

CMFH SPOTLIGHT

October 2025

Publication by CM Holder Insurance Brokers Limited,
a China Merchants Group subsidiary.

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Reshapes Sanctions Risk Assessment
For Shipowners

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Upholds Constructive Total Loss
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❑ P&I Cover Requirement:
Rights Of Recourse For Carriage Of
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The “Catalan Sea” – Court Decision Reshapes Sanctions Risk Assessment For Shipowners

Case reading of Tonzip Maritime Ltd v 2Rivers Pte Ltd [2025] EWHC 2036 (Comm)

❖ Factual Background

- On 5th November 2021, the claimant Owners chartered the vessel “Catalan Sea” to the defendant Charterers for a voyage from Primorsk (Russia) to Aliaga (Turkey), carrying a cargo of oil.
- The charterparty included a sanction clause warranting that the Charterers would not expose the Owners, vessel, crew or insurers to any sanctions, and that the Owners were not obliged to comply with orders which, in their reasonable judgment, would expose them to sanctions.
- Through the draft bills of lading, the Owners identified that the cargo shipper was Neftisa. After conducting sanctions screening using industry-familiar tools such as Refinitiv / World-Check, it was revealed that Neftisa was associated with Mr. Gutseriev, a businessman sanctioned by the EU and UK.
- The Owners relied on the sanction clause in charterparty and refused to load the Neftisa cargo. Instead, they requested alternative voyage orders. Charterers tried to persuade Owners to load the cargo by providing evidence which suggested Mr. Gutseriev had transferred control of the company to his brother following the EU sanctions, but such was not accepted by Owners.
- On 24th November, the Charterers cancelled the charterparty, citing the Owners’ refusal as grounds for cancellation. The Owners responded by treating the cancellation as Charterers’ repudiatory breach. Both parties claimed damages from the counterpart.

The “Catalan Sea” – Court Decision Reshapes Sanctions Risk Assessment For Shipowners (Cont'd)

❖ The Sanctions Clause

On interpretation of the sanctions clause, it was held by the Court that:

- As the sanctions clause limited the Charterers’ key right to provide employment orders to the vessel, the sanctions clause must be interpreted *contra proferentem* (i.e. if a contract term is ambiguous, it should be interpreted against the party who drafted it, hereby draftsman is the Owners).
- The Owners bore the burden of proof in establishing that their decision is one that a reasonable shipowner could reasonably have come to in the circumstances.
- The use of the wording “exposure to sanctions” did not mean any of the parties would be in breach of sanctions; rather, it meant the risk of sanction or being open to the danger of sanction.
- Where there is a *prima facie* objectively reasonable basis for shipowner to make judgement that the charterers’ order will give rise to an exposure to sanctions, the burden of proof shifts to the charterers to prove otherwise.

❖ The Evidence

The sanctions screening checks were carried out using Refinitiv / World-Check, which identified Mr. Gutseriev as the indirect owner of Neftisa. However, this was reported between July 2015 and July 2021, and the reports did not evidence any control of Neftisa by Mr. Gutseriev in November 2021.

The “Catalan Sea” – Court Decision Reshapes Sanctions Risk Assessment For Shipowners (Cont’d)

❖ The Evidence (Cont’d)

The claimant had possession of an Infospectrum report – another sanctions screening software, which indicated that Mr. Gutseriev had apparently stood down from PAO Russneft (an associated company of Neftisa), after he was sanctioned by EU. This report had not been made available to all of the relevant decision makers of Owners at the material time. Nevertheless, it is not entirely clear what weight can be attached to a report on a separate company, and whether the report, as dated 16th July 2021, can provide suitable information upon Mr. Gutseriev’s interests in Neftisa in November 2021.

The defendant relied on other documents to show that Mr. Gutseriev did not own or control Neftisa, these included:

- A letter on Neftisa’s own headed paper dated 16th November 2021 stating Mr. Gutseriev was not the controlling person of Neftisa.
- A newspaper article dated 22nd July 2021 stating that Mr. Gutseriev had transferred control of Neftisa to his brother and had stepped down.
- 3 legal opinions, 2 out of the 3 were drafted in July 2021. The legal opinions by the Herbert Smith Freehills made clear that they expressed no view on the facts, and had reached conclusions based solely on information provided to them and assumptions that had not been verified or investigated. The legal opinions from Baker Mckenzie stated similarly.

