact-on-shipping-business>.

10. See U.N. SECURITY COUNCIL, *1718 Designated Vessels List*, <https://www.un.org/securitycouncil/sanctions/1718/materials/1718-Designated-Vessels-List> (last visited Aug. 26, 2022).

11. See Jack Willard, *R.S. Class’s Removal From IACS Has Consequences For Shipping Clients: CRC Group*, REINSURANCE NEWS (Apr. 1, 2022), <https://www.reinsurancene.ws/r-s-class-removal-from-iacs-has-consequences-for-shipping-clients-crc-group/>.

12. See Ana Swanson, *Russian Shipping Traffic Remains Strong as Sanctions Take Time to Bite*, NEW YORK TIMES (May 13, 2022), <https://www.nytimes.com/2022/05/13/business/economy/russia-shipping-sanctions.html>.

at higher risk premiums. These changes reflect the follow-on effects of sanctions on the Russian maritime industry and will increase costs of supply inside the country, contributing to skyrocketing inflation.¹³

Yet some of the workarounds by Russia to circumvent the effect of maritime sanctions also appear to be effective, with Russian shipping data at odds with the confident predictions of Western leaders. While Treasury Secretary Janet L. Yellen said the Russian economy was “absolutely reeling,” vessel traffic data appear down just 6 percent since the invasion.¹⁴ Furthermore, alternative markets for Russia’s raw materials, especially oil and gas, exist in India and China and elsewhere. Over time, however, the effects on the supply chain should amplify as multiple maritime services unwind. The expiration of vessel certificates, suspension of port access, and insurance challenges will escalate transaction costs and erode the Russian economy.

13. See *Russia Hikes Social Welfare Payments to Mitigate Rocketing Inflation*, THE MOSCOW TIMES (May 30, 2022), <https://www.themoscowtimes.com/2022/05/30/russia-hikes-social-welfare-payments-to-mitigate-rocketing-inflation-a77838>.

14. Swanson, *supra* note 12.