

WATSON FARLEY & WILLIAMS

BRIEFING

QATAR CRISIS: THE EFFECT ON SHIPPING JUNE 2017

- AS OF 5 JUNE 2017, SAUDI ARABIA, THE UAE AND BAHRAIN HAVE BANNED ALL QATARI FLAG AND QATARI-OWNED VESSELS FROM ENTERING THEIR PORTS.



On 5 June 2017, the United Arab Emirates (“UAE”), Saudi Arabia, Egypt and Bahrain announced that they were severing diplomatic ties with Qatar over allegations that it is sponsoring terrorism. In addition to the severing of diplomatic relations, various bans have been imposed on land, sea and air travel as well as movement of goods into and out of Qatar. There have also been implications for non-diplomatic Qatari nationals in these countries, with the UAE, for example, requiring all Qatari nationals to leave within two weeks.

What we know so far as regards shipping

- Immediate bans were imposed on ports in Saudi Arabia, the UAE and Bahrain accepting Qatari flagged and/or owned vessels. These vessels are also excluded from the territorial waters of Saudi Arabia, the UAE and Bahrain.
- Furthermore, a ban has been imposed in certain ports on vessels of any flag arriving from, or bound for, Qatari ports. Currently, the ban relates only to the last/next port, for example a vessel transiting via a third country such as Kuwait or Oman would not be refused entry. There remains some uncertainty as to whether non-Qatari flagged and/or owned vessels carrying Qatari cargo will be granted entry.
- The UAE seems to have tempered this ban already in Fujairah and it now seems to apply only to Qatari-owned and flagged vessels and to discharge of cargo loaded in Qatar or loading of cargo bound for Qatar. This modification clearly seeks to protect the bunkering business in Fujairah in particular, and recognises that charterers could, in any event, reschedule Qatari loading to take place after bunkering and/or co-loading with other AG cargoes.

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- Saudi Arabia has issued a ban on discharging any goods of Qatari origin in its ports.
 - Given that Egypt imports a large amount of its LNG from Qatar, less drastic measures have been imposed there. Qatari LNG cargoes have successfully been delivered to Egypt.
 - Importantly, the Suez Canal remains open to Qatari-flagged vessels and vessels carrying Qatari cargoes through the canal has continued uninterrupted.
 - To date, Qatar and Qatari ports have not declared any reciprocal restriction or ban on any vessel arriving from, or proceeding to, Saudi Arabia, the UAE or Bahrain.

Additional banking and finance restrictions

- In terms of financing and banking-related matters, we are seeing a requirement for enhanced customer due diligence and compliance as regards accounts held by certain designated Qatari banks (namely Qatar National Bank, Qatar Islamic Bank, Qatar International Islamic Bank, Masraf Al Rayan, Barwa Bank and Doha Bank) and nationals. However, this is not a requirement to freeze accounts nor is it a prohibition on doing business with Qatari institutions.
- While there seems to be no formal basis for this, there appears to be a general ban on Qatari riyal transactions.
- There is also a list of 59 prescribed individuals and 12 organisations allegedly involved in terrorism-related activities, and transactions with these organisations and individuals are prohibited.
- Some more general pronouncements have been made, notably in the UAE, where the central bank has asked its commercial banks to assess their exposure to Qatar.

The implications for shipping

- There was a fear that some ports would lose some of their bunkering business to ports outside the region, although for Fujairah this seems to have been addressed by a modification to the ban on vessels going to, or coming from, Qatar.
- There will be implications for crewing and companies may need to make alternative arrangements where crew are joining or leaving vessels that are indirectly arriving from or bound for Qatar.
- While a rise in charterparty disputes might be expected, in practice, owners and charterers are likely to work together to avoid the risk of a ship being refused entry into Saudi, Bahraini and UAE ports by deviating laden ships and calling at intermediate ports, such as Oman, for example to take on board fresh water, before bunkering in Fujairah.
- Shipping companies may have to vary their trading patterns to take into account the inability to trade into and out of Qatar. We have seen container lines suspend services to Qatar and then reinstate them having re-routed through countries that have not taken the same measures such as Oman and Kuwait.
- In relation to Qatari exports – and this applies primarily to LNG and crude exports – it may be necessary for ships to re-route their passage within the AG to avoid the territorial waters of the countries taking these measures but the Strait of Hormuz remains open to Qatari flag and/or owned vessels as things stand.
- Financing documents will now routinely contain sanctions-related provisions. The measures in place at present seem to fall short of what would constitute default or prepayment events under most sanctions provisions as we would expect them to be drafted in the context of cross-border financings

The situation is evolving and changing constantly and a clearer picture will no doubt emerge as to the position beyond the immediate term as the whole situation continues to unfold.

FOR MORE INFORMATION

Should you like to discuss any of the matters raised in this Briefing, please speak with one of the authors below or your regular contact at Watson Farley & Williams.



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