The “Catalan Sea” – Court Decision Reshapes Sanctions Risk Assessment For Shipowners (Cont’d)

❖ The Court Decision

The Court found in favour of the defendant, and held the claimant Owners had not made a reasonable or objective decision in concluding that there was a risk of exposure to sanctions:

- The Owners’ decision was based on the Refinitiv reports without proper consideration of the contradictory Infospectrum reports and other information, including Charterers’ evidence.
- Upon close examination, the Refinitiv reports did not demonstrate that Mr. Gutseriev controlled Neftisa at the relevant time (November 2021), and the Owners’ judgement was speculation.
- Therefore, Owners’ termination of charterparty on sanctions grounds was not justified. As a result, Owners was ordered to pay damages of USD233,600 plus interest.

❖ Comment

The judgment placed emphasis that, while sanctions compliance is a legitimate concern, a party cannot rely exclusively on automated or third-party screening tools without critically assessing the underlying evidence. However, the judgement did not provide clear guidance as to exactly what documents a shipowner should seek and rely upon when making such time-critical decisions.

Some market sources doubted if the judge’s approach was incorrect, as it appears to be that if shipowners wish to rely on a sanctions clause like in this case, they cannot rely on the evidence that only suggests there is a risk / danger of a sanctioned individual retaining factual control, but they must have positive evidence to show it is the fact. In practice, it is hard for shipowner to obtain or investigate such evidence.

The “Catalan Sea” – Court Decision Reshapes Sanctions Risk Assessment For Shipowners (Cont’d)

❖ Comment

There are numerous factors to be considered in each occasion and no sure formula for what is reasonable and objective assessment of sanctions risks. Some legal practitioners recommended to:

- Use multiple sources and intelligence providers, do not rely on a single screening tool.
- Review all available due diligence materials, seek clarification where reports are ambiguous or inconsistent, and avoid knee-jerk decisions based solely on red flags of sanctions screening tools.
- Document the reasoning by keeping clear records of how decisions were made, especially when terminating contracts.
- Train compliance teams to let them understand the limitations of automated tools and the importance of contexts, and document the internal compliance process well.
- Seek specialist legal advice early before making decisions relating to refusing orders and the termination of a charter.

In September 2023, European Court of Justice held that Mr. Gutseriev retained control of Neftisa notwithstanding his apparent divestment in June 2021. Separately, the Charterer – 2Rivers themselves were sanctioned in the UK in December 2024, and designated by the EU in June 2025. These events were after November 2021, but they do highlight the risks that shipowners face when dealing with sanction issues.

This case is currently on appeal, awaiting the Court of Appeal’s judgement.

The “Win Win”: Court Of Appeal Upholds Constructive Total Loss Claim Against Insurers

Delos Shipholding S.A. & others -v- Allianz Global Corporate and Specialty S.E. & others (WIN WIN) [2025] EWCA Civ 1019

❖ Briefing of the first instance judgement

The judgement of first instance has been summarised in our previous CMH Spotlight 2024.04 Issue (<https://www.cmhoulder.com/news/3>). For warm-up, key briefing can be found below:

- The capesize bulker carrier “Win Win” (the Vessel) was detained by Indonesian Navy in February 2019 due to illegal anchorage within the territory of Indonesia without a permit. That area had commonly been used for anchorage by countless vessels without any problem. The detention lasted for almost one year.
- The War Risks policy incorporated the American Institute Hull War Risks and Strikes Clause. There was a Detainment Clause in the policy allowing the Assured to claim Constructive Total Loss (“CTL”) if the vessel is subject to detainment over 6 months.
- Insurers denied the CTL claim on 4 grounds:
 - (1) The detainment is not fortuitous;
 - (2) The claim falls within exclusion 1(e) of the Policy;
 - (3) The delay in releasing the vessel was materially caused by assureds’ unreasonable conduct in breach of their duty of sue and labour; and
 - (4) Insurers are entitled to avoid the Policy for material non-disclosure.

