Commodities

June 2017

THE QATARI RESTRICTIONS:
IMPLICATIONS FOR THE COMMODITIES SECTOR

As is well known, between 5 and 6 June 2017, eight countries severed diplomatic ties with the State of Qatar.

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

As a direct consequence, certain ports in the region have blocked Qatari-flagged vessels, along with other vessels that are heading to and coming from Qatar. In particular:

- The Saudi, UAE and Bahrain 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.

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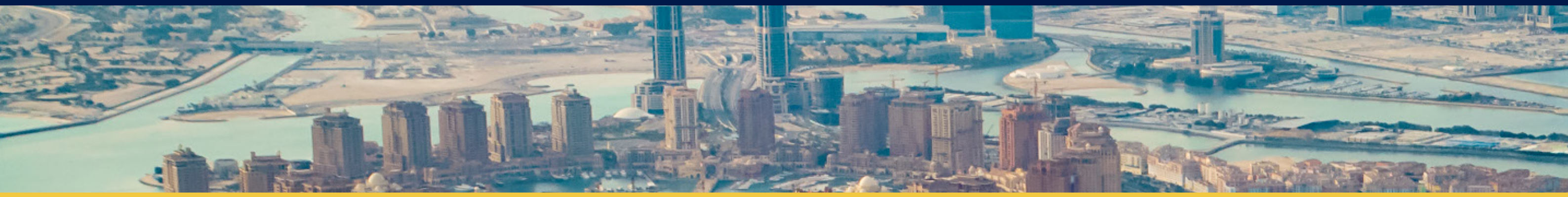

The Petroleum Ports Authority in Abu Dhabi also issued a notice that Qatari-flagged vessels would not be allowed entry into Abu Dhabi Petroleum Ports Operating Co or IRSHAD, a subsidiary of Abu Dhabi National Oil Co.

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

Practical implications

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

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

- The closure of the land border crossing between Saudi Arabia and Qatar is likely to create long queues/delays on either side of the border. 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 logistics of buying 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.
- The export of LNG from Qatar may be significantly impacted. No Qatar LNG will be permitted to be imported into the UAE. Exports on Qatari flagged vessels may be delayed or hindered. The delay caused by these issues may also impact those purchasers of Qatari LNG who are not caught by the restrictions. Given the tight time frames for LNG shipments, these delays could be material to the performance of LNG sale and purchase contracts.
- On the transhipment side, some reports indicate that cargoes are allowed on board the vessel but not for discharge onto a feeder vessel to Qatar. In Fujairah, any Qatari cargoes already in port must be cleared within 24 hours.

Traders, who think they may be affected, should look closely at the terms of their SPAs, and in particular at the Force Majeure (FM) provisions in their contracts. Well drafted FM clauses will provide a list of "FM events". The party whose obligations are hindered by the FM event, may be given a period of time during which obligations are suspended. It is important in situations such as these for the formalities of "notices" to be closely followed.

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.

We expect to have more visibility on the operational and legal implications of the restrictions against Qatar as the matter unfolds.

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