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LMA Oil Price Cap notification

Members will be aware that effective 02 September for the UK and 03 September for the EU, both regimes are reducing the Oil Price Cap to US$47.60 per barrel. The US is presently not following suit so the price for US parties remains at US$60 per barrel. Additionally, the EU has introduced a flexible mechanism which allows it to reassess the price cap at regular six-monthly intervals. The initial change will include:

1. For the UK: a 45-day wind-down period ending on 17 October 2025 for contracts entered before 02 September 2025.
2. For the EU: a 90-day run-off until 18 October 2025 for contracts concluded before 20 July 2025.

This means that we will now have a situation where US parties will have a different price cap to comply with from the UK and EU, and the UK and the EU will have slightly different transitional provisions until the changes now introduced take place.

In terms of the impact on insurers, we anticipate that policies will contain a standard sanctions clause so this may be triggered so far as UK and EU insurers are concerned where they have a US insured or follow a US lead and those parties are using the US$60 oil price cap. However, the clause may not be triggered if the policy contains an LMA oil price cap clause.

The standard LMA oil price cap clauses were drafted in the expectation that the oil price cap coalition would set the same price. However, they provide: "Price Cap means the price, or cap, set for the purchase or sale of the Russian Oil or the Russian Oil Product by the Price Cap Coalition as may be amended from time to time" and they refer throughout to the "relevant" price cap.

Therefore, they ought to be flexible enough that in a contract where insurers are severally liable, each insurer may be able to enforce the terms of the LMA oil price cap clause for the price cap that is relevant to it. We cannot confirm whether this will be the outcome as it is an untested interpretation.

In these circumstances, the divergence between the UK, EU and US approaches means in practice that UK/EU entities will not necessarily be able to follow a US lead on business involving Russian oil unless the US party adopts the UK/EU position on price cap and ensures that they can obtain the necessary supporting documentation demonstrating compliance with UK/EU requirements.

The LMA advises members to review their portfolio accordingly as they should take steps to give notice of cancellation for any relevant risks they currently participate in which have US insureds or there is a US lead insurer where they cannot obtain sufficient assurance that there will be compliance with the UK/ EU price cap by the time the new divergent price caps come into force.

This guidance applies to any underwriting entity with an exposure to Russian oil, including hull, cargo, political risk, P&I and liability or reinsurance.

In the background, there is also a threat of significant US secondary sanctions on anyone dealing with Russian oil, including receiving ports and states.