The “Win Win”: Court Of Appeal Upholds Constructive Total Loss Claim Against Insurers (Cont’d)

❖ Briefing of the first instance judgement (Cont’d)

- As to 1st dispute, insurer argued the detainment was not fortuitous as ship master should have known that the Vessel had anchored in territorial waters and the arrest was the consequence of their voluntary conduct in doing so. The Commercial Court found that before February 2019, arrest and detention were not ordinary, and the arrest by Indonesia Navy were wholly unprecedented in February 2019. Therefore, the incident was held to be fortuitous.
- As to 2nd dispute, insurer submitted that there is no CTL claim as the exclusion 1(e) excludes coverage for “*Arrest, restraint or detainment under customs or quarantine regulation and similar arrests...*”. The Commercial Court held the vessel’s arrest did not attract the operation of exclusion 1(e), as the arrest was primarily directed by the government to assert sovereignty and control navigation in territorial waters, which does not have specific reference to customs or quarantine regulations.
- In their 3rd allegation, insurer submitted that the Assured pulled out from long conversation with Indonesian Navy had antagonised the authorities and caused the Vessel’s detention being prolonged, thus being in breach of their duty to sue and labour. The Court found that the conversation with Indonesian Navy later revealed a demand of bribe, and Assured stopped pursuing further discussion as they did not have intention to pay a bribe. Based on the facts, the Court found the Assured were not in breach of their duty to sue and labour.
- The 4th issue, alleged breach of fair presentation of the risk, was due to the sole nominee director of the Registered Owner (an SPV) of the Vessel was facing criminal charges before the Vessel’s policy renewal, and such information was not disclosed to insurers prior to renewal of the insurance. The evidence before the Court showed at such criminal charges were not known to other assureds who arranged the insurance, and there is no evidence that insurer were induced to write the policy by the non-disclosure of the criminal charges. The Court held Assured’s CTL claim under the policy succeeded.

The “Win Win”: Court Of Appeal Upholds Constructive Total Loss Claim Against Insurers (Cont’d)

❖ Court Of Appeal Decision

The defendant insurers appealed relating to 2 issues.

- Issue 1: Whether the Judge was wrong as to the interpretation of Exclusion 1(e) which excludes loss caused by, resulting from or incurred as a consequence of “*Arrest, restraint or detention under customs or quarantine regulations and similar arrests, restraints or detentions not arising from actual or impending hostilities.*”

Insurers submitted the term “similar” should be interpreted as covering any exercise by a state of control over its territorial waters. The Court of Appeal rejected insurers’ view and held that the exclusion 1(e) simply refers to two different kinds of regulations (i.e. customs and quarantine regulations) and extends to arrests under other regulations which have a similar purpose to either of them. The wording “and similar” refers to the detention under regulations which have a similar purpose concerning the import of goods or the protection of health.

Based on the facts, the Court of Appeal upheld the Judge’s decision at first instance, holding that the detention of the Vessel was completely unconnected with the import of goods (customs regulation) and protection of health (quarantine regulation) or similar, and therefore the exclusion 1(e) was not attracted.

❖ Court Of Appeal Decision (Cont’d)

- Issue 2: Whether the Judge erred in finding that the claimants had not breached the duty of fair presentation under the Insurance Act 2015 by failing to disclose that the sole director of the registered owner of the Vessel was the subject of criminal charges in Greece.

The Section 3 of Insurance Act 2015 stipulates the insured’s duty on fair presentation of risk, and Section 4 sets out what the insured is deemed to know or ought to know for purpose of this duty. In the context where the insured is a company, the court will determine the knowledge of senior management or the individuals responsible for the company’s insurance.

On appeal, insurers submitted that a sole director of a corporate insured with no other employees will always be part of senior management and that details of the criminal charges should have been disclosed.

Court of Appeal rejected insurers’ submission and agreed with the first instance decision in this aspect. The use of SPV (special purpose vehicles) with nominee director is common practice in shipping industry, and in any transaction involving the registered owner, the parties would have perceived themselves as engaging with the corporate group rather than this specific director. On the facts, the director took no part in activities of owning and operating the Vessel for profit; therefore, he was not considered to be part of senior management for purpose of Insurance Act 2015. Given that none of the senior management at the Assured had actual or constructive knowledge of the criminal charges, the Assured were held not in breach of duty to disclose the charges to insurers.

Consequently, insurers’ appeal was dismissed, and the CTL claim is upheld by Court of Appeal.

