Shipping

June 2017

THE QATARI RESTRICTIONS:
IMPLICATIONS FOR THE SHIPPING SECTOR

Extent of the Qatari restrictions

On 5 June 2017, Saudi Arabia, the UAE, Bahrain and Egypt severed diplomatic ties with the State of Qatar. Reports indicate that the move against Qatar is also supported by Yemen, a secondary government in Libya and the Maldives.

Saudi Arabia, the UAE and Bahrain have now closed their air space and territorial waters to Qatar. Saudi Arabia also closed its land border with Qatar, Qatar's only land border with another country. Egypt has also closed its airspace to all flights to and from Qatar.

A direct consequence is that ports operated by the alliance against Qatar are now blocking Qatar-flagged vessels, along with other vessels that are heading to and coming from Qatar. In particular:

- The Saudi and UAE port authorities have now banned from their territorial waters all ships flying Qatari flags or owned by Qatari companies or individuals. UAE ports, such as Fujairah or those operated by DP World UAE Region, have banned all vessels destined to or arriving from Qatari ports, regardless of the nature of their call. In addition, DP World UAE Region extended the ban to all vessels loading or discharging cargo destined to or coming from Qatar.
- Reports were made of the Ports and Maritime Affairs at Bahrain's Ministry of Transportation and Telecommunications suspending all marine navigation from and to Qatar with immediate effect.
- The Petroleum Ports Authority in Abu Dhabi is also reported to have issued a notice that Qatari-flagged vessels would not be allowed entry into Abu Dhabi Petroleum Ports.

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Egypt has not yet indicated whether it intends to block Qatar-linked vessels/cargo from using the Suez Canal - a common route for tankers.

Practical implications in shipping

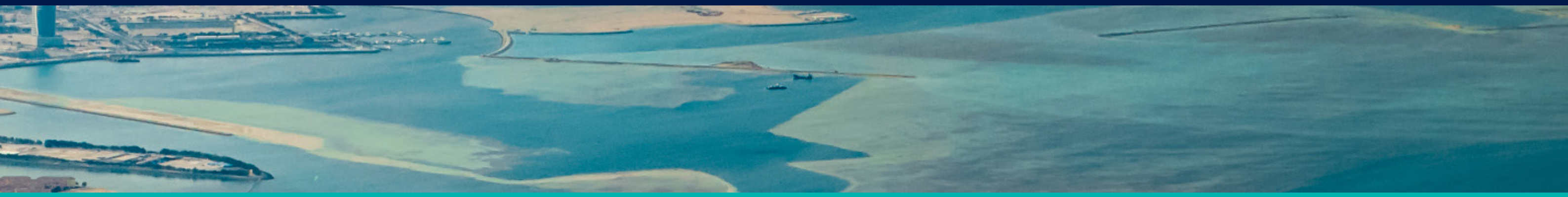
These developments mark an unprecedented change in Middle Eastern relations, which will undoubtedly affect companies with trade routes to or from Qatar.

Analysts suggested that companies with large trade volumes or retail operations in Qatar are likely to be most affected. These include logistics and shipping companies.

Whilst all the aspects which may result from the current restrictions on Qatar are not yet apparent, we envisage the following operational implications are likely to be the most immediate in the shipping sector, all of which will have cost repercussions on the affected parties:

- The shutting of the land border crossing between Saudi Arabia and Qatar is likely to create long queues/delays. This may particularly impact consignments bound by road transhipment to or from Qatar. In addition, reports suggest that vessel supplies in Qatar, which are largely transited by road through Saudi Arabia, may be affected.
- Qatar is a major exporter of condensate, an ultra-light form of crude oil. The trade ban may make the purchase of Qatari crude and condensate more difficult. Indeed, very large crude carriers regularly conduct multi-loads of crude at multiple Middle East ports. Barring vessels that have called at Qatar from entering other ports in the region could require traders to vary their trading patterns.
- Bunkering is also likely to be affected. For instance, major bunkering ports such as Fujairah, where some three-quarters of tankers sailing through the Gulf stop to refuel, are refusing all vessels sailing to or from Qatar.
- On the transhipment side, some reports indicate that cargo is not allowed to be discharged onto feeder vessels to Qatar. In Fujairah, any Qatari cargoes already in port must be cleared within 24 hours.
- Ship managers are indicating they are encountering difficulties related to crew/personnel. For instance, it is reported that the Fujairah port's immigration is not allowing crews to join or to sign off vessels coming from or bound for Qatar. In parallel, it is proving difficult to extract crew members and other personnel based in Doha given the current blockade.
- In relation to charterparties, these should be reviewed to establish whether they include a provision which specifically addresses blockades - for example CONWARTIME 2013 refers to *"blockades (whether imposed against all vessels or imposed selectively against vessels of certain flags or ownership, or against certain cargoes or crews or otherwise howsoever)"*.
- A number of international operators are bidding for new contracts and renewals to operate their FPSO and FSRU vessels in the various oil fields including Al Shaheen. The uncertainly from the events this week will cast a shadow on the underlying charters supporting ship financing.
- There have been reports that banks in the region will refuse to deal with Qatari banks or refuse to recognise the Qatari riyal. We understand that some Saudi, UAE and Egyptian banks are suspending business with Qatari banks, such as recognising letters of credit and other contingent payment instruments until they have received guidance from their respective central banks. The international currency of shipping is the US Dollar so we expect limited exposure on this front. However, it may be possible that a shipowner could have an exposure to Qatari riyals if for example, a supply contract requires payment in US Dollars whist the sales contract income for the service or goods is in Qatari riyals.
- There have been no statements today from the Saudi Central Bank or from the UAE Central Bank. It has been reported that the UAE Central Bank has asked all commercial banks to report on their exposure to Qatari banks by Thursday (8 June 2017) before it makes a decision on how to move forward.

Of course, the exposure of businesses to the current Qatari trade restrictions may be covered by insurance. It may also be managed through applicable contractual and local legislative provisions within the Middle East, including those which deal with force majeure and deviation.



We expect to have more visibility on the operational and legal implications of the restrictions against Qatar as the matter unfolds. In any event, for the time being, there is no indication of the dispute de-escalating.

HFW has one of the largest shipping and logistics teams in the Middle East with offices in the UAE, Saudi Arabia and Kuwait. For any further information or assistance, please get in touch with your usual contact at HFW or with the authors of this briefing:

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