P&I Cover Requirement: Rights Of Recourse For Carriage Of Dangerous Goods

With effect from 20 February 2026, it will be a requirement under P&I cover that members preserve certain rights of recourse for the carriage of dangerous goods in contracts for carriage. Specifically, liabilities that would not have arisen but for a waiver, a limitation or a failure to incorporate rights of recourse which are found in Article IV Rule 6 of Hague or Hague-Visby Rules, will not be recoverable at the discretion of a Club Board / Committee.

Article IV Rule 6 provided the express right of the carrier to recover from a shipper in respect of the carriage of dangerous goods where notice that the goods are dangerous has not been given. Unless expressly waived or restricted by the carrier, the carrier's rights of recourse for the carriage of dangerous goods are one of strict liability that is automatically applicable under a bill of lading in majority of maritime jurisdictions.

This new requirement is driven by the very large liabilities that can be potentially incurred through the carriage of dangerous goods. Several significant cases involving dangerous goods have impacted the Pool in recent years. For avoidance of doubt, the “dangerous goods” in this requirement are not aimed at situations where the carrier is made expressly aware of the dangerous nature of the cargo and has thus accepted the risk of such danger.

❖ Rights of Recourse – FAQs

1. What constitutes a waiver of rights of recourse?

- ❑ For the purpose of Club cover, a waiver will be broadly interpreted, and will include a waiver, a limitation of or a failure to incorporate rights of recourse for the carriage of dangerous goods.

2. To which contracts does the requirement apply?

- ❑ The requirement applies to all contracts for carriage including but not limited to bills of lading, charterparties, service contracts, and shipper's terms and conditions, as if a member had entered into a bill of lading contract incorporating Article IV Rule 6 of the Hague / Hague Visby Rules, or any equivalent provisions under other applicable law.

3. What if a waiver is contained in an ancillary contract?

- ❑ Any waiver of rights of recourse for the carriage of dangerous goods will be subject to the requirement whether it is contained in the relevant contract of carriage itself, or in an ancillary or related contract.
- ❑ For example, where a bill of lading does not contain a waiver, but shipper's terms which contain such a waiver are incorporated into the bill of lading, then the waiver would be caught by the requirement.

❖ Rights of Recourse – FAQs (Cont'd)

4. Which losses are caught by this requirement?

- All losses arising in respect of carriage by sea are caught by this requirement. For example, if an explosion of dangerous goods on board leads to personal injury, death, pollution and wreck removal, then cover for all such losses is prejudiced if they would have been recoverable but for the waiver.

5. What is the effect on cover where the carrier has waived rights of recourse in the contract for carriage?

- In such circumstances, to the extent that any liability is attributable to the waiver of rights of recourse, cover is not available as of right, but only at the discretion of a Club Board/Committee.
- Any obligation arising under a blue card will be met but the relevant Club may thereafter seek a recovery for the liability incurred from the member in question.

6. How is the requirement to be applied if a member is prevented by law from relying on rights of recourse?

- If possible, a member should conclude a contract for carriage which incorporates these rights of recourse. However, if a member can demonstrate that it is prevented from relying on such rights of recourse due to mandatorily applicable law, then the requirement will not apply.

7. When will the change in cover regarding this requirement come into effect?

- At noon GMT on 20 February 2026.

8. How will the requirement work for new contracts or for existing contracts where a member's obligation extend beyond 20 Feb 2026?

- The IG Clubs recognise that for both new contracts and existing contracts for carriage which member incorporates waiver of rights of recourse beyond 20 February 2026, members will need to make arrangements for the purchase of additional cover.



Market Snapshot

Global Crude In Transit Reaches Record 1.24 Billion Barrels As Supply Surges

- According to market data, a total of 1.24 billion barrels of crude and condensate was moving on tankers in mid-October, which is a fresh high as producer nations increased production output.
- Members of OPEC+ group raised their collective production target by almost 2.5 million barrels a day between March and September. In September, the group's output rose by 630,000 a day, showing the biggest month-on-month addition in 4 years.
- Apart from OPEC+, Guyana recently started pumping from a new offshore field, with production soon to reach to level of 250,000 barrels a day. U.S. output also hit a new high, topping 13.63 million barrels a day.
- Indicated by the amount of cargo at sea, the concern grows that a long-anticipated surplus of crude oil finally starts to materialise, as the build-up comes at a time when demand growth is slowing. It is predicted that a surplus could rise to as much as 4 million barrels a day in the early months of next year.

Russia And China Finalise Deal To Jointly Develop Arctic Shipping Along The Northern Sea Route

- China's Ministry of Transport and Russian company Rosatom signed a deal in mid-October to jointly develop and commercialise shipping along the Northern Sea Route in Russia Arctic. Rosatom is Russia's state enterprise in charge of Arctic shipping and the country's nuclear icebreaker fleet.
- Recently, a Panamax containership "Istanbul Bridge" completed a record transit of the Arctic in just 5 days. The full voyage was from Ningbo, China to Felixstowe, UK, taking 20 days in total. A similar voyage, if via the Suez Canal, would take around 40 days.
- Earlier this summer, Chinese research vessels, including several icebreakers, conducted months-long voyages throughout Arctic Ocean. The research about ice extent and the movement of sea ice was said to be critical to optimise commercial shipping operations in this region.
- With continued disruption along the Suez Canal route from Houthi activity, the Arctic shortcut could become a possible alternative trade route during a select few summer months.

NTSB Finds OceanGate's Poor Design And Missed Damage Led to Titan Disaster

- On 18th June 2023, the submersible “Titan” imploded at 10:47 a.m. local time while descending to the Titanic wreckage, at a depth of 3,880 meters. The catastrophic implosion resulted in the immediate death of all five occupants, who were exposed to around 4,930 pounds per square inch of water pressure.
- The NTSB (National Transportation Safety Board) recently released its investigation report, concluding the finding on cause of damage as following:
 - The pressure vessel of “Titan” likely sustained damage after it surfaced at the end of dive 80 in the form of delaminations. After dive 82, the submersible sustained additional damage of unknown origin that further deteriorated the pressure vessel’s condition.
 - The engineering process for “Titan” was inadequate, the construction of a carbon fiber composite pressure vessel contained multiple anomalies and failed to meet necessary strength and durability requirements.
 - OceanGate, the owning company of the submersible, did not adequately test “Titan”, and was unaware of the problems.

Transpacific Green Shipping Corridor Hits Phase One Targets

- The Los Angeles-Long Beach-Shanghai Green Shipping Corridor announced the successful completion of its phase one milestones, with the first green methanol container ship completing its voyage on the route.
- Shore power expansion represents one of the corridor’s major accomplishments to date. The shore power infrastructure now provides 100% electrification capability for container vessels at Shanghai, Los Angeles, and Long Beach, cutting emission while ships are docked.
- On the fuel side, the Port of Shanghai has bunkered more than 47,000 tons of green methanol and realized China’s first linkage for domestically produced green methanol.
- The Ports of Los Angeles and Long Beach have commissioned a Clean Fuels Study and prepared for a clean marine fuel pilot project.

U.S. Container Imports Drop as China Volumes Plunge Ahead Of Tariff Deadline

- U.S. container import volumes dropped sharply in September 2025, falling 8.4% from August. The decline marks the steepest monthly drop in recent years as a result of the ongoing tariff uncertainty.
- The downturn was led by imports from China, which dropped 12.3% month-over-month and falling 22.9% compared to September 2024.
- Nearly all major product categories were affected by the decline, with aluminum and related articles posting the steepest contraction at 43.8% year-on-year. Footwear dropped 33.9%, electric machinery fell 31.5%, and apparel categories declined more than 29%.
- Significant declines were also recorded from Italy, down 15.1%, South Korea at 14.1%, Germany at 11.6%, Hong Kong at 11.2%, and Taiwan at 10.2%.
- The decline comes as new section 301 vessel fees took effect on 14th October and the US-China tariff truce approaching its expiration date of 10th November, and importers adjust shipment flows in response to policy changes.

IMO Delays Adoption Of Net Zero Framework By A Year

- The member states of the IMO have voted to delay adoption of the Net-Zero Framework after strong opposition from the U.S. and Saudi Arabia.
- The IMO agreed to adjourn the extraordinary session of the MEPC, which was convened during 14-17th October to consider the adoption of draft amendments to MARPOL Annex VI including the Net-Zero Framework. The extraordinary session will be reconvened in 12 months.
- According to IMO, 57 countries voted in favour of a delay, 49 against a delay and 21 abstained. 8 member states were not present for the vote.
- The original entry into force for the Net-Zero Framework would have been in March 2027 if the framework had been approved at the extraordinary meeting of the MEPC. This timeframe will now be reviewed.
- A few organisations such as International Chamber of Shipping (ICS) and International Association of Ports and Harbours (IAPH) expressed disappointment at the delay. Intertanko was more positive hoping the extra time could result in a better framework.

VLCCs The Most Exposed From China's Port Fees

- On 14th October, both the U.S. and China imposed prohibitively expensive port fees on tonnage linked to the other country.
- China's special port fees apply to any ship with clear U.S. links calling at Chinese ports: i) vessels owned or operated by U.S. companies, organisations, or individuals directly or indirectly hold 25% or more of the equity; ii) U.S.-flagged vessels, and iii) U.S.-built vessels. However, vessels built in China are exempt, and ships arriving in ballast solely for repairs are also exempt.
- As indicated, a VLCC could face Chinese port fees of around USD6 million per port call, escalating to USD17 million by 2028. For a Capesize bulker, fees could reach USD3 million initially, rising to USD8 million by 2028. At these levels, Chinese port calls become economically unviable for U.S.-linked vessels.
- Market sources expected that VLCCs could be the most exposed, as China is the single largest destination for this class, accounting for about 38% of VLCC trade on an export-volume basis in 2024. The impact on other classes should be lesser, given their more diversified trading patterns and lower reliance on China.

Container Ship Recycling Overhang Estimated At Minimum 1.8 Million TEU

- According to market data, only 10 containerships were recycled insofar this year, which indicates a pattern that many ships have continued trading beyond their usual recycling age.
- Market analysts estimated that a recycling overhang of minimum 500 ships and 1.8 million TEU exists, and the maximum could reach 850 ships of 3.1 million TEU.
- The ships of 20-year-old or above formed 16% of the global fleet in 2020, and this figure has increased to 24% currently, which is highest since the early 1970s.
- The future of ship recycling remains difficult to predict, yet it is expected to be high, given the currently very large order book, the potential of ship demand erosion if ships return to normal Suez Canal routings, and the regulatory requirement to improve ship efficiency.
- The 1.8 – 3.1 million TEU may take years to recycle, as the highest ever annual recycling was achieved in 2016 when 185 ships and 0.6 million TEU were recycled.

Cautious Optimism Prevails Despite Uptick In Reported Maritime Piracy Attacks

- The ICC International Maritime Bureau (IMB) revealed a slight increase in reported incidents of maritime piracy and armed robbery from January to September 2025, but also highlighted a continued overall reduction in global incident levels, with no significant attacks recorded.
- There were 116 reported incidents for the first 9 months of 2025, up from 79 in the same period last year. Among the 116 incidents, 102 vessels were boarded, 9 faced attempted boarding, 4 were hijacked and 1 was fired upon.
- The threat of violence remains a concern, as weapons were identified in 55% of the reported incidents, and guns were visibly carried in 33% of the cases. 43 crew members were taken hostage, 16 kidnapped, 3 assaulted and 3 injured.
- A total of 73 incidents were reported in the Singapore Straits, which is the highest record since 1991. However, there has been a remarkable reduction in incidents following the arrest of two gangs in July 2025 by Indonesian Marine Police.
- IMB reminded vessels to remain watchful off Somalia and Gulf of Aden, as 26 crew were taken hostage in 2025.

EU Adopts 19th Package of Sanctions on Russia's Energy Sector

- EU's 19th package of sanctions against Russia targets key sectors including energy, finance, the military industrial base and special economic zones.
- The sanction includes a total ban on Russian LNG starting from 1st January 2027 for long-term contracts, with short-term contracts prohibited within 6 months of the sanctions' entry into force.
- Full transaction bans were imposed on major companies Rosneft and Gazprom Neft, eliminating previous exemptions for their oil and gas imports into the EU.
- The package further adds 117 vessels to the EU's list of Russia's shadow fleet, bringing the total number of listed vessels to 557. These vessels are subject to port access bans and prohibitions on receiving service.
- Beyond the vessel listings, the sanctions now cover Litasco Middle East DMCC as a shadow fleet operational base, along with maritime registries providing false flags to shadow fleet vessels.

Happy Reading, See You In November!

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Acknowledgments

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